

Marathon Patent Group, Inc.  
Form S-1  
February 10, 2017  
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As filed with the Securities and Exchange Commission on February 10, 2017.

SEC File No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM S-1**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

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**MARATHON PATENT GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**6794**  
(Primary Standard Industrial  
Classification Code Number)

**01-0949984**  
(I.R.S. Employer Identification  
Number)

**11100 Santa Monica Blvd., Ste. 380**

**Los Angeles, CA 90025**

**Telephone: (703) 232-1701**

(Address, including zip code, and telephone number,

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including area code, of registrant's principal executive offices)

**Doug Croxall**

**11100 Santa Monica Blvd., Ste. 380**

**Los Angeles, CA 90025**

**Telephone: (703) 232-1701**

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

**Copies of all communications, including communications sent to agent for service, should be sent to:**

**Harvey J. Kesner, Esq.**

Sichenzia Ross Ference Kesner LLP

61 Broadway, 32nd Floor

New York, New York 10006

Telephone: (212) 930-9700

**Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. ☒ X

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ O

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ O

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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

(Check one):

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

(Do not check if a smaller reporting company)

### CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE
Shares of common stock, \$0.0001 par value, underlying warrants	1,915,095	\$ 1.58	\$ 3,025,850.10	\$ 350.70

(1) Pursuant to Rule 416 under the Securities Act, the shares of common stock offered hereby also include an indeterminate number of additional shares of common stock as may from time to time become issuable by reason of stock splits, stock dividends, recapitalizations or other similar transactions.

(2) Estimated at \$1.58 per share, the average of the high and low prices as reported on the NASDAQ Capital Market on February 8, 2017, for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED FEBRUARY 10, 2017**

**PRELIMINARY PROSPECTUS**

**MARATHON PATENT GROUP, INC.**

**1,915,095 Shares of Common stock**

This prospectus relates to the sale by the selling stockholders identified herein of up to 1,915,095 shares of common stock of Marathon Patent Group, Inc. (the "Company") issuable upon the exercise of outstanding warrants.

There are no underwriting arrangements to sell the shares of common stock that are being offered by the selling stockholders hereunder. The prices at which the selling stockholders may sell shares will be determined by the prevailing market price for the shares or in privately negotiated transactions. We will not receive any proceeds from the sale of these shares by the selling stockholders. All expenses of registration incurred in connection with this offering are being borne by us, but all selling and other expenses incurred by the selling stockholders will be borne by the selling stockholders.

Our common stock is quoted on the NASDAQ Capital Market under the symbol "MARA". On February 8, 2017, the last reported sale price of our common stock as reported on the NASDAQ Capital Market was \$1.58 per share.

**Investing in our common stock is highly speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties in the section entitled Risk Factors beginning on page 2 of this prospectus before making a decision to purchase our stock.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is February , 2017.

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside the United States, we have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside of the United States.

This prospectus includes estimates, statistics and other industry and market data that we obtained from industry publications, research, surveys and studies conducted by third parties and publicly available information. Such data involves a number of assumptions and limitations and contains projections and estimates of the future performance of the industries in which we operate that are subject to a high degree of uncertainty. This prospectus also includes data based on our own internal estimates. We caution you not to give undue weight to such projections, assumptions and estimates.

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**Prospectus Summary**

*This summary highlights information contained in other parts of this prospectus. Because it is only a summary, it does not contain all of the information that you should consider before investing in our securities and it is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus. You should read the entire prospectus carefully, especially the section entitled **Risk Factors** and our consolidated financial statements and related notes, before deciding to buy our securities. Unless otherwise stated, all references to us, our, we, Marathon, the Company and similar designations refer to Marathon Patent Group, Inc. and its subsidiaries.*

**The Offering**

**Common stock offered by the selling stockholders:** 1,915,095 shares of the Company's \$0.0001 par value common stock issuable upon the exercise of outstanding warrants.

**Common stock outstanding before and after this offering:** 19,302,472 (1) and 21,217,567 (2)

**Use of proceeds:**

We will not receive any proceeds from the sales of common stock offered by the selling stockholders. We may receive any proceeds from the selling stockholders' exercise of the warrants to purchase shares of our common stock, which shares we are hereby registering. If all of the warrants exercisable for shares of common stock being registered in this offering are exercised, we could receive net proceeds of up to \$3,190,374. The holders of the warrants are not obligated to exercise the warrants and we can provide no assurance that the holders of the warrants will choose to exercise all or any of the warrants. We will use these proceeds for general corporate purposes, including for working capital and acquisitions. See **Use of Proceeds**.

**NASDAQ symbol:**

MARA

**Risk factors:**

You should carefully consider the information set forth in this prospectus and, in particular, the specific factors set forth in the **Risk Factors** section beginning on page 2 of this prospectus before deciding whether or not to invest in shares of our common stock.

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(1) The number of outstanding shares before the offering is based upon 19,302,472 shares outstanding as of February 2, 2017

(2) The number of shares after the offering is based on 19,302,472 shares outstanding as of February 2, 2017, assuming all warrants for which the underlying shares of common stock being offered (1,915,095) have been exercised.

**Issuance of Warrants**

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In December 2016, we entered into an agreement to sell 1,740,995 warrants to the selling stockholders in a private offering and issued 174,100 warrants to Northland Securities, Inc. ( "Northland" ) which were issued as a placement agreement warrant for Northland for acting as placement agent in the Company's December registered direct offering.



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**RISK FACTORS**

*There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. If any of these risks actually occur, our business, financial condition or results of operation may be materially adversely affected. In such case, the trading price of our Common Stock could decline and investors could lose all or part of their investment.*

**Risks Related to Our Company**

***We have changed the focus of our business to acquiring patents and patent rights and monetizing the value of those assets through enforcement campaigns that are expected to generate revenue. We may not be able to successfully monetize the patents that we acquire and thus we may fail to realize all of the anticipated benefits of such acquisitions.***

There is no assurance that we will be able to continue to successfully acquire, develop or monetize our patent portfolio. The acquisition of patents could fail to produce anticipated benefits or there could be other adverse effects that we do not currently foresee. Failure to successfully monetize our patents would have a material adverse effect on our business, financial condition and results of operations.

In addition, the acquisition of patent portfolios is subject to a number of risks, including, but not limited to the following:

- There is a significant time lag between acquiring a patent portfolio and recognizing revenue from such patent asset. During such time lag, substantial amounts of costs are likely to be incurred that could have a negative effect on our results of operations, cash flows and financial position;
- The monetization of a patent portfolio is a time consuming and expensive process that may disrupt our operations. If our monetization efforts are not successful, our results of operations could be harmed. In addition, we may not achieve anticipated synergies or other benefits from such acquisition; and
- We may encounter unforeseen difficulties with our business or operations in the future that may deplete our capital resources more rapidly than anticipated. As a result, we may be required to obtain additional working capital in the future through public or private debt or equity financings, borrowings or otherwise. If we are required to raise additional working capital in the future, such financing may be unavailable to us on favorable terms, if at all, or may be dilutive to our existing stockholders. If we fail to obtain additional working capital, as and when needed, such failure could have a material adverse impact on our business, results of operations and financial condition.

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Therefore, there is no assurance that the monetization of our patent portfolios will generate enough revenue to recoup our investment.

***We presently rely upon the patent assets we acquire from other patent owners. If we are unable to monetize such assets and generate revenue and profit through those assets or by other means, there is a significant risk that our business would fail.***

When we commenced our current line of business in 2012, we acquired a portfolio of patent assets from Sampo IP, LLC ( Sampo ), a company affiliated with our Chief Executive Officer, Douglas Croxall, from which we have generated revenue from enforcement activities and for which we plan to continue to generate enforcement related revenue. On April 16, 2013, we acquired a patent from Mosaid Technologies Incorporated, a Canadian corporation. On April 22, 2013, we acquired a patent portfolio through a merger between our wholly-owned subsidiary, CyberFone Acquisition Corp., a Texas corporation and CyberFone Systems LLC, a Texas limited liability company ( CyberFone Systems ). In June 2013, in connection with the closing of a licensing agreement with Siemens Technology, we acquired a patent portfolio from that company. In September 2013, we acquired a portfolio from TeleCommunication Systems and an additional portfolio from Intergraph Corporation. In October 2013, we acquired a patent portfolio from TT IP, LLC. In December 2013 we engaged in three transactions: (i) in connection with a licensing agreement with Zhone, we acquired a portfolio of patents from that company; (ii) we acquired a patent portfolio from Delphi Technologies, Inc.; and (iii) in connection with a settlement and license agreement, we agreed to settle and release a defendant for past and future use of our patents, whereby the defendant agreed to assign and transfer two U.S. patents and rights to us. In May 2014, we acquired ownership rights of Dynamic Advances, LLC, a Texas limited liability company, IP Liquidity Ventures, LLC, a Delaware limited liability company and Sarif Biomedical, LLC, a Delaware limited liability company, all of which hold patent portfolios or contract rights to the revenue generated from patent portfolios. In June 2014, we acquired Selene Communication Technologies, LLC, which holds multiple patents in the search and network intrusion field. In August 2014, we acquired patents from Clouding IP LLC, with such patents related to network and data management technology. In September 2014, we acquired TLI Communications, which owns a single patent in the telecommunication field. In October 2014, we acquired three patent portfolios from MedTech Development, LLC, which owns medical technology patents. In June 2016, we acquired two patent portfolios from Siemens covering W-CDMA and GSM cellular technology. In July 2016, we acquired a patent portfolio from Siemens covering internet-of-things technology. In

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August 2016, entered into two transactions. In the first, we acquired a patent portfolio from CPT IP Holdings, LLC covering battery technology and in the second, we entered into a Patent Funding and Exclusive License Agreement with a Fortune 50 company to monetize more than 10,000 patents in a single industry vertical. In September 2016, we acquired a patent from Cirrex Systems, LLC covering LED technology. We plan to generate revenues from our acquired patent portfolios. However, if our efforts to generate revenue from these assets fail, we will have incurred significant losses and may be unable to acquire additional assets. If this occurs, our business would likely fail.

***We have economic interests in patent portfolios that the Company does not control and the decision regarding the timing and amount of licenses are held by third parties, which could lead to outcomes materially different than what the Company intended.***

The Company owns contract rights to two patent portfolios over which it does not exercise control and cannot determine when and if, and if so, for how much, the patent owner licenses the patents. This could lead to situations where we have dedicated resources, time and money to portfolios that, despite the best interests of the Company, provide little or no return on our investment. In these situations, the Company would record a loss on its investment and incur losses that contribute to the overall performance of the Company and could have a material adverse impact on its financial condition.

***Failure to effectively manage our growth could place strains on our managerial, operational and financial resources and could adversely affect our business and operating results.***

Our growth has placed, and is expected to continue to place, a strain on our limited managerial, operational and financial resources and systems. Further, as our subsidiary companies' businesses grow, we will be required to continue to manage multiple relationships. Any further growth by us or our subsidiary companies, or an increase in the number of our strategic relationships, may place additional strain on our managerial, operational and financial resources and systems. Although we may not grow as we expect, if we fail to manage our growth effectively or to develop and expand our managerial, operational and financial resources and systems, our business and financial results would be materially harmed.

***We initiate legal proceedings against potentially infringing companies in the normal course of our business and we believe that extended litigation proceedings would be time-consuming and costly, which may adversely affect our financial condition and our ability to operate our business.***

To monetize our patent assets, we generally initiate legal proceedings against potential infringing companies, pursuant to which we may allege that such companies infringe on one or more of our patents. Our viability could be highly dependent on the outcome of the litigation, and there is a risk that we may be unable to achieve the results we desire from such litigation, which failure would substantially harm our business. In addition, the defendants in the litigations are likely to be much larger than us and have substantially more resources than we do, which could make our litigation efforts more difficult and impact the duration of the litigation which would require us to devote our limited financial, managerial and other resources to support litigation that may be disproportionate to the anticipated recovery.

We anticipate that these legal proceedings may continue for several years and may require significant expenditures for legal fees and other expenses. Disputes regarding the assertion of patents and other intellectual property rights are highly complex and technical. Once initiated, we may be forced to litigate against others to enforce or defend our patent rights or to determine the validity and scope of other party's patent rights.

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The defendants or other third parties involved in the lawsuits in which we are involved may allege defenses and/or file counterclaims or commence re-examination proceedings by patenting issuance authorities in an effort to avoid or limit liability and damages for patent infringement, or declare our patents to be invalid or non-infringed. If such defenses or counterclaims are successful, they may preclude our ability to derive monetization revenue from the patents we own. A negative outcome of any such litigation, or an outcome which affects one or more claims contained within any such litigation, could materially and adversely impact our business. Additionally, we anticipate that our legal fees and other expenses will be material and will negatively impact our financial condition and results of operations and may result in our inability to continue our business.

*Variability in intellectual property laws may adversely affect our intellectual property position.*

Intellectual property laws, and patent laws and regulations in particular, have been subject to significant variability either through administrative or legislative changes to such laws or regulations or changes or differences in judicial interpretation, and it is expected that such variability will continue to occur. Additionally, intellectual property laws and regulations differ among countries. Variations in the patent laws and regulations or in interpretations of patent laws and regulations in the United States and other countries may diminish the value of our intellectual property and may change the impact of third-party intellectual property on us. Accordingly, we cannot predict the scope of patents that may be granted to us, the extent to which we will be able to enforce our patents against third parties, or the extent to which third parties may be able to enforce their patents against us.

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*We may seek to internally develop additional new inventions and intellectual property, which would take time and be costly. Moreover, the failure to obtain or maintain intellectual property rights for such inventions would lead to the loss of our investments in such activities.*

We may in the future seek to engage in commercial business ventures or seek internal development of new inventions or intellectual property. These activities would require significant amounts of financial, managerial and other resources and would take time to achieve. Such activities could also distract our management team from its present business initiatives, which could have a material and adverse effect on our business. There is also the risk that such initiatives may not yield any viable new business or revenue, inventions or technology, which would lead to a loss of our investment in such activities.

In addition, even if we are able to internally develop new inventions, in order for those inventions to be viable and to compete effectively, we would need to develop and maintain, and we would be heavily reliant upon, a proprietary position with respect to such inventions and intellectual property. However, there are significant risks associated with any such intellectual property we may develop principally including the following:

- patent applications we may file may not result in issued patents or may take longer than we expect to result in issued patents;
- we may be subject to interference proceedings;
- we may be subject to opposition proceedings in the U.S. or foreign countries;
- any patents that are issued to us may not provide meaningful protection;
- we may not be able to develop additional proprietary technologies that are patentable;
- other companies may challenge patents issued to us;
- other companies may have independently developed and/or patented (or may in the future independently develop and patent) similar or alternative technologies, or duplicate our technologies;

- other companies may design around technologies we have developed; and
- enforcement of our patents would be complex, uncertain and very expensive.

We cannot be certain that patents will be issued as a result of any future patent applications, or that any of our patents, once issued, will provide us with adequate protection from competing products. For example, issued patents may be circumvented or challenged, declared invalid or unenforceable or narrowed in scope. In addition, since publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot be certain that we will be the first to make our additional new inventions or to file patent applications covering those inventions. It is also possible that others may have or may obtain issued patents that could prevent us from commercializing our products or require us to obtain licenses requiring the payment of significant fees or royalties in order to enable us to conduct our business. As to those patents that we may acquire, our continued rights will depend on meeting any obligations to the seller and we may be unable to do so. Our failure to obtain or maintain intellectual property rights for our inventions would lead to the loss of our investments in such activities, which would have a material adverse effect on us.

Moreover, patent application delays could cause delays in recognizing revenue from our internally generated patents and could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market.

***Our future success depends on our ability to expand our organization to match the growth of our activities.***

As our operations grow, the administrative demands upon us will grow, and our success will depend upon our ability to meet those demands. We are organized as a holding company, with numerous subsidiaries. Both the parent company and each of our subsidiaries require certain financial, managerial and other resources, which could create challenges to our ability to successfully manage our subsidiaries and operations and impact our ability to assure compliance with our policies, practices and procedures. These demands include, but are not limited to, increased executive, accounting, management, legal services, staff support and general office services. We may need to hire additional qualified personnel to meet these demands, the cost and quality of which is dependent in part upon market factors outside of our control. Further, we will need to effectively manage the training and growth of our staff to maintain an efficient and effective workforce, and our failure to do so could adversely affect our business and operating results.

***Potential acquisitions may present risks, and we may be unable to achieve the financial or other goals intended at the time of any potential acquisition.***

Our future growth depends in part on our ability to acquire patented technologies, patent portfolios or companies holding such patented technologies and patent portfolios. Accordingly, we have engaged in acquisitions to expand our patent portfolios and we intend to continue to explore such acquisitions. Such acquisitions are subject to numerous risks, including, but not limited to the following:

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- our inability to enter into a definitive agreement with respect to any potential acquisition, or if we are able to enter into such agreement, our inability to consummate the potential acquisition;
- difficulty integrating the operations, technology and personnel of the acquired entity including achieving anticipated synergies;
- our inability to achieve the anticipated financial and other benefits of the specific acquisition;
- difficulty in maintaining controls, procedures and policies during the transition and monetization process;
- diversion of our management's attention from other business concerns; and
- failure of our due diligence process to identify significant issues, including issues with respect to patented technologies and patent portfolios and other legal and financial contingencies.

If we are unable to manage these risks effectively as part of any acquisition, our business could be adversely affected.

***Our revenues are unpredictable, and this may harm our financial condition.***

From November 12, 2012 to the present, our operating subsidiaries have executed our business strategy of acquiring patent portfolios and accompanying patent rights and monetizing the value of those assets. As of September 30, 2016, on a consolidated basis, our operating subsidiaries owned 512 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. These acquisitions continue to expand and diversify our revenue generating opportunities. However, due to the nature of our patent monetization business and uncertainties regarding the amount and timing of the receipt of funds from the monetization of our patent assets resulting in part from uncertainties regarding the outcome of enforcement actions, rates of adoption of our patented technologies, outlook for the businesses for defendants, and certain other factors, our revenues may vary substantially from quarter to quarter, which could make our business difficult to manage, adversely affect our business and operating results, cause our quarterly results to fall below expectations and adversely affect the market price of our Common Stock.

***Our patent monetization cycle is lengthy and costly, and our marketing, legal and administrative efforts may be unsuccessful.***

We expect significant marketing, legal and administrative expenses prior to generating revenue from monetization efforts. We will also spend considerable time and resources educating defendants on the benefits of a settlement, prior to or during litigation, that may include issuing a license to our patents and patent rights. As such, we may incur significant losses in any particular period before revenue streams commence.

If our efforts to convince defendants of the benefits of a settlement arrangement prior to litigation are unsuccessful, we may need to continue with the litigation process or other enforcement action to protect our patent rights and to realize revenue from those rights. We may also need to litigate to enforce the terms of existing license agreements, protect our trade secrets or determine the validity and scope of the proprietary rights of others. Enforcement proceedings are typically protracted and complex. The costs are typically substantial, and the outcomes are unpredictable. Enforcement actions will divert our managerial, technical, legal and financial resources from business operations.

***Our exposure to uncontrollable risks, including new legislation, court rulings or actions by the United States Patent and Trademark Office ( USPTO ), could adversely affect our activities including our revenues, expenses and results of operations.***

Our patent acquisition and monetization business is subject to numerous risks including new legislation, regulations and rules. If new legislation, regulations or rules are implemented either by Congress, the U.S. Patent and Trademark Office, the executive branch, or the courts, that impact the patent application process, the patent enforcement process, the rights of patent holders, or litigation practices, such changes could materially and negatively affect our revenue and expenses and, therefore, our results of operations and the overall success of our Company. On March 16, 2013 the Leahy-Smith America Invents Act or the America Invents Act became effective. The America Invents Act includes a number of significant changes to U.S. patent law. In general, the legislation attempts to address issues surrounding the enforceability of patents and the increase in patent litigation by, among other things, establishing new procedures for patent litigation. For example, the America Invents Act changes the way that parties may be joined in patent infringement actions, increasing the likelihood that such actions will need to be brought against individual allegedly-infringing parties by their respective individual actions or activities. In addition, the America Invents Act enacted a new inter-partes review, or IPR, process at the USPTO which can be used by defendants, and other individuals and entities, to separately challenge the validity of any patent. At this time, it is not clear what, if any, impact the America Invents Act will have on the operation of our patent monetization and enforcement business. However, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the enforcement of our patented technologies, which could have a material adverse effect on our business and financial condition. Patents from nine of our portfolios are currently the subject of inter-partes reviews.



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In addition, the U.S. Department of Justice, or the DOJ, has conducted reviews of the patent system to evaluate the impact of patent assertion entities on industries in which those patents relate. It is possible that the findings and recommendations of the DOJ could impact the ability to effectively monetize and enforce standards-essential patents and could increase the uncertainties and costs surrounding the enforcement of any such patented technologies. Also, the Federal Trade Commission, or FTC, has published its intent to initiate a proposed study under Section 6(b) of the Federal Trade Commission Act to evaluate the patent assertion practice and market impact of Patent Assertion Entities, or PAEs. The FTC's notice and request for public comment relating to the PAE study appeared in the Federal Register on October 3, 2013. The FTC has solicited information from the Company regarding its portfolios and activities, and the Company is currently in the process of complying with the FTC request for such information. It is expected that the results of the PAE study by the FTC will be provided to Congress and other agencies, such as the DOJ, who could take action, including legislative proposals, based on the results of the study.

Finally, new rules regarding the burden of proof in patent enforcement actions could substantially increase the cost of our enforcement actions and new standards or limitations on liability for patent infringement could negatively impact our revenue derived from such enforcement actions.

***Changes in patent laws could adversely impact our business.***

Patent laws may continue to change and may alter the historically consistent protections afforded to owners of patent rights. Such changes may not be advantageous for us and may make it more difficult for us to obtain adequate patent protection to enforce our patents against infringing parties. Increased focus on the growing number of patent-related lawsuits may result in legislative changes that increase our costs and related risks of asserting patent enforcement actions. For instance, in December 2013, the United States House of Representatives passed a bill that would require non-practicing entities that bring patent infringement lawsuits to pay defendants' legal fees if the lawsuits are unsuccessful and certain standards are not met.

***Trial judges and juries often find it difficult to understand complex patent enforcement litigation, and as a result, we may need to appeal adverse decisions by lower courts in order to successfully enforce our patent rights.***

It is difficult to predict the outcome of litigation, particularly patent enforcement litigation. It is often difficult for juries and trial judges to understand complex, patented technologies and, as a result, there is a higher rate of successful appeals in patent enforcement litigation than more standard business litigation. Such appeals are expensive and time consuming, resulting in increased costs and delayed final non-appealable judgments that can require payment of damages to the Company. Although we diligently pursue enforcement litigation, we cannot predict with significant reliability the decisions that may be made by juries and trial courts.

***More patent applications are filed each year resulting in longer delays in getting patents issued by the USPTO.***

We hold and continue to acquire pending patents in the application or review phase. We believe there is a trend of increasing patent applications each year, which we believe is resulting in longer delays in obtaining approval of pending patent applications. The application delays could cause delays in monetizing such patents which could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market.

*The length of time required time to litigate an enforcement action is increasing.*

Our patent enforcement actions are almost exclusively prosecuted in federal court. Federal trial courts that hear our patent enforcement actions also hear criminal and other cases. Criminal cases always take priority over our actions. As a result, it is difficult to predict the length of time it will take to complete an enforcement action. Moreover, we believe there is a trend in increasing numbers of civil and criminal proceedings and, as a result, we believe that the risk of delays in our patent enforcement actions has grown and will continue to grow and will increasingly affect our business in the future unless this trend changes.

*Any reductions in the funding of the USPTO could have an adverse impact on the cost of processing pending patent applications and the value of those pending patent applications.*

Our ownership or acquisition of pending patent applications before the USPTO is subject to funding and other risks applicable to a government agency. The value of our patent portfolio is dependent, in part, on the issuance of patents in a timely manner, and any reductions in the funding of the USPTO could negatively impact the value of our assets. Further, reductions in funding from Congress could result in higher patent application filing and maintenance fees charged by the USPTO, causing an unexpected increase in our expenses.

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***Our acquisitions of patent assets may be time consuming, complex and costly, which could adversely affect our operating results.***

Acquisitions of patent or other intellectual property assets, are often time consuming, complex and costly to consummate. We may utilize many different transaction structures in our acquisitions and the terms of such acquisition agreements tend to be heavily negotiated. As a result, we expect to incur significant operating expenses and may be required to raise capital during the negotiations even if the acquisition is ultimately not consummated. Even if we are able to acquire particular patent assets, there is no guarantee that we will generate sufficient revenue related to those patent assets to offset the acquisition costs. While we will seek to conduct sufficient due diligence on the patent assets we are considering for acquisition, we may acquire patent assets from a seller who does not have proper title to those assets. In those cases, we may be required to spend significant resources to defend our ownership interest in the patent assets and, if we are not successful, our acquisition may be invalid, in which case we could lose part or all of our investment in the assets.

We may also identify patent or other patent assets that cost more than we are prepared to spend. We may incur significant costs to organize and negotiate a structured acquisition that does not ultimately result in an acquisition of any patent assets or, if consummated, proves to be unprofitable for us. These higher costs could adversely affect our operating results and, if we incur losses, the value of our securities will decline.

In addition, we may acquire patents and technologies that are in the early stages of adoption in the commercial, industrial and consumer markets. Demand for some of these technologies will likely be untested and may be subject to fluctuation based upon the rate at which our companies may adopt our patented technologies in their products and services. As a result, there can be no assurance as to whether technologies we acquire or develop will have value that we can monetize.

***In certain acquisitions of patent assets, we may seek to defer payment or finance a portion of the acquisition price. This approach may put us at a competitive disadvantage and could result in harm to our business.***

We have limited capital and may seek to negotiate acquisitions of patent or other intellectual property assets where we can defer payments or finance a portion of the acquisition price. These types of debt financing or deferred payment arrangements may not be as attractive to sellers of patent assets as receiving the full purchase price for those assets in cash at the closing of the acquisition. As a result, we might not compete effectively against other companies in the market for acquiring patent assets, many of whom have substantially greater cash resources than we have. In addition, any failure to satisfy any debt repayment obligations that we may incur, may result in adverse consequences to our operating results.

***Any failure to maintain or protect our patent assets could significantly impair our return on investment from such assets and harm our brand, our business and our operating results.***

Our ability to operate our business and compete in the patent market largely depends on the superiority, uniqueness and value of our acquired patent assets. To protect our proprietary rights, we rely on and will rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements, common interest agreements and agreements with our employees and third parties, and protective contractual provisions. No assurances can be given that any of the measures we undertake to protect and maintain the value of our assets will be successful.

Following the acquisition of patent assets, we will likely be required to spend significant time and resources to maintain the effectiveness of such assets by paying maintenance fees and making filings with the USPTO. We may acquire patent assets, including patent applications that require us to spend resources to prosecute such patent applications with the USPTO. Moreover, there is a material risk that patent related claims (such as, for example, infringement claims (and/or claims for indemnification resulting therefrom), unenforceability claims or invalidity claims) will be asserted or prosecuted against us, and such assertions or prosecutions could materially and adversely affect our business. Regardless of whether any such claims are valid or can be successfully asserted, defending such claims could cause us to incur significant costs and could divert resources away from our core business activities.

Despite our efforts to protect our intellectual property rights, any of the following or similar occurrences may reduce the value of our intellectual property:

- our patent applications, trademarks and copyrights may not be granted and, if granted, may be challenged or invalidated;
- issued trademarks, copyrights, or patents may not provide us with any competitive advantages when compared to potentially infringing other properties;
- our efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology; or
- our efforts may not prevent the development and design by others of products or technologies similar to or competitive with, or superior to those we acquire and/or prosecute.

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Moreover, we may not be able to effectively protect our intellectual property rights in certain foreign countries where we may do business in the future or from which competitors may operate. If we fail to maintain, defend or prosecute our patent assets properly, the value of those assets would be reduced or eliminated, and our business would be harmed.

***Weak global economic conditions may cause infringing parties to delay entering into settlement and licensing agreements, which could prolong our litigation and adversely affect our financial condition and operating results.***

Our business depends significantly on worldwide economic conditions, and the United States and world economies have recently experienced weak economic conditions. Uncertainty about global economic conditions poses a risk as businesses may postpone spending in response to tighter credit, negative financial news and declines in income or asset values. This response could have a material adverse effect on the willingness of parties infringing on our assets to enter into settlements or other revenue generating agreements voluntarily. Entering into such agreements is critical to our business and our failure to do so could cause material harm to our business.

***If we are unable to adequately protect our patent assets, we may not be able to compete effectively.***

Our ability to compete depends in part upon the strength of the patents and patent rights that we own or may hereafter acquire. We rely on a combination of U.S. and foreign patents, copyrights, trademark, trade secret laws and other types of agreements to establish and protect our patent, intellectual property and proprietary rights. The efforts we take to protect our patents, intellectual property and proprietary rights may not be sufficient or effective at stopping unauthorized use of our patents, intellectual property and proprietary rights. In addition, effective trademark, patent, copyright and trade secret protection may not be available or cost-effective in every country in which our services are made available. There may be instances where we are not able to fully protect or utilize our patent and other intellectual property in a manner that maximizes competitive advantage. If we are unable to protect our patent assets and intellectual property and proprietary rights from unauthorized use, the value of those assets may be reduced, which could negatively impact our business. Our inability to obtain appropriate protections for our intellectual property may also allow competitors to enter markets and produce or sell the same or similar products. In addition, protecting our patents and patent rights is expensive and diverts critical managerial resources. If any of the foregoing were to occur, or if we are otherwise unable to protect our intellectual property and proprietary rights, our business and financial results could be adversely affected.

If we are forced to resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive. In addition, our patent rights could be at risk if we are unsuccessful in, or cannot afford to pursue, those proceedings. We also rely on trade secrets and contract law to protect some of our patent rights and proprietary technology. We will enter into confidentiality and invention agreements with our employees and consultants. Nevertheless, these agreements may not be honored and they may not effectively protect our right to our un-patented trade secrets and know-how. Moreover, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets and know-how.

***We expect that we will be substantially dependent on a concentrated number of customers. If we are unable to establish, maintain or replace our relationships with customers and develop a diversified customer base, our revenues may fluctuate and our growth may be limited.***

A significant portion of our revenues will be generated from a limited number of customers and licenses to such customers. For the nine months ended September 30, 2016, the five largest licenses accounted for approximately 98% of our revenue. There can be no guarantee that we will be

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able to obtain additional licenses for the Company's patents, or if we are able to do so, that the licenses will be of the same or larger size allowing us to sustain or grow our revenue levels, respectively. If we are not able to generate licenses from the limited group of prospective customers that we anticipate may generate a substantial majority of our revenues in the future, or if they do not generate revenues at the levels or at the times that we anticipate, our ability to maintain or grow our revenues and our results of operations will be adversely affected.

***We acquired the rights to market and license a patent analytics tool from IP Navigation Group, LLC and will dedicate resources and incur costs in an effort to generate revenues. We may not be able to generate revenues and there is a risk that the time spent marketing and licensing the tool will distract management from the enforcement of the Company's patent portfolios.***

We expect to dedicate resources and incur costs in the marketing and licensing of Opus Analytic, the patent analytics tool, in order to generate revenue, but there are no assurances that our efforts will be successful. We may not generate any revenues from the licensing of Opus Analytic or may not generate enough license revenue to exceed our costs. Our efforts therefore could lead to losses and could have a material adverse affect on our income, expenses or results of operations.

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In addition, the time and effort spent marketing and licensing Opus Analytics could distract the Company and its officers from the management of the balance of the Company's business and have a deleterious effect on results from the enforcement of the Company's patents and patent rights. This could lead to either sub-par returns from the patent and patent right enforcement efforts or even total losses of the value of such patents and patent rights, leading to considerable losses.

**Risks Related to Our Indebtedness**

*Our cash flows and capital resources may be insufficient to make required payments on our indebtedness and future indebtedness.*

As of September 30, 2016, we have \$17,596,363 of indebtedness outstanding, net of discounts. Our indebtedness could have important consequences to our shareholders. For example, it could:

- make it difficult for us to satisfy our debt obligations;
- make us more vulnerable to general adverse economic and industry conditions;
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions and other general corporate requirements;
- expose us to interest rate fluctuations because the interest rate on the debt under our existing credit facility is variable;
- require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow for operations and other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- place us at a competitive disadvantage compared to competitors that may have proportionately less debt and greater financial resources.

In addition, our ability to make scheduled payments or refinance our obligations depends on our successful financial and operating performance, cash flows and capital resources, which in turn depend upon prevailing economic conditions and certain financial, business and other factors, many of which are beyond our control. These factors include, among others:

- economic and demand factors affecting our industry;

- pricing pressures;
- increased operating costs;
- competitive conditions; and
- other operating difficulties.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt. In the event that we are required to dispose of material assets or operations to meet our debt service and other obligations, the value realized on such assets or operations will depend on market conditions and the availability of buyers. Accordingly, any such sale may not, among other things, be for a sufficient dollar amount. Our obligations pursuant to our loan agreement with Fortress (as defined below) are secured by a security interest in all of our assets, exclusive of intellectual property. The foregoing encumbrances may limit our ability to dispose of material assets or operations. We also may not be able to restructure our indebtedness on favorable economic terms, if at all.

We may incur additional indebtedness in the future, including pursuant to the Fortress Documents (as defined herein). Our incurrence of additional indebtedness would intensify the risks described above.

***The Fortress Documents contain various covenants limiting the discretion of our management in operating our business.***

On January 29, 2015, the Company and certain of its subsidiaries entered into a series of agreements including a Securities Purchase Agreement (the "Fortress Purchase Agreement") and a Subscription Agreement with DBD Credit Funding, LLC ("DBD"), an affiliate of Fortress Credit Corp., pursuant to which the Company sold to the purchasers: (i) \$15,000,000 original principal amount of Senior Secured Notes (the "Fortress Notes"), (ii) a right to receive a portion of certain proceeds from monetization net revenues received by the Company (after receipt by the Company of \$15,000,000 of monetization net revenues and repayment of the Fortress Notes), (iii) a five-year warrant (the "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 Company's Common Stock. Pursuant to the Fortress Purchase Agreement, as security for the payment and performance in full of the secured obligations, 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 (together with the Fortress Purchase Agreement, the Fortress Notes and the Fortress



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Warrant, the Fortress Documents ). On February 12, 2015, the Company exercised its right to require the purchasers to purchase an additional \$5,000,000 of Notes from the Company.

On January 10, 2017, Marathon Patent Group, Inc. (the Company ) and certain of its subsidiaries (each a Subsidiary and collectively with the Issuer, the Company ) entered into an amended and restated revenue sharing and securities purchase agreement (the ARRSSPA ) with DBD Credit Funding, LLC ( DBD ), an affiliate of Fortress Credit Corp.( Fortress ), 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, (ii) an interest in the Company s revenues from certain activities and (iii) warrants to purchase 100,000 shares of the Company s common stock. As of the close of the restructuring on January 10, 2017, there was \$20,131,351 in outstanding principal and PIK interest accrued.

The Fortress Documents contain, subject to certain carve-outs, various restrictive covenants that limit our management s discretion in operating our business. In particular, these instruments limit our ability to, among other things:

- incur additional debt;
- grant liens on assets;
- dispose assets outside the ordinary course of business; and
- make fundamental business changes.

If we fail to comply with the restrictions in the Fortress Documents, a default may allow the creditors under the relevant instruments to accelerate the related debt and to exercise their remedies under these agreements, which will typically include the right to declare the principal amount of that debt, together with accrued and unpaid interest and other related amounts, immediately due and payable, to exercise any remedies the creditors may have to foreclose on assets that are subject to liens securing that debt and to terminate any commitments they had made to supply further funds.

***The rights of the holders of the Company s Common Stock will be subordinate to our creditors.***

On October 16, 2014, we issued convertible notes in the aggregate principal amount of \$5,550,000, which mature on October 16, 2018, of which, \$500,000 remains outstanding as of December 31, 2016. On January 29, 2015 and February 12, 2015, we issued to DBD notes in the principal amounts of \$15,000,000 and \$5,000,000, respectively, and on January 10, 2017, we entered into an amendment of the agreement with DBD whereby we restructured the principal amortization scheduled. At the close of the restructuring, the outstanding principal and accrued PIK interest was \$20,131,351.

Accordingly, the holders of Common Stock will rank junior to such indebtedness, as well as to other non-equity claims on the Company and our assets, including claims upon liquidation.

**Risks Relating to Our Stock**

*Our management will be able to exert significant influence over us to the detriment of minority stockholders.*

Our executive officers and directors beneficially own approximately 13.0% of our outstanding Common Stock as of February 2, 2017. As a result, our management could exert significant influence over our business and affairs and all matters requiring stockholder approval, including mergers or other fundamental corporate transactions. The concentration of ownership may have the effect of delaying or preventing a change in control and could affect the market price of our Common Stock.

*Exercise of warrants will dilute stockholders' percentage of ownership.*

We have issued options and warrants to purchase shares of our Common Stock to our officers, directors, consultants and certain shareholders. In the future, we may grant additional options, warrants and convertible securities. The exercise or conversion of options, warrants or convertible securities will dilute the percentage ownership of our stockholders. The dilutive effect of the exercise or conversion of these securities may adversely affect our ability to obtain additional capital. The holders of these securities may be expected to exercise or convert such options, warrants and convertible securities at a time when we would be able to obtain additional equity capital on terms more favorable than such securities or when our common stock is trading at a price higher than the exercise or conversion price of the securities. The exercise or conversion of outstanding warrants, options and convertible securities will have a dilutive effect on the securities held by our stockholders.

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***Our Common Stock may be delisted from The NASDAQ Capital Market ( NASDAQ ) if we fail to comply with continued listing standards.***

Our Common Stock is currently traded on NASDAQ under the symbol MARA . If we fail to meet any of the continued listing standards of NASDAQ, our Common Stock could be delisted from NASDAQ. These continued listing standards include specifically enumerated criteria, such as:

- a \$1.00 minimum closing bid price;
- stockholders' equity of \$2.5 million;
- 500,000 shares of publicly-held Common Stock with a market value of at least \$1 million;
- 300 round-lot stockholders; and
- compliance with NASDAQ's corporate governance requirements, as well as additional or more stringent criteria that may be applied in the exercise of NASDAQ's discretionary authority.

***We could fail in future financing efforts or be delisted from NASDAQ if we fail to receive stockholder approval when required.***

Under the NASDAQ rules, we are required to obtain stockholder approval for any issuance of additional equity securities that would comprise 20% or more of the total shares of our Common Stock outstanding before the issuance of such securities sold at a discount to the greater of book or market value in an offering that is not deemed to be a public offering by NASDAQ. Funding of our operations and acquisitions of assets may require issuance of additional equity securities at a discount that would comprise 20% or more of the total shares of our Common Stock outstanding, but we might not be successful in obtaining the required stockholder approval for such an issuance. If we are unable to obtain financing due to stockholder approval difficulties, such failure may have a material adverse effect on our ability to continue operations.

***Our Common Stock may be affected by limited trading volume and price fluctuations, which could adversely impact the value of our Common Stock.***

There has been limited trading in our Common Stock and there can be no assurance that an active trading market in our Common Stock will either develop or be maintained. Our Common Stock has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our Common Stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our Common Stock to fluctuate substantially. These fluctuations may also cause short sellers to periodically enter the market in the belief that we will have poor results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our will be stable or appreciate over time.

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*Holders of the Company's Common Stock will experience immediate and substantial dilution upon the conversion of the Company's outstanding preferred stock, convertible note and the exercise of the Company's outstanding options and warrants including the warrants for which the underlying shares are being registered herein.*

As of December 31, 2016:

- 3,516,136 shares of our common stock issuable upon the exercise of outstanding stock options having a weighted average exercise price of \$3.96 per share;
- 2,207,076 shares of our common stock issuable upon the exercise of outstanding warrants with a weighted average exercise price of \$2.14;
- 782,004 shares of common stock issuable upon conversion of 782,004 outstanding shares of Series B Preferred Stock. And
- 66,667 shares of common stock issuable upon conversion of \$500,000 in outstanding convertible notes.

Assuming full conversion of the Series B Preferred Stock and the convertible notes and exercise of all outstanding options and warrants, including those pursuant to the registration statement herein, the number of shares of our Common Stock outstanding will increase 6,571,880 shares from 19,302,472 shares of Common Stock outstanding as of February 2, 2017 to 25,874,352 shares of Common Stock outstanding.

*Our stock price may be volatile.*

The market price of our Common Stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- changes in our industry;
- competitive pricing pressures;

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- our ability to obtain working capital financing;
- additions or departures of key personnel;
- sales of our Common Stock;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- regulatory developments; and
- economic and other external factors.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our Common Stock.

*We have never paid nor do we expect in the near future to pay cash dividends.*

On November 19, 2014, we declared a stock dividend pursuant to which holders of our common stock as of the close of business on December 15, 2014 received one additional share of Common Stock for each share of common stock held by such holders. Other than as described herein, we have never paid cash dividends on our capital stock and do not anticipate paying any cash dividends on our Common Stock for the foreseeable future. While it is possible that we may declare a dividend after a large settlement, investors should not rely on such a possibility, nor should they rely on an investment in us if they require income generated from dividends paid on our capital stock. Any income derived from our Common Stock would only come from rise in the market price of our Common Stock, which is uncertain and unpredictable.

*Offers or availability for sale of a substantial number of shares of our Common Stock may cause the price of our Common Stock to decline.*

If our stockholders sell substantial amounts of our Common Stock in the public market upon the expiration of any statutory holding period or lockup agreements, under Rule 144, or issued upon the exercise of outstanding warrants or other convertible securities, it could create a circumstance commonly referred to as an overhang and in anticipation of which the market price of our Common Stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. The shares of our restricted Common Stock will be freely tradable upon the earlier of: (i) effectiveness of a registration statement covering such shares and (ii) the date on which such shares may be sold without registration pursuant to Rule 144 (or other applicable exemption) under the Securities Act.

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*Because we became a public company by means of a reverse merger, we may not be able to attract the attention of major brokerage firms.*

There may be risks associated with us becoming a public company through a reverse merger. Securities analysts of major brokerage firms may not provide coverage of us since there is no incentive to brokerage firms to recommend the purchase of our Common Stock. No assurance can be given that brokerage firms will, in the future, want to conduct any secondary offerings on our behalf.

*Investor relations activities, nominal float and supply and demand factors may affect the price of our stock.*

We expect to utilize various techniques such as non-deal road shows and investor relations campaigns in order to generate investor awareness. These campaigns may include personal, video and telephone conferences with investors and prospective investors in which our business practices are described. We may provide compensation to investor relations firms and pay for newsletters, websites, mailings and email campaigns that are produced by third parties based upon publicly-available information concerning us. We do not intend to review or approve the content of such analysts' reports or other materials based upon analysts' own research or methods. Investor relations firms should generally disclose when they are compensated for their efforts, but whether such disclosure is made or complete is not under our control. In addition, investors may, from time to time, also take steps to encourage investor awareness through similar activities that may be undertaken at the expense of the investors. Investor awareness activities may also be suspended or discontinued which may impact the trading market our Common Stock.

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***If we lose key personnel or are unable to attract and retain additional qualified personnel, we may not be able to successfully manage our business and achieve our objectives.***

We believe our future success will depend upon our ability to retain our key management, including Doug Croxall, our Chief Executive Officer. The loss of Mr. Croxall or any other key members of management would have a material adverse effect on our operations. We have entered into an amendment to the employment agreement with Mr. Croxall, which extends the term of his employment agreement to November 2017. In addition, Erich Spangenberg, the founder and former Chief Executive Officer and principal of IP Nav and a significant stockholder of the Company, is also important to the success of our Company. We do not have any agreement with Mr. Spangenberg related to services he is to perform for IP Nav or the Company. We may not be successful in attracting, assimilating and retaining our employees in the future. We are competing for employees against companies that are more established than we are and that have the ability to pay more cash compensation than we do. As of the date hereof, we have not experienced problems hiring employees.

***If we fail to establish and maintain an effective system of internal control, we may not be able to report our financial results accurately and timely or to prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our Common Stock.***

Effective internal control is necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. As a result, our small size and any future internal control deficiencies may adversely affect our financial condition, results of operation and access to capital. We have not performed an in-depth analysis to determine if historical un-discovered failures of internal controls exist, and may in the future discover areas of our internal control that need improvement.

***As a result of its internal control assessment, the Company determined there is a material weakness with respect to segregation of duties.***

The Company determined that there is a material weakness in its internal controls with respect to the segregation of duties. Since the Company has six employees, most of whom have no involvement in our financial controls and reporting, we are unable to sufficiently distribute reporting and accounting to tasks across enough individuals to insure that the Company does not have a material weakness in its financial reporting system.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements. Such statements include statements regarding our expectations, hopes, beliefs or intentions regarding the future, including but not limited to statements regarding our market, strategy, competition, development plans (including acquisitions and expansion), financing, revenues, operations, and compliance with applicable laws. Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in greater detail in the following paragraphs. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement. Market data used throughout this prospectus is based on published third party reports or the good faith estimates of management, which estimates are based upon their review of internal surveys, independent industry

publications and other publicly available information.

You should review carefully the section entitled "Risk Factors" beginning on page 2 of this prospectus for a discussion of these and other risks that relate to our business and investing in shares of our common stock.

#### **USE OF PROCEEDS**

The selling stockholders will receive all of the proceeds from the sale of the shares offered by them under this prospectus. We will not receive any proceeds from the sale of the shares by the selling stockholders covered by this prospectus, but would receive any proceeds from the exercise of such warrants. If all of the warrants are exercised, we would receive \$3,190,374 in proceeds. We will use any proceeds from any exercise for working capital purposes.

#### **MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS**

##### **Market Information**

Our common stock is currently quoted on The NASDAQ Capital Market under the symbol "MARA". Previously, our common stock was quoted on the OTC Bulletin Board under the symbol "MARA" and prior to that under the symbol "AMSC".



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The following table sets forth the high and low bid quotations for our common stock as reported on The NASDAQ Capital Market for the periods indicated. All per share prices set forth below reflect the 1:2 stock dividend issued on December 22, 2015.

	High	Low
Fiscal 2017		
First quarter through February 2, 2017	\$ 2.29	\$ 1.59
Fiscal 2016		
First Quarter	\$ 2.87	\$ 1.29
Second Quarter	2.93	1.41
Third Quarter	3.44	2.58
Fourth Quarter	2.81	1.44
Fiscal 2015		
First Quarter	\$ 8.43	\$ 5.59
Second Quarter	6.06	2.85
Third Quarter	3.32	1.85
Fourth Quarter	2.00	1.34
Fiscal 2014		
First Quarter	\$ 3.58	\$ 2.88
Second Quarter	5.55	3.18
Third Quarter	7.95	5.43
Fourth Quarter	9.67	5.86

## **Holders.**

As of February 2, 2017, there are 49 record holders of 19,302,472 shares of our common stock.

## **Securities Authorized for Issuance under Equity Compensation Plans**

### **2012 and 2014 Equity Incentive Plans**

The following table gives information about the Company's common stock that may be issued upon the exercise of options granted to employees, directors and consultants under its 2012 and 2014 Equity Incentive Plans as of February 2, 2017. On August 1, 2012, our board of directors and stockholders adopted the 2012 Equity Incentive Plan, pursuant to which 1,538,462 shares of our common stock are reserved for issuance as awards to employees, directors, consultants, advisors and other service providers and on September 16, 2014, our board of directors adopted the 2014 Equity Incentive Plan, subsequently approved by the shareholders on July 31, 2015, pursuant to which 2,000,000 shares of our common stock are reserved for issuance as awards to employees, directors, consultants, advisors and other service providers.

## Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	3,538,462	\$ 3.96	56,064
Equity compensation plans not approved by security holders	0	\$ 0	0
Total	3,538,462	\$ 3.96	56,064

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATION**

**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 September 30, 2016, we owned 519 U.S. and foreign patents.

Our principal office is located at 11100 Santa Monica Blvd., Suite 380, Los Angeles, CA 90225. 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.

On July 18, 2013, we filed a certificate of amendment to our Amended and Restated Articles of Incorporation with the Secretary of State of the State of Nevada in order to effectuate a reverse stock split of our issued and outstanding common stock, par value \$0.0001 per share on a one (1) for thirteen (13) basis (the Reverse Split). The Reverse Split became effective with FINRA at the open of business on July 22, 2013. As a result of the Reverse Stock Split, every thirteen shares of our pre-reverse split common stock was combined and reclassified into one share of our common stock. No fractional shares of common stock were issued as a result of the Reverse Split. Stockholders who otherwise would be entitled to a fractional share received the next highest number of whole shares.

On November 19, 2014, the Board of Directors of the Company declared a stock dividend ( Dividend ) pursuant to which holders of the Company's Common Stock as of the close of business of the record date of December 15, 2014 received one additional share of Common Stock at the close of business on December 22, 2014 for each share of Common Stock held by such holders. Throughout this Report, all share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the stock dividend.

Throughout this Report, each instance in which we refer to a number of shares of our Common Stock, the number refers to the number of shares of Common Stock after giving effect to the Reverse Split and the Dividend, unless otherwise indicated.

### **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.

#### **Principles of Consolidation**

The consolidated financial statements are prepared in accordance with US GAAP and present the financial statements of the Company and our wholly-owned and majority owned subsidiaries. In the preparation of our consolidated financial statements, intercompany transactions and balances are eliminated.

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Variable Interest Entities

Financial Accounting Standards Board, or FASB, accounting guidance concerning variable interest entities, or VIE, addresses the consolidation of a business enterprise to which the usual condition of consolidation (ownership of a majority voting interest) does not apply. This guidance focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. The guidance requires an assessment of who the primary beneficiary is and whether the primary beneficiary should consolidate the VIE. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the variable interest entity that most significantly impacts the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Application of the VIE consolidation requirements may require the exercise of significant judgment by management.

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 the the Company's ownership interest constitutes a VIE and that the Company is the primary beneficiary because the Company satisfies both the power and benefits criterion pursuant to ASC 810. As a result, the Company will consolidate the VIE within its financial statements.

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 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.

The Company considers the revenue generated from a settlement and licensing agreement 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.

#### 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 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 recorded impairment charges to its intangible assets during the three and nine months

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ended September 30, 2016 in the amounts of \$5,531,383 and 6,525,273, respectively, associated with the end of life of a number of the Company's portfolios, compared to an impairment charge in the amount of \$0 and \$766,498, respectively, during the three and nine months ended September 30, 2015 associated with the reduction in the carrying value of one the Company's portfolios.

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. 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;
3. Significant negative industry or economic trends; and
4. Significant reduction or exhaustion of the potential licenses of the patents which gave rise to the goodwill.

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. 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 and the Company is not required to perform further testing. 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 statement of operations. The Company performs the annual testing for impairment of goodwill at the reporting unit level during the quarter ended September 30.

For the three and nine months ended September 30, 2016 the Company recorded an impairment charge to its goodwill in the amount of \$0 and \$83,000, respectively. For the three and nine months ended September 30, 2015 the Company recorded an impairment charge to its goodwill in the amount of \$0 and \$0, respectively. The impairment charge to goodwill for the three and nine months ended September 30, 2016 resulted from the determination that one of the Company's portfolios had reached the end of its useful life.

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.

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. 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 both the three and nine months ended September 30, 2016, the expected forfeiture rate was 11.03%, which resulted in an expense of \$9,570 and \$36,832 for the three and nine months ended September 30, 2016, respectively, recognized in the Company's compensation expenses. For both the three and nine months ended September 30, 2015, the expected forfeiture rate was 11.66%, which resulted in an expense of \$8,423 and \$16,004 for the three and nine months ended September 30, 2015, respectively, recognized in the Company's compensation expenses.

The Company will continue to re-assess the impact of forfeitures if actual forfeitures increase in future quarters.



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**Liquidity and Capital Resources**

At September 30, 2016, we had approximately \$1.3 million in cash and a working capital deficit of approximately \$14.8 million, compared to approximately \$2.6 million in cash and a working capital deficit of approximately \$12.2 million as of December 31, 2015.

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. 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. 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.

**Recent Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 financial statements.

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 September 1, 2017 and we are currently evaluating the impact that the standard will have on our consolidated financial statements.

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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 September 1, 2019 using a modified retrospective approach. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. This update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified statement of financial position. ASU 2015-17 is effective for annual and interim reporting periods beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. The Company adopted this standard for the annual period ending December 31, 2015. The effect of adopting the new guidance on the balance sheet was not significant.

In September 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, or ASU 2015-16. This amendment requires the acquirer in a business combination to recognize in the reporting period in which adjustment amounts are determined, any

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adjustments to provisional amounts that are identified during the measurement period, calculated as if the accounting had been completed at the acquisition date. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. The new standard for an annual reporting period beginning after December 15, 2017 with an earlier effective application is permitted only as of annual reporting periods beginning after December 15, 2016. The new guidance is not expected to have significant impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles-Goodwill and Other Internal-Use Software; Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Prior to this ASU, U.S. GAAP did not include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license, in which case the customer should account for such license consistent with the acquisitions of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The ASU does not change the accounting for service contracts. The new standard is effective for us on January 1, 2016 with early adoption permitted. We do not expect the adoption of ASU 2015-05 to have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued new guidance on the presentation of debt issuance costs (ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*), effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and should be applied retrospectively to all periods presented. Early adoption of the new guidance is permitted for financial statements that have not been previously issued. The new guidance will require that debt issuance costs be presented in the balance sheet as a direct deduction from the related debt liability rather than as an asset, consistent with debt discounts. The Company adopted ASU 2015-03 and as such, the debt issuance costs for Fortress note was presented in the balance sheet as direct deduction from the related debt liability.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. This standard update provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance is effective for all annual and interim periods ending after December 15, 2016. The new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in US GAAP when it becomes effective and shall take effective on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method and the early application of the standard is not permitted. The Company is presently evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures and has not yet selected a transition method.

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.

**Results of Operations**

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*For the Three and Nine Months Ended September 30, 2016 and 2015*

We generated revenues of \$43,113 and \$36,452,551 during the three and nine months ended September 30, 2016, respectively, as compared to \$6,407,997 and \$11,870,851 during the three and nine months ended September 30, 2015, respectively. For the three months ended September 30, 2016, this represented a decrease of \$6,364,884 or 99% and for the nine months ended September 30, 2016, this represented an increase of \$24,581,700 or 207%. On an absolute basis, revenue for the three and nine months ended September 30, 2016 was primarily derived from the issuance of one-time patent licenses with a small amount of recurring royalties and for the three and nine months ended September 30, 2015 revenue was derived from both the issuance of one-time patent licenses and recurring royalties. The increase in revenue from 2015 to 2016 resulted from a number of larger one-time license agreements entered into by the Company's Dynamic Advances and Medtech subsidiaries.

Revenues from the issuance of one-time licenses to certain of the Company's patent portfolios accounted for approximately 0% and 99% of our revenues for the three months and nine ended September 30, 2016 and 97% and 94% for the three and nine months ended September 30, 2015, respectively. For the three months ended September 30, 2016, the Company had no revenue from the issuance of

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one-time licenses, whereas revenues from the five largest settlement and license agreements accounted for 87% of the Company's revenue for the comparable period ending September 30, 2015.

While the Company added a number of patent portfolios during the periods ending June 30, 2016 and September 30, 2016, and the Company intends to move towards a recurring revenue model associated with the new, larger portfolios, the Company expects that until such transition is fully enacted that a significant portion of its revenues in the upcoming periods 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 and nine months ended September 30, 2016 amounted to \$1,094,378 and \$19,202,118, respectively and for the three and nine months ended September 30, 2015, the direct cost of revenues amounted to \$4,002,040 and \$12,190,415, respectively. For the three months ended September 30, 2016, this represented a decrease of \$2,907,661 or 73% and for the nine months ended September 30, 2016, this represented an increase of \$7,011,703 or 58%. Direct costs of revenue include contingent payments to patent enforcement legal costs, patent enforcement advisors and inventors as well as various non-contingent costs associated with enforcing the Company's patent rights and otherwise in developing and entering into settlement and licensing agreements that generate the Company's revenue. For the three months ended September 30, 2016, the Company had no costs associated with contingent payments as there were no new licenses during this period. For the three months ended September 30, 2015, the Company had higher direct cost of revenue associated with contingent payments relative to new licenses issued as well as trial fees associated with the IP Liquidity portfolio. Direct cost of revenues were 2538% and 53%, respectively, for the three and nine months ended September 30, 2016 and direct costs of revenues were 62% and 103%, respectively, for the comparable periods in 2015.

We incurred other operating expenses of \$9,688,527 and \$18,884,827 for the three and nine months September 30, 2016, respectively and \$5,491,363 and \$17,632,070 for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2016, this represented an increase in other operating expenses of \$4,197,164 or 76% and \$1,321,407 or 7%, respectively. These expenses primarily consisted of amortization of patents, general expenses, compensation to our officers, directors and employees, professional and consulting fees incurred in connection with the day-to-day operation of our business and patent and goodwill impairment charges. The year over year increase in other operating expenses for the nine months ended September 30, 2016 resulted primarily from patent impairment expenses in 2016; every other category of expense declined during the nine months ended September 30, 2016 versus the comparable period of 2015.

The operating expenses consisted of the following:

	Total Other Operating Expenses			
	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Amortization of intangible assets (1)	2,030,886	2,884,269	6,018,196	8,511,730
Compensation and related taxes (2)	1,252,571	903,685	3,406,841	3,571,817
Consulting fees (3)	257,420	643,702	903,032	1,869,326
Professional fees (4)	432,496	882,213	1,336,201	2,230,748
Other general and administrative (5)	183,771	177,494	612,284	681,951

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Goowill Impairment (6)			83,000	766,498
Patent Impairment (7)	5,531,383		6,525,273	
Total	9,688,527	5,491,363	18,884,827	17,632,070

Operating expenses for the three and nine months ended September 30, 2016 include non-cash operating expenses totaling \$8,053,556 and \$14,332,533, respectively, and for the three and nine month ended September 30, 2015, the Company incurred non-cash operating expenses of \$3,787,346 and \$12,404,184, respectively. Non-cash operating expenses consisted of the following:

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	Non-Cash Operating Expenses			
	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Amortization of intangible assets (1)	2,030,886	2,884,269	6,018,196	8,511,730
Compensation and related taxes (2)	440,161	444,558	1,306,399	1,682,361
Consulting fees (3)	30,038	448,361	345,510	1,403,555
Professional fees (4)	8,620	8,527	25,707	25,582
Other general and administrative (5)	12,468	1,631	28,448	14,458
Goodwill impairment (6)			83,000	766,498
Patent Impairment (7)	5,531,383		6,525,273	
Total	8,053,556	3,787,346	14,332,533	12,404,184

- (1) Amortization of intangibles and depreciation: Amortization expenses associated with patents and the Company's website were \$2,030,886 and \$6,018,196 during the three and nine months ended September 30, 2016, respectively, a decrease of \$853,383 or 30% and \$2,493,534 or 29% relative to the three and nine months ended September 30, 2015. The decrease results from the full impairment in four of the Company's portfolios and the partial impairment of another of the Company's portfolios during the intervening period of time. 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 September 30, 2016, compensation expense and related payroll taxes were \$1,252,571, an increase of \$348,886 or 39% and for the nine months ended September 30, 2016, compensation expense and related payroll taxes were \$3,406,841, a decrease of \$164,976 or 5% relative to the nine months ended September 30, 2015. The increase in compensation for the three months ended September 30, 2016 primarily reflects salaries associated with new employees and the decrease in compensation expense for the nine months ended September 30, 2016 primarily reflects bonuses incurred and paid during the nine months ended September 30, 2015. We recognized non-cash employee and board equity based compensation of \$440,161 and \$1,306,399, respectively, for the three and nine months ended September 30, 2016 and \$444,558 and \$1,682,361, respectively, for the three and nine months ended September 30, 2015.
- (3) Consulting fees: For the three and nine months ended September 30, 2016, respectively, we incurred consulting fees of \$257,420 and \$903,032. This represented a decrease in the amount of \$386,283 or 60% and a decrease of \$966,294 or 52% compared to the three and nine months ended September 30, 2015. Consulting fees include both cash and non-cash related consulting fees primarily for investor relations, public relations and general consulting services. The decrease during the three and nine months ended September 30, 2016 primarily reflect a decline in non-cash equity compensation expenses associated with the engagement of numerous consultants in the investor relations and for general consulting areas incurred in 2015 that expired during 2015 and 2016. During the three and nine months ended September 30, 2016, we recognized non-cash equity based consulting expenses of \$30,038 and \$345,510, respectively compared to non-cash equity-based consulting expenses of \$448,361 and \$1,403,555 for the three and nine months ended September 30, 2015.
- (4) Professional fees: For the three and nine months ended September 30, 2016, we incurred professional fees of \$432,496 and \$1,336,201, respectively, a decrease of \$449,717 or 51% and \$894,547 or 40% over the comparable periods in 2015. Professional fees primarily reflect the costs of professional outside accounting fees, legal fees and audit fees. The decrease in professional fees for the three and nine months ended September 30, 2016 over the three and nine months ended September 30, 2015 relate to lower professional outside legal, accounting and audit fees resulting from the absence of significant costs associated with closing the Fortress transaction and preparing for the subsequently terminated Uniloc transaction. During the three and nine months ended September 30, 2016, we recognized non-cash equity based professional expenses of \$8,620 and \$25,707, respectively, compared to non-cash professional expenses of \$8,527 and \$25,582, respectively, during the same periods in 2015.
- (5) Other general and administrative expenses: For the three and nine months ended September 30, 2016, we incurred other general and administrative expenses of \$183,773 and \$612,284, respectively, an increase of \$6,277 or 4% for the three months ended September 30, 2016 compared to the comparable period in 2015, but a decrease of \$69,667 or 10% for the nine months ended September 30, 2016 compared to the comparable period in 2015. General and administrative expenses reflect the other non-categorized operating costs of the

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Company and include expenses related to being a public company, rent, insurance, technology and other expenses incurred to support the operations of the Company. During the three and nine months ended September 30, 2016, we recognized non-cash equity based other general and administrative expenses of \$12,468 and \$28,448, respectively, compared to non-cash professional expenses of \$1,631 and \$14,458, respectively, during the same periods in 2015.

- (6) Goodwill impairment: Based on the Company's determination that one of its portfolios had reached the end of its useful life,



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the Company took an impairment charge during the three and nine months ended September 30, 2016 in the carrying value of the related goodwill in the amount of \$0 and \$83,000 compared to a goodwill impairment charge in the amount of \$0 and \$766,498, respectively, during the three and nine months ended September 30, 2015.

- (7) Patent impairment: Based on changes in the expected timing of proceeds from the Clouding portfolio, as well as the determination that a number of the Company's portfolios had reached the end of their useful lives, the Company took impairment charges for three and nine months September 30, 2016 in the carrying value of the Company's patents assets in the amount of \$5,531,383 and 6,525,273, respectively, compared to no impairment charges for three and nine months September 30, 2015 in the carrying value of the Company's patents assets.

**Operating Income (Loss)**

We reported operating income (loss) of \$(10,739,792) and \$(1,634,394) for the three and nine months ended September 30, 2016 and operating income (loss) of \$(3,085,406) and \$(17,951,634), for the three and nine months ended September 30, 2015. For the three months ended September 30, 2016, this represented a decrease in operating income of \$7,654,386, but for the nine months ended September 30, 2016, this represented an increased operating income of \$16,317,240. For the nine months ended September 30, 2016, the increased income from operations was primarily attributable to higher revenue, lower direct cost of revenues and lower patent amortization costs.

**Other Income (Expenses)**

Total other income (expenses) was \$1,093,278 and \$(682,040) for the three and nine months ended September 30, 2016, respectively, and \$(1,148,877) and \$(1,383,261) for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2016, this represented an increase in other income of \$2,242,155 and \$701,221, respectively. The principal component of the increase in other income for the three months ended September 30, 2016 compared to the comparable period in 2015 was a decline in interest expenses, an increase in the gain associated with the change in the fair value of the Clouding IP earn out and a loss on debt extinguishment in 2015, offset by an increase in foreign exchange loss in 2016. The principal component of the increase in other income for the nine months ended September 30, 2016 compared to the comparable period in 2015 include the items set forth above as well, with the exception of the gain associated with the change in the fair value of the Clouding IP earn out, which was greater for the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2016.

**Income Tax Benefit (Expense)**

We recognized an income tax benefit (expense) in the amount of \$3,347,909 and \$26,974 for the three and nine months ended September 30, 2016, respectively, attributable to the Company's operating income in 2016, compared to the recognition of income tax benefits in the amounts of \$483,815 and \$6,300,159, respectively, for the three and nine months ended September 30, 2015.

**Net Income (Loss)**

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We reported net income (loss) of \$(6,298,605) and \$(2,289,460) for the three and nine months ended September 30, 2016, respectively, and net income (loss) of \$(3,750,468) and \$(13,034,736) for the three and nine months ended September 30, 2015, respectively.

### Non-GAAP Reconciliation

The Company recorded non-GAAP reconciliation items in the amount of \$3,039,318 and \$13,135,582 for the three and nine months ended September 30, 2016, respectively, compared to non-GAAP reconciliation items in the amount of \$3,662,028 and \$6,533,543 for the three and nine months ended September 30, 2015. The details of these non-GAAP reconciliation items are set forth below:

	<b>Non-GAAP Reconciliation</b>			
	<b>For the Three Months Ended September 30, 2016</b>	<b>For the Three Months Ended September 30, 2015</b>	<b>For the Nine Months Ended September 30, 2016</b>	<b>For the Nine Months Ended September 30, 2015</b>
Net income (loss) attributable to Marathon Patent Group, Inc. common shareholders	(6,274,410)	(3,750,468)	(2,261,542)	(13,034,736)
Non-GAAP				
Amortization of intangible assets	2,030,886	2,884,269	6,018,196	8,511,730
Equity-based compensation	478,819	901,446	1,677,616	3,111,498
Impairment of Intellectual Property	5,531,383		6,608,273	766,498
Change in Earn Out Liability	(1,954,378)	(597,047)	(2,122,208)	(2,901,348)
Non-cash interest expense	288,049	301,544	952,231	1,926,866
Deferred tax (benefit) / Tax expense	(3,347,909)	(483,815)	(26,974)	(6,300,159)
Loss on note payable		654,000		654,000
Clawback on Medtronic debt				750,000
Other	12,468	1,631	28,448	14,458
Non-GAAP net income (loss)	(3,235,092)	(88,440)	10,870,040	(6,501,193)
Weighted average common shares outstanding:				
Basic	15,047,141	14,376,118	14,944,852	14,094,891
Fully diluted	15,047,141	14,376,118	15,984,269	14,094,891
Non-GAAP net income (loss) per common share - basic and diluted				
Basic	\$ (0.21)	\$ (0.01)	\$ 0.73	\$ (0.46)
Fully diluted	\$ (0.21)	\$ (0.01)	\$ 0.68	\$ (0.46)

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**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 September 30, 2016, the Company's cash balances totaled \$1,294,950 compared to \$2,555,151 at December 31, 2015. The decrease in the cash balances of \$1,260,201 resulted primarily from net cash used in operations, acquisition of new patent portfolios and cash amortization of the Fortress debt.

Net working capital deficit declined by \$2,619,870 to \$14,792,616 at September 30, 2016 from \$(12,172,746) at December 31, 2015. The decrease in net working capital resulted primarily from a decrease in current assets related to cash from operations and an increase in current liabilities associated with an increase in the current portion of the Fortress debt.

Cash provided (used) in operating activities was \$11,214,122 during the nine months ended September 30, 2016 and cash provided (used) in operating activities was \$(2,921,505) during the nine months ended September 30, 2015.

Cash provided (used) in investing activities was \$(3,561,043) for the nine months ended September 30, 2016 compared to \$(22,520) cash used in investing activities for the nine months ended September 30, 2015. The additional use of cash during the nine months ended September 30, 2016 was almost exclusively related to the acquisition of new patent portfolios.

Cash (used) in financing activities was \$(8,981,688) during the nine months ended September 30, 2016 compared to cash provided by financing activities in the amount of \$1,266,251 during the nine months ended September 30, 2015. Cash used in financing activities for the nine months ended September 30, 2016 resulted from the repayment of all of the Medtech portfolio acquisition debt as well as a portion of the outstanding Fortress debt and cash provided by financing activities for the nine months ended September 30, 2015 resulted from the transaction entered into with Fortress on January 29, 2015, less repayment of general and patent portfolio acquisition debt, of equal or shorter terms, incurred during 2014.

Management is uncertain that the balance of cash and cash equivalents of \$1,294,950 at September 30, 2016 is sufficient to continue to fund the Company's operations through at least the next twelve months. The Company's operations are subject to various risks and there is no assurance that changes in the operations of the Company will not require the Company to raise additional cash sooner than planned in order to continue uninterrupted operations. In that event, the Company would seek to raise additional capital from the sale of the Company's securities, from borrowing or from other sources. Should the Company seek to raise capital from the issuances of its securities, such transactions would be subject to the risks of the market for the Company's securities at the time.

Table of Contents**Results of Operations for the Years Ended December 31, 2015 and December 31, 2014**Revenues

Revenues decreased by \$2,426,675, or 11%, to \$18,997,794 in the year ended December 31, 2015 compared to \$21,404,469 of revenue in the year ended December 31, 2014. The decrease in revenues in 2015 resulted from slower time to monetization for the Company's patents resulting from trial delays in a number of the Company's higher profile cases as well as the absence of a single large license agreement as the Company experienced in 2014.

Revenues from five licenses from four different subsidiaries of the Company accounted for approximately 62% of the Company's revenue for the year ended December 31, 2015 compared to the year ended December 31, 2014 in which five licenses from five different subsidiaries of the Company accounted for approximately 88% of the Company's revenue, as summarized below:

## For the Year Ended December 31, 2015

<b>Licensor</b>	<b>License Amount</b>	<b>% of Revenue</b>
TLI Communications LLC	\$ 3,300,000	17%
Vantage Point Technology, Inc.	\$ 2,750,000	15%
Orthophenix, LLC	\$ 2,050,000	11%
IP Liquidity Ventures, LLC	\$ 1,870,790	10%
IP Liquidity Ventures, LLC	\$ 1,800,000	9%
	<b>Total</b>	<b>62%</b>

## For the Year Ended December 31, 2014

<b>Licensor</b>	<b>License Amount</b>	<b>% of Revenue</b>
Clouding Corp.	\$ 10,500,000	49%
Selene Communications Technologies, LLC	\$ 2,900,000	14%
CRFD Research, Inc.	\$ 2,800,000	13%
Realy IP, LLC	\$ 1,750,000	8%
IP Liquidity Ventures, LLC	\$ 937,500	4%
	<b>Total</b>	<b>88%</b>

The Company derived these revenues from the one-time issuance of non-recurring, non-exclusive, non-assignable licenses to certain licensees and their affiliates for certain of the Company's patents. 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.

#### Operating Expenses

Direct costs of revenues for the years ended December 31, 2015 and December 31, 2014 amounted to \$16,603,792 and \$11,787,445, respectively. For the year ended December 31, 2015, this represented an increase of \$4,816,347, or 41%. Direct costs of revenue include contingent payments to patent enforcement legal costs, patent enforcement advisors and inventors. Direct costs of revenue also includes 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. Such costs include other legal fees and expenses, consulting fees, data management costs and other costs. Direct costs of revenues for 2015 were higher than in 2014 due to a fixed fee engagement agreement with a law firm that represented one of the Company's subsidiaries in two United States trials, an increase in enforcement activity in Germany and to a lesser extent France and preparation for a significant number of trials in both the United States and Germany in 2015.

We incurred other operating expenses of \$28,054,433 and \$15,823,752 for the years ended December 31, 2015 and December 31, 2014, respectively. This represented an increase of \$12,230,681, or 77%, in 2015 compared to 2014. 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 as well as an impairment of patent assets in the amount of \$5,793,409 for the year ended December 31, 2015 (compared to no impairment of patent assets for the year ended

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December 31, 2014), offset partially by an impairment of goodwill in the amount of \$0 and \$2,144,488 in the years ended December 31, 2015 and December 31, 2014, respectively. Other operating expenses consisted of the following:

	<b>Total Other Operating Expenses</b>	
	<b>For the Year Ended December 31, 2015</b>	<b>For the Year Ended December 31, 2014</b>
Amortization of patents	\$ 10,825,164	\$ 5,528,280
Compensation and related taxes	5,419,252	3,904,462
Consulting fees	2,324,248	2,134,672
Professional fees	2,548,492	1,566,375
Other general and administrative	1,143,869	545,475
Patent impairment	5,793,409	
Goodwill impairment		2,144,488
Total	\$ 28,054,433	\$ 15,823,752

Operating expenses for the years ended December 31, 2015 and December 31, 2014 include non-cash operating expenses totaling \$20,803,067 and \$10,966,155, respectively. The results for the year ended December 31, 2015 represent an increase in non-cash operating expenses in the amount of \$9,836,912 or 90%, compared to the non-cash operating expenses for the year ended December 31, 2014. Non-cash operating expenses consisted of the following:

	<b>Non-Cash Operating Expenses</b>	
	<b>For the Year Ended December 31, 2015</b>	<b>For the Year Ended December 31, 2014</b>
Amortization of patents	\$ 10,825,164	\$ 5,528,280
Compensation and related taxes	2,176,711	1,751,034
Consulting fees	1,590,346	1,536,603
Professional fees	34,109	5,750
Other general and administrative	383,328	
Patent impairment	5,793,409	
Goodwill impairment		2,144,488
Total	\$ 20,803,067	\$ 10,966,155

### *Amortization of patents*

Amortization expenses were \$10,825,164 and \$5,528,280 for the years ended December 31, 2015 and December 31, 2014, respectively, an increase of \$5,296,884 or 96%. The increase results from the significant number of patents and patent portfolios we have added at various points in 2014 and early 2015, during which the Company acquired ownership of or contractual rights to eleven patent portfolios. When the Company acquires patents and patent rights, the Company capitalizes those assets and amortizes the costs over the remaining useful lives of the assets. All patent amortization expenses are non-cash expenses.

### *Compensation expense and related taxes*

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Compensation expense includes cash compensation, related payroll taxes and benefits and also non-cash equity compensation. For the years ended December 31, 2015 and December 31, 2014, total compensation expense and related payroll taxes were \$5,419,252 and \$3,904,462, respectively, an increase of \$1,514,790 or 39%. The increase in compensation primarily reflects an increase in the number of average employees in 2015 compared to 2014, as two of the Company's six employees as of December 31, 2015 were hired during the fourth quarter of 2014 and to a lesser extent from an increase in cash compensation, equity-based compensation, payroll taxes and benefits to our employees. During the years ended December 31, 2015 and 2014, we recognized non-cash employee and board equity based compensation of \$2,176,711 and \$1,751,034, respectively.

### *Consulting fees*

For the years ended December 31, 2015 and December 31, 2014, we incurred consulting fees of \$2,324,248 and \$2,134,672, respectively, an increase of \$189,576 or 9%. 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. During the years ended December 31, 2015 and December 31, 2014, we recognized non-cash equity based consulting of \$1,590,346 and \$1,536,603, respectively.

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*Professional fees*

Professional fees for the years ended December 31, 2015 and December 31, 2014, respectively, were \$2,548,492 and \$1,566,375, an increase of \$982,117 or 63%. Professional fees primarily reflect the costs of professional outside accounting fees, legal fees and audit fees. The increase in professional fees for the year ended December 31, 2015 compared to the same period in 2014 are predominately related to professional outside legal, accounting and audit fees resulting from the Business Combination Agreement entered into with Uniloc on August 14, 2015 and to a lesser extent, costs associated with establishing operations in Germany. During the years ended December 31, 2015 and December 31, 2014, we recognized non-cash equity based professional fees of \$34,109 and \$5,750, respectively.

*Other general and administrative expenses*

For the years ended December 31, 2015 and December 31, 2014, other general and administrative expenses were \$1,143,868 and \$545,475, respectively, an increase of \$598,393, or approximately 110%. General and administrative expenses reflect the other non-categorized operating costs of the Company and include expenses related to being a public company, rent, insurance, technology and other expenses incurred to support the operations of the Company. During the years ended December 31, 2015 and December 31, 2014, we recognized non-cash equity based professional fees of \$383,328 and \$0, respectively.

*Loss on impairment of intangible assets*

For the years ended December 31, 2015 and December 31, 2014, the Company recorded a loss on the impairment of intangible assets in the amounts of \$5,793,409 and \$0, respectively.

*Loss on impairment of goodwill*

For the years ended December 31, 2015 and December 31, 2014, the Company recorded a loss on the impairment of goodwill in the amounts of \$0 and \$2,144,488, respectively.

*Operating loss*

The operating income (loss) from increased by \$19,473,704 to \$(25,680,432) in 2015 from \$(6,206,728) in 2014 as a result of the decrease in revenues, an increase in direct costs of revenues associated with a fixed fee legal representation engagement agreement and considerably higher non-cash expenses, especially patent amortization and impairment of patent assets.



*Other income (expense)*

Other income (expense) was \$584,125 for the year ended December 31, 2015 compared to other expense of \$(588,627) for the year ended December 31, 2014. The improvement in other income is attributable to a gain on the reduction of the value of the Clouding IP earn out liability, which was reduced with the impairment of the Clouding IP intangible assets, offset by an increase in interest expense from \$543,283 for the year ended December 31, 2014 to \$4,245,982 for the year ended December 31, 2015, primarily associated with the Fortress transaction and MedTech acquisition debt, as well as a loss on a debt extinguishment associated with the MedTech acquisition debt.

*Income tax benefit*

We recognized an income tax benefit in the amount of \$8,156,448 and \$4,913,232 for the years ended December 31, 2015 and 2014, respectively.

*Net income and net income available to common shareholders*

We reported net income (loss) of \$(16,939,859) and \$(3,153,615) for the years ended December 31, 2015 and December 31, 2014, respectively. For the year ended December 31, 2014, the net loss included a \$1,271,492 expense associated with a deemed dividend related to a beneficial conversion feature of the Series A Convertible Preferred Stock.

*Loss per common share, basic and diluted*

The Company reported an increase in the net loss per share of \$0.92 per share to \$(1.19) per share for the year ended December 31, 2015 from \$(0.27) for the year ended December 31, 2014. The deterioration in the net loss per share reflected lower revenue, increased costs of revenues, costs associated with the Business Combination Agreement with Uniloc and higher non-cash patent

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amortization and impairment expenses, offset partially by an increase in the number of weighted average shares outstanding. The increase in the number of weighted-average shares outstanding reflects increases in shares outstanding resulting from shares issued in connection with certain non-cash compensation arrangements plus the issuance of new shares in connection with the Company's private placement financing.

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Net loss attributable to Common Shareholders	\$ (16,939,859)	\$ (3,153,615)
Denominator		
Weighted Average Common Shares - Basic	14,208,787	11,660,879
Weighted Average Common Shares - Diluted	14,208,787	11,660,879
Earnings (Loss) per common share:		
Earnings (Loss) - Basic	\$ (1.19)	\$ (0.16)
Earnings (Loss) - Diluted	\$ (1.19)	\$ (0.16)

## *Non-GAAP Reconciliation*

The Company uses a Non-GAAP reconciliation of net income (loss) and earnings (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 decrease in the net loss in the amount of \$10,143,457 for the year ended December 31, 2015 compared to an increase in net income in the amount of \$7,324,415 for the year ended December 31, 2014. The details of those expenses and non-GAAP reconciliation of these non-cash items are set forth below:

	Non-GAAP Reconciliation For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Net loss attributable to Common Shareholders	\$ (16,939,859)	\$ (3,153,615)
Non-GAAP		
Amortization of intangible assets & depreciation	10,825,164	5,528,280
Equity-based compensation	3,801,166	3,293,387
Beneficial conversion feature		1,271,492
Impairment of patents	5,793,409	
Impairment of goodwill		2,144,488
Change in fair value of clouding IP earn out	(6,137,116)	
Non-cash interest expense	2,220,992	
Deferred tax benefit	(8,156,448)	(4,913,232)
Loss on debt restructuring and extinguishment	1,416,915	
Other	383,328	
Non-GAAP earnings (loss)	\$ (6,792,449)	\$ 4,170,800

## *Non-GAAP Loss per common share, basic and diluted*

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For the year ended December 31, 2015, net loss per common share on a Non-GAAP basis was \$(0.48) per common share compared to net income per basic common share on a Non-GAAP basis of \$0.36 for the year ended December 31, 2014 and net income per diluted common share on a Non-GAAP basis of \$0.29 for the year ended December 31, 2014.

<b>Non-GAAP Reconciliation of Earnings Per Share</b>			
	<b>For the Year Ended</b>		<b>For the Year Ended</b>
	<b>December 31, 2015</b>		<b>December 31, 2014</b>
Non-GAAP net income (loss)	\$	(6,792,449)	\$ 4,170,800
<b>Denominator</b>			
Weighted Average Common Shares - Basic		14,208,787	11,660,879
Weighted Average Common Shares - Diluted		14,208,787	14,311,048
<b>Non-GAAP earnings (loss) per common share:</b>			
Non-GAAP earnings (loss) - Basic	\$	(0.48)	\$ 0.36
Non-GAAP earnings (loss) - Diluted	\$	(0.48)	\$ 0.29

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*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 December 31, 2015, the Company's cash and cash equivalents balances totaled \$2,555,151 compared to \$5,082,569 at December 31, 2014. The decrease in the cash balances of \$2,527,418 resulted primarily from the Company's loss from operations and the repayment of most of the convertible notes issued in October 2014 as well as the repayment of acquisition debt associated with portfolios purchased in May 2014 and October 2014.

Despite the reduction in cash at December 31, 2015 compared to December 31, 2014, net working capital increased by \$2,088,847 to a deficit of \$(12,172,746) at December 31, 2015 from a deficit of \$(14,261,593) at December 31, 2014. The increase in net working capital resulted primarily from a reduction in the value of short-term notes payable and a reduction in the current portion of the Clouding IP earn out at December 31, 2015 compared to December 31, 2014, offset partially by the aforementioned decline in cash and an increase in accounts payable.

Cash provided (used) by operating activities was \$(2,961,238) during the year ended December 31, 2015 compared to cash provided by operating activities of \$4,455,105 during the year ended December 31, 2014.

Cash used in investing activities was \$58,386 for the year ended December 31, 2015 compared to cash used in investing activities in the amount of \$7,869,795 for the year ended December 31, 2014. Cash generated by investing activities during the year ended December 31, 2015 was related to the disposal of a patent portfolio partially offset by the purchase of equipment, with no cash used in the acquisition of patent assets. This compares to cash used in investing activities during the year ended December 31, 2014 related to patent assets purchased in a series of transactions entered into on May 2, 2014, June 17, 2014, August 29, 2014, September 19, 2014 and October 13, 2014, through which the Company acquired ten new patent portfolios, as well as equipment purchases. However, purchase of non-patent assets, specifically equipment and other non-patent intangibles represented less than 1% of total acquisitions of assets.

Cash provided by financing activities was \$508,838 during the year ended December 31, 2015 compared to cash provided by financing activities in the amount of \$4,888,528 during the year ended December 31, 2014. Cash provided by financing activities for the year ended December 31, 2015 resulted from proceeds from the Fortress transaction, offset by the repayment of debts incurred in the acquisitions of various patent portfolios as more fully described above.

Management believes that the balance of cash and cash equivalents of \$2,555,151 at December 31, 2015, combined with licenses agreements entered into by the Company prior to the date of this Annual Report along with expected operating cash flow is sufficient to continue to fund the Company's current operations at least through March 2017. However, the Company's operations are subject to various risks and there is no assurance that changes in the operations of the Company will not require the Company to raise additional cash sooner than planned in order to continue uninterrupted operations. In that event, the Company would seek to raise additional capital from the sale of the Company's securities, from borrowing or from other sources. Should the Company seek to raise capital from the issuances of its securities, such transactions would be subject to the risks of the market for the Company's securities at the time.

**Off-Balance Sheet Arrangements**

None.

**Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

On January 11, 2017, the Company notified SingerLewak LLP ( SingerLewak ) of its dismissal, effective January 11, 2017, as the Company's independent registered public accounting firm. SingerLewak served as the auditors of the Company's financial statements for the period from April 16, 2014 through the date of dismissal.

The reports of SingerLewak on the Company's consolidated financial statements for the Company's fiscal years ended December 31, 2015 and 2014 did not contain any adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle. The decision to change accountants was approved by the Company's Board of Directors.

During the Company's fiscal years ended December 31, 2015 and 2014, and during the subsequent interim period through January 12, 2017, there were (i) no disagreements with SingerLewak on any matter of accounting principles or practices, financial statement

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disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of SingerLewak, would have caused SingerLewak to make reference to the subject matter of the disagreements as defined in Item 304 of Regulation S-K in connection with any reports its reports, and (ii) there were no reportable events as such term is described in Item 304 of Regulation S-K.

The Company provided SingerLewak with a copy of the foregoing disclosure, and requested that SingerLewak furnish the Company with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with such disclosure. A copy of the letter from SingerLewak addressed to the Securities and Exchange Commission dated as of January 12, 2017 was filed as Exhibit 16.1 to the Company's Form 8-K filed with the SEC on January 17, 2017.

On January 5, 2017, the Board appointed BDO USA, LLP ( BDO ) as the Company's independent registered public accounting firm for the Company's fiscal year ending December 31, 2016.

During the fiscal years ended December 31, 2016 and 2015 and during the subsequent interim period through January 10, 2017, neither the Company nor anyone acting on its behalf consulted with BDO regarding (i) the application of accounting principles to a specified transaction either completed or proposed or the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report nor oral advice was provided that BDO concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement between the Company and its predecessor auditor as described in Item 304(a)(1)(iv) of Regulation S-K or a reportable event as described in Item 304(a)(1)(v) of Regulation S-K.

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**BUSINESS**

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. 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.

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 such other terms as we deem appropriate. Our strategy has been developed with the expectation that it will result in a long-term, diversified revenue stream for the Company. As of September 30, 2016, on a consolidated basis, our operating subsidiaries owned 512 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. These acquisitions continue to expand and diversify our revenue generating opportunities.

Our principal office is located at 11100 Santa Monica Blvd., Suite 380, Los Angeles, CA 90225. Our telephone number is (703) 232-1701. Our internet address is [www.marathonpg.com](http://www.marathonpg.com). Information on our website is not incorporated into this report.

**Industry Overview and Market Opportunity**

Under U.S. law, an inventor or patent owner has the right to seek to exclude others from making, selling or using their patented invention and to seek damages for infringement. Unfortunately, it is often the case that infringers are unwilling, at least initially, to negotiate or pay reasonable royalties for their unauthorized use of patents and some prefer to contest allegations of patent infringement. Inventors and/or patent holders, without sufficient legal, financial and/or expert technical resources to commence or continue legal action are at a disadvantage as they may be perceived to lack credibility in dealing with potential licensees and as a result, are often ignored. As a result of the common reluctance of patent infringers to negotiate and ultimately obtain a patent license for the use of patented technologies, patent licensing and enforcement often begins with the filing of patent enforcement litigation. However, the majority of patent infringement litigations settle out of court based on the strength of the patent claims, validity, and persuasive evidence and clarity that the patent is being infringed.

**Business Model and Strategy Overview**

Our business encompasses two main elements: (1) the identification, analysis and acquisition of patents and patent rights; and (2) the generation of revenue from the acquired patents or patent rights. Typically, we compensate the patent holder with some combination of cash, equity,

earn-out or debt in consideration for the patents or patent rights or resolution of claims.

## **Key Factors of Our Business Model**

### Diversification

As of September 30, 2016, on a consolidated basis, our operating subsidiaries owned 512 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. These acquisitions continue to expand and diversify our revenue generating opportunities. We intend to add more patents and patent applications to our portfolio for the purpose of generating additional revenues from assertion of claims against infringers. By owning multiple patent assets, we seek to continue to be diversified in both the types of patents that we own as well as the frequency and size of the monetization revenue generated by such patents. This diversification prevents us from having to rely on a single patent, or patent family, to generate our revenue. Additionally, by commencing multiple settlement and licensing campaigns with our different patent assets, we intend to generate frequent revenue events through the execution of multiple settlement and licensing agreements. Finally, we have commenced operations in Germany and France and are considering other venues as well, giving the Company diversification across different countries and increasing the damages footprint for our portfolios with counterparts in different countries. Our diversification of patent assets and revenue generation allows us to avoid the binary risk that can be associated with owning a single patent asset that typically generates a single stream of licensing revenue.



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### Patent Acquisition Opportunities

We have worked to establish a supply of patent acquisition opportunities with patent brokers and dealers, with individual inventors and patent owners, as well as with large corporations (including Fortune 500 corporations) who own patents. Service providers, such as patent prosecution and litigation attorneys and patent licensing professionals have also become key providers of patent opportunities. We intend to continue to expand our relationships for patent acquisitions and expand the industries to which our patents apply.

### Patent Portfolio Evaluation

We follow a disciplined due diligence approach when analyzing potential patent acquisitions. Each opportunity to acquire a patent can vary based on the amount and type of patent assets, the complexity of the underlying inventions and the analysis of the industries in which the invention is being used. Our portfolio evaluation involves an initial screening with our analytics platform, Opus Analytics, followed by internal technical analysis, third-party experts and damages assessment.

In September 2014 we acquired a limited field of use exclusive license to use Opus Analytics from IP Nav. Opus Analytics is a proprietary patent analytics tool that we use extensively to review and analyze patent acquisition opportunities.

We enter potential patent acquisition opportunities into Opus Analytics to evaluate patent decisions. The algorithm underlying Opus Analytics is comprised of approximately 120 factors, and it has been continuously updated using actual observations. After evaluation of the patents by Opus Analytics, the Company reviews subtleties in the language of a patent's recorded interactions with the patent office and evaluates prior art and literature. This evaluation can make significant differences in the potential monetization revenue derived from a patent or patent portfolio. We have developed proprietary processes and procedures for identifying problem areas and evaluating the strength of a patent portfolio before the decision is made to allocate resources to an acquisition or to launch an effective monetization effort, using the judgment and skill of our personnel.

We often also seek to use third-party experts in the evaluation and due diligence of patent assets. The combination of our management team and third-party patent attorneys, intellectual property licensing experts and technology engineers allow us to conduct our tailored patent acquisition and evaluation processes and procedures. We evaluate both the types and strength of the claims of the patent as well as the file history of the patent.

Finally, we identify potential infringers; industries within which the potential infringers exist; longevity of the patented technology; and a variety of other factors that directly impact the magnitude and potential success of a licensing and enforcement program.

### **Competition**

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While there has previously been a noticeable proliferation of patent monetization firms seeking to enter the business, both public and private, there has been a visible decline over the last 6-12 months in the competition for purchasing patents. This has had the effect of reducing the purchase prices and making acquisitions less competitive, providing the Company with considerable opportunities for new acquisitions, both in the United States and internationally.

### Customers

Currently, we define customers as those companies that procure licenses to our patents, to satisfy legal claims of infringement against commercial products or services they produce or sell. Our licensees generally obtain non-recurring, non-exclusive, non-assignable license agreements in return for a single payment upon execution of the license agreement. However, in certain cases, such as the licenses for our Medtech portfolio, we may enter into licenses with recurring royalty payments that continue for a defined period of time.

### Intellectual Property and Patent Rights

Our intellectual property is primarily comprised of issued patents, patent applications and contract rights to patents. We began to generate revenue from patents during the second quarter of 2013. As of September 30, 2016, the median expiration date for patents in our portfolio is September 28, 2017 and the latest expiration date for a patent in our portfolio is March 29, 2029. A summary of our patent portfolios is as follows:

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Subsidiary	Number of Patents	Earliest Expiration Date	Median Expiration Date	Latest Expiration Date	Subject Matter
Bismarck IP Inc.	17	09/15/16	08/02/16	01/22/18	Communication and PBX equipment
Clouding Corp.	59	Expired	08/06/21	03/29/29	Network and data management
CRFD Research, Inc.	5	05/25/21	09/17/21	08/19/23	Web page content translator and device-to-device transfer system
Cyberfone Systems, LLC	30	Expired	09/15/15	06/07/20	Telephony and data transactions
Dynamic Advances, LLC	4	Expired	10/02/17	03/06/23	Natural language interface
E2E Processing, Inc.	4	04/27/20	11/17/23	07/18/24	Manufacturing schedules using adaptive learning
Hybrid Sequence IP, Inc.	2	Expired	09/09/16	07/17/17	Asynchronous communications
IP Liquidity Ventures, LLC	3	Expired	06/06/15	06/06/15	Pharmaceuticals / tire pressure systems
Loopback Technologies, Inc.	9	Expired	08/05/16	08/27/22	Automotive
Magnus IP	62	10/28/29	09/29/24	10/15/30	Network Management/Connected Home Devices
Medtech Group Acquisition Corp.	86	Expired	06/28/19	08/09/29	Medical technology
Motheye Technologies	1	06/07/21	06/07/21	06/07/21	Optical Networking
Munitch IP	173	9/16/18	6/21/26	5/29/32	W-CDMA and GSM cellular technology
Relay IP, Inc.	1	Expired	Expired	Expired	Multicasting
Sampo IP, LLC	3	03/13/18	12/01/19	11/16/23	Centrifugal communications
Sarif Biomedical LLC	4	Expired	Expired	Expired	Microsurgery equipment
Signal IP, Inc.	7	Expired	12/01/15	08/06/22	Automotive
TLI Communications, LLC	6	06/17/17	06/17/17	06/17/17	Telecommunications
Traverse Technologies	12	02/25/29	06/05/29	07/29/33	Li-Ion Battery/High Capacity Electrodes
Vantage Point Technology, Inc.	31	Expired	05/31/16	03/09/18	Computer networking and operations
		<b>Median</b>	<b>08/15/18</b>		

## Patent Enforcement Litigation

We are involved in numerous ongoing enforcement proceedings alleging infringement of patent rights in numerous jurisdictions, both within the United States and internationally. As of September 30, 2016, we were involved in enforcement actions against approximately 34 defendants, as set forth below:

<b>United States</b>	
District of Delaware	5
Central District of California	1
Eastern District of Michigan	1
<b>Foreign</b>	
Germany	9
France	3
Italy	3

**Research and Development**

We have not expended funds for research and development costs.

**Employees**

As of September 30, 2016, we had 9 full-time employees. We believe our employee relations to be good.

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**MANAGEMENT**

The following table presents information with respect to our officers, directors and significant employees as of the date of this prospectus:

<b>Name and Address</b>	<b>Age</b>	<b>Date First Elected or Appointed</b>	<b>Position(s)</b>
Doug Croxall	48	November 14, 2012	Chief Executive Officer and Chairman
Francis Knuettel II	50	May 15, 2014	Chief Financial Officer
James Crawford	41	March 1, 2013	Chief Operating Officer
Richard Chernicoff	51	March 6, 2015	Director
Edward Kovalik	41	April 15, 2014	Director
Christopher Robichaud	49	September 28, 2016	Director
Richard Tyler	58	March 18, 2015	Director

Each director serves until our next annual meeting of the stockholders unless they resign earlier. The Board of Directors elects officers and their terms of office are at the discretion of the Board of Directors.

**Background of officers and directors**

The following is a brief account of the education and business experience during at least the past five years of our officers and directors, indicating each person's principal occupation during that period, and the name and principal business of the organization in which such occupation and employment were carried out.

***Doug Croxall - Chief Executive Officer and Chairman***

Mr. Croxall, 48, has served as the Chief Executive Officer and Founder of LVL Patent Group LLC, a privately owned patent licensing company, since 2009. From 2003 to 2008, Mr. Croxall served as the Chief Executive Officer and Chairman of FirePond, a software company that licensed configuration pricing and quotation software to Fortune 1000 companies. Mr. Croxall earned a Bachelor of Arts degree in Political Science from Purdue University in 1991 and a Master of Business Administration from Pepperdine University in 1995. Mr. Croxall was chosen as a director of the Company based on his knowledge of and relationships in the patent acquisition and monetization business.

***James Crawford - Chief Operating Officer***

Mr. Crawford, 41, was a founding member of Kino Interactive, LLC, and of AudioEye, Inc. Mr. Crawford's experience as an entrepreneur spans the entire life cycle of companies from start-up capital to compliance officer and director of reporting public companies. Prior to his involvement as Chief Operating Officer of Marathon, Mr. Crawford served as a director and officer of Augme Technologies, Inc. beginning March 2006, and

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assisted the company in maneuvering through the initial challenges of acquisitions executed by the company through 2011 that established the company as a leading mobile marketing company in the United States. Mr. Crawford is experienced in public company finance and compliance functions. He has extensive experience in the area of intellectual property creation, management and licensing. Mr. Crawford also served on the board of directors Modavox® and Augme Technologies, and as founder and managing member of Kino Digital, Kino Communications, and Kino Interactive.

### ***Francis Knuettel II - Chief Financial Officer***

Mr. Knuettel, 50, has served as the Company's Chief Financial Officer since May 2014. From 2013 through his appointment as CFO of Marathon Patent Group, Mr. Knuettel was Managing Director and CFO for Greyhound IP LLC, an investor in patent litigation expenses for patents enforced by small firms and individual inventors. Since 2007, Mr. Knuettel has been the Managing Member of Camden Capital LLC, which is focused on the monetization of patents Mr. Knuettel acquired in 2007. From 2007 through 2013, Mr. Knuettel served as the Chief Financial Officer of IP Commerce, Inc. IP Commerce is the creator of an open commerce network, delivering on-demand access to the next generation of commerce services in the payments industry. From 2005 through 2007, Mr. Knuettel served as the CFO of InfoSearch Media, Inc., a publicly traded company, at which he managed the acquisition of numerous private companies, multiple PIPE transactions and the filing of numerous registration statements. Prior to InfoSearch, from 2000 through 2004, Mr. Knuettel was at Internet Machines Corporation, a fables semiconductor company located in Los Angeles, where he served on the Board of Directors and held several positions, including Chief Executive Officer and Chief Financial Officer. At Internet Machines, Mr. Knuettel raised almost \$90 million in equity and debt and managed the sale of the business in 2004. During 1999, he was Chief Financial and Operating Officer for Viking Systems, Inc., a Boston-based producer of enterprise software systems for non-

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profit fundraising institutions. From 1996 through 1999, he was Director of Finance and then Vice President of Operations and Chief Financial Officer for Fightertown Entertainment, Inc. in Irvine, California. Mr. Knuettel was a member of the Board of Directors and Chairman of the Audit Committee for Firepond, Inc., a publicly traded producer of CPQ software systems. Mr. Knuettel received his BA with honors in Economics from Tufts University and holds an MBA in Finance and Entrepreneurial Management from The Wharton School at the University of Pennsylvania.

***Richard S. Chernicoff Director***

Richard Chernicoff, 51, has served as a director of Unwired Planet, Inc. since March 2014. Prior to joining the board of directors of Unwired Planet, Inc., Mr. Chernicoff was President of Tessera Intellectual Property Corp. from July 2011 to January 2013. Mr. Chernicoff was President of Unity Semiconductor Corp. from December 2009 to July 2011. Prior to that, Mr. Chernicoff was with San Disk from 2003 to 2009 where as Senior Vice President, Business Development, Mr. Chernicoff was responsible for mergers and acquisitions and intellectual property matters. Previously, Mr. Chernicoff was a mergers and acquisitions partner in the Los Angeles office of Brobeck, Phleger & Harrison LLP from 2001 to 2003, and Mr. Chernicoff was a corporate lawyer in the Los Angeles office of Skadden, Arps, Slate, Meagher & Flom LLP from 1995 to 2000. Prior to that, Mr. Chernicoff was a member of the staff of the United States Securities and Exchange Commission in Washington DC from 1993 to 1995. Mr. Chernicoff began his career as a certified public accountant with Ernst & Young. Mr. Chernicoff has a B.S. in Business Administration from California State University Northridge and received a J.D. from St. John's University School of Law. The Board believes Mr. Chernicoff's qualifications to sit on the Board include his significant experience with mergers and acquisitions, intellectual property (acquisition, licensing and litigation) and leadership of business organizations.

***Edward Kovalik - Director***

Mr. Kovalik, 39, is the Chief Executive Officer and Managing Partner of KLR Group, which he co-founded in the spring of 2012. KLR Group is an investment bank specializing in the Energy sector. Ed manages the firm and focuses on structuring customized financing solutions for the firm's clients. He has over 16 years of experience in the financial services industry. Prior to founding KLR, Ed was Head of Capital Markets at Rodman & Renshaw, and headed Rodman's Energy Investment Banking team. Prior to Rodman, from 1999 to 2002, Ed was a Vice President at Ladenburg Thalmann & Co, where he focused on private placement transactions for public companies. Ed serves as a director on the board of River Bend Oil and Gas. The Board has determined that Mr. Kovalik's finance industry experience him a valuable member of the Board.

***Richard Tyler Director***

Richard Tyler, Age 58, has a background in private equity, venture capital and mergers & acquisitions. He has been serving as a Managing Director of Vulano Group, a leading technology and intellectual property development company since 2007. Prior to Vulano Group, he founded M2P Capital, LLC, a Denver based private equity firm, where he has served as partner since 2002. Prior to forming M2P Capital, he was a partner in Taleria Ventures, a venture firm engaged in early stage investing and start-up management. In 1988, he founded BACE Industries; a company that executed buy and build strategies in the manufacturing, distribution, business services, and technology industries. In addition, he serves as a director and adviser to numerous private companies and is a director of The American Institute for Avalanche Research and Education, Colorado Outward Bound School and The American Mountain Guides Association. He graduated from the Colorado College in 1980

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with a BA degree. The Board believes Mr. Tyler's qualifications to sit on the Board include his significant experience with mergers and acquisitions, intellectual property (acquisition, licensing and litigation) and leadership of business organizations.

### **Christopher Robichaud   Director**

Christopher Robichaud, 49, has served as Chief Executive Officer of PMK•BNC, a communications, marketing and consulting agency since January 2010. In addition to managing teams in Los Angeles, New York and London, he advises clients across the globe on how to apply the Science of Popular Culture to build audiences, create fans, and ultimately engage with consumers in today's ever-changing world and recently created and leads the agency's global consulting unit, which helps companies better understand today's changing landscape worldwide branding landscape. Prior to serving as CEO of PMK•BNC, Mr. Robichaud was the President and COO of BNC from September 1990 through December 2009.

### **Code of Business Conduct and Ethics**

We have recently adopted a Code of Business Conduct and Ethics that applies to our principal executive officers and principal financial officer, principal accounting officer or controller, or persons performing similar functions and also to other employees. Our Code of Business Conduct and Ethics can be found on our website at [www.marathonpg.com](http://www.marathonpg.com).



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**Family Relationships**

There are no family relationships between any of our directors, executive officers or directors.

**Involvement in Certain Legal Proceedings**

During the past ten years, none of our officers, directors, promoters or control persons have been involved in any legal proceedings as described in Item 401(f) of Regulation S-K.

**Term of Office**

Our Board of Directors is comprised of five directors, and is divided among three classes, Class I, Class II and Class III. Class I directors will serve until the 2018 annual meeting of stockholders and until their respective successors have been duly elected and qualified, or until such director's earlier resignation, removal or death. Class III directors will serve until the 2017 annual meeting of stockholders and until their respective successors have been duly elected and qualified, or until such director's earlier resignation, removal or death. Class II directors, elected at the Company's annual shareholder meeting held on September 28, 2016, will serve until the 2019 annual meeting of stockholders and until their respective successors have been duly elected and qualified, or until such director's earlier resignation, removal or death. All officers serve at the pleasure of the Board.

**Board Composition**

Directors currently are elected to the class and for the terms as provided in Proposal No. 1 or until the earlier of their death, resignation, removal or until their successors have been duly elected and qualified. There are no family relationships among our Directors. Our bylaws provide that the number of members of our Board of Directors may be changed from time to time by resolutions adopted by the Board of Directors and/or the stockholders. Our Board of Directors currently consists of five members.

**Directorships**

Except as otherwise reported above, none of our directors held directorships in other reporting companies and registered investment companies at any time during the past five years.

**Involvement in Certain Legal Proceedings**

During the past ten years, none of our officers, directors, promoters or control persons have been involved in any legal proceedings as described in Item 401(f) of Regulation S-K.

#### **Board Leadership Structure**

Our Board does not have a policy on whether the same person should serve as both the Chief Executive Officer and Chairman of the Board or, if the roles are separate, whether the Chairman should be selected from the non-employee directors or should be an employee. Our Board believes that it should have the flexibility to periodically determine the leadership structure that it believes is best for the Company. The Board believes that its current leadership structure, with Mr. Croxall serving as both Chief Executive Officer and Board Chairman, is appropriate given the efficiencies of having the Chief Executive Officer also serve in the role of Chairman.

#### **Board Role in Risk Oversight**

Risk is inherent with every business and we face a number of risks. Management is responsible for the day-to-day management of risks we face, while our Board of Directors is responsible for overseeing our management and operations, including overseeing its risk assessment and risk management functions.

#### **Number of Meetings of the Board of Directors and Committees**

During 2016, the Board held 2 meetings, the Audit Committee held 6 Meetings, the Compensation Committee held 2 Meetings and the Nominating and Governance Committee held 2 Meetings. Directors are expected to attend Board and Committee meetings and to spend time needed to meet as frequently as necessary to properly discharge their responsibilities. Each active director attended at least 75% of the aggregate number of meetings of the Board during 2015.

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**Attendance at Annual Meetings of the Stockholders**

The Company has no policy requiring Directors and Director Nominees to attend its annual meeting of stockholders; however, all Directors and Director Nominees are encouraged to attend.

**Director Independence**

All directors other than Mr. Croxall are independent directors based on the definition of independence in the listing standards of the NASDAQ Stock Market LLC (NASDAQ).

**Committees of the Board of Directors**

Our Board of Directors has established three standing committees: an audit committee, a nominating and corporate governance committee and a compensation committee, which are described below. Members of these committees are elected annually at the regular board meeting held in conjunction with the annual stockholders' meeting. The charter of each committee is available on our website at [www.marathonpg.com](http://www.marathonpg.com).

*Audit Committee*

The Audit Committee members are Mr. Edward Kovalik, Mr. Christopher Robichaud and Mr. Richard Tyler with Mr. Edward Kovalik as Chairman. The Committee has authority to review our financial records, deal with our independent auditors, recommend to the Board policies with respect to financial reporting, and investigate all aspects of our business. All members of the Audit Committee currently satisfy the independence requirements and other established criteria of NASDAQ.

The Audit Committee Charter is available on the Company's website at <http://www.marathonpg.com/>. The Audit Committee has sole authority for the appointment, compensation and oversight of the work of our independent registered public accounting firm, and responsibility for reviewing and discussing with management and our independent registered public accounting firm our audited consolidated financial statements included in our Annual Report on Form 10-K, our interim financial statements and our earnings press releases. The Audit Committee also reviews the independence and quality control procedures of our independent registered public accounting firm, reviews management's assessment of the effectiveness of internal controls, discusses with management the Company's policies with respect to risk assessment and risk management and will review the adequacy of the Audit Committee charter on an annual basis.

*Nominating and Governance Committee*

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The Nominating and Corporate Governance Committee members are Mr. Edward Kovalik, Mr. Christopher Robichaud and Mr. Richard Tyler, with Mr. Richard Tyler as Chairman. The Nominating and Corporate Governance Committee has the following responsibilities: (a) setting qualification standards for director nominees; (b) identifying, considering and nominating candidates for membership on the Board; (c) developing, recommending and evaluating corporate governance standards and a code of business conduct and ethics applicable to the Company; (d) implementing and overseeing a process for evaluating the Board, Board committees (including the Committee) and overseeing the Board's evaluation of the Chairman and Chief Executive Officer of the Company; (e) making recommendations regarding the structure and composition of the Board and Board committees; (f) advising the Board on corporate governance matters and any related matters required by the federal securities laws; and (g) assisting the Board in identifying individuals qualified to become Board members; recommending to the Board the director nominees for the next annual meeting of shareholders; and recommending to the Board director nominees to fill vacancies on the Board.

The Nominating and Governance Committee Charter is available on the Company's website at <http://www.marathonpg.com/>. The Nominating and Governance Committee determines the qualifications, qualities, skills, and other expertise required to be a director and to develop, and recommend to the Board for its approval, criteria to be considered in selecting nominees for director (the "Director Criteria"); identifies and screens individuals qualified to become members of the Board, consistent with the Director Criteria. The Nominating and Governance Committee considers any director candidates recommended by the Company's stockholders pursuant to the procedures described in the Company's proxy statement, and any nominations of director candidates validly made by stockholders in accordance with applicable laws, rules and regulations and the provisions of the Company's charter documents. The Nominating and Governance Committee makes recommendations to the Board regarding the selection and approval of the nominees for director to be submitted to a stockholder vote at the annual meeting of stockholders, subject to approval by the Board.

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*Compensation Committee*

The Compensation Committee oversees our executive compensation and recommends various incentives for key employees to encourage and reward increased corporate financial performance, productivity and innovation. Its members are Mr. Richard Chernicoff, Mr. Edward Kovalik and Mr. Richard Tyler, with Mr. Richard Chernicoff as chairman. All members of the Compensation Committee currently satisfy the independence requirements and other established criteria of NASDAQ.

The Compensation Committee Charter is available on the Company's website at <http://www.marathonpg.com/>. The Compensation Committee is responsible for: (a) assisting our Board in fulfilling its fiduciary duties with respect to the oversight of the Company's compensation plans, policies and programs, including assessing our overall compensation structure, reviewing all executive compensation programs, incentive compensation plans and equity-based plans, and determining executive compensation; and (b) reviewing the adequacy of the Compensation Committee charter on an annual basis. The Compensation Committee, among other things, reviews and approves the Company's goals and objectives relevant to the compensation of the Chief Executive Officer, evaluate the Chief Executive Officer's performance with respect to such goals, and set the Chief Executive Officer's compensation level based on such evaluation. The Compensation Committee also considers the Chief Executive Officer's recommendations with respect to other executive officers and evaluates the Company's performance both in terms of current achievements and significant initiatives with long-term implications. It assesses the contributions of individual executives and recommend to the Board levels of salary and incentive compensation payable to executive officers of the Company; compares compensation levels with those of other leading companies in similar or related industries; reviews financial, human resources and succession planning within the Company; recommend to the Board the establishment and administration of incentive compensation plans and programs and employee benefit plans and programs; recommends to the Board the payment of additional year-end contributions by the Company under certain of its retirement plans; grants stock incentives to key employees of the Company and administer the Company's stock incentive plans; and reviews and recommends for Board approval compensation packages for new corporate officers and termination packages for corporate officers as requested by management.

**COMPENSATION COMMITTEE REPORT OF EXECUTIVE COMPENSATION**

The Compensation Committee has reviewed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and discussed that analysis with management. Based on its review and discussions with management, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into the Company's annual report on Form 10-K for the fiscal year ended December 31, 2015. This report is provided by the following independent directors, who comprise the Compensation Committee:

Edward Kovalik

Richard Tyler

**EXECUTIVE COMPENSATION**

The following summary compensation table sets forth information concerning compensation for services rendered in all capacities during 2015 and 2014 awarded to, earned by or paid to our executive officers. The value attributable to any Option Awards and Stock Awards reflects the

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grant date fair values of stock awards calculated in accordance with FASB Accounting Standards Codification Topic 718.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Bonus Awards (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)</b>	<b>Non-Equity Plan Compensation (\$)</b>	<b>Nonqualified Deferred Earnings (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Doug Croxall	2015	496,200	575,000		137,095				1,208,295
CEO and Chairman	2014	480,000	180,000		958,298				1,618,298
Francis Knuettel									
II(1)	2015	250,000	215,000		91,396				556,396
CFO & Secretary	2014	154,376	93,750		1,051,847				1,299,973
James Crawford	2015	185,002	18,700		31,989				235,691
COO	2014	185,002	61,975		331,313				578,290
Enrique Sanchez(2)	2015	220,833	25,000		45,698				291,531
IP Counsel & SVP of Licensing	2014	35,833	28,500		572,649				636,982

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Umesh Jani(3)	2015	225,000	43,500	45,698	314,198
CTO, SVP of					
Licensing	2014	37,500		453,445	490,945
Richard					
Chernicoff(4)	2015	255,500	12,500	709,492	977,492
Interim General					
Counsel	2014				
Daniel					
Gelbtuch(5)	2015	12,196			22,494 34,690
Former CMO	2014	34,690		976,599	1,011,289
Richard Raisig(6)	2015				
Former CFO	2014	89,747			89,747
John Stetson(7)	2015	20,678	6,250		26,928
Former EVP,					
Secretary, CFO	2014	100,000	37,500	463,177	600,677

- 
- (1) Francis Knuettel II was appointed as Chief Financial Officer on May 15, 2014.
- (2) Enrique Sanchez was appointed as the Senior Vice President of Licensing of the Company on November 3, 2014.
- (3) Umesh Jani was appointed as the Chief Technology Officer and SVP of Licensing of the Company on October 31, 2014.
- (4) Richard Chernicoff was appointed as the Interim General Counsel on April 7, 2015 in addition to his responsibilities as a Director.
- (5) Daniel Gelbtuch was appointed as the Chief Marketing Officer on September 9, 2014 and he ceased to serve effective January 20, 2015.
- (6) Richard Raisig was appointed as Chief Financial Officer on December 3, 2013 and resigned on April 25, 2014.
- (7) John Stetson was appointed as President, Chief Operating Officer and a director on June 26, 2012. On November 14, 2012, John Stetson resigned as the Company's President and Chief Operating Officer and was re-appointed as the Chief Financial Officer and Secretary on January 28, 2013. Mr. Stetson ceased to serve as Chief Financial Officer, effective December 3, 2013 when we appointed Mr. Richard Raisig as our Chief Financial Officer, effective December 3, 2013. Mr. Stetson served as interim Chief Financial Officer from April 25, 2014 through

May 15, 2014 and remained an Executive Vice President and Secretary through his resignation on February 6, 2015.

#### **Employment Agreements**

On November 14, 2012, we entered into an employment agreement with Doug Croxall (the "Croxall Employment Agreement"), whereby Mr. Croxall agreed to serve as our Chief Executive Officer for a period of two years, subject to renewal, in consideration for an annual salary of \$350,000 and an Indemnification Agreement. Additionally, under the terms of the Croxall Employment Agreement, Mr. Croxall shall be eligible for an annual bonus if we meet certain criteria, as established by the Board of Directors, subject to standard "claw-back rights" in the event of any restatement of any prior period earnings or other results as from which any annual bonus shall have been determined. As further consideration for his services, Mr. Croxall received a ten-year option award to purchase an aggregate of 307,692 shares of our common stock with an exercise price of \$3.25 per share, which shall vest in twenty-four (24) equal monthly installments on each monthly anniversary of the date of the Croxall Employment Agreement. On November 18, 2013, we entered into Amendment No. 1 to the Croxall Employment Agreement ("Amendment"). Pursuant to the Amendment, the term of the Croxall Agreement shall be extended to November 14, 2017, and Mr. Croxall's annual base salary shall be increased to \$480,000, subject to a 3% increase every year, commencing on November 14, 2014.

On January 28, 2013, we entered into an employment agreement with John Stetson, our Chief Financial Officer and Secretary (the "Stetson Employment Agreement") whereby Mr. Stetson agreed to serve as our Chief Financial Officer for a period of one year, subject to renewal, in consideration for an annual salary of \$75,000. Additionally, Mr. Stetson shall be eligible for an annual bonus if we meet certain criteria, as established by the Board of Directors, subject to standard "claw-back rights" in the event of any restatement of any prior period earnings or other results as from which any annual bonus shall have been determined. As further consideration for his services, Mr. Stetson received a ten-year option award to purchase an aggregate of 76,923 shares of our common stock with an exercise price of \$3.25 per share, which shall vest in three (3) equal annual installments on the beginning on the first



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annual anniversary of the date of the Stetson Employment Agreement, provided Mr. Stetson is still employed by us. In the event of Mr. Stetson's termination prior to the expiration of his employment term under his employment agreement, unless he is terminated for Cause (as defined in the Stetson Employment Agreement), or in the event Mr. Stetson resigns without Good Reason (as defined in the Stetson Employment Agreement), we shall pay to him a lump sum in an amount equal to the sum of his (i) base salary for the prior 12 months plus (ii) his annual bonus amount during the prior 12 months. On February 6, 2015, our Board of Directors accepted Mr. Stetson's resignation from his position of Executive Vice President and Secretary and with no continuing obligation by the Company pursuant to the Stetson Employment Agreement.

On March 1, 2013, Mr. James Crawford was appointed as our Chief Operating Officer. Pursuant to the employment agreement with Mr. Crawford dated March 1, 2013 (Crawford Employment Agreement). Mr. Crawford shall serve as our Chief Operating Officer for two years. The Crawford Employment Agreement shall be automatically renewed for successive one year periods thereafter. Mr. Crawford shall be entitled to a base salary at an annual rate of \$185,000, with such upward adjustments as shall be determined by the Board of Directors in its sole discretion. Mr. Crawford shall also be entitled to an annual bonus if we meet or exceed criteria adopted by the Compensation Committee of the Board of Directors for earning bonuses. Mr. Crawford shall be awarded five-year stock options to purchase an aggregate of 76,923 shares of our common stock, with a strike price based on the closing price of our common stock on March 1, 2013, vesting in twenty-four (24) equal installments on each monthly anniversary of March 1, 2013, provided Mr. Crawford is still employed by us on each such date.

On November 18, 2013, we entered into a two-year executive employment agreement with Richard Raisig (Raisig Agreement), pursuant to which Mr. Raisig shall serve as our Chief Financial Officer, effective December 3, 2013. Pursuant to the terms of the Raisig Agreement, Mr. Raisig shall receive a base salary at an annual rate of \$250,000 and an annual bonus up to 100% of Mr. Raisig's base salary as determined by the Compensation Committee of the Board of Directors. As further consideration for Mr. Raisig's services, we agreed to issue Mr. Raisig ten-year stock options to purchase an aggregate of 230,000 shares of common stock, with a strike price of \$2.85 per share, vesting in twenty-four (24) equal installments on each monthly anniversary of the date of the Raisig Agreement, provided Mr. Raisig is still employed by us on each such date. On April 25, 2014, our Board of Directors accepted Mr. Raisig's resignation from his position of Chief Financial Officer.

On May 15, 2014, we entered into a three-year executive employment agreement with Francis Knuettel II (Knuettel Employment Agreement), pursuant to which Mr. Knuettel will serve as the Chief Financial Officer of the Company, effective May 15, 2014. Pursuant to the terms of the Knuettel Employment Agreement, Mr. Knuettel shall receive a base salary at an annual rate of \$250,000 and an annual bonus up to 75% of Mr. Knuettel's base salary as determined by the Compensation Committee of the Board of Directors. As further consideration for Mr. Knuettel's services, the Company agreed to issue Mr. Knuettel ten-year stock options to purchase an aggregate of 290,000 shares of common stock, with a strike price of \$4.165 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Knuettel Employment Agreement, provided Mr. Knuettel is still employed by the Company on each such date.

On September 9, 2014, we entered into a three-year executive employment agreement with Daniel Gelbtuch (Gelbtuch Employment Agreement), pursuant to which Mr. Gelbtuch shall serve as the Company's Chief Marketing Officer. Pursuant to the terms of the Employment Agreement, Mr. Gelbtuch shall receive a base salary at an annual rate of \$230,000.00 and an additional \$2,000.00 monthly remote operating expense. Mr. Gelbtuch shall be entitled to incentive compensation up to 80% of Mr. Gelbtuch's base salary as determined by the Compensation Committee of the Company. As further consideration for Mr. Gelbtuch's services, the Company agreed to issue Mr. Gelbtuch ten year stock options outside of the Company's 2012 Equity Incentive Plan to purchase an aggregate of 290,000 shares of common stock, with an exercise price of \$5.62 per share, which was the closing price on the day the Board of Directors approved such grant. The options shall vest in thirty-six (36) equal installments on each monthly anniversary of the date of the Gelbtuch Employment Agreement, provided Mr. Gelbtuch is still employed by the Company on each such date. On January 20, 2015, Mr. Gelbtuch and the Company mutually agreed that Mr. Gelbtuch would cease to serve, effective immediately, as the Company's Chief Marketing Officer.

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On October 31, 2014, we entered into a two-year executive employment agreement with Umesh Jani ( *Jani Employment Agreement* ) pursuant to which Mr. Jani shall serve as the Company's Chief Technology Officer and SVP Licensing. Pursuant to the terms of the Jani Employment Agreement, Mr. Jani shall receive a base salary at an annual rate of \$225,000 and an annual incentive compensation of up to 100% of the base salary, as determined by the Compensation Committee. As further consideration for Mr. Jani's services, the Company agreed to issue him ten-year stock options under the Company's 2014 Equity Incentive Plan to purchase an aggregate of 100,000 shares of common stock, with an exercise price of \$6.40 per share. The options shall vest in thirty-six (36) equal installments on each monthly anniversary of the date of the Jani Employment Agreement, provided Mr. Jani is still employed by the Company on each such date.

On November 3, 2014, we entered into a two-year executive employment agreement ( *Sanchez Employment Agreement* ) with Rick Sanchez, effective October 31, 2014, pursuant to which Mr. Sanchez shall serve as the Company's Senior Vice President of Licensing.

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Pursuant to the terms of the Sanchez Employment Agreement, Mr. Sanchez shall receive a base salary at an annual rate of \$215,000 and an annual incentive compensation of up to 100% of the base salary, as determined by the Compensation Committee. As further consideration for Mr. Sanchez's services, the Company agreed to issue him ten-year stock options under the Company's 2014 Equity Incentive Plan to purchase an aggregate of 160,000 shares of common stock, with an exercise price of \$6.40 per share. The options shall vest in thirty-six (36) equal installments on each monthly anniversary of the date of the Sanchez Employment Agreement, provided Mr. Sanchez is still employed by the Company on each such date.

On April 7, 2015 (the "Chernicoff Effective Date"), the Company entered into a consulting agreement (the "Consulting Agreement") with Richard Chernicoff, a member of the Company's Board of Directors, pursuant to which Mr. Chernicoff shall provide certain services to the Company, including serving as the interim General Counsel and interim General Manager of commercial product commercialization development.

Pursuant to the terms of the Consulting Agreement, Mr. Chernicoff shall receive a monthly retainer of \$27,000 and a ten (10) year stock option to purchase 280,000 shares of the Company's common stock (the "Award") pursuant to the Company's 2014 Equity Incentive Plan. The stock options shall have an exercise price of \$6.76 per share, the closing price of the Company's common stock on the date immediately prior to the Board of Directors approval of such stock options and the options shall vest as follows: 25% of the Award shall vest on the twelve month anniversary of the Effective Date and thereafter 2.083% on the 21st day of each succeeding calendar month for the following twelve months, provided Mr. Chernicoff continues to provide services (in addition to as a member of the Company's Board of Directors) at the time of vesting. The Award shall be subject in all respects to the terms of the 2014 Plan Equity Incentive Plan. Notwithstanding anything herein to the contrary, the remainder of the Award shall be subject to the following as an additional condition of vesting: (A) options to purchase 70,000 shares of the Company's common stock under the Award shall not vest at all unless the price of the Company's common stock while Mr. Chernicoff continues as an officer and/or director reaches \$8.99 and (B) options to purchase 70,000 shares of the Company's common stock under the Award shall not vest at all unless the price of the Company's common stock while Mr. Chernicoff continues as an officer and/or director reaches \$10.14. Mr. Chernicoff's consulting agreement was revised on May 15, 2016 whereby his monthly retainer was eliminated and the option to purchase 140,000 shares, pursuant to (A) and (B) above, were terminated.

**Directors' Compensation**

The following summary compensation table sets forth information concerning compensation for services rendered in all capacities during 2015 and 2014 awarded to, earned by or paid to our directors. The value attributable to any Warrant Awards reflects the grant date fair values of stock awards calculated in accordance with FASB Accounting Standards Codification Topic 718. As described further in Note 6 "Stockholders' Equity (Deficit) - Common Stock Warrants" to our consolidated year-end financial statements, a discussion of the assumptions made in the valuation of these warrant awards.

Name	Fees Earned or paid in cash (\$)	Stock awards (\$)	Option awards (\$)	Non-equity incentive plan compensation (\$)	Non-qualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Richard Chernicoff(1)							
2015	20,923		60,742				81,665
2014							
Edward Kovalik							
2015			18,060				18,060
2014		45,995	73,076				119,071
William Rosellini(4)							
2015	53,125		18,060				71,185
2014	14,875		50,026				64,901
Richard Tyler(2)							

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2015	23,270	55,868	79,138
2014			
Stuart Smith(3)			
2015			
2014	45,995	50,026	96,021

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(1) Richard Chernicoff was appointed as a Director on March 6, 2015. Does not include an accrued fee of \$9,000 as of December 31, 2015.

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(2) Richard Tyler was appointed as a Director on March 18, 2015. Does not include an accrued fee of \$10,875 as of December 31, 2015.

(3) Stuart Smith resigned from his position as Director on March 3, 2015.

(4) Does not include an accrued fee of \$12,750 as of December 31, 2015.

## Grants of Plan Based Awards and Outstanding Equity Awards at Fiscal Year-End

On August 1, 2012, our board of directors and stockholders adopted the 2012 Equity Incentive Plan, pursuant to which 1,538,462 shares of our common stock are reserved for issuance as awards to employees, directors, consultants, advisors and other service providers and on September 16, 2014, our board of directors adopted the 2014 Equity Incentive Plan, subsequently approved by the shareholders on July 31, 2015, pursuant to which 2,000,000 shares of our common stock are reserved for issuance as awards to employees, directors, consultants, advisors and other service providers.

Option Awards					Stock awards			
Number of securities underlying unexercised options (1) (#)	Number of securities underlying unexercised options (#)	Equity incentive plan awards:	Option exercise price (\$)	Option expiration date	Number of shares of units of stock that have not vested (#)	Market value	Equity incentive plan awards:	Equity incentive plan awards:
		Number of securities underlying unexercised unearned options (#)				of shares of units of stock that have not vested (\$)	Number of unearned shares, units or other rights that have not vested (#)	Market or payout value of unearned shares, units or other rights that have not vested (\$)
exercisable	unexercisable	unexercisable						
307,692			\$ 3.25	11/14/22				
307,692			\$ 2.64	06/11/18				
200,000			\$ 2.97	11/18/23				
175,000	125,000		\$ 6.40	10/31/24				
12,500	137,500		\$ 1.86	10/14/25				
76,923			\$ 2.47	06/19/18				
9,900	20,100		\$ 4.17	05/14/24				
46,667	33,333		\$ 6.40	10/31/24				
2,917	32,083		\$ 1.86	10/14/25				
153,056	136,944		\$ 4.17	05/05/24				
58,333	41,667		\$ 6.40	10/31/24				
8,333	91,667		\$ 1.86	10/14/25				
58,333	41,667		\$ 6.40	10/31/24				
13,200	26,800		\$ 4.17	05/14/19				
30,000	10,000		\$ 5.05	06/15/19				
4,167	45,833		\$ 1.86	10/14/25				

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13,200	26,800	\$	4.17	05/14/19
93,333	66,667	\$	6.40	10/31/24
4,167	45,833	\$	1.86	10/14/25

### Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the Board of Directors or compensation committee of any other entity that has one or more of its executive officers serving as a member of our Board of Directors.

Table of Contents**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Other than disclosed herein, there were no transactions during the year ended December 31, 2016 or any currently proposed transactions, in which the Company was or is to be a participant and the amount involved exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding beneficial ownership of our common stock as of February 2, 2017: (i) by each of our directors, (ii) by each of the named executive officers, (iii) by all of our executive officers and directors as a group, and (iv) by each person or entity known by us to beneficially own more than five percent (5%) of any class of our outstanding shares. As of February 2, 2017, there were 19,302,472 shares of our common stock outstanding.

**Amount and Nature of Beneficial Ownership as of February 2, 2017 (1)**

<b>Name and Address of Beneficial Owner (1)</b>	<b>Common Stock</b>	<b>Options</b>	<b>Warrants</b>	<b>Total</b>	<b>Percentage of Common Stock (%)</b>
<b>Officers and Directors</b>					
Doug Croxall (Chairman and CEO) (2)	615,384	1,221,634		1,837,018	9.0%
Francis Knuettel II (Chief Financial Officer) (3)		444,722		444,722	2.3%
James Crawford (Chief Operating Officer) (4)		201,515		201,515	*
David Liu (Chief Technology Officer) (5)		37,500		37,500	*
Richard Chernicoff (Director) (6)		140,208		140,208	*
Edward Kovalik (Director) (7)		68,333		68,333	*
Christopher Robichaud (Director) (8)		8,333		8,333	*
Richard Tyler (Director) (9)		48,333		48,333	*
<b>All Directors and Executive Officers (nine persons)</b>	<b>615,384</b>	<b>2,170,579</b>		<b>2,785,963</b>	<b>13.0%</b>
<b>Persons owning more than 5% of voting securities</b>					
Spangenberg Holder (10)	2,408,924		48,078	2,457,002	12.7%
Series B Convertible Preferred Stock	782,000			782,000	4.1%
Common Stock	1,626,924			1,626,924	8.4%

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Warrants	48,078	48,078	*
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\* Less than 1%

(1) Amounts set forth in the table and footnotes gives effect to the two-for-one stock dividend that we effectuated on December 22, 2014. In determining beneficial ownership of our common stock as of a given date, the number of shares shown includes shares of common stock which may be acquired on exercise of warrants or options or conversion of convertible securities within 60 days of February 2, 2017. In determining the percent of common stock owned by a person or entity on February 2, 2017, (a) the numerator is the number of shares of the class beneficially owned by such person or entity, including shares which may be acquired within 60 days on exercise of warrants or options and conversion of convertible securities, and (b) the denominator is the sum of (i) the total shares of common stock outstanding on February 2, 2017 and (ii) the total number of shares that the beneficial owner may acquire upon



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conversion of securities and upon exercise of the warrants and options, subject to limitations on conversion and exercise as more fully described below. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of its shares and such person's address is c/o Marathon Patent Group, Inc., 11100 Santa Monica Blvd., Ste. 380, Los Angeles, CA 90025.

(2) Shares of Common Stock are held by Croxall Family Revocable Trust, over which Mr. Croxall holds voting and dispositive power. Represents options to purchase (i) 307,692 shares of Common Stock at an exercise price of \$3.25 per share, (ii) 307,692 shares of Common Stock at an exercise price of \$2.625 per share, (iii) 200,000 shares of Common Stock at an exercise price of \$2.965 per share, (iv) 300,000 shares of Common Stock at an exercise price of \$6.40 per share and (v) 106,250 shares of Common Stock at an exercise price of \$1.86 per share. Excludes option to purchase 43,750 shares of Common Stock at an exercise price of \$1.86 per share, all of which do not vest and are not exercisable within 60 days of February 2, 2017.

(3) Represents options to purchase (i) 273,899 shares of Common Stock at an exercise price of \$4.165 per share, (ii) 100,000 shares of Common Stock at an exercise price of \$6.40 per share and (iii) 70,833 shares of Common Stock at an exercise price of \$1.86 per share. Excludes option to purchase 29,167 shares of Common Stock at an exercise price of \$1.86 per share, all of which do not vest and are not exercisable within 60 days of February 2, 2017.

(4) Represents options to purchase (i) 76,923 shares of Common Stock at an exercise price of \$2.47 per share, (ii) 19,800 shares of Common Stock at an exercise price of \$4.165 per share, (iii) 80,000 shares of Common Stock at an exercise price of \$6.40 per share and (iv) 24,792 shares of Common Stock at an exercise price of \$1.86 per share. Excludes options to purchase (i) 10,200 shares of Common Stock at an exercise price of \$4.165 per share and (ii) 10,208 shares of Common Stock at an exercise price of \$1.86 per share, all of which do not vest and are not exercisable within 60 days of February 2, 2017.

(5) Represents options to purchase 37,500 shares of Common Stock at an exercise price of \$2.79 per share, and excludes an option to purchase 112,250 shares of Common Stock at an exercise price of \$2.79 per share, which do not vest and are not exercisable within 60 days of February 2, 2017.

(6) Represents options to purchase (i) 20,000 shares of Common Stock at an exercise price of \$7.37 per share, (ii) 20,000 of Common Stock at an exercise price of \$2.03 per share, (iii) 67,083 shares of Common Stock at an exercise price of \$6.76 per share, (iv) 24,792 shares of Common Stock at an exercise price of \$1.86 per share and (v) 8,333 shares of Common Stock at an exercise price of \$2.41 per share. Excludes options to purchase (i) 72,917 shares of Common Stock at an exercise price of \$6.76 per share, (ii) 10,208 shares of Common Stock at an exercise price of \$1.86 per share and (iii) 11,667 shares of Common Stock at an exercise price of \$2.41 per share, all of which do not vest and are not exercisable within 60 days of February 2, 2017.

(7) Represents options to purchase (i) 20,000 shares of Common Stock at an exercise price of \$3.295 per share, (ii) 20,000 shares of Common Stock at an exercise price of \$7.445 per share, (iii) 20,000 shares of Common Stock at an exercise price of \$2.03 per share and (iv) 8,333 shares of Common Stock at an exercise price of \$2.41 per share. Excludes an option to purchase 11,667 shares of Common Stock at an exercise price of \$2.41 per share, all of which do not vest and are not exercisable within 60 days of February 2, 2017.

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(8) Represents an option to purchase 8,333 shares of Common Stock at an exercise price of \$2.41 per share. Excludes an option to purchase 11,667 shares of Common Stock at an exercise price of \$2.41 per share, which do not vest and are not exercisable within 60 days of February 2, 2017.

(9) Represents an option to purchase (i) 20,000 shares of Common Stock at an exercise price of \$6.61 per share, (ii) an option to purchase 20,000 shares of Common Stock at an exercise price of \$2.03 per share and (iii) an option to purchase 8,333 shares of Common Stock at an exercise price of \$2.41 per share. Excludes an option to purchase 11,667 shares of Common Stock at an exercise price of \$2.41 per share, which do not vest and are not exercisable within 60 days of February 2, 2017.

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(10) Represents shares of Series B Convertible Preferred, warrants to purchase Common Stock and Common Stock by all entities owned or controlled by the Spangenberg family.

## SELLING STOCKHOLDERS

Up to 1,915,095 shares of common stock are being offered by this prospectus, all of which are being registered for sale for the account of the selling stockholders and are issuable upon the exercise of outstanding warrants issued to investors in the private placement conducted December 9, 2016.

Each of the transactions by which the selling stockholders acquired their warrants from us was exempt under the registration provisions of the Securities Act.

The 1,915,095 shares of common stock referred to above are being registered to permit public sales of the shares, and the selling stockholders may offer the shares for resale from time to time pursuant to this prospectus. The selling stockholders may also sell, transfer or otherwise dispose of all or a portion of their shares in transactions exempt from the registration requirements of the Securities Act or pursuant to another effective registration statement covering those shares. We may from time to time include additional selling stockholders in supplements or amendments to this prospectus.

The table below sets forth certain information regarding the selling stockholders and the shares of our common stock offered by them in this prospectus. The selling stockholders have not had a material relationship with us within the past three years other than as described in the footnotes to the table below or as a result of acquisition of our shares or other securities. To the best of our knowledge, none of the selling stockholders is a broker dealer or an affiliate of a broker dealer other than as described in the footnotes to the table below.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. The selling stockholders percentage of ownership of our outstanding shares in the table below is based upon 19,302,472 shares of common stock outstanding as of February 2, 2017.

Name and Address of Stockholder	Total Number of Shares of Common stock Held Prior to Offering (1)	Number of Shares of Common stock Offered Pursuant to this Prospectus	Shares Beneficially Owned After the Offering (Number) (1) (3)	Shares Beneficially Owned After the Offering (Percentage) (1)(2)
Feinberg Investments LLC (4)	1,500,000	500,000	1,000,000	5.2%
Jeffrey Feinberg Family Trust (5)	499,999	166,666	333,333	1.7%
Wolfson Equities LLC (6)	499,999	166,666	333,333	1.7%
MCEF Capital LLC (7)	499,999	166,666	333,333	1.7%
CVI Investments, INC. (8)	699,000	233,000	466,000	2.4%

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Intracoastal Capital, LLC (9)	249,000	83,000	166,000	*
FLMM LTD (10)	450,000	150,000	300,000	1.6%
Andrew Schwartzberg	249,999	83,333	166,666	*
Paul J. Solit and Julie B. Solit	199,999	66,666	133,333	*
Lebow Family Revocable Trust (11)	124,999	41,666	83,333	*
Privet Fund LP (12)	199,999	66,666	133,333	*
Per Magnus Anderson	49,994	16,661	33,333	*
Northland Securities, Inc. (13)	174,100	174,100	0	*

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\* represents less than 1%.

(1) Under applicable SEC rules, a person is deemed to beneficially own securities which the person has the right to acquire within 60 days through the exercise of any option or warrant or through the conversion of a convertible security. Also under applicable SEC rules, a person is deemed to be the beneficial owner of a security with regard to which the person directly or indirectly, has or shares (a) voting power, which includes the power to vote or direct the voting of the security, or (b) investment power, which includes the

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power to dispose, or direct the disposition, of the security, in each case, irrespective of the person's economic interest in the security. Each listed selling stockholder has the sole investment and voting power with respect to all shares of common stock shown as beneficially owned by such selling stockholder, except as otherwise indicated in the footnotes to the table.

(2) As of February 2, 2017, there were 19,302,472 shares of our common stock issued and outstanding. In determining the percent of common stock beneficially owned by a selling stockholder on February 2, 2017, (a) the numerator is the number of shares of common stock beneficially owned by such selling stockholder (including shares that he has the right to acquire within 60 days of February 2, 2017).

(3) Represents the amount of shares that will be held by the selling stockholders after completion of this offering based on the assumptions that (a) all shares registered for sale by the registration statement of which this prospectus is part will be sold and (b) that no other shares of our common stock beneficially owned by the selling stockholders are acquired or are sold prior to completion of this offering by the selling stockholders and that the selling stockholders have not disposed of or acquired any additional shares of common stock since the December offering.

(4) Jeffrey Feinberg holds voting and dispositive power over shares held by Feinberg Investments, LLC.

(5) Terence Ankner is the Trustee and holds voting and dispositive power over shares held by the Jeffrey Feinberg Family Trust.

(7) Aaron Wolfson holds voting and dispositive power over shares held by Wolfson Equities LLS.

(8) Scott K. Banerjee holds voting and dispositive power over shares held by MCEE Capital LLC.

(8) Martin Kobinger holds voting and dispositive power over shares held by CVI Investments, Inc.

(9) Keith Goodman holds voting and dispositive power over shares held by Intracoastal Capital, LLC.

(10) Per Magnus Anderson holds voting and dispositive power over shares held by FLMM LTD.

(11) Keneth Lebow is the Trustee and holds voting and dispositive power over shares held by the Lebow Family Revocable Trust.

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(12) Ryan Levenson is the Trustee and holds voting and dispositive power over shares held by Privet Fund LP.

(13) Northland Securities, Inc. and holds voting and dispositive power over shares held by Northland Securities, Inc.

### DESCRIPTION OF SECURITIES

#### Authorized Capital Stock

We have 250,000,000 authorized shares of capital stock, par value \$0.0001 per share, of which 200,000,000 shares are common stock and 50,000,000 shares are blank-check preferred stock.

#### Capital Stock Issued and Outstanding

We have issued and outstanding securities on a fully diluted basis as of February 2, 2017:

- 19,302,472 shares of common stock;
- 3,516,136 shares of our common stock issuable upon the exercise of outstanding stock options;
- 2,207,076 shares of our common stock issuable upon the exercise of outstanding warrants;
- 782,004 shares of common stock issuable upon conversion of 782,000 outstanding shares of Series B Preferred Stock. And
- 66,667 shares of common stock issuable upon conversion of \$500,000 in outstanding convertible notes.

#### Common stock

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As of February 2, 2017, 19,302,472 shares of common stock were issued and outstanding. The holders of our common stock have equal ratable rights to dividends from funds legally available therefore, when, as and if declared by the Board of Directors and are entitled to share ratably in all of our assets available for distribution to holders of common stock upon the liquidation, dissolution or winding up of our affairs. Holders of shares of common stock do not have preemptive, subscription or conversion rights.

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Holders of shares of common stock are entitled to one vote per share on all matters which shareholders are entitled to vote upon at all meetings of shareholders. The holders of shares of common stock do not have cumulative voting rights, which means that the holders of more than 50% of our outstanding voting securities can elect all of our directors.

The payment of dividends, if any, in the future rests within the discretion of our Board of Directors and will depend, among other things, upon our earnings, capital requirements and financial condition, as well as other relevant factors. We have not paid any dividends since our inception and do not intend to pay any cash dividends in the foreseeable future, but intend to retain all earnings, if any, for use in our business.

**Series B Preferred Stock**

As of February 2, 2017, 782,004 shares of Series B Preferred Stock were issued and outstanding. The terms of the Series B Preferred Stock are summarized below:

*Rank.* The Series B Preferred Stock will rank junior to the Series A Preferred Stock, though there are no shares of Series A Preferred Stock currently outstanding.

*Dividend.* The holders of Series B Preferred Stock will be entitled to receive such dividends paid and distributions made to the holders of common stock, pro rata to the holders of common stock 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 and the payment of a liquidation preference to the holders of the Company's Series A Preferred Stock, 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 Preferred Stock have no voting rights except with regard to certain customary protective provisions set forth in the Series B Certificate of Designations and as otherwise provided by applicable law.



*Conversion.* Each share of Series B 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 us with sixty-one (61) days' notice.

#### **Indemnification of Directors and Officers**

Neither our articles of incorporation nor bylaws prevent us from indemnifying our officers, directors and agents to the extent permitted under the Nevada Revised Statutes ( NRS ). NRS Section 78.7502, provides that a corporation may indemnify any director, officer, employee or agent of a corporation against expenses, including fees, actually and reasonably incurred by him in connection with any defense to the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to Section 78.7502(1) or 78.7502(2), or in defense of any claim, issue or matter therein.

NRS 78.7502(1) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he: (a) is not liable pursuant to NRS 78.138; or (b) acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

NRS Section 78.7502(2) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against

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expenses, including amounts paid in settlement and fees actually and reasonably incurred by him in connection with the defense or settlement of the action or suit if he: (a) is not liable pursuant to NRS 78.138; or (b) acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation. Indemnification may not be made for any claim, issue or matter as to which such a person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals there from, to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court in which the action or suit was brought or other court of competent jurisdiction determines upon application that in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

NRS Section 78.747 provides that except as otherwise provided by specific statute, no director or officer of a corporation is individually liable for a debt or liability of the corporation, unless the director or officer acts as the alter ego of the corporation. The court as a matter of law must determine the question of whether a director or officer acts as the alter ego of a corporation.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed hereby in the Securities Act and we will be governed by the final adjudication of such issue.

## **PLAN OF DISTRIBUTION**

Each selling stockholder of the common stock and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on The NASDAQ Capital Market or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling stockholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;

- privately negotiated transactions;
- settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency

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transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with FINRA IM-2440.

In connection with the sale of the common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended, in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933, as amended. Each selling stockholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the common stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

Because selling stockholders may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended, they will be subject to the prospectus delivery requirements of the Securities Act of 1933, as amended, including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act of 1933, as amended may be sold under Rule 144 rather than under this prospectus. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling stockholders.

Under applicable rules and regulations under the Securities Exchange Act of 1934, as amended, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act of 1933, as amended). Northland Securities, Inc. is a FINRA registered broker dealer.

## LEGAL MATTERS

Sichenzia Ross Ference Kesner LLP will pass upon the validity of the shares of common stock sold in this offering. A member of Sichenzia Ross Ference Kesner LLP is also indirectly the beneficial owner of 4,808 shares of common stock and 2,404 shares of common stock issuable upon the exercise of outstanding warrants

**EXPERTS**

The financial statements of Marathon Patent Group Inc. for the fiscal years ended December 31, 2015 and 2014 have been audited by SingerLewak LLP, an independent registered public accounting firm as set forth in its report, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, together with any amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus. The registration statement contains additional information about us and our shares of common stock that we are offering in this prospectus.

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission under the Securities Exchange Act. Our Securities and Exchange Commission filings are available to the public over the Internet at the Securities and Exchange Commission's website at <http://www.sec.gov>. Access to these electronic filings is available as soon as practicable after filing with the Securities and Exchange Commission. You may also read and copy any document we file at the Securities and Exchange Commission's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. You may also request a copy of those filings, excluding exhibits, from us at no cost. Any such request should be addressed to us at: 11100 Santa Monica Blvd., Ste. 380, Los Angeles, CA 90025, Attention: Francis Knuettel II, CFO.

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**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

MARATHON PATENT GROUP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Marathon Patent Group, Inc. and its subsidiaries

We have audited the accompanying consolidated balance sheets of Marathon Patent Group, Inc. and its subsidiaries (collectively, the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, change in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014 and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ SingerLewak LLP  
Los Angeles, California  
March 30, 2016

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## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,555,151	\$ 5,082,569
Accounts receivable - net of allowance for bad debt of \$375,750 and \$0 for December 31, 2015 and December 31, 2014	136,842	216,997
Bonds posted with courts	1,748,311	1,946,196
Prepaid expenses and other current assets, net of discounts of \$3,414 and \$0 for December 31, 2015 and December 31, 2014	338,598	438,391
Total current assets	4,778,902	7,684,153
Other assets:		
Property and equipment, net of accumulated depreciation of \$67,052 and \$16,135 for December 31, 2015 and December 31, 2014	61,297	53,828
Intangible assets, net of accumulated amortization of \$15,557,353 and \$6,550,528 for December 31, 2015 and December 31, 2014	25,457,639	43,363,832
Deferred tax assets	12,437,741	4,789,293
Other non current assets, net of discounts of \$4,831 and \$0 for December 31, 2015 and December 31, 2014	9,169	
Goodwill	4,482,845	4,894,208
Total other assets	42,448,691	53,101,161
Total Assets	\$ 47,227,593	\$ 60,785,314
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,534,825	\$ 3,293,746
Clouding IP earn out - current portion	33,646	2,092,000
Notes payable, net of discounts of \$730,945 and \$82,010 for December 31, 2015 and December 31, 2014	10,383,177	16,560,000
	16,951,648	21,945,746
Long-term liabilities		
Notes Payable, net of discount of \$1,425,167 and \$64,925, for December 31, 2015 and December 31, 2014	12,223,884	5,403,065
Clouding IP earn out	3,281,238	7,360,000
Deferred Tax Liability	1,044,997	1,823,884
Revenue share liability	1,000,000	
Other long term liability	50,084	
Total long-term liabilities	17,600,203	14,586,949
Total liabilities	34,551,851	36,532,695
Stockholders' Equity:		
Preferred stock Series A, \$.0001 par value, 50,000,000 shares authorized: 0 and 0 issued and outstanding at December 31, 2015 and December 31, 2014		
Preferred stock Series B, \$.0001 par value, 50,000,000 shares authorized: 782,004 and 932,000 issued and outstanding at December 31, 2015 and December 31, 2014	78	93



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Common stock, (\$.0001 par value; 200,000,000 shares authorized; 14,867,141 and 13,791,460 adjusted for the stock dividend issued and outstanding at December 31, 2015 and December 31, 2014				1,487	1,379
Additional paid-in capital				43,217,513	36,977,169
Accumulated other comprehensive income (loss)				(1,265,812)	(388,357)
Accumulated deficit				(29,277,524)	(12,337,665)
Total stockholders' equity				12,675,742	24,252,619
Total liabilities and stockholders' equity				\$ 47,227,593	\$ 60,785,314

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

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## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

	For The Year Ended December 31, 2015	For The Year Ended December 31, 2014
Revenues	\$ 18,977,794	\$ 21,404,469
Expenses		
Cost of revenues	16,603,792	11,787,445
Amortization of patents and website	10,825,164	5,528,280
Compensation and related taxes	5,419,252	3,904,462
Consulting fees	2,324,248	2,134,672
Professional fees	2,548,492	1,566,375
General and administrative	1,143,869	545,475
Patent impairment	5,793,409	
Goodwill impairment		2,144,488
Total operating expenses	44,658,226	27,611,197
Operating loss	(25,680,432)	(6,206,728)
Other income (expenses)		
Other income (expense)	170,706	(52,228)
Foreign exchange gain (loss)	(61,868)	
Change in fair value of Clouding IP earn out	6,137,116	
Realized loss, available for sale		6,250
Interest income	1,068	634
Interest expense	(4,245,982)	(543,283)
Loss on debt extinguishment	(1,416,915)	
Total other income (expenses)	584,125	(588,627)
Loss before benefit from income taxes	(25,096,307)	(6,795,355)
Income tax benefit	8,156,448	4,913,232
Net loss	(16,939,859)	(1,882,123)
Deemed dividends related to beneficial conversion feature of Series A preferred stock		(1,271,492)
Net loss attributable to common shareholders	\$ (16,939,859)	\$ (3,153,615)
Loss per common share, basic and diluted:	\$ (1.19)	\$ (0.16)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and Diluted	14,208,787	11,660,879

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



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MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	<b>For The Year Ended December 31, 2015</b>	<b>For The Year Ended December 31, 2014</b>
Net loss attributable to Marathon Patent Group, Inc.	\$ (16,939,859)	\$ (3,153,615)
Other Comprehensive Loss:		
Unrealized loss on foreign currency translation	(877,455)	(388,357)
Realized loss on investment securities, available for sale		6,250
Comprehensive loss attributable to Marathon Patent Group, Inc.	\$ (17,817,314)	\$ (3,535,722)

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

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## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock/Units Shares	Par Value	Common Stock Shares	Par Value	Add'l Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
<b>BALANCE</b>								
<b>December 31, 2013</b>		\$	10,979,186	\$ 1,098	\$ 22,673,287	\$ (10,488,018)	\$ (6,250)	\$ 12,180,117
Write-off of marketable securities / discontinued assets						32,662	6,250	38,912
Stock compensation expense					2,203,222			2,203,222
Common stock issued in acquisition			185,000	19	2,078,781			2,078,800
Exercise of stock option and warrants			107,814	11	249,213			249,224
Consulting services paid in warrants					41,576			41,576
Warrant issued in conjunction with convertible debt					164,020			164,020
Currency translation loss							(388,357)	(388,357)
Adjustment resulting from stock dividend and other	466,000	47	1,495,881	149	(6)	(186)		4
Series A preferred stock	1,000,502	100			6,238,164			6,238,264
Series A preferred stock compensation	23,077	2			149,998			150,000
Common stock issued upon conversion of series A preferred stock	1,023,579	(102)	1,023,579	102				
Series B preferred stock	466,000	46			3,178,914			3,178,960
Beneficial conversion feature					1,271,492			1,271,492
					(1,271,492)			(1,271,492)
Net Loss						(1,882,123)		(1,882,123)
<b>BALANCE</b>								
<b>December 31, 2014</b>	932,000	\$ 93	13,791,460	\$ 1,379	\$ 36,977,169	\$ (12,337,665)	\$ (388,357)	\$ 24,252,619
Stock compensation expense					2,490,175			2,490,175
Common stock issued for service			210,000	21	900,479			900,500
Exercise of stock option and warrants			31,276	4	18,745			18,749
Common stock issued in			134,409	13	999,987			1,000,000

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conjunction with debt financing												
Issuance of common stock in debt restructuring				200,000		20		653,980				654,000
Warrant issued in conjunction with debt financing								318,679				318,679
Conversion of series B Preferred Stock	(199,996)		(20)	199,996		20						
Series B Preferred Stock compensation expense	50,000		5					345,329				345,334
Issue common stock in litigation settlement				300,000		30		512,970				513,000
Currency translation loss										(877,455)		(877,455)
Net Loss										(16,939,859)		(16,939,859)
BALANCE												
December 31, 2015	782,004	\$	78	14,867,141	\$	1,487	\$	43,217,513	\$	(29,277,524)	\$	(1,265,812) \$ 12,675,742

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

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## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Year Ended December 31, 2015	For The Year Ended December 31, 2014
Cash flows from operating activities:		
Net loss	\$ (16,939,859)	\$ (3,153,615)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	7,578	6,233
Amortization of patents and website	10,825,164	5,522,047
Provision for allowance for doubtful accounts	375,750	
Deferred tax asset	(7,618,580)	(1,774,807)
Deferred tax liability	(660,455)	
Impairment of intangible assets	5,793,409	2,144,488
Loss on debt extinguishment	1,416,915	
Stock based compensation	2,490,175	1,751,035
Stock issued for services	1,245,834	1,542,353
Non-cash interest, discount, and financing costs	2,220,992	
Change in fair value of Clouding earnout	(6,137,116)	
Deemed Series A dividend beneficial conversion		1,271,492
Income tax benefit		(3,177,502)
Other non-cash adjustments	260,938	71,467
Changes in operating assets and liabilities		
Accounts receivable	(295,608)	110,053
Prepaid expenses and other current assets	(162,706)	(2,346,667)
Accounts payable and accrued expenses	4,216,331	2,488,528
Net cash provided by (used in) operating activities	(2,961,238)	4,455,105
Cash flows from investing activities:		
Acquisition of patents		(7,816,832)
Purchase of property, equipment, and other intangible assets	(58,386)	(52,963)
Net cash provided by (used in) investing activities	(58,386)	(7,869,795)
Cash flows from financing activities:		
Payment on note payable in connection with the acquisition of IP Liquidity	(1,109,375)	(1,215,625)
Payment on note payable in connection with the acquisition of Dynamic Advances	(2,624,375)	(225,625)
Payment on note payable in connection with the acquisition of Orthophoenix	(5,500,000)	
Payment on note payable in connection with the acquisition of Medtech and Orthophoenix	(4,318,287)	(2,000,000)
Payable (Payment) on Mdr Escrow (TLI)	(50,000)	50,000
Payment on note payable in connection with the acquisition of Sarif	(276,250)	(23,750)
Payment on convertible debt	(5,050,000)	
Cash received upon issuance of notes payable (net of issuance costs)	19,600,000	
Payments of notes payable to vendors	(181,626)	
Payments on earn-out connected to the acquisition of Clouding		(2,883,960)
Cash received upon the issuance of convertible debt securities		5,550,000
Proceeds from sale of preferred and common stock, net of issuance costs		6,388,266
Payment in connection with the acquisition of Clouding		-1,000,000
Cash received upon exercise of warrant	18,751	249,222

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Net cash provided by financing activities	508,838	4,888,528
Effect of exchange rate changes on cash	(16,632)	(1,531)

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	For The Year Ended December 31, 2015	For The Year Ended December 31, 2014
Net increase in cash	(2,527,418)	1,472,307
Cash at beginning of period	5,082,569	3,610,262
Cash at end of period	\$ 2,555,151	\$ 5,082,569

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

## Cash paid for:

Interest expense	\$ 1,982,140	\$ 280,783
Taxes paid	\$ 168,378	\$ 39,078
Loan fees	\$ 400,000	\$ 1,050,000

## SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Common stock issued in conjunction with note payable	\$ 1,000,000	\$
Warrants issued in conjunction with note payable	\$ 318,679	\$
Revenue share liability incurred in conjunction with note payable	\$ 1,000,000	\$
Non-cash interest increase in debt assumed in conjunction with the acquisition of Orthophoenix	\$ 750,000	\$
Common stock issued in conjunction with debt extinguishment	\$ 654,000	\$
Conversion of accounts payable to notes payable	\$ 705,093	\$
Common stock issued in connection with the acquisition of Clouding Corp	\$	\$ 281,000
Earn-out liability in connection with the acquisition of Clouding Corp	\$	\$ 9,452,000
Common stock granted in connection with the acquisition of TLI Communications, LLC	\$	\$ 817,800
Series B Preferred stock issued in connection with the acquisition of Dynamic Advances LLC	\$	\$ 1,403,690
Series B Convertible Preferred Stock issued in connection with the acquisition of Dynamic Advances LLC and IP Liquidity Ventures, LLC	\$	\$ 2,087,380
Common stock issued in connection with the acquisition of Selene Communication Technologies	\$	\$ 980,000
Value of warrants pertaining to equity issuance	\$	\$ 11,595
Value of warrants pertaining to convertible debt issuance	\$	\$ 146,935
Notes payable issued in connection with the acquisition of IP Liquidity Ventures, LLC, Dynamic Advances, LLC, Selene Communications Technologies, LLC, Clouding Corp, and Medtech Companies	\$	\$ 14,000,000
Issuance of common stock issued for prepaid services	\$	\$ (298,301)

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

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MARATHON PATENT GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

Organization

Our 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.

Marathon Patent Group, Inc. (the Company), formerly American Strategic Minerals Corporation, was incorporated under the laws of the State of Nevada on February 23, 2010.

On December 7, 2011, the Company changed its name to American Strategic Minerals Corporation from Verve Ventures, Inc., and increased the Company's authorized capital to 200,000,000 shares of Common Stock, par value \$0.0001 per share, and 100,000,000 shares of preferred stock, par value \$0.0001 per share. In June 2012, the Company discontinued its exploration and potential development of uranium and vanadium minerals business. 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 August 1, 2012, the shareholders holding a majority of the Company's voting capital voted in favor of (i) changing the name of the Company to Fidelity Property Group, Inc. and (ii) the adoption the 2012 Equity Incentive Plan and reserving 20,000,000 shares of Common Stock for issuance thereunder (the 2012 Plan). The board of directors of the Company (the Board of Directors) approved the name change and the adoption of the 2012 Plan on August 1, 2012. The Company did not file an amendment to its Articles of Incorporation with the Secretary of State of Nevada and subsequently abandoned the decision to adopt the Fidelity Property Group, Inc. name.

On October 1, 2012, the shareholders holding a majority of the Company's voting capital had voted and authorized the Company to (i) change the name of the Company to Marathon Patent Group, Inc. and (ii) effectuate a reverse stock split of the Company's Common Stock by a ratio of 3-for-2 (the Reverse Split) within one year from the date of approval of the stockholders of the Company. The Board of Directors approved the

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name change and the Reverse Split on October 1, 2012. The Board of Directors determined the name Marathon Patent Group, Inc. better reflects 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. On May 31, 2013, shareholders of record holding a majority of the outstanding voting capital of the Company approved a reverse stock split of the Company's issued and outstanding Common Stock by a ratio of not less than one-for-five and not more than one-for-fifteen at any time prior to April 30, 2014, with such ratio to be determined by the Company's Board of Directors, in its sole discretion. On June 24, 2013, the reverse stock split ratio of one- (1) for thirteen (13) basis was approved by the Board of Directors. On July 18, 2013, the Company filed a Certificate of Amendment to its Amended and Restated Articles of Incorporation with the Secretary of State of the State of Nevada in order to effectuate a reverse stock split of the Company's issued and outstanding Common Stock, par value \$0.0001 per share on a one (1) for thirteen (13) basis. All share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the reverse stock split.

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On March 6, 2013, the Company entered into an Asset Purchase Agreement with Augme Technologies ( Seller ) whereby Seller agreed to sell to the Company certain office equipment, data, documentation, and business information related to the Seller s business and assign agreements and prospective clients and business opportunities to the Company. In consideration for the assets and assigned agreements, the Company paid \$10,000 at closing and provides litigation assistance as defined in the agreement. As additional consideration, the Company also entered into a two-year Service Agreement (the Service Agreement ) with the Seller whereby the Seller shall engage the Company to provide consulting services including patent litigation matters, sale, license involving the Seller s intellectual property and general consulting services to continue the Seller s business operations. The Company recorded the \$10,000 payment, which was primarily attributable to property and equipment and assumed an office lease agreement that expired in July 2013.

On April 16, 2013, the Company through its subsidiary, Relay IP, Inc. acquired a US patent for \$350,000.

On April 22, 2013, CyberFone Acquisition Corp. ( Acquisition Corp. ), a Texas corporation and newly formed wholly-owned subsidiary of the Company entered into a merger agreement (the CyberFone Agreement ) with CyberFone Systems LLC, a Texas limited liability company ( CyberFone Systems ), TechDev Holdings LLC ( TechDev ) and The Spangenberg Family Foundation for the Benefit of Children s Healthcare and Education ( Spangenberg Foundation ). TechDev and Spangenberg Foundation owned 100% of the membership interests of CyberFone Systems (collectively, the CyberFone Sellers ). In the transaction, the Company acquired 10 US patents, 27 foreign patents and 1 patent pending from CyberFone Systems valued at \$1,135,512 (see note 3).

On May 6, 2013, in connection with the closing of a settlement and license agreement, the Company agreed to settle and release a certain defendant for past and future use of the Company s patents. The defendant agreed to assign and transfer three US patents and rights valued at \$1,000,000 in lieu of an additional cash payment, which amount has been included in the Company s revenue during the year ended December 31, 2013.

In September 2013, the Company acquired 14 US patents for a total purchase price of \$1,100,000.

On November 13, 2013, the Company acquired four patents for 150,000 shares of the Company s Common Stock, which the Company valued at \$718,500 based on the fair market value of the stock issued.

On December 16, 2013, the Company acquired certain patents from Delphi Technologies, Inc. for \$1,700,000 pursuant to a Patent Purchase Agreement entered into on October 31, 2013 and amended on December 16, 2013.

On December 22, 2013, in connection with a settlement and license agreement, the Company agreed to settle and release another defendant for past and future use of the Company s patents, whereby the defendant agreed to assign and transfer two US patents and rights to the Company. The Company valued the two patents at an aggregate of \$700,000 and included that amount in revenue during the year ended December 31, 2013.

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On April 22, 2014, the Company issued 300,000 shares of restricted Common Stock valued at \$718,500 to TT IP LLC in consideration of acquisition of patents on November 13, 2013.

On May 1, 2014, the Company issued 2,047,158 shares of Series A Convertible Preferred Stock and warrants to purchase an aggregate of 511,790 shares of Common Stock in a private placement to accredited investors. All of the Series A Convertible Preferred Stock was automatically converted pursuant to the terms of the Series A Convertible Preferred Stock Certificate of Designation during the year ended December 31, 2014. The exercise price of the warrants is \$3.75, after giving effect to the two-for-one stock dividend issued on December 22, 2014.

On May 2, 2014, the Company issued an aggregate of 782,000 shares of Series B Convertible Preferred Stock valued at \$2,807,380 to acquire IP Liquidity Ventures, LLC, Dynamic Advances, LLC and Sarif Biomedical, LLC.

On June 2, 2014, the Company issued 48,078 shares of unrestricted Common Stock to an investor in the May 2013 private placement, pursuant to the exercise of a warrant received in the May 2013 private placement.

On June 30, 2014, the Company issued 200,000 shares of restricted Common Stock in the acquisition of Selene Communications Technologies, LLC. In connection with this transaction, the Company valued the shares at the fair market value on the date of grant at \$4.90 per share or \$980,000.

On July 18, 2014, the Company issued a total of 26,722 shares of Common Stock pursuant to the exercise of stock options held by a former member of the Company's Board of Directors and the Company's former Chief Financial Officer.

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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 paid on October 1, 2014. The Company also issued 25,000 shares of its restricted common stock valued at \$281,000 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.

On September 16, 2014, the Company issued to two of its independent board members, in lieu of cash compensation, 6,178 shares of restricted Common Stock valued at \$45,995 to each of its directors. The shares shall vest quarterly over twelve (12) months commencing on the date of grant and \$13,415 in expense was recognized in 2014 for each of the two grants.

On September 17, 2014, the Company entered into a consulting agreement (the Consulting Agreement) with GRQ Consultants, Inc. (GRQ), pursuant to which GRQ shall provide certain consulting services including, but not limited to, advertising, marketing, business development, strategic and business planning, channel partner development and other functions intended to advance the business of the Company. As consideration, GRQ shall be entitled to 200,000 shares of the Company's Series B Convertible Preferred Stock, 50% of which vested upon execution of the Consulting Agreement, and 50% of which shall vest in six (6) equal monthly installments commencing on October 17, 2014. The first tranche of 100,000 shares of Series B Convertible Preferred Stock was issued to GRQ on October 6, 2014. The Company issued an aggregate of 150,000 shares of Series B Convertible Preferred Stock for a value of \$1,103,581 in 2014 and 50,000 shares of Series B Convertible Preferred Stock for a value of \$345,334 was issued in 2015. In addition, the Consulting Agreement allows for GRQ to receive additional shares of Series B Convertible Preferred Stock upon the achievement of certain performance benchmarks. No milestones were met and no additional shares were issued in 2015. All shares of Series B Convertible Preferred Stock issuable to GRQ shall be pursuant to the 2014 Plan. The Consulting Agreement contains an acknowledgement that the conversion of the preferred stock into shares of the Company's common stock is precluded by the beneficial ownership blockers set forth in the Series B Convertible Preferred Stock Certificate of Designation and in Section 17 of the 2014 Plan to ensure compliance with NASDAQ Listing Rule 5635(d). Every share of Series B Convertible Preferred Stock may be converted into two shares of Common Stock, after giving effect to the two-for-one stock dividend issued on December 22, 2014.

On September 19, 2014, the Company authorized the issuance of 60,000 shares of Common Stock to the sellers of TLI Communications LLC. The Company valued the Common Stock at the fair market value on the date of the Interests Sale Agreement at \$13.63 per share or \$818,000.

On September 30, 2014, the Company issued 50,000 shares of restricted Common Stock in the acquisition of the assets of Clouding IP, LLC. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$5.62 per share or \$281,000.

For the three months ended September 30, 2014, certain holders of warrants exercised their warrants in a cashless, net exercise basis in exchange for 84,652 shares of the Company's Common Stock. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration

requirements of the Securities Act of 1933, as amended, by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

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 paid MedTech \$1 million at closing and is obligated to pay \$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 for the three and nine months 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

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connection with patent claims. The participation payments may be paid, at the election of the Company, in common stock of the Company at the market price on the date of issuance.

On October 16, 2014, the Company sold to certain accredited investors an aggregate of \$5,550,000 of principal amount of convertible notes due October 9, 2018 along with two-year warrants to purchase 258,998 shares of the Company's Common Stock, par value \$0.0001 per share pursuant to a securities purchase agreement. The warrants were valued at \$169,015 and were recorded as a discount to the fair value of the convertible notes. The notes and warrants are initially convertible into shares of the Company's Common Stock at a conversion price of \$7.50 per share and an exercise price of \$8.25 per share, respectively. The conversion and exercise prices are subject to adjustment in the event of certain events, including stock splits and dividends. The notes bear interest at the rate of 11% per annum, payable quarterly in cash on each of the three, six, nine and twelve month anniversary of the issuance date and on each conversion date. The Company reviewed the instruments in the context of ASC 480 and determined that the convertible notes should be recorded as a liability and analyzed the conversion feature and bifurcation pursuant to ASC 815 and ASC 470, respectively, to determine that there was no beneficial conversion feature and that the convertible notes and warrants should not be bifurcated.

For the three months ended December 31, 2014, certain holders of warrants exercised their warrants in exchange for 29,230 shares of the Company's Common Stock.

On January 29, 2015, the Company and certain of its subsidiaries entered into a series of agreements including a Securities Purchase Agreement (the "Fortress Purchase Agreement") and a Subscription Agreement with DBD Credit Funding, LLC ("DBD"), an affiliate of Fortress Credit Corp., pursuant to which the Company sold to the purchasers: (i) \$15,000,000 original principal amount of Senior Secured Notes (the "Fortress Notes"), (ii) a right to receive a portion of certain proceeds from monetization net revenues received by the Company (after receipt by the Company of \$15,000,000 of monetization net revenues and repayment of the Fortress Notes), (iii) a five-year warrant (the "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 Company's Common Stock. Pursuant to the Fortress Purchase Agreement, as security for the payment and performance in full of the secured obligations, 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 (together with the Fortress Purchase Agreement, the Fortress Notes and the Fortress Warrant, the "Fortress Documents"). On February 12, 2015, the Company exercised its right to require the purchasers to purchase an additional \$5,000,000 of notes from the Company.

On March 13, 2015, the Company settled a dispute with a former consultant whereby the Company issued the consultant 60,000 shares of Common Stock for a full release of all claims.

For the three months ended March 31, 2015, certain holders of warrants exercised their warrants to purchase, in cash, 5,000 shares of the Company's Common Stock.

For the three months ended June 30, 2015, certain holders of options exercised their options to purchase, on a net exercise basis, 33,968 (net) shares of the Company's Common Stock.



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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, among other terms, the Company issues to MedTech Development 200,000 shares of restricted common stock of the Company. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$3.27 per share or \$654,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On August 14, 2015, the Company entered into a Business Combination Agreement (the "Business Combination Agreement") with Marathon Group SA, a Luxembourg société anonyme ("Holdco") and Uniloc Luxembourg SA, a Luxembourg société anonyme ("Uniloc"), and Uniloc Corporation Pty. Limited, an Australian corporation ("Uniloc Australia"). The Business Combination Agreement was subsequently terminated on February 23, 2016.

In a series of transactions, the Series B Convertible Preferred Stock associated with the GRQ Consulting Agreement was converted into shares of the Company's Common Stock, with 183,330 shares of Series B Convertible Preferred Stock converted into Common Stock prior to September 30, 2015.

On September 21, 2015, the Company issued 150,000 shares of the Company's Common Stock to Alex Partners, LLC and Del Mar Consulting Group, Inc. pursuant to a services agreement entered into on September 21, 2015. In connection with this

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transaction, the Company valued the shares at the quoted market price on the date of grant at \$2.23 per share or \$334,500. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On October 20, 2015, the remaining 16,666 shares of Series B Convertible Preferred Stock associated with the GRQ Consulting Agreement was converted into 16,666 shares of the Company's Common Stock.

On November 4, 2015, the Company issued 300,000 shares of the Company's Common Stock to Dominion Harbor Group LLC ( Dominion ), pursuant to a settlement agreement entered into with Dominion on October 30, 2015. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$1.71 per share or \$513,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On December 9, 2015, the Company entered into an agreement with Melechdavid, Inc. ( Melechdavid ), pursuant to which the Company agreed to issue 100,000 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 \$1.61 per share or \$161,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

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

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ( US GAAP ) and present the consolidated financial statements of the Company and its wholly owned and majority owned subsidiaries as of December 31, 2015. In the preparation of consolidated financial statements of the Company, intercompany transactions and balances are eliminated.

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 and intangible assets impairment, realization of long-lived assets, valuation of Clouding IP earn out liability,

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 at this institution are insured, up to \$250,000, by the Federal Deposit Insurance Corporation ( FDIC ). For the years ended December 31, 2015 and 2014, the Company's bank balances exceeded 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.

#### Accounts Receivable

The Company has a policy of reserving for 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 December 31, 2015 and 2014, the Company had recorded an allowance for bad debts in the amounts of \$375,750 and \$0, respectively. Net accounts receivable at December 31, 2015 and 2014 were \$136,842 and \$216,997, respectively.

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### 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.

Revenues from the five largest licenses in 2015 accounted for approximately 62% of the Company's revenue for the year ended December 31, 2015 and revenue from the largest five licenses in 2014 accounted for approximately 88% of the Company's revenues for the year ended December 31, 2014. The Company derived these revenues from the one-time issuance of non-recurring, non-exclusive, non-assignable licenses to two different entities and their affiliates for certain of the Company's patents. 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.

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 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.

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

Also, due to the fact that the settlement element and license element for past and future use are the Company's major central business, the Company presents these two elements as one revenue category in its statement of operations. The Company does not expect to provide licenses that do not provide some form of settlement or release. Revenue from patent enforcement activities accounted for 100% of the Company's revenues for the years ended December 31, 2015 and December 31, 2014.

### Prepaid Expenses

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Prepaid expenses of \$338,598 and \$438,391 at December 31, 2015 and 2014, respectively, consist primarily of costs paid for future services that will occur within a year. Prepaid expenses include prepayments in cash and in equity instruments for investor relations public relations services, business advisory, other consulting and prepaid insurance, all of which assets 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. During the years ended December 31, 2015 and December 31, 2014, the Company posted bonds in the amount of \$1,748,311 and \$1,946,196, respectively. These bonds were entered into in Germany after the first instance of litigation of some of the Company's patents in German courts and the difference in the balance of the litigation bonds at December 31, 2015 compared to December 31, 2014 is attributable solely to currency translation. With the resolution of the IP Liquidity cases, \$523,835 is being returned to the Company during the first quarter of 2016.

### 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

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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 November 14, 2012, upon the closing of the Sampo Share Exchange with LVL Patent Group LLC, Mr. Croxall, our Chief Executive Officer, who was also the Chief Executive Officer of LVL Patent Group LLC, and John Stetson (both Mr. Croxall and Mr. Stetson were also former members of Sampo), received 307,692 and 38,461 shares of the Company's Common Stock, respectively, in connection with the Sampo Share Exchange.

On May 13, 2013, we entered into a six-year advisory services agreement (the "Advisory Services Agreement") with IP Navigation Group, LLC, 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 provides 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 May 31, 2013, Barry Honig, a beneficial owner of more than 5% of our Common Stock at the time, purchased an aggregate of \$100,000 of shares of Common Stock and warrants in our private placement.

On August 2, 2013, GRQ Consultants Inc. 401K funded a subscription of \$150,000 of shares of Common Stock and warrants in our private placement, which was assigned to it by another investor. Barry Honig is the trustee of GRQ Consultants Inc. 401K and was a beneficial owner of more than 5% of our Common Stock at the time of the transaction.

On November 11, 2013, we entered into a consulting agreement with Kairix pursuant to which we granted options to acquire 300,000 shares of Common Stock to Kairix in exchange for services. The options shall vest 33%, 33% and 34% on each annual anniversary of the date of the issuance. Craig Nard, a member of our Board of Directors at the time the Company entered into the agreement with Kairix, is a principal of Kairix. On June 18, 2014, the Company cancelled an option to purchase an aggregate amount of 300,000 shares of Common Stock provided to Kairix Analytics when the consulting agreement was terminated without any vesting having occurred.

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 1, 2014, the Company conducted a private placement of units to certain accredited investors for a purchase price of \$6.50 per unit. Each unit consisted of: (i) one share of the Company's 8% Series A Preferred Stock, and (ii) a two year warrant to purchase shares of the Company's Common Stock in an amount equal to twenty five percent (25%) of the number of Series A Preferred Stock purchased. Stuart Smith, who was a director of the Company at the time, purchased 5,000 units and John Stetson, who was an officer and director of the Company at the time, purchased 30,769 units through entities controlled by him.

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

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

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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, 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 \$10,000,000 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. In no event will the total payments made by the Company under the Pay Proceeds Agreement exceed \$250,000,000.

TechDev, SFF and Granicus is owned or controlled by Erich Spangenberg or family members or associates.

On May 2, 2014, we entered into an opportunity agreement (the "Marathon Opportunity Agreement") with Erich Spangenberg, whom 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 May 2, 2014, we acquired the rights to market Opus Analytics from IP Nav. Opus Analytics is a proprietary patent analytics tool that we use extensively to review and analyze patent acquisition opportunities. Opus Analytics is also a SAAS (Software as a Service) tool that we intend to offer to third parties to generate additional revenue streams from financial professional, investors, patent licensing and monetization companies, and legal and investment professionals.



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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 owns 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 will continue to support and manage the portfolio of patents and retain a contingent participation interest in all recoveries. IP Nav provides patent monetization and support services under an existing agreement with Selene.

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.

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

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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 for the three and nine months 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.

## Comprehensive Income

Accounting Standards Update (ASU) No. 2011-05 amends Financial Accounting Standards Board (FASB) Codification Topic 220 on comprehensive income (1) to eliminate the current option to present the components of other comprehensive income (loss) in the statement of changes in equity, and (2) to require presentation of net income (loss) and other comprehensive income (loss) (and their respective components) either in a single continuous statement or in two separate but consecutive statements. These amendments do not alter any current recognition or measurement requirements in respect of items of other comprehensive income. The amendments in this Update are effective from fiscal years ending after December 15, 2012 and have been applied to our financial statements.

## Fair Value of Financial Instruments

The Company adopted FASB ASC 820, Fair Value Measurements and Disclosures (ASC 820), for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing US GAAP that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company's financial position or operating results, but did expand certain disclosures. ASC 820 defines fair value as 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. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

- 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.

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The carrying amounts reported in the consolidated balance sheet for cash, accounts receivable, 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 approximate 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 fair assessment of fair value at each period end by using discounted cash flow as 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 December 31, 2015, the Company determined Clouding IP earn out liability as \$33,646 for current portion and \$3,281,238 as long-term portion, which resulted in gain from exchange in fair value adjustment of \$6,317,116 for year ended December 31, 2015. Further, the periodic reassessment resulted in non-routine impairment of Clouding patent intangible assets of \$5,793,409 for the year ended December 31, 2015.

Under certain circumstances related to litigations in Germany, the Company is either required to or may decide to enter a bond with the courts. During the years ended December 31, 2015 and December 31, 2014, the Company posted bonds in the amount of \$1,748,311 and \$1,946,196, respectively. The Company adjusted the value as of December 31, 2014 of the bonds to reflect changes to the exchange rate between the Euro and the US Dollar.

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### Accounting for Acquisitions

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

### Income Taxes

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

The Company follows the provision of the ASC 740-10 related to Accounting for Uncertain Income Tax Position. When tax returns are filed, it is highly certain that some positions taken would be situated 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 are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25 Definition of Settlement, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For tax position considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. 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 previous year's tax returns. After review of the prior year financial statements and the results of operations through December 31, 2015, the Company has recorded a deferred tax asset in the amount of \$12,437,741, from which the Company expects to realize benefits in the future, and an income tax payable of \$0.

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. As of December 31, 2015, the Company has warrants to purchase 2,021,308 shares of Common Stock outstanding, options to purchase 3,383,267 shares of Common Stock outstanding, 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, all of 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 per share computation.

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

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	<b>For the Year Ended December 31, 2015</b>	<b>For the Year Ended December 31, 2014</b>
Net loss attributable to Common Shareholders	\$ (16,939,859)	\$ (3,153,615)
<b>Denominator</b>		
Weighted Average Common Shares - Basic	14,208,787	11,660,879
Weighted Average Common Shares - Diluted	14,208,787	11,660,879
<b>Earnings (Loss) per common share:</b>		
Earnings (Loss) - Basic	\$ (1.19)	\$ (0.27)
Earnings (Loss) - Diluted	\$ (1.19)	\$ (0.27)

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 any impairment charges to its intangible assets during the year ended December 31, 2014 and recorded impairment charges in the amount of \$5,793,409 in its Clouding IP portfolio for the year ended December 31, 2015.

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. 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;
3. Significant negative industry or economic trends; and
4. Significant reduction or exhaustion of the potential licenses of the patents which gave rise to the goodwill.

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. 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 and the Company is not required to perform further testing. 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

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the consolidated 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 year ended December 31, 2015, the Company recorded no impairment charge to its goodwill, and for the year ended December 31, 2014, the Company recorded an impairment charge in the amount of \$2,144,488 to the goodwill associated with CyberFone.

### 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

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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, except for patent intangible assets noted above, during the years ended December 31, 2015 and 2014.

## 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.

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. 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 year ended December 31, 2015, the expected forfeiture rate was 10.3975%, which resulted in an expense of \$28,663, recognized in the Company's compensation expenses. There were no forfeitures for the year ended December 31, 2014. The Company will continue to re-assess the impact of forfeitures if actual forfeitures increase in future quarters.

## Reclassification

Certain prior year reported amounts have been reclassified to conform to the current year presentation. The reclassification did not have an impact on previously issued net income (loss) or Total Shareholders' Equity.

## Liquidity and Capital Resources

At December 31, 2015, we had approximately \$2.6 million in cash and cash equivalents and a working capital deficit of approximately \$12.2 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. 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.

#### Recent Accounting Pronouncements

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. This update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified statement of financial position. ASU 2015-17 is effective for annual and interim reporting periods beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. The Company adopted this standard for the annual period ending December 31, 2015. The effect of adopting the new guidance on the balance sheet was not significant.

In September 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, or ASU 2015-16. This amendment requires the acquirer in a business combination to recognize in the reporting period in which adjustment amounts are determined, any adjustments to provisional amounts that are identified during the measurement period, calculated as if the accounting had been completed at the acquisition date. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. The new standard for an annual reporting

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period beginning after December 15, 2017 with an earlier effective application is permitted only as of annual reporting periods beginning after December 15, 2016. The new guidance is not expected to have significant impact on the Company's consolidated financial statements,

In April 2015, the FASB issued ASU 2015-05, *Intangibles-Goodwill and Other Internal-Use Software; Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Prior to this ASU, U.S. GAAP did not include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license, in which case the customer should account for such license consistent with the acquisitions of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The ASU does not change the accounting for service contracts. The new standard is effective for us on January 1, 2016 with early adoption permitted. We do not expect the adoption of ASU 2015-05 to have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued new guidance on the presentation of debt issuance costs (ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*), effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and should be applied retrospectively to all periods presented. Early adoption of the new guidance is permitted for financial statements that have not been previously issued. The new guidance will require that debt issuance costs be presented in the balance sheet as a direct deduction from the related debt liability rather than as an asset, consistent with debt discounts. The Company adopted ASU 2015-03 and as such, the debt issuance costs for Fortress note was presented in the balance sheet as direct deduction from the related debt liability.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. This standard update provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance is effective for all annual and interim periods ending after December 15, 2016. The new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and shall take effective on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method and the early application of the standard is not permitted. The Company is presently evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures and has not yet selected a transition method.

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

NOTE 3 ACQUISITIONS

CyberFone Systems, LLC

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On April 22, 2013, Acquisition Corp., a Texas corporation and newly formed wholly-owned subsidiary of the Company entered into a merger agreement with CyberFone Systems, TechDev and Spangenberg Foundation. TechDev and Spangenberg Foundation owned 100% of the membership interests of CyberFone Systems.

CyberFone Systems owns a patent portfolio that includes claims that provide specific transactional data processing, telecommunications, network and database inventions, including financial transactions. The portfolio consists of ten United States patents and 27 foreign patents and one patent pending. The patent rights that cover digital communications and data transaction processing are foundational to certain applications in the wireless, telecommunications, financial and other industries. IP Nav will continue to support and manage the portfolio of patents and retain a contingent participation interest in all recoveries. IP Nav provides patent monetization and support services under an existing agreement with CyberFone Systems.

Pursuant to the terms of the CyberFone Merger Agreement, CyberFone Systems merged with and into Acquisition Corp with CyberFone Systems surviving the merger as the wholly owned subsidiary of the Company (the "Merger"). The Company (i) issued 923,076 shares of Common Stock to the CyberFone Sellers (the "Merger Shares"), (ii) paid the CyberFone Sellers \$500,000 cash and (iii) issued a \$500,000 promissory note to TechDev (the "Note"). The Company valued these common shares at the fair market value

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on the date of grant at \$2.47 per share or \$2,280,000. The Note was non-interest bearing and was due on June 22, 2013, subject to acceleration in the event of default. The Company may prepay the Note at any time without premium or penalty. On June 21, 2013, we paid \$500,000 to TechDev in satisfaction of the note. The transaction resulted in a business combination and caused CyberFone Systems to become a wholly-owned subsidiary of the Company.

In addition to the payments described above, within thirty days following the end of each calendar quarter (commencing with the first full calendar quarter following the calendar quarter in which CyberFone Systems recovers \$4 million from licensing or enforcement activities related to the patents), CyberFone Systems will be required to pay out a certain percentage of such recoveries.

The Company accounted for the acquisition utilizing the purchase method of accounting in accordance with ASC 805 Business Combinations. The Company is the acquirer for accounting purposes and CyberFone Systems is the acquired company. Accordingly, the Company applied push down accounting for the transaction and adjusted to fair value all of the assets and liabilities directly on the financial statements of the subsidiary.

The net purchase price paid by the Company was allocated to assets acquired and liabilities assumed on the records of the Company as follows:

Intangible assets	\$	1,135,512
Goodwill		2,144,488
Net purchase price	\$	<b>3,280,000</b>

Per the disclosure set forth above, the Company determined at September 30, 2014 that the goodwill was impaired and an impairment loss in the amount of \$2,144,488 was charged to the consolidated statement of operations.

### Dynamic Advances, IP Liquidity and Sarif Biomedical

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

#### *Dynamic Advances*

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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 totaling \$5,225,000; and (ii) 391,000 shares of the Company's Series B Convertible Preferred Stock. 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. Dynamic Advances, LLC holds exclusive license to monetize certain patents owned by a third party.

On May 2, 2014, the Company issued TechDev and SFF a promissory note in order to evidence the second cash payment due under the terms of the DA Agreement in the amount of \$2,375,000 due on or before September 30, 2014, with such amount due under the terms of the promissory note being subject to increase to \$2,850,000 if the Company's payment pursuant to the terms of the DA Agreement are not made on or before June 30, 2014. The Company did not make the payment prior to June 30, 2014 and the promissory note matured on September 30, 2014. Effective September 30, 2014, TechDev and SFF extended the maturity to March 31, 2015 in return for a payment of \$249,375, payable within thirty days. The payment for this extension of the maturity date was made on October 10, 2014 and the loan was paid off on April 1, 2015. The promissory note did not otherwise include any interest payable by the Company. Since the Company did not make the payment on the promissory note prior to June 30, 2014, the Company included in the consideration paid for Dynamic Advances the promissory note balance of \$2,850,000. Further, the Company had the Series B Convertible Preferred Stock valued by a third party firm that determined, based on the rights and privileges of the Series B Convertible Preferred Stock, that it was on par with the value of the Company's Common Stock. The total amount of consideration paid by the Company for Dynamic Advances, including capitalized costs associated with the purchase, was \$6,653,078.

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,

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licenses, revenues, and any other assets other than the IP Assets. Further, as there are no assumed licensees or historical revenues, the Company is not certain that it will be able to obtain access to customers pursuant to AC 805-10-55-7.

*IP Liquidity*

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 totaling \$5,225,000; and (ii) 391,000 shares of the Company's Series B Convertible Preferred Stock. 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. IP Liquidity Ventures, LLC holds contract rights to the proceeds from the monetization of certain patents owned by a number of third parties.

On May 2, 2014, the Company issued Granicus and SFF a promissory note in order to evidence the second cash payment due under the terms of the IP Liquidity Agreement in the amount of \$2,375,000 due on or before September 30, 2014, with such amount due under the terms of the promissory note being subject to increase to \$2,850,000 if the Company's payment pursuant to the terms of the IP Liquidity Agreement are not made on or before June 30, 2014. The Company did not make the payment prior to June 30, 2014 and the promissory note matured on September 30, 2014. Effective September 30, 2014, Granicus and SFF extended the maturity to March 31, 2015 in return for a payment of \$249,375, payable within thirty days. The payment for this extension of the maturity date was made on October 10, 2014 and the loan was paid off on April 1, 2015. The promissory note did not otherwise include any interest payable by the Company. Since the Company did not make the payment on the promissory note prior to June 30, 2014, the Company included in the consideration paid for IP Liquidity the promissory note balance of \$2,850,000. Further, the Company had the Series B Convertible Preferred Stock valued by a third party firm that determined, based on the rights and privileges of the Series B Convertible Preferred Stock that it was on par with the value of the Company's Common Stock. The total amount of consideration paid by the Company for IP Liquidity, including capitalized costs associated with the purchase, was \$6,653,078.

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, licenses, revenues, and any other assets other than the IP Assets. Further, as there are no assumed licensees or historical revenues, the Company is not certain that it will be able to obtain access to customers pursuant to AC 805-10-55-7.

*Sarif Biomedical*

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 totaling \$550,000. Under the terms of the Sarif Agreement, TechDev is entitled to possible future payments for a maximum consideration of \$250,000,000 pursuant to the Pay Proceeds Agreement described below. Sarif Biomedical, LLC holds ownership rights to certain patents.

On May 2, 2014, the Company issued TechDev a promissory note in order to evidence the second cash payment due under the terms of the Sarif Agreement in the amount of \$250,000 due on or before September 30, 2014, with such amount due under the terms of the promissory note being subject to increase to \$300,000 if the Company's payment pursuant to the terms of the Sarif Agreement are not made on or before September 30, 2014. The Company did not make the payment prior to June 30, 2014 and the promissory note matured on September 30, 2014. Effective

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September 30, 2014, TechDev extended the maturity to March 31, 2015 in return for a payment of \$26,250, payable within thirty days. The payment for this extension of the maturity date was made on October 10, 2014 and the loan was paid off on February 24, 2015. The promissory note did not otherwise include any interest payable by the Company. Since the Company did not make the payment on the promissory note prior to June 30, 2014, the Company included in the consideration paid for Dynamic Advances the higher principal amount of the promissory note. The total amount of consideration paid by the Company for Sarif Biomedical, including capitalized costs associated with the purchase, was \$552,024.

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, licenses, revenues, and any other assets other than the IP Assets. Further, as there are no assumed licensees or historical revenues, the Company is not certain that it will be able to obtain access to customers pursuant to AC 805-10-55-7.

### Dynamic Advances, IP Liquidity and Sarif Biomedical

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 (the IP Assets ). Under the terms of the Pay Proceeds Agreement, if the Company recovers \$10,000,000 or less with regard to the IP Assets, then nothing is due to the sellers; if

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the Company recovers between \$10,000,000 and \$40,000,000 with regard to the IP Assets, then the Company shall pay 40% of the net 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 net proceeds of such recoveries to the sellers. In no event will the total payments made by the Company under the Pay Proceeds Agreement exceed \$250,000,000.

Pursuant to a Registration Rights Agreement with the sellers (the Acquisition Registration Rights Agreement), the Company agreed to file a resale registration statement with the SEC covering at least 10% of the registrable shares of the Company's Series B Convertible Preferred Stock issued to the sellers under the terms of the DA Agreement and the IP Liquidity Agreement, at any time on or after November 2, 2014 upon receipt of a written demand from the sellers which describes the amount and type of securities to be included in the registration and the intended method of distribution thereof. The Company shall not be required to file more than three such registration statements not more than sixty days after the receipt of each such written demand from the sellers.

TechDev and Mr. Erich Spangenberg (the founder of IP Nav) and his spouse Audrey Spangenberg have jointly filed a Schedule 13G and are deemed to be affiliates of the Company.

### *Selene Communication Technologies*

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 owns 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 will continue to support and manage the portfolio of patents and retain a contingent participation interest in all recoveries. IP Nav provides patent monetization and support services under an existing agreement with Selene.

Pursuant to the terms of the Selene Interests Sale Agreement, Selene merged with and into Acquisition LLC with Selene surviving the merger as the wholly-owned subsidiary of the Company. The Company (i) issued 200,000 shares of Common Stock to the Selene Sellers and (ii) paid the Selene Sellers \$50,000 cash. The Company valued these common shares at the fair market value on the date of grant at \$4.90 per share or \$980,000. The transaction resulted in a business combination and caused Selene to become a wholly-owned subsidiary of the Company.

The Company accounted for the acquisition as a business combination in accordance with ASC 805 Business Combinations in which the Company is the acquirer for accounting purposes and Selene is the acquired company. 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	\$	910,000
Net working capital		37,000



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Goodwill		83,000
Net purchase price	\$	1,030,000

## 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 matures on October 31, 2014, (iii) 50,000 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 \$5.62 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. 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.

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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 actually would have been attained if the merger had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of the Company.

Clouding IP earn out liability was determined as a Level 3 liability, which requires fair assessment of fair value at each period end by using discounted cash flow as 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 December 31, 2015, the Company determined Clouding IP earn out liability as \$33,646 for current portion and \$3,281,238 as long-term portion, which resulted in gain from exchange in fair value adjustment of \$6,137,116 for year ended December 31, 2015. Further, the periodic reassessment resulted in non-routine impairment of Clouding patent intangible assets of \$5,793,409 for the year ended December 31, 2015.

### TLI Communications LLC

On September 19, 2014, TLI Acquisition Corp ( TLIA ), a Virginia corporation and newly formed wholly-owned subsidiary of the Company, entered into an interest sale agreement to purchase 100% of the membership interests of TLI Communications LLC ( TLIC ), a Delaware limited liability company. TLIC owns a patent in the telecommunications field.

Pursuant to the terms of the TLIC Interests Sale Agreement, TLIC merged with and into TLIA with TLIC surviving the merger as the wholly-owned subsidiary of the Company. The Company (i) agreed to issue 120,000 shares of Common Stock to the sellers of TLIC ( TLIC Sellers ), (ii) paid the TLIC Sellers \$350,000 cash and (iii) agreed to pay the TLIC Sellers fifty percent (50%) of the net recoveries (gross

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revenues minus certain defined expenses and the cash portion of the acquisition consideration) that the Company makes with respect to the patent purchased pursuant to the acquisition of TLIC. As of December 31, 2015, the Company accrued \$1,401,844 for payment to the TLIC Sellers. The Company valued the Common Stock at the fair market value on the date of the Interests Sale Agreement at \$6.815 per share or \$818,000. The cash portion of the consideration was outstanding at September 30, 2014 and was subsequently paid in October. The transaction resulted in a business combination and caused TLIC to become a wholly-owned subsidiary of the Company.

The Company accounted for the acquisition as a business combination in accordance with ASC 805 Business Combinations. The Company is the acquirer for accounting purposes and TLIC is the acquired company. 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	\$	940,000
Goodwill		228,000
Net purchase price	\$	<b>1,168,000</b>

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### Medtech Entities

On October 13, 2014, Medtech Group Acquisition Corp ( Medtech Corp. ), a Texas corporation and newly formed wholly-owned subsidiary of the Company, entered into an interest sale agreement to purchase 100% of the equity or membership interests of OrthoPhoenix, LLC ( OrthoPhoenix ), a Delaware limited liability company, TLIF, LLC ( TLIF ) and MedTech Development Deutschland GmbH ( MedTech GmbH ) and along with OrthoPhoenix and TLIF, the Medtech Entities ) from MedTech Development, LLC ( MedTech Development ). The Medtech Entities own patents in the medical technology field.

Pursuant to the terms of the Interest Sale Agreement between MedTech Development, Medtech Corp. and the Medtech Entities, the Company (i) paid MedTech Development \$1,000,000 cash and (ii) issue a Promissory Note to MedTech Development in the amount of \$9,000,000 and (iii) assumed existing debt payable to Medtronics, Inc. The assumed debt payable to Medtronics was renegotiated, as a result of which, the outstanding amount was \$6.25 million prior to any repayment by the Company. The debt is due in installments through July 20, 2015; in the event that the Company paid the total amount due by June 30, 2015, the Company would have received a reduction in the remaining principal owed by the Company in the amount of \$750,000. Since the Company expected to make the payment by that time when it entered into the agreement, the Company took a discount to the principal amount during the fourth quarter of 2014 when it made the acquisition. However, since the Company did not actually make the payment of the final principal amount by June 30, 2015, the Company reversed the earlier discount as of June 30, 2015. The transaction resulted in a business combination and caused the Medtech Entities to become wholly-owned subsidiaries of the Company..

The Company accounted for the acquisition as a business combination in accordance with ASC 805 Business Combinations . The Company is the acquirer for accounting purposes and TLIC is the acquired company. 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	\$	12,800,000
Goodwill		2,700,000
Net purchase price	\$	<b>15,500,000</b>

Historical financial statements of the Medtech Entities and the pro forma condensed combined consolidated financial statements can be found on the Form 8-K/A filed with the SEC on December 24, 2014. The unaudited pro forma condensed combined consolidated financial statements are not necessarily indicative of the results that actually would have been attained if the merger had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of the Company.

### Bridgestone Americas Tire Operations, LLC ( BATO )

On April 23, 2015, IP Liquidity entered into a Patent Purchase Agreement ( BATO PPA ), as amended, whereby IP Liquidity purchased 43 patents from Bridgestone Americas Tire Operations LLC ( BATO ).

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Pursuant to the terms of the BATO PPA, the Company agreed to pay BATO (i) \$3.5 million in two increments shortly after the execution of the document and (ii) an additional \$7.5 million in the event that the Company funds the German court bond requirement to put an injunction in place. The Company has not made the first payment to BATO pending further potential amendments to the BATO PPA.

The Company accounted for the acquisition as an asset acquisition in accordance with ASC 805 Business Combinations . The Company engaged a third party valuation firm to determine the fair value of the assets purchased, which determined that the fair value of the assets was in excess of the purchase consideration, so the Company booked the assets at the purchase consideration of \$11 million.

On November 15, 2015, the Company and its wholly-owned subsidiary, IP Liquidity, entered into a Memorandum of Understanding with BATO and IPNav pursuant to which BATO acknowledged that IP Liquidity was entitled to certain fees under an Advisory Services Agreement dated December 3, 2012. In addition, (i) the parties further agreed to terminate the agreement and (ii) terminate the BATO PPA entered into between Bridgestone and the Company on April 23, 2015, as amended. In connection with the termination of the agreement and the BATO PPA, as of November 15, 2015, the Company removed notes payable in the amount of \$10,000,000 and \$9,068,504 in patent assets from the Company's books and records, and in connection with the termination of the agreement, the Company removed \$2,451,550 in patents assets from the Company's books and records.

### NOTE 4 - DISCONTINUED OPERATIONS

None

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## NOTE 5 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:

	December 31, 2015		December 31, 2014	
Intangible Assets	\$	41,014,992	\$	49,914,360
Accumulated Amortization & Impairment		(15,557,353)		(6,550,528)
Intangible assets, net	\$	25,457,639	\$	43,363,832

Intangible assets are comprised of patents with estimated useful lives between approximately 1 to 13 years. Once placed in service, the Company amortizes the costs of intangible assets over their estimated useful lives on a straight-line basis. 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 statements of operations. The Company assesses fair market value for any impairment to the carrying values. Management concluded that there was impairment to the carrying value in the amount of \$5,793,409 for the year ended December 31, 2015 and no impairment for the year ended December 31, 2014.

Amortization and depreciation expense for the years ended December 31, 2015 and 2014 was \$10,825,164 and \$5,528,280, respectively. Future amortization of current intangible assets, net is as follows:

2016	\$	7,495,068
2017		5,312,559
2018		3,715,236
2019		2,879,831
2020		2,143,028
2021 and thereafter		3,911,917
Total	\$	25,457,639

Since November 2012, the Company has continued to add to its intangible assets, through either the purchase of intangible asset directly or purchasing entities holding intangible assets. During the years ended December 31, 2015 and December 31, 2014, the Company made the following intangible asset acquisitions:

- In May 2014, we acquired ownership rights of Dynamic Advances, LLC, a Texas limited liability company, IP Liquidity Ventures, LLC, a Delaware limited liability company, and Sarif Biomedical, LLC, a Delaware limited liability company, all of which hold patent portfolios or contract rights to the revenue generated from the patent portfolios;

- In June 2014, we acquired Selene Communication Technologies, LLC, which holds multiple patents in the search and network intrusion field;

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- In August 2014, we acquired patents from Clouding IP LLC, with such patents related to network and data management technology;
- In September 2014, we acquired TLI Communications, which owns a single patent in the telecommunication field;
- In October 2014, we acquired three patent portfolios from MedTech Development, LLC, which owns medical technology patents; and
- In April 2015, we purchased 43 patents from Bridgestone Americas Tire Operations LLC ( BATO ), with such patents related to automobile tire pressure monitoring systems, with such purchase terminated and reversed on November 15, 2015.

### NOTE 6 - STOCKHOLDERS' EQUITY

On December 7, 2011, the Company increased its authorized capital to 200,000,000 shares of Common Stock from 75,000,000 shares, changed the par value to \$0.0001 per share from \$.001 per share, and authorized new 100,000,000 shares of preferred stock, par value \$0.0001 per share.

On June 24, 2013, the reverse stock split ratio of one-for-thirteen basis was approved by the Board of Directors. On July 18, 2013, the Company filed a Certificate of Amendment to its Amended and Restated Articles of Incorporation with the Secretary of State of the State of Nevada in order to effectuate a reverse stock split of the Company's issued and outstanding common stock, par value \$0.0001 per share on a one-for-thirteen basis.

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On November 19, 2014, the Board of Directors of the Company declared a stock dividend pursuant to which holders of the Company's Common Stock as of the close of business of the record date of December 15, 2014 received one additional share of Common Stock at the close of business on December 22, 2014 for each share of Common Stock held by such holders. Throughout this Annual Report, all share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the reverse stock split and stock dividend.

## Preferred Stock

On May 1, 2014, the Company issued 2,047,158 shares of Series A Convertible Preferred Stock and warrants to purchase an aggregate of 511,790 shares of Common Stock in a private placement to accredited investors. All of the Series A Convertible Preferred Stock was automatically converted pursuant to the terms of the Series A Convertible Preferred Stock Certificate of Designation during the year ended December 31, 2014. The exercise price of the warrants is \$3.75, after giving effect to the two-for-one stock dividend issued on December 22, 2014. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of the provisions of Section 4(a)(2) and Regulation D (Rule 506) thereunder, and the corresponding provisions of state securities laws.

On May 2, 2014, the Company issued an aggregate of 782,000 shares of Series B Convertible Preferred Stock valued at \$2,807,380 to acquire IP Liquidity Ventures, LLC, Dynamic Advances, LLC and Sarif Biomedical, LLC. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On September 17, 2014, the Company entered into a consulting agreement (the "Consulting Agreement") with GRQ Consultants, Inc. ("GRQ"), pursuant to which GRQ shall provide certain consulting services including, but not limited to, advertising, marketing, business development, strategic and business planning, channel partner development and other functions intended to advance the business of the Company. As consideration, GRQ shall be entitled to 200,000 shares of the Company's Series B Convertible Preferred Stock, 50% of which vested upon execution of the Consulting Agreement, and 50% of which shall vest in six (6) equal monthly installments of commencing on October 17, 2014. The first tranche of 100,000 shares of Series B Convertible Preferred Stock was issued to GRQ on October 6, 2014. An aggregate of 150,000 shares of Series B Convertible Preferred Stock for a value of \$1,103,581 was issued in 2014 and 50,000 shares of Series B Convertible Preferred Stock for a value of \$345,334 was issued in 2015. In addition, the Consulting Agreement allows for GRQ to receive additional shares of Series B Convertible Preferred Stock upon the achievement of certain performance benchmarks. No milestones were met and no additional shares were issued in 2015. All shares of Series B Convertible Preferred Stock issuable to GRQ shall be pursuant to the 2014 Plan (as defined below). The Consulting Agreement contains an acknowledgement that the conversion of the preferred stock into shares of the Company's Common Stock is precluded by the beneficial ownership blockers set forth in the Series B Convertible Preferred Stock Certificate of Designation and in Section 17 of the 2014 Plan to ensure compliance with NASDAQ Listing Rule 5635(d).

## Common Stock



In April 2013, the Company sold an aggregate of 4,808 post-split units with gross proceeds to the Company of \$25,000 to a certain accredited investor pursuant to a subscription agreement. Each unit was sold for a purchase price of \$5.20 per unit and consists of: (i) two shares of the Company's Common Stock and (ii) a five-year warrant to purchase an additional share of Common Stock at an exercise price of \$3.90 per share, subject to adjustment upon the occurrence of certain events such as stock splits and dividends. The warrants may be exercised on a cashless basis.

On April 17, 2013, the Company executed a consulting agreement with a consultant pursuant to a twelve-month consulting agreement for business advisory services. Pursuant to the terms of the agreement, the consultant shall receive a retainer of \$5,000 per month. Additionally, the Company shall issue to the consultant 61,538 shares of Common Stock of which, 15,384 shares vest immediately and the remaining 46,154 shares vested over a 12-month period.

In connection with the acquisition of CyberFone Systems, the Company (i) issued 923,076 shares of Common Stock to the CyberFone sellers. The Company valued these common shares at the fair market value on the date of grant at \$2.47 per share or \$2,280,000.

On May 22, 2013, the Company executed a one-year consulting agreement with a consultant for business advisory and capital restructuring services. The Company granted 46,154 post-split shares of Common Stock in connection with this consulting agreement and was valued at fair market value on the date of grant at approximately \$2.925 post-split per share. The Company

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recorded the total consideration of \$135,000 as prepaid expense and amortized \$78,750 during 2013 and the remaining balance was amortized during 2014.

On May 31, 2013, the Company sold an aggregate of 1,999,996 units (the "Units") representing gross proceeds to the Company of \$5,200,000 to certain accredited investors (the "Investors") pursuant to a securities purchase agreement (the "Securities Purchase Agreement"). Each Unit was subscribed for a purchase price of \$2.60 per Unit and consists of: (i) one share (the "Shares") of the Company's Common Stock and (ii) a three-year warrant to purchase half a share of the Common Stock at an exercise price of \$3.25 per share, subject to adjustment upon the occurrence of certain events such as stock splits and stock dividends and similar events. The Company paid placement agent fees of \$170,000 to two broker-dealers in connection with the sale of the Units, of which \$30,000 was previously paid by the Company as a retainer.

The above warrants may be exercised on a cashless basis at any time that the registration statement to be filed pursuant to the Registration Rights Agreement is not effective after the Effectiveness Date (as defined below). The above warrants contains limitations on the holder's ability to exercise such warrant in the event such exercise causes the holder to beneficially own in excess of 9.99% of the Company's issued and outstanding Common Stock.

Pursuant to a Registration Rights Agreement with the Investors, the Company has agreed to file a resale registration statement with the Securities and Exchange Commission ("SEC") covering the Shares and the Common Stock underlying the Warrants within 45 days of the final closing date of the sale of Units (the "Filing Date") and to maintain the effectiveness of such registration statement. The Company has agreed to use its best efforts to have the initial registration statement declared effective within 120 days of the Filing Date (or within 135 days of the Filing Date in the event that the registration statement is subject to full review by the SEC) (the "Effectiveness Date"). If (i) a registration statement is (A) not filed with the SEC on or before the Filing Date or (B) not declared effective by the SEC on or before the Effectiveness Date, (ii) other than during an allowable grace period, sales cannot be made pursuant to the registration statement or the prospectus contained therein is not available for use for any reason or (iii) the Company fails to file with the SEC any required reports under the Exchange, then, the Company shall pay to the Investors an amount in cash equal to one percent (1%) of such Investor's purchase price every thirty (30) days. Notwithstanding the foregoing, however, the Company shall not be obligated to pay any such liquidated damages if the Company is unable to fulfill its registration obligations as a result of rules, regulations, positions or releases issued or actions taken by the SEC pursuant to its authority with respect to Rule 415, provided the Company registers at such time the maximum number of shares of Common Stock permissible upon consultation with the staff of the SEC.

In June 2013, the Company issued 23,076 shares for services rendered and valued these common shares at the fair market value on the date of grant at approximately \$2.515 per share or \$58,000. In third quarter of 2013, the Company issued an aggregate of 11,538 shares of Common Stock in connection with this consulting agreement. The Company valued the shares at the fair market value on the date of grant at approximately \$3.00 per share or \$34,480.

On June 11, 2013, the Company granted an aggregate of 192,308 shares of Common Stock to the Company's CFO and to a director of the Company, which were valued at fair market value on the date of grant at approximately \$2.635 per share for a total of \$506,250. The shares vested immediately on issuance. During the year ended December 31, 2013, the Company recorded stock-based compensation expense of the total \$506,250 related to the vested restricted stock grants.

On June 28, 2013, the Company executed one-year consulting agreements with two consultants for investor communications and public relation services. The Company granted an aggregate of 134,616 shares of Common Stock in connection with these consulting agreements, which shares were valued at fair market value on the date of grant at approximately \$2.275 post-split per share for aggregate value of \$306,251. In connection

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with the issuance of these common shares, the Company recorded prepaid stock-based consulting of \$306,256 and amortized \$153,128 during the year ended December 31, 2013, with the balance amortized during 2014.

On July 25, 2013, the Company granted 8,760 shares of Common Stock for legal services rendered. In connection with this transaction, the Company valued the shares at the fair market value on the date of grant at \$3.425 per share or \$30,000.

On July 29, 2013, the Company converted legal fees of \$29,620 into 11,392 units of securities. Each unit was subscribed for a purchase price of \$2.60 per unit and consists of: (i) one share of the Company's Common Stock and (ii) a three-year warrant to purchase half a share of the Common Stock at an exercise price of \$3.25 per share, subject to adjustment upon the occurrence of certain events such as stock splits and stock dividends and similar events.

In August 2013, the Company sold an aggregate of 307,692 units representing gross proceeds to the Company of \$800,000 to certain accredited investors pursuant to a securities purchase agreement. Each unit was subscribed for a purchase price of \$2.60 per unit and consists of: (i) one share of the Company's Common Stock and (ii) a three-year warrant to purchase half a share of the Common Stock at an exercise price of \$3.25 per share, subject to adjustment upon the occurrence of certain events such as stock splits

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and stock dividends and similar events. Additionally, the Company paid placement agent fees of \$35,029 and legal fees of \$42,375 in connection with the sale of units.

On September 19, 2014, the Company authorized the issuance of 60,000 shares of Common Stock to the sellers of TLI Communications LLC. The Company valued the Common Stock at the fair market value on the date of the Interests Sale Agreement at \$13.63 per share or \$818,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering.

On November 13, 2013, the Company acquired four US patents in consideration for 300,000 restricted shares of the Company's Common Stock. The restricted shares shall be subject to forfeiture rights for the benefit of the Company in the event no enforcement action is effected by the lapse of the enforcement period as defined in the patent purchase agreement. In connection with this transaction, the Company valued the shares at the fair market value on the date of grant at \$2.395 per share or \$718,500. The shares were issued on April 22, 2014.

On November 12, 2013, the Company received, in cash, the amount of \$25,000 in full payment of a subscription receivable for the purchase of 9,616 shares of the Company's Common Stock and subsequently issued the shares to the investor.

On June 2, 2014, the Company issued 48,078 shares of unrestricted Common Stock to an investor in the May 2013 PIPE, pursuant to the exercise of a warrant received in the May 2013 PIPE investment.

On June 30, 2014, the Company issued 200,000 shares of restricted Common Stock pursuant to the acquisition of Selene Communications Technologies, LLC (see Note 3). In connection with this transaction, the Company valued the shares at the fair market value on the date of grant at \$4.90 per share or \$980,000.

On July 18, 2014, the Company issues a total of 26,722 shares of Common Stock pursuant to the exercise of stock options held by a former member of the Company's Board of Directors and the Company's former Chief Financial Officer.

On September 16, 2014, the Company issued to two of its independent board members, in lieu of cash compensation, 6,178 shares valued at \$45,995 of restricted Common Stock to each of its directors. The shares shall vest quarterly over twelve (12) months commencing on the date of grant.

On September 30, 2014, the Company issued 50,000 shares of restricted Common Stock pursuant to the acquisition of the assets of Clouding IP, LLC (see Note 3). In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$5.62 per share or \$281,000.

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For the three months ended September 30, 2014, certain holders of warrants exercised their warrants in a cashless, net exercise basis in exchange for 84,652 shares of the Company's Common Stock.

For the three months ended December 31, 2014, certain holders of warrants exercised their warrants in exchange for 29,230 shares of the Company's Common Stock.

On January 29, 2015, the Company issued 134,409 shares of the Company's Common Stock to DBD Credit Funding, LLC ( "DBD" ), an affiliate of Fortress Credit Corp., pursuant to the Fortress transaction.

On March 13, 2015, the Company settled a dispute with a former consultant whereby the Company issued the consultant 60,000 shares of Common Stock for a full release of all claims.

For the three months ended March 31, 2015, certain holders of warrants exercised their warrants to purchase, in cash, 5,000 shares of the Company's Common Stock.

For the three months ended June 30, 2015, certain holders of options exercised their options to purchase, on a net exercise basis, 33,968 (net) shares of the Company's Common Stock.

In a series of transactions, the Series B Convertible Preferred Stock associated with the GRQ Consulting Agreement was converted into shares of the Company's Common Stock, with 183,330 shares of Series B Convertible Preferred Stock converted into Common Stock prior to September 30, 2015.

On September 21, 2015, the Company issued 150,000 shares of the Company's Common Stock to Alex Partners, LLC and Del Mar Consulting Group, Inc., pursuant to a services agreement entered into on September 21, 2015. In connection with this

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transaction, the Company valued the shares at the quoted market price on the date of grant at \$2.23 per share or \$334,500. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On October 20, 2015, 16,666 shares of Series B Convertible Preferred Stock associated with the GRQ Consulting Agreement was converted into 16,666 shares of the Company's Common Stock.

On November 4, 2015, the Company issued 300,000 shares of the Company's Common Stock to Dominion Harbor Group LLC ( Dominion ), pursuant to a settlement agreement entered into with Dominion on October 30, 2015. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$1.71 per share or \$513,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On December 9, 2015, the Company entered into an agreement with Melechdavid, Inc. ( Melechdavid ), pursuant to which the Company agreed to issue 100,000 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 \$1.61 per share or \$161,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

### Common Stock Warrants

During the year ended December 31, 2015, the Company issued warrants to purchase 100,000 shares of Common Stock in connection with financings, warrants for 5,000 shares of Common Stock were exercised and warrants for 0 shares of Common Stock were forfeited in accordance with the terms of the underlying agreements. During the year ended December 31, 2015, the Company recorded stock based compensation expense of \$3,465 in connection with the vested warrants associated with one warrant-based compensatory grant. At December 31, 2015, there was a total of \$0 of unrecognized compensation expense related to future recognition of warrant-based compensation arrangements.

As of December 31, 2015, the Company had warrants outstanding to purchase 2,021,308 shares of Common Stock with a weighted average remaining life of 0.87 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, 2014	1,926,308	\$ 4.10	1.55
Granted	100,000	\$ 7.44	4.08

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Cancelled				
Forfeited				
Exercised	5,000	\$	3.75	
Balance at December 31, 2015	2,021,308		4.27	0.87
Warrants exercisable at December 31, 2015	2,021,308			
Weighted average fair value of warrants granted during the period		\$	3.19	

## Common Stock Options

On November 14, 2012, the Company entered into an employment agreement with Doug Croxall (the "Croxall Employment Agreement"), whereby Mr. Croxall agreed to serve as Company's Chief Executive Officer for a period of two years. Mr. Croxall received a ten-year option award to purchase an aggregate of 307,692 shares of the Company's Common Stock with an exercise price of \$3.25 per share, subject to adjustment, which shall vest in 24 equal monthly installments on each monthly anniversary of the date of the Croxall Employment Agreement. The options were valued on the grant date at approximately \$3.12 per option or a total of \$968,600 using a Black-Scholes option pricing model with the following assumptions: stock price of \$3.25 per share (based on the recent selling price of the Company's Common Stock at private placements), volatility of 192%, expected term of 5 years, and a risk free interest rate of 0.61%.

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On January 28, 2013, the Company entered into an employment agreement with John Stetson, the Company's Chief Financial Officer and Secretary (the "Stetson Employment Agreement") whereby Mr. Stetson agreed to serve as the Company's Chief Financial Officer for a period of one year, subject to renewal. Mr. Stetson received a ten-year option award to purchase an aggregate of 76,924 shares of the Company's Common Stock with an exercise price of \$3.25 per share, subject to adjustment, which shall vest in three (3) equal annual installments on the beginning on the first annual anniversary of the date of the Stetson Employment Agreement, provided Mr. Stetson is still employed by the Company.

On March 1, 2013, Mr. Nathaniel Bradley was appointed as the Company's Chief Technology Officer and President of IP Services. Pursuant to the employment agreement between the Company and Mr. Bradley dated March 1, 2013 ("Bradley Employment Agreement"), Mr. Bradley was awarded five-year stock options to purchase an aggregate of 153,846 shares of the Company's Common Stock, with a strike price based on the closing price of the Company's Common Stock on March 1, 2013 as reported by the OTC Bulletin Board or an exercise price of \$5.525 per share, vesting in twenty-four (24) equal installments on each monthly anniversary of March 1, 2013, provided Mr. Bradley is still employed by the Company on each such date. On June 19, 2013, the Board of Directors accepted resignation of Mr. Bradley from his position of Chief Technology Officer and President of IP Services with the Company. In connection with his resignation, Mr. Bradley entered into a Separation and Release Agreement with the Company, pursuant to which, Mr. Bradley received a vested option to purchase 19,230 shares of Common Stock and an option to purchase 134,616 shares of Common Stock were cancelled.

On March 1, 2013, Mr. James Crawford was appointed as the Company's Chief Operating Officer. Pursuant to the employment agreement between the Company and Mr. Crawford dated March 1, 2013 ("Crawford Employment Agreement"), Mr. Crawford shall serve as the Company's Chief Operating Officer for two (2) years. Mr. Crawford was awarded five-year stock options to purchase an aggregate of 76,924 shares of the Company's Common Stock, with a strike price based on the closing price of the Company's Common Stock on March 1, 2013 as reported by the OTC Bulletin Board or an exercise price of \$5.525 per share, vesting in twenty-four (24) equal installments on each monthly anniversary of March 1, 2013, provided Mr. Crawford is still employed by the Company on each such date. On June 19, 2013, the Company granted Mr. Crawford an option to purchase 76,924 shares of Common Stock. The stock options granted have an exercise price equal to the fair market value per share on the option grant date, which was \$2.47 per share. The options issued to Mr. Crawford are conditioned upon the cancellation of the stock options granted to him on March 1, 2013 under his employment agreement with the Company and will vest in twenty-four (24) equal installments on each monthly anniversary of the date of grant.

Pursuant to the Independent Director Agreement between the Company and each of Mr. Nard and Mr. Rosellini dated March 8, 2013, each director was granted a five-year stock option to purchase an aggregate of 15,384 shares of the Company's Common Stock, with a strike price based on the closing price of the Company's Common Stock on March 8, 2013 as reported by the OTC Bulletin Board or an exercise price of \$3.25 per share. The options shall vest as follows: 33% the first anniversary hereof; 33% on the second anniversary and 34% on the third anniversary, and shall be subject to the Company's stock plan as in effect from time to time, including any claw-back and termination provisions therein. The option agreements shall provide for cashless exercise features. Such agreement shall be terminated upon resignation or removal of Mr. Nard and Mr. Rosellini as members of our Board of Directors. Mr. Nard resigned from the Company's Board of Directors in April 2014 and on July 18, 2014, the Company issued a total of 7,608 shares of Common Stock to Mr. Nard pursuant to the exercise of vested stock options.

On June 11, 2013, the Company granted five-year options to purchase an aggregate of 353,846 shares of Common Stock exercisable at \$2.625 per share to the Chief Executive Officer and two directors of the Company. The stock options shall vest pro rata monthly over the following 24-month period.

On June 11, 2013, the Company granted a five-year option to purchase 30,770 shares of Common Stock exercisable at \$2.625 per share to a consultant for legal services. The stock options shall vest pro rata monthly over the following 24-month period.



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On June 19, 2013, the Company granted two five-year options to purchase an aggregate of 46,154 shares of Common Stock exercisable at \$2.47 per share to two employees of the Company. The options shall vest as follows: 33% the first anniversary hereof; 33% on the second anniversary and 34% on the third anniversary.

On July 25, 2013, the Company granted four five-year options to purchase an aggregate of 134,614 shares of Common Stock to four consultants who are employees of IP Nav. Such options shall vest 33% on the first year anniversary, 33% on the second year anniversary and 34% on the third year anniversary. The exercise price was based on the \$3.425 closing price of the Company's Common Stock on the date of grant. These options were forfeited in accordance with the termination of consultant relationships.

On August 19, 2013, the Company granted two five-year options to purchase an aggregate of 607,692 shares of Common Stock to two consultants who are employees of IP Nav. Such options shall vest 33% on the first year anniversary, 33% on the second

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year anniversary and 34% on the third year anniversary. The exercise price was based on the \$2.925 closing price of the Company's Common Stock on the date of grant. These options were forfeited in accordance with the termination of consultant relationships.

On November 11, 2013, we entered into a three-year consulting agreement with Kairix Analytics, Ltd. ( Kairix ) (the Kairix Agreement ), pursuant to which we agreed to grant to Kairix an option to purchase 600,000 shares of the Company's Common Stock at an exercise price of \$2.85 per share, reflecting the closing price of the Company's Common Stock on the date of grant. The option has a term of five (5) years and vests 33% on each of the first and second anniversaries and 34% on the third anniversary of the Kairix Agreement. The Company has valued the option at \$984,447 using the Black-Scholes option pricing model with the following assumptions: an expected life of two and one-half years; volatility of 100% and a risk-free interest rate of 0.65%. In addition, Kairix will be entitled to receive either 2% or 5% of the net revenue derived from the enforcement of patents by either the Company or its subsidiaries and resulting from work performed by Kairix on behalf of the Company, with the percentage applied to be based on the contribution made to the generation of the revenue by Kairix, as further described in the Kairix Agreement. No net revenues were ever paid to Kairix as the consulting agreement was terminated without any work being performed by Kairix. Mr. Craig Nard, one of the principals of Kairix, was a member of our Board of Directors at the time the Company entered into the agreement with Kairix. On June 18, 2014, the Company cancelled an option to purchase an aggregate amount of 600,000 shares of Common Stock provided to Kairix Analytics when the consulting agreement was terminated without any vesting having occurred.

On November 18, 2013, we entered into Amendment No. 1 to the Croxall Employment Agreement with our Chief Executive Officer and Chairman, Doug Croxall. As part of Amendment No. 1, we granted Mr. Croxall a ten-year stock options to purchase an aggregate of 200,000 shares of our Common Stock, with an exercise price of \$2.965 per share, reflecting the closing price of our Common Stock on the date of grant, and vesting in twenty-four (24) equal installments on each monthly anniversary date of the grant. The Company has valued the option grant at \$442,692 using the Black-Scholes option pricing model with the following assumptions: an expected life of five years; volatility of 100%; and a risk-free rate of 1.33%.

On November 18, 2013, we entered into a two-year executive employment agreement with Richard Raisig (the Raisig Agreement ), pursuant to which Mr. Raisig shall serve as our Chief Financial Officer, effective December 3, 2013. As part of the Raisig Agreement, we agreed to issue Mr. Raisig a ten-year stock option to purchase an aggregate of 230,000 shares of Common Stock, with an exercise price of \$2.95 per share, vesting in twenty-four (24) equal installments on each monthly anniversary of the date of the Raisig Agreement, provided Mr. Raisig is still employed by us on each such date. We have valued the options at \$511,036 using the Black-Scholes option pricing model with the following assumptions: market price on the date of grant of \$2.95; an expected life of five years; volatility of 101%; and a risk-free rate of 1.40%. Mr. Raisig's employment with the Company was terminated in April 2014 and on July 18, 2014, the Company issued a total of 19,114 shares of Common Stock to Mr. Raisig pursuant to the exercise of vested stock options.

On April 15, 2014, the Company issued a new board member, Edward Kovalik, a five (5) year option to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$3.295 per share, subject to adjustment, which shall vest in twelve (12) monthly installments commencing on the date of grant. The option was valued based on the Black-Scholes model, using the strike and market prices of \$3.295 per share, life of three years, volatility of 51% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 0.84%.

On May 14, 2014, the Company issued existing employees, ten-year options to purchase an aggregate of 80,000 shares of the Company's Common Stock with an exercise price of \$4.165 per share, subject to adjustment, which shall vest in three (3) annual installments, with 33% vesting on the first anniversary of the date of grant, 33% on the second anniversary of the date of grant and 34% on the third anniversary of the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 6.5 years, volatility of 63% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.97%.

On May 14, 2014, the Company issued to consultants, five (5) year options to purchase an aggregate of 160,000 shares of the Company's Common Stock with an exercise price of \$4.165 per share, subject to adjustment, which shall vest in three (3) annual installments, with 33% vesting on the first anniversary of the date of grant, 33% on the second anniversary of the date of grant and 34% on the third anniversary of the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 3.5 years, volatility of 50% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.00%.

On May 15, 2014, the Company entered into an executive employment agreement with Francis Knuettel II ( "Knuettel Agreement" ) pursuant to which Mr. Knuettel would serve as the Company's Chief Financial Officer. As part of the consideration, the Company agreed to grant Mr. Knuettel a ten-year stock option to purchase an aggregate of 290,000 shares of Common Stock, with a strike price of \$4.165 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Knuettel

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Agreement. The option was valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 6.5 years, volatility of 63% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.97%.

On June 15, 2014, the Company issued to a consultant a five-year stock option to purchase an aggregate of 40,000 shares of the Company's Common Stock with an exercise price of \$5.05 per share, subject to adjustment, which shall vest in twenty-four (24) equal monthly installments on each monthly anniversary date of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$5.05 per share, life of 3.25 years, volatility of 50% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.05%.

On August 29, 2014, the Company entered into an executive employment agreement with Daniel Gelbtuch ( Gelbtuch Agreement ) pursuant to which Mr. Gelbtuch would serve as the Company's Chief Marketing Officer. As part of the consideration, the Company agreed to grant Mr. Gelbtuch ten-year stock options to purchase an aggregate of 290,000 shares of Common Stock, with a strike price of \$5.62 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Gelbtuch Agreement. Mr. Gelbtuch's employment with the Company was terminated as of January 20, 2015 and the vested shares at that time remain available for Mr. Gelbtuch to exercise. The option was valued based on the Black-Scholes model, using the strike and market prices of \$5.62 per share, life of 6.5 years, volatility of 62% based on the average volatility of comparable companies over the prior 10-year period and a discount rate as published by the Federal Reserve of 1.95%.

On September 16, 2014, the Company issued its independent board members five-year options to purchase an aggregate of 60,000 shares of the Company's Common Stock with an exercise price of \$7.445 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 \$7.445 per share, life of three years, volatility of 49% based on the average volatility of comparable companies over the prior 5-year period and a discount rate as published by the Federal Reserve of 1.04%.

On October 31, 2014, the Company entered into an executive employment agreement with Enrique Sanchez ( Sanchez Agreement ) pursuant to which Mr. Sanchez would serve as the Company's Senior Vice President of Licensing. As part of the consideration, the Company agreed to grant Mr. Sanchez a ten-year stock option to purchase an aggregate of 160,000 shares of Common Stock, with a strike price of \$6.40 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Sanchez Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company entered into an executive employment agreement with Umesh Jani ( Jani Agreement ) pursuant to which Mr. Jani would serve as the Company's Chief Technology Officer and SVP of Licensing. As part of the consideration, the Company agreed to grant Mr. Jani a ten-year stock option to purchase an aggregate of 100,000 shares of Common Stock, with a strike price of \$6.40 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Jani Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company issued to existing employees, ten-year options to purchase an aggregate of 680,000 shares of the Company's Common Stock with an exercise price of \$6.40 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary. The options were valued based on the Black-Scholes model, using the

strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company issued to a consultant, a five-year option to purchase an aggregate of 30,000 shares of the Company's Common Stock with an exercise price of \$6.40 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 3.25 years, volatility of 49% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.03%.

On February 5, 2015 the Company issued to a consultant, a five-year option to purchase an aggregate of 25,000 shares of the Company's Common Stock with an exercise price of \$6.80 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.80 per share, an expected term of 3.25 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 0.92%.

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On March 6, 2015 the Company issued to a new board member a five-year option to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$7.37 per share, subject to adjustment, which shall vest in twelve (12) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$7.37 per share, an expected term of 3.0 years, volatility of 41% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.16%.

On March 18, 2015 the Company issued to a new board member a five-year option to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$6.61 per share, subject to adjustment, which shall vest in twelve (12) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.61 per share, an expected term of 3.0 years, volatility of 41% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 0.92%.

On April 7, 2015 (the "Effective Date"), the Company entered into a consulting agreement (the "Consulting Agreement") with Richard Chernicoff, a member of the Company's Board of Directors, pursuant to which Mr. Chernicoff shall provide certain services to the Company, including serving as the interim General Counsel and interim General Manager of commercial product commercialization development. Pursuant to the terms of the Consulting Agreement, Mr. Chernicoff shall receive a monthly retainer of \$27,000 and a ten-year stock option to purchase 280,000 shares of the Company's Common Stock pursuant to the Company's 2014 Equity Incentive Plan (the "2014 Plan"). The stock options shall have an exercise price of \$6.76 per share, the closing price of the Company's common stock on the date immediately prior to the Board of Directors approval of such stock options and the options shall vest as follows: 25% of the option shall vest on the 12 month anniversary of the Effective Date and thereafter 2.083% on the 21st day of each succeeding calendar month for the following twelve months, provided Mr. Chernicoff continues to provide services (in addition to as a member of the Company's Board of Directors) at the time of vesting. The option shall be subject in all respects to the terms of the 2014 Plan. Notwithstanding anything herein to the contrary, the remainder of the option shall be subject to the following as an additional condition of vesting: (A) options to purchase 70,000 shares of the Company's common stock under the option shall not vest at all unless the price of the Company's common stock while Mr. Chernicoff continues as an officer and/or director reaches \$8.99 and (B) options to purchase 70,000 shares of the Company's common stock under the option shall not vest at all unless the price of the Company's common stock while Mr. Chernicoff continues as an officer and/or director reaches \$10.14. For valuation purposes, the options were divided into two parts—the time-based vesting component and the performance-based vesting component. The time-based vesting component was valued based on the Black-Scholes model, using the strike and market prices of \$6.76 per share, an expected term of 6.25 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.53%. The performance-based vesting component was valued based on the Monte Carlo Simulation model, using the strike and market prices of \$6.76 per share, an expected term of 10.0 years, volatility of 61% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.89%.

On September 16, 2015, 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 \$2.03 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 \$2.03 per share, an expected term of 5.5 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 1.72%.

On October 14, 2015, the Company issued certain of its employees ten-year options to purchase an aggregate of 385,000 shares of the Company's Common Stock with an exercise price of \$1.86 per share, subject to adjustment, which shall vest monthly over twenty-four (24) months commencing on the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of

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\$1.86 per share, an expected term of 6.5 years, volatility of 49% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.57%.

On October 14, 2015, the Company issued certain of its consultants ten (10) year options to purchase an aggregate of 70,000 shares of the Company's Common Stock with an exercise price of \$1.86 per share, subject to adjustment, which shall vest monthly over twenty-four (24) months commencing on the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$1.86 per share, an expected term of 6.5 years, volatility of 49% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.57%.

At December 31, 2015, there was a total of \$2,856,485 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 December 31, 2015 and changes during the period are presented below:

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	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance at December 31, 2014	3,017,690	\$ 4.64	7.77
Granted	880,000	\$ 3.81	9.21
Cancelled		\$	
Forfeited	480,455	\$ 5.56	
Exercised	33,968	\$ 3.25	
Balance at December 31, 2015	3,383,267	\$ 4.25	7.11
Options Exercisable at December 31, 2015	1,925,963		
Options expected to vest	1,457,304		
Weighted average fair value of options granted during the period		\$ 1.48	

Stock options outstanding at December 31, 2015 as disclosed in the above table have \$0 in intrinsic value at the end of the period.

## NOTE 7 COMMITMENTS AND CONTINGENCIES

### Office Lease

In October 2013, the Company entered into a net-lease for its current office space in Los Angeles, California. The lease commenced on May 1, 2014 and has a term of seven years, which term expires on April 30, 2021, with monthly lease payments 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 its 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 42nd month of the lease. Minimum future lease payments under this lease at December 31, 2015, net of the rent abatement, for the next five years are as follows:

2016	68,244
2017	71,288
2018	74,540
2019	77,872
Thereafter	108,840
Total	\$ 400,784

The leases for the properties maintained in Alexandria, Virginia and Longview, Texas are month-to-month and can be cancelled upon thirty days notice.

## NOTE 8 - INCOME TAXES



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The Company accounts for income taxes under ASC Topic 740: Income Taxes, which requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carry-forwards. ASC Topic 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets.

The following table presents the current and deferred provision (benefit) for income taxes for the years ended December 31, 2015:

	2015	2014
<b>Current:</b>		
Federal	(28,000)	
State	48,188	
Foreign		
	\$ 20,188	\$
<b>Deferred:</b>		
Federal	(6,046,674)	(3,942,754)
State	(1,171,260)	(824,804)
Foreign	(958,702)	(184,751)
	(8,176,636)	(4,952,309)
	\$ (8,156,448)	\$ (4,952,309)

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The table below summarizes the differences between the Company's effective tax rate and the statutory federal rate for the years ended December 31, 2015 and 2014.

	2015	2014
Tax benefit computed at expected statutory rate	\$ (8,533,296)	\$ (2,742,728)
State income taxes, net of benefit	(818,432)	(48,135)
Permanent differences :		
Deemed Dividend		432,307
Stock based compensation and consulting	738,904	581,216
Transaction Cost	208,481	
Other permanent differences	247,895	2,535
Timing differences		
Amortization of patents and other		
Change in valuation allowance		(3,177,504)
Net income tax benefit	\$ (8,156,448)	\$ (4,952,309)

The table below summarizes the differences between the Companies' effective tax rate and the statutory federal rate as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Computed expected tax expense (benefit)	-34.00%	(34.00)%
State income taxes	(3.26)%	(0.60)%
Permanent differences	4.75%	12.60%
Timing differences	%	%
Change in valuation allowance	%	(39.39)%
Effective tax rate	(32.51)%	(61.39)%

The Company has a deferred tax asset, which is summarized as follows at December 31:

	2015	2014
Deferred tax assets:		
Total deferred tax assets	\$ 12,437,741	\$ 4,789,293
Total deferred tax liabilities	(1,044,997)	(1,823,884)
Less: valuation allowance		
Net deferred tax asset	\$ 11,392,744	\$ 2,965,409

The Company does not have any taxable income in carryback years in which net operating losses ( NOLs ) can be carried back to. At December 31, 2015, the Company did not have any taxable temporary differences that will reverse and generate taxable income and was still in a cumulative loss position. Based on all the available information, including tax planning strategies and future forecast, the Company believes that it is more likely than not that the net deferred tax assets will be realized; therefore, valuation allowance is not needed.

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As of December 31, 2015, the Company had NOL carry-forwards for federal and state purposes of approximately \$21.6 million and \$20.2 million, respectively, which will begin to expire in 2032. The utilization of NOL and credit carry-forwards may be limited under the provisions of the Internal Revenue Code ( IRC ) Section 382 and similar state provisions. IRC Section 382 generally imposes an annual limitation on the amount of NOL carry-forwards that may be used to offset taxable income where a corporation has undergone significant changes in stock ownership. The Company has not analyzed whether an ownership change has taken place that could limit the utilization of NOL. An analysis may be required at the time the Company begins utilizing any of its net operating losses to determine if there is an IRC Section 382 limitation.

As of December 31, 2015 and 2014, the Company does not increase or decrease liability for unrecognized tax benefit. As of December 31, 2015 and 2014 the Company did not increase or decrease penalties or interest in connection with liability for unrecognized tax benefit. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

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The Company files U.S. and state income tax returns with varying statutes of limitations. The 2011 through 2014 tax years generally remain subject to examination by federal and state tax authorities.

The Company has not recognized a deferred tax liability on foreign earnings that it has declared as indefinitely reinvested. This amount may become taxable upon repatriation of assets from the subsidiaries or a sale or liquidation of the subsidiaries. The amount of earnings designated as indefinitely reinvested offshore is based upon our expectations of the future cash needs of the Company's foreign entities.

NOTE 9 SUBSEQUENT EVENTS

On February 22, 2016, Marathon Group SA, a Luxembourg *société anonyme*, Uniloc Luxembourg, S.A., a Luxembourg *société anonyme*, Uniloc Corporation Pty. Limited, an Australian company limited by shares ACN 058 043 744, and Marathon Patent Group, Inc., a Nevada corporation, entered into a Termination Agreement terminating the Business Combination Agreement dated August 14, 2015 by and among the parties set forth above.

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## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
<b>ASSETS</b>		
Current Assets		
Cash	\$ 1,294,950	\$ 2,555,151
Accounts receivable - net of allowance for bad debt of \$387,976 and \$375,750 for September 30, 2016 and December 31, 2015	81,865	136,842
Bonds posted with courts	980,919	1,748,311
Prepaid expenses and other current assets, net of discounts of \$2,483 for September 30, 2016 and \$3,414 for December 31, 2015	153,388	338,598
Total current assets	\$ 2,511,122	\$ 4,778,902
Other assets:		
Property and equipment, net of accumulated depreciation of \$98,347 and \$67,052 for September 30, 2016 and December 31, 2015	\$ 38,389	\$ 61,297
Intangible assets, net of accumulated amortization of \$16,438,643 and \$15,557,353 for September 30, 2016 and December 31, 2015	19,551,678	25,457,639
Deferred tax assets	11,918,920	12,437,741
Other non current assets, net of discounts of \$2,969 and \$4,831 for September 30, 2016 and December 31, 2015	201,031	9,169
Goodwill	4,483,129	4,482,845
Total other assets	\$ 36,193,147	\$ 42,448,691
Total Assets	\$ 38,704,269	\$ 47,227,593
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,054,015	\$ 6,534,825
Clouding IP earn out - current portion	110,100	33,646
Notes payable, net of discounts of \$818,919 and \$730,945 for September 30, 2016 and December 31, 2015	11,139,623	10,383,177
Total current liabilities	\$ 17,303,738	\$ 16,951,648
Long-term liabilities		
Notes payable, net of discount of \$798,966 and \$1,425,167 for September 30, 2016 and December 31, 2015	\$ 6,456,740	\$ 12,223,884
Clouding IP earn out	1,082,586	3,281,238
Deferred tax liability	438,709	1,044,997
Revenue share liability	1,000,000	1,000,000
Other long term liability	45,763	50,084
Total long-term liabilities	\$ 9,023,798	\$ 17,600,203
Total Liabilities	\$ 26,327,536	\$ 34,551,851
Stockholders' Equity:		
Preferred stock Series B, \$.0001 par value, 50,000,000 shares authorized: 782,004 issued and outstanding at September 30, 2016 and December 31, 2015	\$ 78	\$ 78
	1,505	1,487

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Common stock, \$.0001 par value; 200,000,000 shares authorized; 15,047,141 and 14,867,141 at September 30, 2016 and December 31, 2015			
Additional paid-in capital		44,901,535	43,217,513
Accumulated other comprehensive income (loss)		(959,401)	(1,265,812)
Accumulated deficit		(31,539,066)	(29,277,524)
Total Marathon Patent Group stockholders' equity	\$	12,404,651	\$ 12,675,742
Noncontrolling interests		(27,918)	
Total Stockholders' Equity	\$	12,376,733	\$ 12,675,742
Total liabilities and stockholders' equity	\$	38,704,269	\$ 47,227,593

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

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## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For The Three Months Ended September 30, 2016 (Unaudited)	For The Three Months Ended September 30, 2015 (Unaudited)	For The Nine Months Ended September 30, 2016 (Unaudited)	For The Nine Months Ended September 30, 2015 (Unaudited)
Revenues	\$ 43,113	\$ 6,407,997	\$ 36,452,551	\$ 11,870,851
Expenses				
Cost of revenues	1,094,378	4,002,040	19,202,118	12,190,415
Amortization of patents and website	2,030,886	2,884,269	6,018,196	8,511,730
Compensation and related taxes	1,252,571	903,685	3,406,841	3,571,817
Consulting fees	257,420	643,702	903,032	1,869,326
Professional fees	432,496	882,213	1,336,201	2,230,748
General and administrative	183,771	177,494	612,284	681,951
Goodwill impairment			83,000	
Patent impairment	5,531,383		6,525,273	766,498
Total Operating Expenses	10,782,905	9,493,403	38,086,945	29,822,485
Operating loss	(10,739,792)	(3,085,406)	(1,634,394)	(17,951,634)
Other income (expenses)				
Other expense	(37,116)	6,646	(68,647)	14,085
Foreign exchange gain (loss)	(175,850)	(20,090)	(238,073)	(57,593)
Change in fair value adjustments of Clouding IP earn out	1,954,378	597,047	2,122,208	2,901,348
Interest Income	931	135	2,793	137
Interest expense.	(649,065)	(1,078,615)	(2,500,321)	(3,587,238)
Loss on debt extinguishment		(654,000)		(654,000)
Total Other income (expenses)	1,093,278	(1,148,877)	(682,040)	(1,383,261)
Loss before (provision for) benefit from income taxes	(9,646,514)	(4,234,283)	(2,316,434)	(19,334,895)
(Provision for) benefit from income taxes	3,347,909	483,815	26,974	6,300,159
Net loss	(6,298,605)	(3,750,468)	(2,289,460)	(13,034,736)
Net loss attributable to noncontrolling interests	24,195		27,918	
Net loss attributable to Marathon Patent Group, Inc. common shareholders	\$ (6,274,410)	\$ (3,750,468)	\$ (2,261,542)	\$ (13,034,736)
Loss per common share:				
Basic and fully diluted	\$ (0.42)	\$ (0.26)	\$ (0.15)	\$ (0.92)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and fully diluted	15,047,141	14,376,118	14,944,852	14,094,891
Other comprehensive income (loss)				

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Foreign currency translation adjustments	209,159	45,628	306,411	\$	(584,706)
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The accompanying notes are an integral part to these unaudited consolidated financial statements.

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## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Nine Months Ended September 30, 2016 (Unaudited)	For The Nine Months Ended September 30, 2015 (Unaudited)
Cash flows from operating activities:		
Net loss attributable to Marathon Patent Group, Inc common shareholders	\$ (2,261,542)	\$ (13,034,736)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	3,780	5,668
Amortization of patents and website	6,018,196	8,511,730
Allowance for doubtful accounts	12,226	
Deferred tax asset	531,757	(5,579,418)
Deferred tax liability	(638,268)	(709,280)
Impairment of intangible assets	6,525,273	766,498
Impairment of goodwill	83,000	
Stock based compensation	1,541,615	1,961,505
Stock issued for services	136,000	1,084,834
Loss on debt extinguishment		654,000
Non-cash interest, discount, and financing costs	952,231	1,926,865
Change in fair value of Clouding earnout	(2,122,198)	(2,901,348)
Non-controlling interest	(27,918)	
Other non-cash adjustments	96,996	(13,244)
Changes in operating assets and liabilities		
Accounts receivable	43,763	(2,109,984)
Prepaid expenses and other assets	(6,652)	60,938
Bonds posted with courts	883,695	
Accounts payable and accrued expenses	(557,832)	6,454,467
Net cash provided by (used in) operating activities	11,214,122	(2,921,505)
Cash flows from investing activities:		
Acquisition of patents	(3,552,656)	
Purchase of property, equipment, and other intangible assets	(8,387)	(22,520)
Net cash provided by (used in) investing activities	(3,561,043)	(22,520)
Cash flows from financing activities:		
Payment on note payable in connection with the acquisition of Medtech and Orthophoenix	(2,953,779)	(4,200,000)
Payment on note payable in connection with the acquisition of Orthophoenix		(5,000,000)
Payment on note payable in connection with the acquisition of Sarif		(276,250)
Payment on note payable in connection with the acquisition of IP Liquidity		(1,109,375)
Payment on note payable in connection with the acquisition of Dynamic Advances		(2,624,375)
Payment on Mdr Escrow TLI		(50,000)
Cash received upon issuance of notes payable (net of issuance costs)		19,600,000
Repayment of notes payable	(5,379,105)	
Cash received upon exercise of warrants		18,751
Repayment of convertible notes payable		(5,050,000)
Payment on note payable	(578,804)	(42,500)
Net cash provided (used in) by financing activities	(8,911,688)	1,266,251
Effect of exchange rate changes on cash	(1,592)	4,044

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Net decrease in cash	(1,260,201)	(1,673,730)
Cash at beginning of period	2,555,151	5,082,569
Cash at end of period	\$ 1,294,950	\$ 3,408,839

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for:

Interest expense	\$ 1,391,567	\$ 1,660,372
Taxes paid	\$ 36,218	\$ 54,437
Loan fees	\$	\$ 400,000

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Common stock issued in conjunction with note payable	\$	\$ 1,000,000
Warrant issued in conjunction with note payable	\$	\$ 318,679
Revenue share liability incurred in conjunction with note payable	\$	\$ 1,000,000
Note payable issuance in conjunction with the acquisition of GE patent	\$ 1,000,000	\$
Non-cash interest increase in debt assumed in the Orthophoenix acquisition	\$	\$ 750,000
Common stock issued in conjunction with debt extinguishment	\$	\$ 654,000
Note payable issuance in conjunction with the acquisition of BATO patent	\$	\$ 10,000,000
Note payable issuance in conjunction with the acquisition of Siemens patent	\$ 1,755,635	\$
Note payable issuance in conjunction with the acquisition of 3DNano License	\$ 200,000	\$
Conversion from AP to NP	\$	\$ 705,093

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

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

**Organization**

Marathon is an IP licensing and commercialization company. The Company acquires and manages IP rights from a variety of sources, including large and small corporations, universities and other IP owners. Marathon has a global focus on IP acquisition and management. The Company's commercialization division is focused on the full commercialization lifecycle which includes discovering opportunities, performing due diligence, providing capital, managing development, protecting and developing IP, assisting in execution of the business plan, and realizing shareholder value.

Marathon Patent Group, Inc. (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 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 December 7, 2011, the Company filed a Certificate of Amendment to its Articles of Incorporation with the Secretary of State of the State of Nevada in order to change its name to American Strategic Minerals Corporation from Verve Ventures, Inc., and increase the Company's authorized capital to 200,000,000 shares of common stock, par value \$0.0001 per share, and 100,000,000 shares of preferred stock, par value \$0.0001 per share. During June 2012, the Company decided to discontinue its exploration and potential development of uranium and vanadium minerals business.

On August 1, 2012, the shareholders holding a majority of the Company's voting capital voted in favor of (i) changing the name of the Company to Fidelity Property Group, Inc. and (ii) the adoption the 2012 Equity Incentive Plan and reserving 10,000,000 shares of common stock for issuance thereunder (the "2012 Plan"). The board of directors of the Company (the "Board of Directors") approved the name change and the adoption of the 2012 Plan on August 1, 2012. The Company did not file an amendment to its Articles of Incorporation with the Secretary of State of Nevada and subsequently abandoned the decision to adopt the Fidelity Property Group, Inc. name and discontinued its real estate business.

On October 1, 2012, the shareholders holding a majority of the Company's voting capital had voted and authorized the Company to (i) change the name of the Company to Marathon Patent Group, Inc. (the "Name Change") and (ii) effectuate a reverse stock split of the Company's common stock by a ratio of 3-for-2 (the "Reverse Split") within one year from the date of approval of the stockholders of the Company. The Board of Directors approved the Name Change and the Reverse Split 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. On May 31, 2013, shareholders of record holding a majority of the outstanding voting capital of the Company approved a reverse stock split of the Company's issued and outstanding common stock by a ratio of not less than one-for-five and not more than one-for-fifteen at any time prior to April 30, 2014, with such ratio to be determined by the Board of Directors, in its sole discretion. On June 24, 2013, the reverse stock split ratio of one (1) for thirteen (13) basis was approved by the Board of Directors. On July 18, 2013, the Company filed a certificate of amendment to its Amended and Restated Articles of Incorporation with the Secretary of State of the State of Nevada in order to effectuate a reverse stock split of the Company's issued and outstanding common stock, par value \$0.0001 per share on a one (1) for thirteen (13) basis. All share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect

of the reverse stock split.

On September 16, 2014, the Board of Directors approved and adopted, subject to shareholder approval on or prior to September 16, 2015, the Company's 2014 Equity Incentive Plan. The Company's 2014 Equity Incentive Plan was approved by the shareholders of the Company at the annual meeting held on July 31, 2015.

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On November 19, 2014, the Board of Directors of the Company declared a stock dividend pursuant to which holders of the Company's Common Stock as of the close of business of the record date of December 15, 2014 received one additional share of Common Stock at the close of business on December 22, 2014 for each share of Common Stock held by such holders. Throughout this report, all share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the stock dividend.

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

**Basis of Presentation and Principles of Consolidation**

The unaudited consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ( "US GAAP" ) and present the consolidated financial statements of the Company and its wholly-owned subsidiaries. In the preparation of consolidated financial statements of the Company, all intercompany transactions and balances were eliminated. All adjustments (consisting of normal recurring items) necessary to present fairly the Company's consolidated financial position as of September 30, 2016, the results of operations for the three and nine months ended September 30, 2016 and the cash flows for the nine months ended September 30, 2016 have been included. The results of operations and cash flows for the nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year. Other than where noted, the accounting policies and procedures employed in the preparation of these consolidated financial statements have been derived from the audited consolidated financial statements of the Company for the year ended December 31, 2015, which are contained in Form 10-K as filed with the Securities and Exchange Commission ( "SEC" ) on March 30, 2016. The consolidated balance sheet as of December 31, 2015 was derived from those financial statements.

**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 September 30, 2016, 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.

**Variable Interest Entities**

Financial Accounting Standards Board, or FASB, accounting guidance concerning variable interest entities, or VIE, addresses the consolidation of a business enterprise to which the usual condition of consolidation (ownership of a majority voting interest) does not apply. This guidance focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. The guidance requires an assessment of who the primary beneficiary is and whether the primary beneficiary should consolidate the VIE. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the variable interest entity that most significantly impacts the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Application of the VIE consolidation requirements may require the exercise of significant judgment by management.

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 the the Company 's ownership interest constitutes a VIE and that the Company is the primary beneficiary because

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the Company satisfies both the power and benefits criterion pursuant to ASC 810. As a result, the Company will consolidate the VIE within its financial statements.

**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, intangible asset impairment, realization of long-lived assets, deferred income taxes, unrealized tax positions and business combination accounting.

**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 September 30, 2016 and December 31, 2015, the Company had recorded an allowance for bad debts in the amounts of \$387,976 and \$375,750, respectively. Accounts receivable-net at September 30, 2016 and December 31, 2015, amounted to \$81,865 and \$136,842, respectively. As of September 30, 2016, there were no accounts receivable related to the issuance of one-time licenses, accounts receivable related to recurring royalties represented approximately 100% of total accounts receivable. As of December 31, 2015, accounts receivable related to one license accounted for approximately 54% of the Company's total accounts receivable and accounts receivable related to recurring royalties represented 46% of total accounts receivable.

**Concentration of Revenue and Geographic Area**

Patent license revenue from enforcement activities originates in either the United States or Germany. Revenue attributable to the United States involves US patents, revenue attributable to Germany is based on the enforcement of German patents and in the event that the Company enters into a worldwide license, the revenue is allocated between the two. The Company commenced enforcement actions in France in 2015, but has not yet had any revenue attributable to this country; the Company has not initiated enforcement actions in any other countries, but is evaluating a number of countries for future action.

The Company entered into no new licenses for the three months ended September 30, 2016 and revenue from the five largest licenses accounting for 87% of the revenue for the three months ended September 30, 2015 as set forth below:

**For the Three Months Ended September 30, 2016**

**For the Three Months Ended September 30, 2015**

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Licensors	License Amount	% of Revenue	Licensors	License Amount	% of Revenue
			Orthophoenix LLC	\$ 2,050,000	32%
			IP Liquidity Ventures, LLC	\$ 1,800,000	28%
			TLI Communications LLC /		
			TLI Cummications GmbH	\$ 800,000	13%
			Clouding Corp.	\$ 500,000	8%
			Signal IP, Inc.	\$ 400,000	6%
	Total	0%		Total	87%

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

While the Company has a growing portfolio of patents, the Company has historically received a significant portion of its revenue and 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.

In connection with our enforcement activities, we are currently involved in multiple patent infringement cases. As of September 30, 2016, the Company is involved in a total of 21 lawsuits against defendants in the following jurisdictions:

	Number of Cases
<b>United States</b>	
District of Delaware	5
Eastern District of Michigan	1
Central District of California	1

	Number of Cases
<b>Foreign</b>	
Germany	9
France	3
Italy	3

## **Revenue Recognition**

The Company recognizes revenue in accordance with 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.

The Company considers its licensing and enforcement activities 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 major central business, the Company does not present these two elements as different revenue streams in its statement of operations. The Company does not expect to provide licenses that do not provide some form of settlement or release. The Company derived approximately 0% and 99% of its revenues for the three and nine months ended September 30, 2016, respectively, from the one-time issuance of non-recurring, non-exclusive, non-assignable licenses for certain of the Company's patents, with the balance comprised of recurring royalties and approximately 97% and 94% of its revenues for the three and nine months ended September 30, 2015, respectively, from the one-time issuance of non-recurring, non-exclusive, non-assignable licenses for certain

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of the Company's patents, with the balance comprised of recurring royalties.

The Company's subsidiaries entered into 0 and 11 new license agreements that generated revenue during the three and nine months ended September 30, 2016, respectively.

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**Cost of Revenues**

Cost of revenues mainly includes expenses incurred in connection with the Company's patent enforcement activities, such as legal fees, consulting costs, patent maintenance, royalty fees for acquired patents and other related expenses. Cost of revenues does not include patent amortization expenses, which are included as a separate line item in operating expenses and cost of revenues also does not include expenses related to product development, integration or support, as these are included in general and administrative expenses.

**Prepaid Expenses, Bonds Posted and Other Current Assets**

Prepaid expenses and other current assets of \$153,388 and \$338,598 at September 30, 2016 and December 31, 2015, 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.

In addition, the Company had outstanding litigation bonds in the amount of \$980,919 and \$1,748,311 at September 30, 2016 and December 31, 2015, respectively. These bonds were entered into in Germany after the successful ruling by the court in first instance trials related to some of the Company's patents in German courts. The difference in the balance of the litigation bonds at September 30, 2016 compared to December 31, 2015 is attributable to \$175,883 in currency translation impact, the return of \$1,944,085 in bonds related to the IP Liquidity and Medtech litigations and the placing of bonds in Germany related to the TLI litigations in the amount of \$1,000,810.

**Fair Value of Financial Instruments**

The Company adopted FASB ASC 820, Fair Value Measurements and Disclosures (ASC 820), for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing US GAAP that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company's financial position or operating results, but did expand certain disclosures. ASC 820 defines fair value as 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. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

- 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 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.

As of December 31, 2015, the Company had \$4,482,845 in Level 3 goodwill. During the nine months ended September 30, 2016, the Company added \$0 in goodwill associated with acquisitions and the Company impaired the goodwill associated with one of its portfolios in the amount of \$83,000. In addition, the Company experienced a gain in the value of the goodwill held by foreign subsidiaries to to foreign exchange adjustments in the amount of \$83,284. This resulted in a fair value of the Company's Level 3 goodwill as of September 30, 2016 of \$4,483,129.

Clouding IP earn out liability was determined to be a Level 3 liability, which requires the remeasurement of fair value at each period end by using discounted cash flow analysis using unobservable inputs, such as revenue and expenses forecasts, timing of proceeds, and a discount rate. Based on the remeasurement of fair value as of September 30, 2016, the Company determined that the Clouding IP earn out liability was \$110,100 for current portion and \$1,082,586 for the long-term portion, which resulted in gain from change

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in fair value of \$1,954,368 and \$2,122,208 for three and nine months ended September 30, 2016, respectively and a gain from change in fair value adjustment of \$597,047 and \$2,901,348 for the three and nine months ended September 30, 2015, respectively.

Under certain circumstances related to litigations in Germany, the Company is either required to or may decide to enter into a bond with the courts. As of September 30, 2016 and December 31, 2015, the Company had outstanding bonds in the amount of \$980,919 and \$1,748,311, respectively. The Company adjusted the value as of September 30, 2016 of the bonds to reflect changes to the exchange rate between the Euro and the US Dollar.

## **Accounting for Acquisitions**

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

## **Income Taxes**

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

The Company follows the provision of the ASC 740-10 related to Accounting for Uncertain Income Tax Position. When tax returns are filed, it is highly certain that some positions taken would be situated 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 more 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 percent 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 are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

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The Company has adopted ASC 740-10-25 Definition of Settlement, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For a tax position considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. 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 2015 tax returns. After review of the 2015 financial statements and the results of operations through September 30, 2016, the Company has recorded a deferred tax asset in the amount of \$11,918,920, from which the Company expects to realize benefits in the future, and a deferred tax liability of \$438,709.

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The Company files U.S. and state income tax returns with varying statutes of limitations. The 2011 through 2015 tax years generally remain subject to examination by federal and state tax authorities.

## **Basic and Diluted Net Earnings (Loss) per Share**

Net earnings (loss) per common share is calculated in accordance with ASC Topic 260: Earnings Per Share ( ASC 260 ). Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of shares of common stock outstanding during the period. The Company has options to purchase 3,665,314 shares of common stock and warrants to purchase 556,672 shares of common stock outstanding at September 30, 2016, but since the Company is in a loss position, there is no calculation of diluted earnings (loss) per share.

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

	<b>For the Three Months Ended September 30, 2016</b>	<b>For the Three Months Ended September 30, 2015</b>	<b>For the Nine Months Ended September 30, 2016</b>	<b>For the Nine Months Ended September 30, 2015</b>
Net income (loss) attributable to Marathon Patent Group, Inc. common shareholders	(6,274,410)	(3,750,468)	(2,261,542)	(13,034,736)
<b>Denominator</b>				
Weighted Average Common Shares - Basic and Diluted	15,047,141	14,376,118	14,944,852	14,094,891
<b>Earnings (Loss) per common share:</b>				
Income (Loss) - Basic and Diluted	\$ (0.42)	\$ (0.26)	\$ (0.15)	\$ (0.92)

## **Intangible Assets**

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 recorded impairment charges to its intangible assets during the three and nine months ended September 30, 2016 in the amounts of \$5,531,383 and 6,525,273 respectively, associated with the end of life of a number of the Company's portfolios, compared to an impairment charge in the amount of \$0 and \$766,498, respectively, during the three and nine months ended September 30, 2015 associated with the reduction in the carrying value of one the Company's portfolios.

## **Goodwill**

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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. 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;
3. Significant negative industry or economic trends; and

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4. Significant reduction or exhaustion of the potential licenses of the patents which gave rise to the goodwill.

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. 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 and the Company is not required to perform further testing. 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 statement of operations. The Company performed the annual testing for impairment of goodwill at the reporting unit level during the quarter ended September 30, 2016.

For the three and nine months ended September 30, 2016 the Company recorded an impairment charge to its goodwill in the amount of \$0 and \$83,000, respectively. For the three and nine months ended September 30, 2015 the Company recorded an impairment charge to its goodwill in the amount of \$0 and \$0, respectively. The impairment charge to goodwill for the three and nine months ended September 30, 2016 resulted from the determination that one of the Company's portfolios had reached the end of its useful life.

**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.

**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.

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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. 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 both the three and nine months ended September 30, 2016, the expected forfeiture rate was 11.03%, which resulted in an expense of \$9,570 and \$36,832 for the three and nine months ended September 30, 2016, respectively, recognized in the

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Company's compensation expenses. For both the three and nine months ended September 30, 2015, the expected forfeiture rate was 11.66%, which resulted in an expense of \$8,423 and \$16,004 for the three and nine months ended September 30, 2015, respectively, recognized in the Company's compensation expenses. The Company will continue to re-assess the impact of forfeitures if actual forfeitures change in future quarters.

## **Reclassification**

Certain amounts in the financial statements of prior year have been reclassified to conform to the fiscal 2016 presentation, with no effect on net earnings.

## **Recent Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 financial statements.

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 September 1, 2017 and we are currently evaluating the impact that the standard will have on our consolidated 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 September 1, 2019 using a modified retrospective approach. We are currently evaluating the impact that the standard will have on our

consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. This update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified statement of financial position. ASU 2015-17 is effective for annual and interim reporting periods beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. The Company adopted this standard for the annual period ending December 31, 2015. The effect of adopting the new guidance on the balance sheet was not significant.

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In September 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, or ASU 2015-16. This amendment requires the acquirer in a business combination to recognize in the reporting period in which adjustment amounts are determined, any adjustments to provisional amounts that are identified during the measurement period, calculated as if the accounting had been completed at the acquisition date. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. The new standard for an annual reporting period beginning after December 15, 2017 with an earlier effective application is permitted only as of annual reporting periods beginning after December 15, 2016. The new guidance is not expected to have significant impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles-Goodwill and Other Internal-Use Software; Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Prior to this ASU, U.S. GAAP did not include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license, in which case the customer should account for such license consistent with the acquisitions of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The ASU does not change the accounting for service contracts. The new standard is effective for us on January 1, 2016 with early adoption permitted. We do not expect the adoption of ASU 2015-05 to have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued new guidance on the presentation of debt issuance costs (ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*), effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and should be applied retrospectively to all periods presented. Early adoption of the new guidance is permitted for financial statements that have not been previously issued. The new guidance will require that debt issuance costs be presented in the balance sheet as a direct deduction from the related debt liability rather than as an asset, consistent with debt discounts. The Company adopted ASU 2015-03 and as such, the debt issuance costs for Fortress note was presented in the balance sheet as direct deduction from the related debt liability.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. This standard update provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance is effective for all annual and interim periods ending after December 15, 2016. The new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and shall take effective on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method and the early application of the standard is not permitted. The Company is presently evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures and has not yet selected a transition method.

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.



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**NOTE 3 ACQUISITIONS**

**HISTORICAL ACQUISITIONS**

**Dynamic Advances, IP Liquidity and Sarif Biomedical**

On May 2, 2014, the Company completed the acquisition of certain ownership rights (the Acquired Intellectual Property ) from TechDev, Granicus IP, LLC ( Granicus ) and the Spangenberg Family Foundation ( SFF ) pursuant to the terms of three purchase agreements between: (i) the Company, TechDev, SFF and DA Acquisition LLC, a newly formed Texas limited liability company and wholly-owned subsidiary of the Company; (ii) the Company, Granicus, SFF and IP Liquidity Ventures Acquisition LLC, a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company; and (iii) the Company, TechDev, SFF and Sarif Biomedical Acquisition LLC (Sarif ), a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company (the DA Agreement, the IP Liquidity Agreement and the Sarif Agreement, respectively and the collective transactions, the Acquisitions ).

**Dynamic Advances**

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 due on or before September 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. 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. Dynamic Advances holds exclusive license to monetize certain patents owned by a third party.

On May 2, 2014, the Company issued TechDev and SFF a promissory note in order to evidence the second cash payment due under the terms of the DA Agreement in the amount of \$2,375,000 due on or before September 30, 2014, with such amount due under the terms of the promissory note being subject to increase to \$2,850,000 if the Company's payment pursuant to the terms of the DA Agreement were not made on or before June 30, 2014. The promissory note matured on September 30, 2014; effective September 30, 2014, TechDev and SFF extended the maturity to March 31, 2015 in return for a payment of \$249,375, payable within thirty days. The payment for this extension of the maturity date was made on October 10, 2014 and the promissory note was repaid on April 1, 2015. The promissory note did not otherwise include any interest payable by the Company. Since the Company did not make the payment on the promissory note prior to June 30, 2014, the Company included in the consideration paid for Dynamic Advances the promissory note balance of \$2,850,000. Further, the Company had the Series B Convertible Preferred Stock valued by a third party firm that determined, based on the rights and privileges of the Series B Convertible Preferred Stock, that it was on par with the value of the Company's Common Stock. The total amount of consideration paid by the Company for Dynamic Advances, including capitalized costs associated with the purchase, was \$6,653,078.

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, licenses, revenues, and any other assets other than the IP Assets. Further, as there were no assumed licensees or historical revenues, the Company was not certain that it would be able to obtain access to customers pursuant to AC 805-10-55-7.

## **IP Liquidity**

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 due on or before September 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. 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. IP Liquidity Ventures, LLC holds contract rights to the proceeds from the monetization of certain patents owned by a number of third parties.



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On May 2, 2014, the Company issued Granicus and SFF a promissory note in order to evidence the second cash payment due under the terms of the IP Liquidity Agreement in the amount of \$2,375,000 due on or before September 30, 2014, with such amount due under the terms of the promissory note being subject to increase to \$2,850,000 if the Company's payment pursuant to the terms of the IP Liquidity Agreement were not made on or before June 30, 2014. The promissory note matured on September 30, 2014; effective September 30, 2014, Granicus and SFF extended the maturity to March 31, 2015 in return for a payment of \$249,375, payable within thirty days. The payment for this extension of the maturity date was made on October 10, 2014 and the promissory note was repaid on April 1, 2015. The promissory note did not otherwise include any interest payable by the Company. Since the Company did not make the payment on the promissory note prior to June 30, 2014, the Company included in the consideration paid for IP Liquidity the promissory note balance of \$2,850,000. Further, the Company had the Series B Convertible Preferred Stock valued by a third party firm that determined, based on the rights and privileges of the Series B Convertible Preferred Stock that it was on par with the value of the Company's Common Stock. The total amount of consideration paid by the Company for IP Liquidity, including capitalized costs associated with the purchase, was \$6,653,078.

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, licenses, revenues, and any other assets other than the IP Assets. Further, as there were no assumed licensees or historical revenues, the Company was not certain that it would be able to obtain access to customers pursuant to AC 805-10-55-7.

**Sarif Biomedical**

Pursuant to the Sarif Agreement, the Company acquired 100% of the limited liability company membership interests of Sarif, a Delaware limited liability company, in consideration for two cash payments of \$250,000, one payment due at closing and the other payment due on or before September 30, 2014, with such second payment being subject to increase to \$300,000 if not made on or before June 30, 2014. Under the terms of the Sarif Agreement, TechDev is entitled to possible future payments for a maximum consideration of \$250,000,000 pursuant to the Pay Proceeds Agreement described below. Sarif holds ownership rights to certain patents.

On May 2, 2014, the Company issued TechDev a promissory note in order to evidence the second cash payment due under the terms of the Sarif Agreement in the amount of \$250,000 due on or before September 30, 2014, with such amount due under the terms of the promissory note being subject to increase to \$300,000 if the Company's payment pursuant to the terms of the Sarif Agreement were not made on or before September 30, 2014. The promissory note matured on September 30, 2014. Effective September 30, 2014, TechDev extended the maturity to March 31, 2015 in return for a payment of \$26,250, payable within thirty days. The payment for this extension of the maturity date was made on October 10, 2014 and the promissory note was repaid on February 24, 2015. The promissory note did not otherwise include any interest payable by the Company. Since the Company did not make the payment on the promissory note prior to June 30, 2014, the Company included in the consideration paid for Dynamic Advances the higher principal amount of the promissory note. The total amount of consideration paid by the Company for Sarif, including capitalized costs associated with the purchase, was \$552,024.

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, licenses, revenues, and any other assets other than the IP Assets. Further, as there were no assumed licensees or historical revenues, the Company was not certain that it would be able to obtain access to customers pursuant to AC 805-10-55-7.

**Dynamic Advances, IP Liquidity and Sarif Biomedical**

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 (the IP Assets ). Under the terms of the Pay Proceeds Agreement, if the Company recovers \$10,000,000 or less with regard to the IP Assets, then nothing is due to the sellers; if

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the Company recovers between \$10,000,000 and \$40,000,000 with regard to the IP Assets, then the Company shall pay 40% of the net 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 net proceeds of such recoveries to the sellers. In no event will the total payments made by the Company under the Pay Proceeds Agreement exceed \$250,000,000.

Pursuant to a Registration Rights Agreement with the sellers (the Acquisition Registration Rights Agreement), the Company agreed to file a resale registration statement with the SEC covering at least 10% of the registrable shares of the Company's Series B Convertible Preferred Stock issued to the sellers under the terms of the DA Agreement and the IP Liquidity Agreement, at any time on or after November 2, 2014 upon receipt of a written demand from the sellers which describes the amount and type of securities to be included in the registration and the intended method of distribution thereof. The Company shall not be required to file more than three such registration statements not more than 60 days after the receipt of each such written demand from the sellers.

TechDev and Mr. Erich Spangenberg (the founder of IP Nav) and his spouse Audrey Spangenberg have jointly filed a Schedule 13G and are deemed to be affiliates of the Company.

**Selene Communication Technologies**

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 (the Selene Interests Sale Agreement) with Selene Communication Technologies, LLC (Selene).

Selene owns 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 will continue to support and manage the portfolio of patents and retain a contingent participation interest in all recoveries. IP Nav provides patent monetization and support services under an existing agreement with Selene.

Pursuant to the terms of the Selene Interests Sale Agreement, Selene merged with and into Acquisition LLC with Selene surviving the merger as the wholly owned subsidiary of the Company. The Company (i) issued 100,000 shares of common stock to the sellers of Selene (Selene Sellers) and (ii) paid the Selene Sellers \$50,000 cash. The Company valued these common shares at the fair market value on the date of grant at \$9.80 per share or \$980,000. The transaction resulted in a business combination and caused Selene to become a wholly-owned subsidiary of the Company.

The Company accounted for the acquisition as a business combination in accordance with ASC 805 Business Combinations in which the Company is the acquirer for accounting purposes and Selene is the acquired company. 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:

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Intangible assets	\$	990,000
Net working capital		37,000
Goodwill		3,000
Net purchase price	\$	<b>1,030,000</b>

## **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.

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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 Clouding 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. 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>

Historical financial statements of Clouding IP and the pro forma condensed combined consolidated financial statements (both carve-out of certain operations of Clouding IP) 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 actually would have been attained if the merger had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of the Company.

### TLI Communications LLC

On September 19, 2014, TLI Acquisition Corp ( TLIA ), a Virginia corporation and newly formed wholly-owned subsidiary of the Company, entered into an interest sale agreement to purchase 100% of the membership interests of TLI Communications LLC ( TLIC ), a Delaware limited liability company (the TLIC Interests Sale Agreement ). TLIC owns a patent in the telecommunications field.

Pursuant to the terms of the TLIC Interests Sale Agreement, TLIC merged with and into TLIA with TLIC surviving the merger as the wholly-owned subsidiary of the Company. The Company (i) agreed to issue 60,000 shares of Common Stock to the sellers of TLIC ( TLIC

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Sellers ), (ii) paid the TLIC Sellers \$350,000 cash and (iii) agreed to pay the TLIC Sellers a fifty percent (50%) of the net recoveries (gross revenues minus certain defined expenses and the cash portion of the acquisition consideration) that the Company makes with respect to the patent purchased pursuant to the acquisition of TLIC. The Company valued the Common Stock at the fair market value on the date of the TLIC Interests Sale Agreement at \$13.63 per share or \$818,000. The cash portion of the consideration was outstanding at September 30, 2014 and was subsequently paid in October 2014. The transaction resulted in a business combination and caused TIC to become a wholly-owned subsidiary of the Company.

The Company accounted for the acquisition as a business combination in accordance with ASC 805 Business Combinations . The Company is the acquirer for accounting purposes and TLIC is the acquired company. The Company engaged a third party valuation firm to determine the fair value of the assets

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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	\$	940,000
Goodwill		228,000
Net purchase price	\$	<b>1,168,000</b>

### Medtech Entities

On October 13, 2014, Medtech Group Acquisition Corp ( Medtech Corp. ), a Texas corporation and newly formed wholly-owned subsidiary of the Company, entered into an interest sale agreement (the Interest Sale Agreement ) to purchase 100% of the equity or membership interests of OrthoPhoenix, LLC ( OrthoPhoenix ), a Delaware limited liability company, TLIF, LLC ( TLIF ) and MedTech Development Deutschland GmbH ( MedTech GmbH ) and along with OrthoPhoenix and TLIF, the Medtech Entities ) from MedTech Development, LLC ( MedTech Development ). The Medtech Entities own patents in the medical technology field.

Pursuant to the terms of the Interest Sale Agreement between MedTech Development, Medtech Corp. and the Medtech Entities, the Company (i) paid MedTech Development \$1,000,000 cash and (ii) issued a Promissory Note to MedTech Development in the amount of \$9,000,000 and (iii) assumed existing debt payable to Medtronics, Inc. The assumed debt payable to Medtronics was renegotiated, as a result of which, the outstanding amount was \$6.25 million prior to any repayment by the Company. The debt was due in installments through July 20, 2015; in the event that the Company paid the total amount due by June 30, 2015, the Company would receive a reduction in the remaining principal owed by the Company in the amount of \$750,000. The transaction resulted in a business combination and caused the Medtech Entities to become wholly-owned subsidiaries of the Company.

The Company accounted for the acquisition as a business combination in accordance with ASC 805 Business Combinations . The Company is the acquirer for accounting purposes and TLIC is the acquired company. 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	\$	12,800,000
Goodwill		2,700,000
Net purchase price	\$	<b>15,500,000</b>

Historical financial statements of the Medtech Entities and the pro forma condensed combined consolidated financial statements can be found on the Form 8-K/A filed with the SEC on December 24, 2014. The unaudited pro forma condensed combined consolidated financial statements are not necessarily indicative of the results that actually would have been attained if the merger had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of the Company.

### Munitech S.a.r.l.

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 ( "Siemens" ). 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" ).



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Pursuant to the terms of the PPAs, Munitech (i) paid Siemens \$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.

**ACQUISITIONS DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2016**

**Marathon IP GmbH**

On July 5, 2016, Marathon IP GmbH ( Marathon IP ), a German corporation and newly formed wholly-owned subsidiary of Marathon Group SA ( Marathon SA ), a wholly-owned subsidiary of the Company, entered into the Patent Purchase Agreements (the PPA ) to purchase 62 patents from Siemens Switzerland Ltd. and Siemens Industry Inc. (together Siemens ). The patents purchased by Marathon IP relate to the internet-of-things and cover all the major global economies including China, France, Germany, the United Kingdom and the United States.

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.**

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.**

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. See Note 2 for additional details.

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.

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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.

**Motheye Technologies, LLC**

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.

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 of the Company, including adjustments for currency translation adjustments, consisted of the following:

	September 30, 2016	December 31, 2015
Intangible Assets	\$ 35,990,321	\$ 41,014,992
Accumulated Amortization & Impairment	(16,438,643)	(15,557,353)
Intangible assets, net	\$ 19,551,678	\$ 25,457,639

Other than the Company's website as set forth in the table above, intangible assets are comprised of patents with estimated useful lives between approximately 1 to 15 years. The website was determined to have an estimated useful life of 3 years. Once placed in service, the Company will amortize the costs of intangible assets over their estimated useful lives on a straight-line basis. 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 in operating expenses as reflected in the accompanying consolidated statements of operations. The Company recorded impairment charges to its intangible assets during the three and nine months ended September 30, 2016 in the amounts of \$5,531,383 and 6,525,273, respectively, associated with the end of life of a number of the Company's portfolios, compared to an impairment charge in the amount of \$0 and \$766,498, respectively, during the three and nine months ended September 30, 2015 associated with the reduction in the carrying value of one of the Company's portfolios.

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Patent and website amortization expense for the three and nine months ended September 30, 2016 was \$2,030,886 and \$6,018,196, respectively and patent and website amortization expense for the three and nine months ended September 30, 2015 was \$2,884,269 and \$8,511,730, respectively, net of foreign currency translation adjustments. Future amortization of intangible assets, net of foreign currency translation adjustments is as follows:

2016	\$	1,466,249
2017		4,614,613
2018		3,251,099
2019		2,551,034
2020		1,902,950
2021 and thereafter		5,765,733
Total	\$	19,551,678

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The Company made the following patent purchases:

- In April 2013, the Company through its subsidiary, Relay IP, Inc. acquired a US patent for \$350,000;
- In April 2013, the Company acquired 10 US patents, 27 foreign patents and 1 patent pending from CyberFone Systems valued at \$1,135,512;
- In June 2013, in connection with the closing of a licensing agreement with Siemens Technology, we acquired a patent portfolio from that company valued at \$1,000,000;
- In September 2013, the Company acquired 14 US patents for a total purchase price of \$1,100,000;
- In November 2013, the Company acquired four patents for 150,000 shares of the Company's Common Stock, which the Company valued at \$718,500 based on the fair market value of the stock issued;
- In December 2013, the Company acquired certain patents from Delphi Technologies, Inc. for \$1,700,000 pursuant to a Patent Purchase Agreement entered into on October 31, 2013 and Amended on December 16, 2013;
- In December 2013, in connection with a licensing agreement with Zhone, the Company acquired a portfolio of patents from Zhone;
- In December 2013, in connection with a settlement and license agreement, we agreed to settle and release another defendant for past and future use of our patents, whereby the defendant agreed to assign and transfer 2 U.S. patents and rights to the Company;
- In May 2014, we acquired ownership rights of Dynamic Advances, LLC, a Texas limited liability company, IP Liquidity Ventures, LLC, a Delaware limited liability company, and Sarif Biomedical, LLC, a Delaware limited liability company, all of which hold patent portfolios or contract rights to the revenue generated from the patent portfolios;

- In June 2014, we acquired Selene Communication Technologies, LLC, which holds multiple patents in the search and network intrusion field;
- In August 2014, we acquired patents from Clouding IP LLC, with such patents related to network and data management technology;
- In September 2014, we acquired TLI Communications, which owns a single patent in the telecommunication field;
- In October 2014, we acquired three patent portfolios from MedTech Development, LLC, which owns medical technology patents;
- In June 2016, we acquired two patent portfolios from Siemens covering W-CDMA and GSM cellular technology;
- In July 2016, we acquired a patent portfolio from Siemens covering internet-of-things technology;
- In August 2016, we acquired a patent portfolio from CPT IP Holdings, LLC covering battery technology;
- In August 2016, we entered into a Patent Funding and Exclusive License Agreement with a Fortune 50 company to monetize more than 10,000 patents in a single industry vertical;
- In September 2016, we acquired a patent from Cirrex Systems, LLC covering LED technology.

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As of September 30, 2016, the Company's patent portfolios consist of 519 U.S. and foreign patents and patent rights. 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 15, 2018, and the latest expiration date for a patent in any of the Company's patent portfolios is July 29, 2033. A summary of the Company's patent portfolios is as follows:

Subsidiary	Number of Patents	Earliest Expiration Date	Median Expiration Date	Latest Expiration Date	Subject Matter
Bismarck IP Inc.	17	09/15/16	08/02/16	01/22/18	Communication and PBX equipment
Clouding Corp.	59	Expired	08/06/21	03/29/29	Network and data management
CRFD Research, Inc.	5	05/25/21	09/17/21	08/19/23	Web page content translator and device-to-device transfer system
Cyberfone Systems, LLC	30	Expired	09/15/15	06/07/20	Telephony and data transactions
Dynamic Advances, LLC	4	Expired	10/02/17	03/06/23	Natural language interface
E2E Processing, Inc.	4	04/27/20	11/17/23	07/18/24	Manufacturing schedules using adaptive learning
Hybrid Sequence IP, Inc.	2	Expired	09/09/16	07/17/17	Asynchronous communications
IP Liquidity Ventures, LLC	3	Expired	06/06/15	06/06/15	Pharmaceuticals / tire pressure systems
Loopback Technologies, Inc.	9	Expired	08/05/16	08/27/22	Automotive
Magnus IP	62	10/28/29	09/29/24	10/15/30	Network Management/Connected Home Devices
Medtech Group Acquisition Corp.	86	Expired	06/28/19	08/09/29	Medical technology
Motheye Technologies	1	06/07/21	06/07/21	06/07/21	Optical Networking
Munitch IP	173	9/16/18	6/21/26	5/29/32	W-CDMA and GSM cellular technology
Relay IP, Inc.	1	Expired	Expired	Expired	Multicasting
Sampo IP, LLC	3	03/13/18	12/01/19	11/16/23	Centrifugal communications
Sarif Biomedical LLC	4	Expired	Expired	Expired	Microsurgery equipment
Signal IP, Inc.	7	Expired	12/01/15	08/06/22	Automotive
TLI Communications, LLC	6	06/17/17	06/17/17	06/17/17	Telecommunications
Traverse Technologies	12	02/25/29	06/05/29	07/29/33	Li-Ion Battery/High Capacity Electrodes
Vantage Point Technology, Inc.	31	Expired	05/31/16	03/09/18	Computer networking and operations
<b>Median</b>			<b>08/15/18</b>		

## NOTE 5 - STOCKHOLDERS' EQUITY

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On December 7, 2011, the Company increased its authorized capital to 200,000,000 shares of Common Stock from 75,000,000 shares, changed the par value to \$0.0001 per share from \$.001 per share, and authorized 100,000,000 shares of preferred stock, par value \$0.0001 per share.

On June 24, 2013, the reverse stock split ratio of one (1) for thirteen (13) basis was approved by the Board of Directors. On July 18, 2013, the Company filed a certificate of amendment to its Amended and Restated Articles of Incorporation with the Secretary of State of the State of Nevada in order to effectuate a reverse stock split of the Company's issued and outstanding Common Stock, par value \$0.0001 per share on a one (1) for thirteen (13) basis.

On November 19, 2014, the Board of Directors of the Company declared a stock dividend pursuant to which holders of the Company's Common Stock as of the close of business of the record date of



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December 15, 2014 shall receive one additional share of Common Stock at the close of business on December 22, 2014 for each share of Common Stock held by such holders. All share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the reverse stock split and stock dividend.

**Series B Convertible Preferred Stock**

On May 1, 2014, the Company filed with the Secretary of State of Nevada a Certificate of Designations of Series B Convertible Preferred Stock (the Series B Certificate of Designations ) authorizing 500,000 shares of Series B Convertible Preferred Stock and establishing the designations, preferences, and other rights of the Series B Convertible Preferred Stock. The Series B Certificate of Designations became effective upon filing.

On May 2, 2014, the Company issued an aggregate of 782,000 shares of Series B Convertible Preferred Stock valued at \$2,807,380 to acquire IP Liquidity Ventures, LLC, Dynamic Advances, LLC and Sarif Biomedical, LLC. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On September 17, 2014, the Company entered into a consulting agreement (the GRQ Consulting Agreement ) with GRQ Consultants, Inc. ( GRQ ), pursuant to which GRQ shall provide certain consulting services including, but not limited to, advertising, marketing, business development, strategic and business planning, channel partner development and other functions intended to advance the business of the Company. As consideration, GRQ was entitled to 200,000 shares of the Company's Series B Convertible Preferred Stock, 50% of which vested upon execution of the GRQ Consulting Agreement, and 50% of which shall vest in six (6) equal monthly installments of commencing on October 17, 2014. The first tranche of 100,000 shares of Series B Convertible Preferred Stock was issued to GRQ on October 6, 2014. In addition, the GRQ Consulting Agreement allows for GRQ to receive additional shares of Series B Convertible Preferred Stock upon the achievement of certain performance benchmarks. All shares of Series B Convertible Preferred Stock issuable to GRQ shall be pursuant to the 2014 Plan (as defined below) and shall be subject to shareholder approval of the 2014 Plan on or prior to September 16, 2015; the shareholders approved the 2014 Plan on July 31, 2015. The GRQ Consulting Agreement contains an acknowledgement that the conversion of the preferred stock into shares of the Company's common stock is precluded by the equity blockers set forth in the certificate of designation and in Section 17 of the 2014 Plan to ensure compliance with NASDAQ Listing Rule 5635(d).

**Common Stock**

On June 24, 2013, the reverse stock split ratio of one (1) for thirteen (13) basis was approved by the Board of Directors. On July 18, 2013, the Company filed a certificate of amendment to its Amended and Restated Articles of Incorporation with the Secretary of State of the State of Nevada in order to effectuate a reverse stock split of the Company's issued and outstanding Common Stock, par value \$0.0001 per share on a one (1) for thirteen (13) basis. All share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the reverse stock split.

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On April 22, 2014, the Company issued 300,000 shares of restricted Common Stock to TT IP LLC pursuant to the acquisition of patents on November 13, 2013.

On June 2, 2014, the Company issued 48,078 shares of unrestricted Common Stock to an investor in the May 2013 PIPE, pursuant to the exercise of a warrant received in the May 2013 PIPE investment.

On June 30, 2014, the Company issued 200,000 shares of restricted Common Stock pursuant to the acquisition of Selene Communications Technologies, LLC (see Note 3). In connection with this transaction, the Company valued the shares at the fair market value on the date of grant at \$4.90 per share or \$980,000.

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On July 18, 2014, the Company issues a total of 26,722 shares of Common Stock pursuant to the exercise of stock options held by a former member of the Company's Board of Directors and the Company's former Chief Financial Officer.

On September 16, 2014, the Company issued to two of its independent board members, in lieu of cash compensation, 6,178 shares of restricted Common Stock. The shares shall vest quarterly over twelve (12) months commencing on the date of grant.

On September 30, 2014, the Company issued 50,000 shares of restricted Common Stock pursuant to the acquisition of the assets of Clouding IP, LLC (see Note 3). In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$5.62 per share or \$281,000.

For the three months ended September 30, 2014, certain holders of warrants exercised their warrants in a cashless, net exercise basis in exchange for 84,652 shares of the Company's Common Stock.

On November 19, 2014, the Board of Directors of the Company declared a stock dividend ( "Dividend" ) pursuant to which holders of the Company's Common Stock as of the close of business of the record date of December 15, 2014 shall receive one additional share of Common Stock at the close of business on December 22, 2014 for each share of Common Stock held by such holders. Throughout this report, all share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the stock dividend.

For the three months ended December 31, 2014, certain holders of warrants exercised their warrants in a cashless, net exercise basis in exchange for 29,230 shares of the Company's Common Stock.

On January 29, 2015, the Company issued 134,409 shares of the Company's Common Stock to DBD Credit Funding, LLC ( "DBD" ), an affiliate of Fortress Credit Corp. ( "Fortress" ), pursuant to the Fortress transaction as set forth in Note 6.

On March 13, 2015, the Company settled a dispute with a former consultant whereby the Company issued the consultant 60,000 shares of Common Stock for a full release of all claims.

For the three months ended March 31, 2015, certain holders of warrants exercised their warrants to purchase, in cash, 5,000 shares of the Company's Common Stock.

For the three months ended June 30, 2015, certain holders of options exercised their options to purchase, on a net exercise basis, 33,968 (net) shares of the Company's Common Stock.

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In a series of transactions, the Series B Convertible Preferred Stock associated with the GRQ Consulting Agreement was converted into shares of the Company's Common Stock, with 183,330 shares of Series B Convertible Preferred Stock converted into Common Stock prior to September 30, 2015.

On September 21, 2015, the Company issued 150,000 shares of the Company's Common Stock to Alex Partners, LLC and Del Mar Consulting Group, Inc., pursuant to a services agreement entered into on September 21, 2015. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$2.23 per share or \$334,500. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On October 20, 2015, the remaining 16,666 shares of Series B Convertible Preferred Stock associated with the GRQ Consulting Agreement was converted into 16,666 shares of the Company's Common Stock.

On November 4, 2015, the Company issued 300,000 shares of the Company's Common Stock to Dominion Harbor Group LLC ( Dominion ), pursuant to a settlement agreement entered into with Dominion on October 30, 2015. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$1.71 per share or \$513,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was

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deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On December 9, 2015, the Company entered into an agreement with Melechdavid, Inc. ( Melechdavid ), pursuant to which the Company agreed to issue 100,000 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 \$1.61 per share or \$161,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

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. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

**Common Stock Warrants**

On May 1, 2014, the Company issued warrants (the PIPE Warrants ) to purchase 511,790 shares of Common Stock, at a price of \$3.75 per share of Common Stock, pursuant to the Private Placement described in detail below. The Company reviewed the issuance of the PIPE Warrants, done in conjunction with the financing closed on May 1, 2014, and determined that pursuant to ASC 480 and ASC 815, the PIPE Warrants met the requirement to be classified as equity and were booked as Additional Paid-in Capital. All PIPE Warrants have expired.

In conjunction with the issuance of \$5,550,000 in convertible debt on October 16, 2014, the Company issued two-year warrants (the Debt Warrants ) to purchase 258,998 shares of the Company's Common Stock, par value \$0.0001 per share pursuant to a securities purchase agreement. The Debt Warrants were valued at \$164,020 and were recorded as a discount to the fair value of the convertible notes. The Debt Warrants are initially convertible into shares of the Company's Common Stock at an exercise price of \$8.25 per share. The conversion and exercise prices are subject to adjustment in the event of certain events, including stock splits and dividends. The Company reviewed the instruments in the context of ASC 480 and determined that the convertible notes should be recorded as a liability and analyzed the conversion feature and bifurcation pursuant to ASC 815 and ASC 470, respectively, to determine that there was no beneficial conversion feature and that the conversion feature should not be bifurcated. All Debt Warrants have expired or been exercised.

On January 29, 2015, the Company and certain of its subsidiaries entered into a series of Agreements including a Securities Purchase Agreement ( Fortress Securities Purchase Agreement ) with DBD, an affiliate of Fortress, under which the Company issued a five-year warrant ( Fortress Warrant ) to purchase 100,000 shares of the Company's Common Stock exercisable at \$7.44 per share, subject to adjustment. The Company reviewed the instruments in the context of ASC 480 and determined that the convertible notes should be recorded as a liability, the warrants should be recorded as equity and analyzed the conversion feature and bifurcation pursuant to ASC 815 and ASC 470, respectively, to determine that there was no beneficial conversion feature and that the conversion feature should not be bifurcated.

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During the year ended December 31, 2015, warrants to purchase 5,000 shares of Common Stock were exercised and no warrants to purchase shares of Common Stock were forfeited.

During the three and nine months ended September 30, 2015, the Company recorded stock based compensation expense of \$0 and \$3,465 in connection with the vested warrants associated with one warrant-based compensatory grant, compared to no compensation expenses for the three and nine months ended September 30, 2016 associated with this warrant. The warrant was valued at the time of grant on January 26, 2012, based on the Black-Scholes model, using the strike and market prices of \$3.25 per share, the term of 10 years, volatility of 191% based on the closing price of the 50 trading sessions immediately

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preceding the grant and a discount rate as published by the Federal Reserve of 1.96%. At December 31, 2015, there was a total of \$0 of unrecognized compensation expense related to future recognition of warrant-based compensation arrangements.

A summary of the status of the Company's outstanding stock warrants at September 30, 2016 is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance at December 31, 2015	2,021,308	\$ 4.27	0.87
Granted			
Cancelled	(1,464,636)	\$ 3.42	
Forfeited			
Exercised		\$	
Balance at September 30, 2016	556,672	6.51	1.33
Warrants exercisable at September 30, 2016	556,672		
Weighted average fair value of warrants granted during the period		\$	

At various times during the nine months ended September 30, 2016, warrants issued in conjunction with financings entered into by the Company in May 2013, August 2013 and May 2014 were cancelled as they passed their expiration dates unexercised.

**Warrant Amendment Letter**

On April 20, 2014, the Company sent a letter (the "Warrant Amendment Letter") to all the holders of the warrants which were granted in connection with the sale of units pursuant to a securities purchase agreements which occurred between May 2013 and August 2013. The Warrant Amendment Letter offered to reduce the exercise price of the warrants from \$6.50 per share to \$5.75 per share, if the holders of the warrants accepted the Company's offer to exercise the warrants in full for cash by April 22, 2014 (the "Expiration Date"). The Company subsequently extended the Expiration Date to April 24, 2014. On April 24, 2014, one holder of warrants, who is an accredited investor, accepted the Company's offer and thereby exercised his warrants, for gross proceeds to the Company of approximately \$138,222. After analyzing the circumstances relative to the Warrant Amendment Letter—the extremely short period of time to exercise pursuant to the Amendment Letter, the relatively small change in the exercise price and the limited response to the Amendment Letter—the Company deemed that the change was not a significant modification of the terms of the warrant and did not assess a new fair value and consequently did not make an entry for any adjustment in the value.

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

**Common Stock Options**

On April 15, 2014, the Company issued a new board member a five-year option to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$3.295 per share, subject to adjustment, which shall vest in twelve (12) monthly installments commencing on the date of grant. The option was valued based on the Black-Scholes model, using the strike and market prices of \$3.295 per share, life of three years, volatility of 51% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 0.84%.



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On May 14, 2014, the Company issued existing employees, ten-year options to purchase an aggregate of 80,000 shares of the Company's Common Stock with an exercise price of \$4.165 per share, subject to adjustment, which shall vest in three (3) annual installments, with 33% vesting on the first anniversary of the date of grant, 33% on the second anniversary of the date of grant and 34% on the third anniversary of the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 6.5 years, volatility of 63% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.97%.

On May 14, 2014, the Company issued to consultants, five-year options to purchase an aggregate of 160,000 shares of the Company's Common Stock with an exercise price of \$4.165 per share, subject to adjustment, which shall vest in three (3) annual installments, with 33% vesting on the first anniversary of the date of grant, 33% on the second anniversary of the date of grant and 34% on the third anniversary of the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 3.5 years, volatility of 50% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.00%.

On May 15, 2014, the Company entered into an executive employment agreement with Francis Knuettel II ( "Knuettel Agreement" ) pursuant to which Mr. Knuettel would serve as the Company's Chief Financial Officer. As part of the consideration, the Company agreed to grant Mr. Knuettel a ten-year stock option to purchase an aggregate of 290,000 shares of Common Stock, with a strike price of \$4.165 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Knuettel Agreement. The option was valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 6.5 years, volatility of 63% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.97%.

On June 15, 2014, the Company issued to a consultant a five-year stock option to purchase an aggregate of 40,000 shares of the Company's Common Stock with an exercise price of \$5.05 per share, subject to adjustment, which shall vest in twenty-four (24) each monthly installments on each monthly anniversary date of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$5.05 per share, life of 3.25 years, volatility of 50% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.05%.

On August 29, 2014, the Company entered into an executive employment agreement with Daniel Gelbtuch ( "Gelbtuch Agreement" ) pursuant to which Mr. Gelbtuch would serve as the Company's Chief Marketing Officer. As part of the consideration, the Company agreed to grant Mr. Gelbtuch a ten-year stock option to purchase an aggregate of 290,000 shares of Common Stock, with a strike price of \$5.62 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Gelbtuch Agreement. Mr. Gelbtuch's employment with the Company was terminated as of January 20, 2015 and the vested shares at that time remained available for Mr. Gelbtuch to exercise until January 20, 2016. The option was valued based on the Black-Scholes model, using the strike and market prices of \$5.62 per share, life of 6.5 years, volatility of 62% based on the average volatility of comparable companies over the prior 10-year period and a discount rate as published by the Federal Reserve of 1.95%.

On September 16, 2014, the Company issued its independent board members five-year options to purchase an aggregate of 60,000 shares of the Company's Common Stock with an exercise price of \$7.445 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 \$7.445 per share, life of three years, volatility of 49% based on the average volatility of comparable companies over the prior 5-year period and a discount rate as published by the Federal Reserve of 1.04%.

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On October 31, 2014, the Company entered into an executive employment agreement with Enrique Sanchez ( " Sanchez Agreement " ) pursuant to which Mr. Sanchez would serve as the Company ' s Senior Vice President of Licensing. As part of the consideration, the Company agreed to grant Mr. Sanchez a ten-year stock option to purchase an aggregate of 160,000 shares of Common Stock, with a strike price of \$6.40 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Sanchez Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average

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volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company entered into an executive employment agreement with Umesh Jani ( "Jani Agreement" ) pursuant to which Mr. Jani would serve as the Company's Chief Technology Officer and SVP of Licensing. As part of the consideration, the Company agreed to grant Mr. Jani a ten-year stock option to purchase an aggregate of 100,000 shares of Common Stock, with a strike price of \$6.40 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Jani Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company issued existing employees, ten-year options to purchase an aggregate of 680,000 shares of the Company's Common Stock with an exercise price of \$6.40 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company issued to a consultant, a five-year option to purchase an aggregate of 30,000 shares of the Company's Common Stock with an exercise price of \$6.40 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 3.25 years, volatility of 49% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.03%.

On February 5, 2015 the Company issued to a consultant, a five-year option to purchase an aggregate of 25,000 shares of the Company's Common Stock with an exercise price of \$6.80 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.80 per share, an expected term of 3.25 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 0.92%.

On March 6, 2015 the Company issued a new board member a five-year option to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$7.37 per share, subject to adjustment, which shall vest in twelve (12) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$7.37 per share, an expected term of 3.00 years, volatility of 41% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.16%.

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On March 18, 2015 the Company issued a new board member a five-year option to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$6.61 per share, subject to adjustment, which shall vest in twelve (12) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.61 per share, an expected term of 3.00 years, volatility of 41% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 0.92%.

On April 7, 2015 (the Effective Date), the Company entered into a consulting agreement (the Consulting Agreement) with Richard Chernicoff, a member of the Company's Board of Directors, pursuant to which Mr. Chernicoff shall provide certain services to the Company, including serving as the interim General Counsel and interim General Manager of commercial product commercialization development. Pursuant to the terms of the Consulting Agreement, Mr. Chernicoff shall receive a monthly retainer of \$27,000 and a

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ten-year stock option to purchase 280,000 shares of the Company's Common Stock pursuant to the Company's 2014 Plan. The stock options have an exercise price of \$6.76 per share, the closing price of the Company's common stock on the date immediately prior to the Board of Directors approval of such stock options and the options shall vest as follows: 25% of the option shall vest on the 12 month anniversary of the Effective Date and thereafter 2.083% on the 21st day of each succeeding calendar month for the following twelve months, provided Mr. Chernicoff continues to provide services (in addition to as a member of the Company's Board of Directors) at the time of vesting. The option shall be subject in all respects to the terms of the 2014 Plan. Notwithstanding anything herein to the contrary, the remainder of the option shall be subject to the following as an additional condition of vesting: (A) options to purchase 70,000 shares of the Company's Common Stock under the option shall not vest at all unless the price of the Company's common stock while Mr. Chernicoff continues as an officer and/or director reaches \$8.99 and (B) options to purchase 70,000 shares of the Company's Common Stock under the option shall not vest at all unless the price of the Company's common stock while Mr. Chernicoff continues as an officer and/or director reaches \$10.14. For valuation purposes, the options were divided into two parts – the time-based vesting component and the performance-based vesting component. The time-based vesting component was valued based on the Black-Scholes model, using the strike and market prices of \$6.76 per share, an expected term of 6.25 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.53%. The performance-based vesting component was valued based on the Monte Carlo Simulation model, using the strike and market prices of \$6.76 per share, an expected term of 10.0 years, volatility of 61% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.89%. On May 15, 2016, the Company and Mr. Chernicoff entered into an amendment of his consulting agreement whereby the monthly retainer was eliminated and replaced with an hourly option for legal services and the portion of his option to purchase 140,000 shares of the Company's common stock as set forth in clauses (A) and (B) above were terminated.

On September 16, 2015, 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 \$2.03 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 \$2.03 per share, an expected term of 5.5 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 1.72%.

On October 14, 2015, the Company issued certain of its employees ten-year options to purchase an aggregate of 385,000 shares of the Company's Common Stock with an exercise price of \$1.86 per share, subject to adjustment, which shall vest monthly over twenty-four (24) months commencing on the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$1.86 per share, an expected term of 6.5 years, volatility of 49% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.57%.

On October 14, 2015, the Company issued certain of its consultants ten-year options to purchase an aggregate of 70,000 shares of the Company's Common Stock with an exercise price of \$1.86 per share, subject to adjustment, which shall vest monthly over twenty-four (24) months commencing on the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$1.86 per share, an expected term of 6.5 years, volatility of 49% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.57%.

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 \$1.69 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 \$1.69 per share, an expected term of 5.75 years,



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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%.

For the three and nine months ended September 30, 2016 the Company recorded option-based compensation expenses of \$472,434 and \$1,524,018, respectively. A summary of the stock options as of September 30, 2016 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance at December 31, 2015	3,383,267	\$ 4.25	7.11
Granted	700,000	\$ 1.65	9.65
Cancelled	(291,772)	\$ 5.69	
Forfeited	(126,181)	\$ 5.18	
Exercised		\$	
Balance at September 30, 2016	3,665,314	\$ 3.34	7.02
Options Exercisable at September 30, 2016	2,627,075		
Options expected to vest	1,435,800		
Weighted average fair value of options granted during the period		\$ 0.90	

Stock options outstanding at September 30, 2016 as disclosed in the above table have approximately \$1,377,905 in intrinsic value at September 30, 2016.

## Non-Controlling Interest

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Non-controlling interest represents equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to the Company's ownership stake in 3D Nanocolor Corp. ( 3D Nano ) or PG Tech, but rather, non-controlling interests includes the minority equity holders' proportionate share of the equity of 3D Nano and PG Tech.

Ownership interests in subsidiaries held by parties other than the Company are presented as non-controlling interests within stockholders' equity, separately from the equity held by the Company on the consolidated statements of stockholders' equity. Revenues, expenses, net income and other comprehensive income are reported in the consolidated financial statements at the consolidated amounts, which includes amounts attributable to both the Company's interest and the non-controlling interests in 3D Nano and PG Tech. Net income and other comprehensive income is then attributed to the Company's interest and the non-

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controlling interests. Net income to non-controlling interests is deducted from net income in the consolidated statements of income to determine net income attributable to the Company's common shareholders.

**NOTE 6 COMMITMENTS AND CONTINGENCIES**

**Fortress Transaction**

On January 29, 2015, the Company and certain of its subsidiaries (each a "Subsidiary") entered into a series of agreements including a Fortress Securities Agreement and a Subscription Agreement with DBD, an affiliate of Fortress, under which the Company sold to the purchasers: (i) \$15,000,000 original principal amount of Senior Secured Notes ("Fortress Notes"), (ii) a right to receive a portion of certain proceeds from monetization net revenues received by the Company (after receipt by the Company of \$15,000,000 of monetization net revenues and repayment of the Fortress Notes), (the "Revenue Stream"), (iii) a five-year warrant (the "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 Company's Common Stock. Under the Fortress Securities Purchase Agreement, the Company has the right to require the purchasers to purchase an additional \$5,000,000 of Fortress Notes (which will increase proportionately the Revenue Stream), subject to the achievement of certain milestones, and further contemplates that Fortress may, but is not obligated to, fund up to an additional \$30,000,000, on equivalent economic terms. The Company may use the proceeds to finance the monetization of its existing assets, provide further expansion capital for new acquisitions, to repay existing debt (including without limitation, the Company's 11% convertible notes issued October 9, 2013 and for general working capital and corporate purposes.

Pursuant to the Fortress Securities Purchase Agreement entered into on January 29, 2015, the Company issued to Fortress a Note in the original principal amount of \$15,000,000 (the "Initial Note"). The Initial Note matures on July 29, 2018. If any additional Fortress Notes are issued pursuant to the Fortress Securities Purchase Agreement, the maturity date of such additional Fortress Notes shall be 42 months after issuance. The unpaid principal amount of the Initial 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 Fortress Securities Purchase Agreement), the interest rate shall increase by an additional 2% per annum. As of September 30, 2016, the twelve-month LIBOR USD rate was 1.55%. Interest on the Initial Note shall be paid on the last business day of each calendar month (the "Interest Payment Date"), commencing January 31, 2015. 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 Fortress 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 Initial Note for all purposes, including interest accrual and the calculation of any prepayment premium.

The Fortress Securities Purchase Agreement contains certain customary events of default, and also contains certain covenants including a requirement that the Company maintain minimum liquidity of \$1,000,000 in unrestricted cash and cash equivalents and that the Company shall have Monetization Revenues (as defined in the Fortress Securities Purchase Agreement) for each of the four fiscal quarters commencing December 31, 2014 of at least \$15,000,000.

The terms of the Fortress Warrant provide that until January 29, 2020, the Fortress 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.

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As part of the transaction, DBD entered into a lock-up agreement (the "Lock-Up Agreement") pursuant to which the parties and certain related holders agreed until the earlier of 12 months or acceleration of an Event of Default (as defined in the Fortress Securities Purchase Agreement), that they will not, directly or indirectly, (i) offer, sell, offer to sell, contract to sell, hedge, hypothecate, pledge, sell any option or contract to purchase any option or contract to sell, grant any option, right or warrant to purchase or sell (or announce any offer, sale, offer of sale, contract of sale, hedge, hypothecation, pledge, sale of any option or contract to purchase, purchase of any option or contract of sale, grant of any option, right or warrant to purchase or other sale or disposition), or otherwise transfer or dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future), the

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Lock-Up Shares (as defined in the Lock-Up Agreement), beneficially owned, within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), by such Holder and his/her Related Group (as such terms are defined in the Lock-Up Agreement) on the date of the Lock-Up Agreement or thereafter acquired or (ii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Lock-Up Shares, whether or not any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of any Lock-Up Shares. The Holders may purchase additional shares of the Company's Common Stock during the Lock-Up Period (as defined in the Lock-Up Agreement) to the extent that such purchase only increases the net holding of the Holders in the Company.

In connection with the transactions described above, TechDev, Audrey Spangenberg, Erich Spangenberg, and Granicus (the "Spangenberg Holders") entered into a lock-up agreement (the "Spangenberg Lockup") with respect to 1,626,924 shares of Common Stock, 48,078 shares of Common Stock underlying warrants, and 782,000 shares of Common Stock underlying preferred stock, pursuant to which the Spangenberg Holders agreed that until payment in full of the Note Obligations (as defined in the Fortress Notes), which shall include but not be limited to all principal and interest on outstanding Fortress Notes pursuant to the Fortress Securities Purchase Agreement, the Spangenberg Holders and certain related parties agreed that they will not, directly or indirectly, (i) offer, sell, offer to sell, contract to sell, hedge, hypothecate, pledge, sell any option or contract to purchase any option or contract to sell, grant any option, right or warrant to purchase or sell (or announce any offer, sale, offer of sale, contract of sale, hedge, hypothecation, pledge, sale of any option or contract to purchase, purchase of any option or contract of sale, grant of any option, right or warrant to purchase or other sale or disposition), or otherwise transfer or dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future), more than 5% of the Spangenberg Lockup shares (as defined in the Spangenberg Lock-Up Agreement), beneficially owned, within the meaning of Rule 13d-3 under the Exchange Act, by such Holder and his/her Related Group (as such terms are defined in the Spangenberg Lock-Up Agreement) on the date of the Spangenberg Lock-Up Agreement or thereafter acquired or (ii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of more than 5% of the Spangenberg Lock-Up Shares, whether or not any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of any Lock-Up Shares. The Spangenberg Holders may purchase additional shares of the Company's Common Stock during the Lock-Up Period (as defined in the Spangenberg Lock-Up Agreement) to the extent that such purchase only increases the net holding of the Holders in the Company.

Pursuant to the Fortress Securities Purchase Agreement, as security for the payment and performance in full of the Secured Obligations (as defined in the Fortress Securities Purchase Agreement) in favor of DBD, the Company and certain subsidiaries executed and delivered in favor of DBD a Security Agreement ("Security Agreement") and a Patent Security Agreement ("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 is secured by a first priority lien and security interest in all of the assets of the Company, subject to permitted liens on permitted indebtedness that existed as of January 29, 2015. The security interest does not include a lien on the assets held by Orthophoenix, LLC. Certain subsidiaries of the Company (excluding Orthophoenix) also executed guarantees in favor of the purchasers (each, a "Guaranty"), guaranteeing the Note Obligations. As required by the terms of certain notes issued by the Company in October 2014 ("October Notes"), the October Note holders consented to the transactions described herein.

Within thirty days, the Company was required to open a cash collateral account into which all Company revenue shall be deposited and which shall be subject to a control agreement outlining the disbursement in accordance with the terms of the Fortress Securities Purchase Agreement of all proceeds.

Pursuant to the Fortress Securities Purchase Agreement, the Company entered into the Fortress Patent License Agreement with DBD pursuant to which the Company agreed to grant to the Licensee certain rights, including right to license certain patents and patent applications, which licensing rights to be available solely upon an acceleration of the Note Obligations, as provided in the Fortress Securities Purchase Agreement.



Table of Contents**Office Lease**

In October 2013, the Company entered into a net-lease for its current office space in Los Angeles, California. The lease commenced 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 a 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 September 30, 2016, for the next five years and thereafter are as follows:

2016	\$	17,304
2017		71,288
2018		74,540
2019		77,872
2020		81,336
Thereafter		27,504
Total	\$	349,844

**NOTE 7 SUBSEQUENT EVENTS**

None

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 13. Other Expenses of Issuance and Distribution.**

We are paying all of the expenses related to this offering. The fees and expenses payable by us in connection with this Registration Statement are estimated as follows:

Securities and Exchange Commission Registration Fee	\$	350.70
Accounting Fees and Expenses		25,000
Legal Fees and Expenses		50,000
Miscellaneous Fees and Expenses		0.00
Total	\$	75,350.70

**Item 14. Indemnification of Directors and Officers.**

Neither our articles of incorporation nor bylaws prevent us from indemnifying our officers, directors and agents to the extent permitted under the Nevada Revised Statute ( NRS ). NRS Section 78.7502, provides that a corporation may indemnify any director, officer, employee or agent of a corporation against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with any defense to the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to Section 78.7502(1) or 78.7502(2), or in defense of any claim, issue or matter therein.

NRS 78.7502(1) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he: (a) is not liable pursuant to NRS 78.138; or (b) acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

NRS Section 78.7502(2) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by him in connection with the defense or settlement of the action or suit if he: (a) is not liable pursuant to NRS 78.138; or (b) acted in good faith and in a manner which he reasonably believed to be in or not opposed to the

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best interests of the corporation. Indemnification may not be made for any claim, issue or matter as to which such a person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals there from, to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court in which the action or suit was brought or other court of competent jurisdiction determines upon application that in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

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NRS Section 78.747 provides that except as otherwise provided by specific statute, no director or officer of a corporation is individually liable for a debt or liability of the corporation, unless the director or officer acts as the alter ego of the corporation. The court as a matter of law must determine the question of whether a director or officer acts as the alter ego of a corporation.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed hereby in the Securities Act and we will be governed by the final adjudication of such issue.

**Item 15. Recent Sales of Unregistered Securities.**

None



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**Item 16. Exhibits and Financial Statement Schedules.**

The following exhibits are filed as part of this Registration Statement.

<b>Exhibit No.</b>	<b>Description</b>
3.1	Amended and Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on December 9, 2011)
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on December 9, 2011)
3.3	Certificate of Amendment to Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on February 20, 2013)
3.4	Certificate of Amendment to Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on July 19, 2013)
3.5	Certificate of Designations of Series A Convertible Preferred Stock of Marathon Patent Group, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 7, 2014)
3.6	Certificate of Designations of Series B Convertible Preferred Stock of Marathon Patent Group, Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on May 7, 2014)
4.1	Form of Warrant Amendment Letter dated April 20, 2014 (Incorporated by reference to Exhibit 4.1 to the Current Report on 8-K filed with the SEC on April 24, 2014)
4.2	Note due July 29, 2018 (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)
4.3	Warrant to Purchase Common Stock dated January 29, 2015 (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)
4.4	Form of Warrant (Incorporated by reference to Exhibit 4.1 to the current report on Form 8-K filed with the SEC on December 12, 2016).
4.5	Form of Placement Agent's Warrant (Incorporated by reference to Exhibit 4.2 to the current report on Form 8-K filed with the SEC on December 12, 2016).
4.6	Form of Warrant dated January 10, 2017 (Incorporated by reference to Exhibit 4.1 to the current report on Form 8-K filed with the SEC on January 17, 2017).
4.7	Promissory Note dated January 10, 2017 (Incorporated by reference to Exhibit 4.2 to the current report on Form 8-K filed with the SEC on January 17, 2017).
5.1	Opinion of Sichenzia Ross Friedman Ference LLP**
10.1	Revenue Sharing and Securities Purchase Agreement by and among Marathon Patent Group, Inc. and its subsidiaries and DBD Credit Funding LLC dated January 29, 2015 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015) +
10.2	Subscription Agreement between Marathon Patent Group, Inc. and DBD Credit Funding LLC dated January 29, 2015 (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)
10.3	Security Agreement by and among Marathon Patent Group, Inc. and certain of its subsidiaries and DBD Credit Funding LLC dated January 29, 2015 (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)+
10.4	Patent Security Agreement by Marathon Patent Group, Inc. and certain of its subsidiaries in favor of DBD Credit Funding LLC dated January 29, 2015 (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)+
10.5	Lockup Agreement by and between DBD Credit Funding LLC and Marathon Patent Group, Inc. dated January 29, 2015 (Incorporated by reference to Exhibit 10.7 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)
10.6	Lockup Agreement by and between TechDev Holdings, LLC, Audrey Spangenberg, Erich Spangenberg, Granicus IP, LLC and Marathon Patent Group, Inc. dated January 29, 2015 (Incorporated by reference to Exhibit 10.8 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)



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10.7	Lockup Agreement by and between TechDev Holdings, LLC, Audrey Spangenberg, Erich Spangenberg, Granicus IP, LLC and Marathon Patent Group, Inc. dated January 29, 2015 (Incorporated by reference to Exhibit 10.8 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)
10.8	Patent License Agreement by and among Marathon Patent Group, Inc. and certain of its subsidiaries and DBD Credit Funding LLC dated January 29, 2015 (Incorporated by reference to Exhibit 10.9 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)+
10.9	Guaranty Agreement by certain subsidiaries of Marathon Patent Group, Inc. in favor of DBD Credit Funding LLC dated January 29, 2015 (Incorporated by reference to Exhibit 10.10 to the Company's Current Report on 8-K, filed with the SEC on February 3, 2015)
10.10	Consulting Agreement by and between Marathon Patent Group, Inc. and Richard Chernicoff dated April 7, 2015 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K, filed with the SEC on April 13, 2015)
10.11	Form of Securities Purchase Agreement (Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed with the SEC on December 12, 2016).
10.12	Form of Registration Rights Agreement (Incorporated by reference to Exhibit 10.2 to the current report on Form 8-K filed with the SEC on December 12, 2016).
10.13	Form of Placement Agency Agreement (Incorporated by reference to Exhibit 10.3 to the current report on Form 8-K filed with the SEC on December 12, 2016).
10.14	Amended and Restated Revenue Sharing and Securities Purchase Agreement by and among the Company, certain of the Company's subsidiaries and DBD Credit Funding dated January 10, 2017 (Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed with the SEC on January 17, 2017).
10.15	Patent Security Agreement dated January 10, 2017 by and among the Company, certain of the Company's subsidiaries and DBD Credit Funding dated January 10, 2017(Incorporated by reference to Exhibit 10.2 to the current report on Form 8-K filed with the SEC on January 17, 2017).
10.16	Amended and Restated Patent License Agreement dated January 10, 2017 by and among the Company, certain of the Company's subsidiaries and DBD Credit Funding dated January 10, 2017(Incorporated by reference to Exhibit 10.3 to the current report on Form 8-K filed with the SEC on January 17, 2017).
10.17	Security Agreement Supplement dated January 10, 2017 by and among the Company, certain of the Company's subsidiaries and DBD Credit Funding dated January 10, 2017(Incorporated by reference to Exhibit 10.4 to the current report on Form 8-K filed with the SEC on January 17, 2017).
10.18	Sales Agreement (Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K dated January 27, 2017).
14.1	Code of Business Conduct and Ethics (Incorporated by reference to Exhibit 14.1 to the Company's Annual Report on 10-K, filed with the SEC on March 31, 2014)
16.1	SingerLewak LLP letter to the Securities and Exchange Commission (incorporated by reference to 8-K filed January 17, 2017)
21.1	List of Subsidiaries (Incorporated by reference to Exhibit 21.1 to the Company's Annual Report on 10-K, filed with the SEC on March 31, 2014)
23.1	Consent of SingerLewak LLP*
23.2	Consent of Sichenzia Ross Friedman Ference LLP (included in Exhibit 5.1)**
24.1	Power of Attorney (included on signature page of this Form S-1)*

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\* Filed herein.

\*\* To be filed by amendment

### **Item 17. Undertakings.**

The undersigned registrant hereby undertakes:



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(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

- (i) To include any prospectus required by Section 10(a)(3) of the Securities Act;
- (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and
- (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered that remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability of the undersigned registrant under the Securities Act to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§ 230.424 of this chapter);
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

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In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

For the purpose of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A (§ 230.430A of this chapter), shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, on February 10, 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)

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned officers and directors of Marathon Parent Group, Inc., a Nevada corporation that is filing a registration statement on Form S-1 with the Securities and Exchange Commission under the provisions of the Securities Act of 1933, as amended, hereby constitute and appoint Doug Croxall their true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to the registration statement, including a prospectus or an amended prospectus therein, and all other documents in connection therewith to be filed with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all interests and purposes as they might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This Power of Attorney may be signed in several counterparts.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney. In accordance with the requirements of the Securities Act of 1933, as amended, this registration statement was signed by the following persons in the capacities and on the dates stated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Doug Croxall Doug Croxall	Chief Executive Officer and Chairman (Principal Executive Officer)	February 10, 2017
/s/ Francis Knuettel II Francis Knuettel II	Chief Financial Officer (Principal Financial and Accounting Officer)	February 10, 2017
/s/ Richard Chernicoff Richard Chernicoff	Director	February 10, 2017



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/s/ Edward Kovalik Edward Kovalik	Director	February 10, 2017
/s/ Christopher Robichaud Christopher Robichaud	Director	February 10, 2017
/s/ Richard Tyler Richard Tyler	Director	February 10, 2017

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