Marathon Patent Group, Inc.
Form 10-Q
August 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

or

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

For the transition period from _____ to _____

MARATHON PATENT GROUP, INC.

(Exact Name of Registrant as Specified in Charter)

Nevada	001-36555	01-0949984
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

11100 Santa Monica Blvd., Ste. 380 Los Angeles, CA	90025

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer	[_]	Accelerated filer	[_]
Non-accelerated filer	[_]	Smaller reporting company	[x]
(Do not check if smaller reporting company)		Emerging growth company	[x]

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

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

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

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OTHER PERTINENT INFORMATION

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

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Item 1. Financial Statements

MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

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

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

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

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MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

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

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

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

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MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

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

Effect of exchange rate changes on cash		4,416		(145)
Net increase (decrease in) in cash		(3,902,593)		4,603,628
Cash at beginning of period		4,998,314		2,555,151
Cash at end of period	$	1,095,721	$	7,158,779
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest expense	$	456,917	$	1,187,074
Taxes paid	$	17,242	$	27,682
Cash invested in 3DNano	$	-	$	115,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Revenue share liability incurred in conjunction with note payable	$	225,000	$	-
Warrant issued in conjunction with common stock issuance	$	257,957	$	-
Note payable issued in conjunction with the acquisition of Munitech patents	$	-	$	1,750,000
Convertible debt warrant repricing	$	-	$	6,425

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

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Notes to Unaudited Consolidated Condensed Financial Statements

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Organization

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

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

Use of Estimates and Assumptions

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

Cash

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

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Accounts Receivable

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

Concentration of Revenue and Geographic Area

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

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

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

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

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

Revenue Recognition

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

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

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

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

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

Prepaid Expenses and Other Current Assets

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

Bonds Posted With Courts

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

Related Party Transactions

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

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

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

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

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

- Pursuant to the DA Agreement, the Company acquired 100% of the limited liability company membership interests of Dynamic Advances, LLC, a Texas limited liability company, in consideration for: (i) two cash payments of $2,375,000, one payment due at closing and the other payment was due on or before June 30, 2014, with such second payment being subject to increase to $2,850,000 if not made on or before June 30, 2014; and (ii) 195,500 shares of the Company s Series B Convertible Preferred Stock. The remaining cash payment was made on April 1, 2015 and is fully paid. Under the terms of the DA Agreement, TechDev and SFF are entitled to possible future payments for a maximum consideration of $250,000,000 pursuant to the Pay Proceeds Agreement described below.

- Pursuant to the IP Liquidity Agreement, the Company acquired 100% of the limited liability company membership interests of IP Liquidity Ventures, LLC, a Delaware limited liability company, in consideration for: (i) two cash payments of $2,375,000, one payment due at closing and the other payment was due on or before June 30, 2014, with such second payment being subject to increase to $2,850,000 if not made on or before June 30, 2014; and (ii) 195,500 shares of the Company s Series B Convertible Preferred Stock. The remaining cash payment was made on April 1, 2015 and is fully paid. Under the terms of the IP Liquidity Agreement, Granicus and SFF are entitled to possible future payments for a maximum consideration of $250,000,000 pursuant to the Pay Proceeds Agreement described below.

- Pursuant to the Sarif Agreement, the Company acquired 100% of the limited liability company membership interests of Sarif Biomedical, LLC, a Delaware limited liability company, in consideration for two cash payments of $250,000, one payment due at closing and the other payment was due on or before June 30, 2014, with such second payment being subject to increase to $300,000 if not made on or before June 30, 2014. The remaining cash payment was made on February 24, 2015 and is fully paid. Under the terms of the Sarif Agreement, TechDev and SFF are entitled to possible future payments for a maximum consideration of $250,000,000 pursuant to the Pay Proceeds Agreement described below.

- Pursuant to the Pay Proceeds Agreement, the Company may pay the sellers a percentage of the net recoveries (gross revenues minus certain defined expenses) that the Company makes with respect to the assets held by the entities that the Company acquired pursuant to the DA Agreement, the IP Liquidity Agreement and the Sarif Agreement. Under the terms of the Pay Proceeds Agreement, as amended in 2016, if the Company recovers $10,000,000 or less with regard to the IP Assets, then nothing is due to the sellers; if the Company recovers between $13,000,000 and $40,000,000 with regard to the IP Assets, then the Company shall pay 40% of the cumulative gross proceeds of such recoveries to the sellers; and if the Company recovers over $40,000,000 with regard to the IP Assets, the Company shall pay 50% of the cumulative gross proceeds of such recoveries to the sellers. Pursuant to the amendment to the Pay Proceeds Agreement, the Company paid TechDev, Granicus and SFF $2.4 million. In no event will the total payments made by the Company under the Pay Proceeds Agreement exceed $250,000,000.

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

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

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

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

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

Accounting for Acquisitions

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

Income Taxes

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

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

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

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

Basic and Diluted Net Loss per Share

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

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

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

Intangible Assets - Patents

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

Goodwill

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

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

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

Other Intangible Assets

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

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

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

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Impairment of Long-lived Assets

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

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

Stock-based Compensation

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

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

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

Liquidity and Capital Resources

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

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

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

- review strategic alternatives.

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

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Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

NOTE 3 ACQUISITIONS

Clouding Corp.

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

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

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

Intangible assets	$	14,500,000
Goodwill		1,296,000
Net purchase price	**$**	**15,796,000**

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	**$**	**15,796,000**

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

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

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

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

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

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

Magnus IP GmbH (Magnus)

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

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

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

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

Traverse Technologies Corp. (Traverse)

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

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

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

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

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

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

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

Motheye Technologies LLC (Motheye)

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

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

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

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

NOTE 4 INTANGIBLE ASSETS

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

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

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

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