Marathon Patent Group, Inc.
Form 10-Q
August 15, 2016
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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, 2016

or

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

For the transition period from __________ to __________

MARATHON PATENT GROUP, INC.

(Exact Name of Registrant as Specified in Charter)

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

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

90025

(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, 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.

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

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. 15,047,141 shares of common stock are issued and outstanding as of August 10, 2016.

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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 subsidiaries.

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Item 1. Financial Statements

MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash	$ 7,158,779	$ 2,555,151
Accounts receivable - net of allowance for bad debt of $387,976 and $375,750 for June 30, 2016 and December 31, 2015	128,337	136,842
Bonds posted with courts	2,383,069	1,748,311
Prepaid expenses and other current assets, net of discounts of $3,103 for June 30, 2016 and $3,414 for December 31, 2015	177,745	338,598
Total current assets	9,847,930	4,778,902
Other assets:		
Property and equipment, net of accumulated depreciation of $87,662 and $67,052 for June 30, 2016 and December 31, 2015	46,977	61,297
Intangible assets, net of accumulated amortization of $18,013,247 and $15,557,353 for June 30, 2016 and December 31, 2015	23,488,453	25,457,639
Deferred tax assets	8,893,421	12,437,741
Other non current assets, net of discounts of $3,279 and $4,831 for June 30, 2016 and December 31, 2015	204,721	9,169
Goodwill	4,453,945	4,482,845
Total other assets	37,087,517	42,448,691
Total Assets	$ 46,935,447	$ 47,227,593
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 6,142,186	$ 6,534,825
Clouding IP earn out - current portion	-	33,646
Notes payable, net of discounts of $788,320 and $730,945 for June 30, 2016 and December 31, 2015	8,793,806	10,383,177
	14,935,992	16,951,648
Long-term liabilities		
Notes payable, net of discount of $1,016,198 and $1,425,167 for June 30, 2016 and December 31, 2015	9,027,798	12,223,884
Clouding IP earn out	3,147,054	3,281,238
Deferred tax liability	789,690	1,044,997
Revenue share liability	1,000,000	1,000,000
Other long term liability	47,549	50,084
Total long-term liabilities	14,012,091	17,600,203
Total liabilities	28,948,083	34,551,851

Stockholders Equity:				
Preferred stock Series B, $.0001 par value, 50,000,000 shares authorized: 782,004 and 782,004 issued and outstanding at June 30, 2016 and December 31, 2015		78		78
Common stock, $.0001 par value; 200,000,000 shares authorized; 15,047,141 and 14,867,141 at June 30, 2016 and December 31, 2015		1,505		1,487
Additional paid-in capital		44,422,717		43,217,513
Accumulated other comprehensive income (loss)		(1,168,556)		(1,265,812)
Accumulated deficit		(25,264,658)		(29,277,524)
Total Marathon Patent Group, Inc. stockholders equity		17,991,086		12,675,742
Noncontrolling Interest		(3,722)		-
Total Stockholders Equity		17,987,364		12,675,742
Total liabilities and stockholders equity	$	46,935,447	$	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 June 30, 2016 (unaudited)	For The Three Months Ended June 30, 2015 (unaudited)	For The Six Months Ended June 30, 2016 (unaudited)	For The Six Months Ended June 30, 2015 (unaudited)
Revenues	$ 34,349,762	$ 1,368,986	$ 36,409,438	$ 5,462,855
Expenses				
Cost of revenues	15,467,763	3,860,210	18,107,740	8,188,375
Amortization of patents and website	1,961,411	3,029,000	3,987,310	5,627,461
Compensation and related taxes	1,120,924	1,087,058	2,154,270	2,668,132
Consulting fees	364,836	329,081	645,612	1,225,624
Professional fees	498,212	578,920	903,705	1,348,535
General and administrative	223,130	284,976	428,513	504,457
Goodwill impairment	83,000	-	83,000	-
Patent impairment	620,696	766,498	993,890	766,498
Total operating expenses	20,339,972	9,935,743	27,304,040	20,329,082
Operating income (loss)	14,009,790	(8,566,757)	9,105,398	(14,866,227)
Other income (expenses)				
Other income (expense)	(17,745)	7,439	(31,532)	7,439
Foreign exchange gain (loss)	(69,201)	1,899	(62,223)	(37,503)
Change in fair value adjustment of Clouding IP earn out	169,172	2,304,301	167,830	2,304,301
Interest income	931	-	1,862	2
Interest expense	(844,407)	(1,577,083)	(1,851,256)	(2,508,623)
Total other income (expenses)	(761,250)	736,556	(1,775,319)	(234,384)
Income (loss) before income tax benefit (expense)	13,248,540	(7,830,201)	7,330,079	(15,100,611)
Income tax benefit (expense)	(5,345,983)	3,327,505	(3,320,935)	5,816,344
Net income (loss)	7,902,557	(4,502,696)	4,009,144	(9,284,267)
Net (income) loss attributable to noncontrolling interests	3,722	-	3,722	-
Net income (loss) attrributable to Marathon Patent Group, Inc. common shareholders	$ 7,906,279	$ (4,502,696)	$ 4,012,866	$ (9,284,267)
Income (loss) per common share:				
Basic	$ 0.53	$ (0.32)	$ 0.27	$ (0.67)
Fully Diluted	$ 0.49	$ (0.32)	$ 0.25	$ (0.67)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	14,994,697	13,998,563	14,980,919	13,937,872
Fully Diluted	16,031,564	13,998,563	16,017,786	13,937,872

Other income (loss)								
Foreign currency translation adjustments	$	(150,171)	$	319,905	$	97,256	$	(630,334)

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

MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Six Months Ended June 30, 2016 (unaudited)	For The Six Months Ended June 30, 2015 (unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 4,009,144	$ (9,284,267)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	2,710	3,758
Amortization of patents and website	3,987,310	5,627,461
Deferred tax asset	3,547,856	(5,307,139)
Deferred tax liability	(275,490)	(509,207)
Impairment of intangible assets	993,890	766,498
Impairment of goodwill	83,000	-
Stock based compensation	1,062,200	1,413,724
Stock issued for services	136,000	750,334
Non-cash interest, discount, and financing costs	664,182	1,625,322
Change in fair value of Clouding earnout	(167,830)	(2,304,301)
Allowance for doubtful accounts	12,226	-
Other non-cash adjustments	(104,899)	14,980
Changes in operating assets and liabilities		
Bonds posted with courts	(518,455)	-
Accounts receivable	(2,718)	(487,328)
Prepaid expenses and other assets	165,301	51,455
Accounts payable and accrued expenses	(469,660)	2,046,662
Net cash provided by (used in) operating activities	13,124,767	(5,592,048)
Cash flows from investing activities:		
Acquisition of patents	(1,150,000)	-
Purchase of property, equipment, and other intangible assets	(6,291)	(20,668)
Net cash provided by (used in) investing activities	(1,156,291)	(20,668)
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
Payment on Fortress note payable	(3,973,854)	-
Cash received upon exercise of warrants	-	18,751
Repayment of convertible notes payable	-	(5,050,000)
Payment on note payable	(437,070)	705,093
Net cash provided by (used in) financing activities	(7,364,703)	2,013,844
Effect of exchange rate changes on cash	(145)	3,545
Net increase (decrease) in cash	4,603,628	(3,595,327)
Cash at beginning of period	2,555,151	5,082,569
Cash at end of period	$ 7,158,779	$ 1,487,242
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

Cash paid for:				
Interest expense	$	1,187,074	$	805,106
Taxes paid	$	27,682	$	14,662
Loan fees	$	-	$	400,000
Cash invested in 3DNano	$	115,000	$	-
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
Convertible debt warrant repricing	$	6,425	$	-
Note payable issuance in conjunction with the acquisition of Munitech patents	$	1,750,000	$	-
Non-cash interest increase in debt assumed in the Orthophoenix acquisition	$	-	$	750,000
Note payable issuance in conjunction with the acquisition of BATO patents	$	-	$	10,000,000

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 discontinue 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 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.

On September 16, 2014, the Board of Directors of the Company 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.

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.

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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 June 30, 2016, the results of operations for the three and six months ended June 30, 2016 and the cash flows for the six months ended June 30, 2016 have been included. The results of operations and cash flows for the six months ended June 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 June 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.

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 June 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 June 30, 2016 and December 31, 2015, amounted to $128,337 and $136,842, respectively. As of June 30, 2016, there were no accounts receivable related to the issuance of one-time licenses, accounts receivable related to recurring royalties represented approximately 80% of total accounts receivable and the remainder of the accounts receivable is primarily related to trade receivables primarily associated with the terminated Uniloc merger. 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. As of June 30, 2016, accounts receivable represented less than 1% of revenues for the three months ended June 30, 2016 and as of December 31, 2015, accounts receivable represented 2% of revenues for the three months ended December 31, 2015.

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.

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Revenues from the five largest licenses accounted for approximately 99% of the Company s operating revenues for the three months ended June 30, 2016 and revenue from the five largest licenses accounting for 63% of the revenue for the three months ended June 30, 2015 as set forth below.

For the Three Months Ended June 30, 2016				For the Three Months Ended June 30, 2015			
Licensor		License Amount	% of Revenue	Licensor		License Amount	% of Revenue
Dynamic Advances, LLC	$	24,900,000	72%	Sarif Biomedical LLC	$	325,000	24%
Orthophoenix, LLC	$	4,500,000	13%	Selene Communication Technologies, LLC	$	150,000	11%
Orthophoenix, LLC	$	3,750,000	11%	E2E Processing, Inc.	$	140,000	10%
Orthophoenix, LLC	$	600,000	2%	MedTech GmbH	$	131,420	9%
Signal IP, Inc.	$	310,000	1%	E2E Processing, Inc.	$	120,000	9%
		Total	99%			Total	63%

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 were and 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 June 30, 2016, the Company is involved in a total of 18 lawsuits against defendants in the following jurisdictions:

United States	
District of Delaware	5
Central District of California	1
Eastern District of Michigan	1
US Court of Appeals for the Federal Circuit	2
Foreign	
Germany	9

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 100% and 99% of its revenues for the three and six months ended June 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 79% and 91% of its revenues for the three and six months ended June 30, 2015, 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.

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The Company s subsidiaries entered into 9 and 11 new license agreements that generated revenue during the three and six months ended June 30, 2016, respectively.

Cost of Revenue

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 $177,745 and $338,598 at June 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 $2,383,069 and $1,748,311 at June 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 June 30, 2016 compared to December 31, 2015 is attributable to $6,092 in currency translation impact, the return of $359,960 in bonds related to the litigation against Schrader and TRW, which were resolved in the fourth quarter of 2015 and returned in January and the placing of bonds in Germany related to the TLI litigations in the amount of $1,000,810. The Company has filed the requisite documents with the court in Germany for the return of the Medtech bond now that the litigation against Stryker has been resolved.

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.

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 June 30, 2016, the Company determined that the Clouding IP earn out liability was $0 for current portion and $3,147,054 for the long-term portion, which resulted in gain from change in fair value of $169,172 and $167,830 for three and six months ended June 30, 2016, respectively and a gain from exchange in fair value adjustment of $2,304,301 for both the three and six months ended June 30, 2015.

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 June 30, 2016 and December 31, 2015, the Company had outstanding bonds in the amount of $2,383,069 and $1,748,311, respectively. The Company adjusted the value as of June 30, 2016 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 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.

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 June 30, 2016, the Company has recorded a deferred tax asset in the amount of $8,893,421, from which the Company expects to realize benefits in the future, and a deferred tax liability of $789,690.

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.

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 3,684,817 shares of common stock and warrants to purchase 710,518 shares of common stock outstanding at June 30, 2016, which were included in the computation of diluted shares outstanding.

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

	For the Three Months Ended June 30, 2016	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Net income (loss) attributable to Marathon Patent Group, Inc. common shareholders	7,906,279	(4,502,696)	4,012,866	(9,284,267)
Denominator				
Weighted Average Common Shares - Basic	14,994,697	13,998,563	14,980,919	13,937,872
Weighted Average Common Shares - Diluted	16,031,564	13,998,563	16,017,786	13,937,872
Earnings (Loss) per common share:				
Income (Loss) - Basic	$ 0.53	$ (0.32)	$ 0.27	$ (0.67)
Income (Loss) - Diluted	$ 0.49	$ (0.32)	$ 0.25	$ (0.67)

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 an impairment charge to its intangible assets during the three months ended June 30, 2016 in the amount of $620,696 associated with the end of life of one of the Company s portfolios, compared to an impairment charge in the amount of $766,498 during the three months ended June 30, 2015 associated with the reduction in the carrying value of one the Company s portfolios. Further, the Company recorded an impairment charge to its intangible assets during the six months ended June 30, 2016 in the amount of $993,890 associated with the end of life of three of the Company s portfolios, compared to an impairment charge during the six months ended June 30, 2015 in the amount of $766,498 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 six months ended June 30, 2016 the Company recorded an impairment charge to its goodwill in the amount of $83,000 and $83,000, respectively. For the three and six months ended June 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 six months ended June 30, 2016 resulted from the determination to end of life one of the Company s portfolios.

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.

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 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. For both the three and six months ended June 30, 2015, the expected forfeiture rate was 12.8%, which resulted in an expense of $5,947 and $6,670 for the three and six months ended June 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.

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 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 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 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.

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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 Accountings 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

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

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, 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 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.

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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.

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 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 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 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 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 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 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.

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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 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 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 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:

Intangible assets	$	990,000
Net working capital		37,000
Goodwill		3,000
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.

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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 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. 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**

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. 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 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 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 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	**$**	**1,168,000**

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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 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	**$**	**15,500,000**

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).

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 acitivty, vendors associated with the patents, any royalties, and any other assets other than the patents.

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NOTE 4 INTANGIBLE ASSETS

Intangible assets of the Company, including adjustments for currency translation adjustments, consisted of the following:

	June 30, 2016	December 31, 2015
Intangible Assets	$ 41,501,700	$ 41,014,992
Accumulated Amortization & Impairment	(18,013,247)	(15,557,353)
Intangible assets, net	$ 23,488,453	$ 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 an impairment charge to its intangible assets during the three months ended June 30, 2016 in the amount of $620,696 associated with the end of life of one of the Company s portfolios, compared to an impairment charge during the three months ended June 30, 2015 in the amount of $766,498 associated with the reduction in the carrying value of one the Company s portfolios. Further, the Company recorded an impairment charge to its intangible assets during the six months ended June 30, 2016 in the amount of $993,890 associated with the end of life of three of the Company s portfolios, compared to an impairment charge during the six months ended June 30, 2015 in the amount of $766,498 associated with the reduction in the carrying value of one the Company s portfolios.

Patent and website amortization expense for the three and six months ended June 30, 2016 was $1,961,411 and $3,987,310, respectively and patent and website amortization expense for the three and six months ended June 30, 2015 was $3,029,000 and $5,627,461, respectively, net of foreign currency translation adjustments. Future amortization of intangible assets, net of foreign currency translation adjustments is as follows:

2016	$ 3,549,245
2017	5,353,788
2018	3,837,203
2019	3,021,115
2020	2,297,210
2021 and thereafter	5,429,892