

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

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended 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

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(Address of principal executive offices)

(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 15,047,141 shares of common stock are issued and outstanding as of August 10, 2016.

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Table of Contents**TABLE OF CONTENTS**

	Page No.
<b>PART I. - FINANCIAL INFORMATION</b>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets (unaudited)</u> 3
	<u>Consolidated Statements of Operations and Comprehensive Income (unaudited)</u> 4
	<u>Consolidated Statements of Cash Flows (unaudited)</u> 5
	<u>Notes to Unaudited Consolidated Financial Statements</u> 6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 30
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 39
<u>Item 4.</u>	<u>Controls and Procedures</u> 39
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 40
<u>Item 1A</u>	<u>Risk Factors</u> 40
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 40
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u> 40
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 40
<u>Item 5.</u>	<u>Other Information</u> 40
<u>Item 6.</u>	<u>Exhibits</u> 40

## 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.

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

## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
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
<b>Total current assets</b>	<b>9,847,930</b>	<b>4,778,902</b>
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
<b>Total other assets</b>	<b>37,087,517</b>	<b>42,448,691</b>
<b>Total Assets</b>	<b>\$ 46,935,447</b>	<b>\$ 47,227,593</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
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
<b>Total long-term liabilities</b>	<b>14,012,091</b>	<b>17,600,203</b>
<b>Total liabilities</b>	<b>28,948,083</b>	<b>34,551,851</b>

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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)
<b>Total Marathon Patent Group, Inc. stockholders' equity</b>	<b>17,991,086</b>	<b>12,675,742</b>
<b>Noncontrolling Interest</b>	<b>(3,722)</b>	<b>-</b>
<b>Total Stockholders' Equity</b>	<b>17,987,364</b>	<b>12,675,742</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 46,935,447</b>	<b>\$ 47,227,593</b>

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

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Table of Contents

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) attributable 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

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Other income (loss)

Foreign currency translation adjustments	\$	(150,171)	\$	319,905	\$	97,256	\$	(630,334)
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The accompanying notes are an integral part to these unaudited consolidated financial statements.

Table of Contents

## 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:



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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.

Table of Contents

**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 of 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

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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.

Table of Contents

**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

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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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### Table of Contents

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 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.

Table of Contents

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:



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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.

Table of Contents

**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 than 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.

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

### **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.

## Edgar Filing: Marathon Patent Group, Inc. - Form 10-Q

### Table of Contents

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)
<b>Denominator</b>				
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
<b>Earnings (Loss) per common share:</b>				
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.

Table of Contents

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

## Edgar Filing: Marathon Patent Group, Inc. - Form 10-Q

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.

Table of Contents

**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,



## Edgar Filing: Marathon Patent Group, Inc. - Form 10-Q

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.

Table of Contents

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

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

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

**NOTE 3 ACQUISITIONS**

**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.

## Edgar Filing: Marathon Patent Group, Inc. - Form 10-Q

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.

Table of Contents

**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

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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.

Table of Contents

**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

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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	\$	<b>1,030,000</b>

### **Clouding Corp.**

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

Table of Contents

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	<b>\$</b>	<b>15,796,000</b>

Total consideration paid of the following:

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

Historical financial statements of Clouding IP and the pro forma condensed combined consolidated financial statements (both carve-out of certain operations of Clouding IP) can be found on the Form 8-K/A filed with the SEC on November 12, 2014. The unaudited pro forma condensed combined consolidated financial statements are not necessarily indicative of the results that actually would have been attained if the merger had been in effect on the dates indicated or which may be attained in the future. Such statements should be read in conjunction with the historical financial statements of the Company.

**TLI Communications LLC**

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



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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	\$	<b>1,168,000</b>

Table of ContentsMedtech 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 Medtronic, Inc. The assumed debt payable to Medtronic was renegotiated, as a result of which, the outstanding amount was \$6.25 million prior to any repayment by the Company. The debt was due in installments through July 20, 2015; in the event that the Company paid the total amount due by June 30, 2015, the Company would receive a reduction in the remaining principal owed by the Company in the amount of \$750,000. The transaction resulted in a business combination and caused the Medtech Entities to become wholly-owned subsidiaries of the Company.

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

Intangible assets	\$	12,800,000
Goodwill		2,700,000
Net purchase price	\$	<b>15,500,000</b>

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

Munitech S.a.r.l.

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

Packet Radio Service ( GPRS ).

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

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

Table of Contents**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
Total	\$ 23,488,453

The Company made the following patent purchases:

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

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- In April 2013, the Company acquired 10 US patents, 27 foreign patents and 1 patent pending from CyberFone Systems valued at \$1,135,512;
- In June 2013, in connection with the closing of a licensing agreement with Siemens Technology, we acquired a patent portfolio from that company valued at \$1,000,000;
- In September 2013, the Company acquired 14 US patents for a total purchase price of \$1,100,000;
- In November 2013, the Company acquired four patents for 150,000 shares of the Company's Common Stock, which the Company valued at \$718,500 based on the fair market value of the stock issued;
- In December 2013, the Company acquired certain patents from Delphi Technologies, Inc. for \$1,700,000 pursuant to a Patent Purchase Agreement entered into on October 31, 2013 and Amended on December 16, 2013;
- In December 2013, in connection with a licensing agreement with Zhone, the Company acquired a portfolio of patents from Zhone;
- In December 2013, in connection with a settlement and license agreement, we agreed to settle and release another defendant for past and future use of our patents, whereby the defendant agreed to assign and transfer 2 U.S. patents and rights to the Company;
- In May 2014, we acquired ownership rights of Dynamic Advances, LLC, a Texas limited liability company, IP Liquidity Ventures, LLC, a Delaware limited liability company, and Sarif Biomedical, LLC, a Delaware limited liability company, all of which hold patent portfolios or contract rights to the revenue generated from the patent portfolios;
- In June 2014, we acquired Selene Communication Technologies, LLC, which holds multiple patents in the search and network intrusion field;
- In August 2014, we acquired patents from Clouding IP LLC, with such patents related to network and data management technology;
- In September 2014, we acquired TLI Communications, which owns a single patent in the telecommunication field;
- In October 2014, we acquired three patent portfolios from MedTech Development, LLC, which owns medical technology patents;
- In June 2016, we acquired two patent portfolios from Siemens covering W-CDMA and GSM cellular technology.

Table of Contents

As of June 30, 2016, the Company's patent portfolios consist of 545 U.S. and foreign patents and patent rights and 69 patent applications. In the aggregate, the earliest date for expiration of a patent in the Company's patent portfolio is past (the patent is expired, but patent rules allow for six year look-back for royalties), the median expiration date for patents in the Company's portfolio is June 17, 2017, and the latest expiration date for a patent in any of the Company's patent portfolios is May 29, 2032. A summary of the Company's patent portfolios is as follows:

Subsidiary	Number of Patents	Earliest Expiration Date	Median Expiration Date	Latest Expiration Date	Subject Matter
Bismarck IP Inc.	17	09/15/16	08/02/16	01/22/18	Communication and PBX equipment
Clouding Corp.	61	Expired	08/06/21	03/29/29	Network and data management
CRFD Research, Inc.	5	05/25/21	09/17/21	08/19/23	Web page content translator and device-to-device transfer system
Cyberfone Systems, LLC	35	Expired	09/15/15	06/07/20	Telephony and data transactions
Dynamic Advances, LLC	4	Expired	10/02/17	03/06/23	Natural language interface
E2E Processing, Inc.	4	04/27/20	11/17/23	07/18/24	Manufacturing schedules using adaptive learning
Hybrid Sequence IP, Inc.	2	Expired	09/09/16	07/17/17	Asynchronous communications
IP Liquidity Ventures, LLC	3	Expired	06/06/15	06/06/15	Pharmaceuticals / tire pressure systems
Loopback Technologies, Inc.	10	Expired	08/05/16	08/27/22	Automotive
Medtech Group Acquisition Corp.	131	Expired	06/28/19	08/09/29	Medical technology
Munitch IP S.a.r.l	221	9/16/2018	6/21/2026	5/29/1932	W-CDMA and GSM cellular technology
Relay IP, Inc.	1	Expired	Expired	Expired	Multicasting
Sampo IP, LLC	3	03/13/18	12/01/19	11/16/23	Centrifugal communications
Sarif Biomedical LLC	4	Expired	Expired	Expired	Microsurgery equipment
Signal IP, Inc.	7	Expired	12/01/15	08/06/22	Automotive
TLI Communications, LLC	6	06/17/17	06/17/17	06/17/17	Telecommunications
Vantage Point Technology, Inc.	31	Expired	05/31/16	03/09/18	Computer networking and operations
		<b>Median</b>	<b>06/17/17</b>		

On May 16, 2016, the Company assigned the Selene patents to SRI International, the original owner, following the Company's decision to end of life the enforcement action related to the Selene portfolio. In addition, the carrying value is \$0 on the Company's books for both of the Sampo IP, LLC and Cyberfone Systems, LLC portfolios.

**NOTE 5 - STOCKHOLDERS EQUITY**

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

On June 24, 2013, the reverse stock split ratio of one (1) for thirteen (13) basis was approved by the Board of Directors. On July 18, 2013, the Company filed a certificate of amendment to its Amended and Restated Articles of Incorporation with the Secretary of State of the State of Nevada in order to effectuate a reverse stock split of the Company's issued and outstanding Common Stock, par value \$0.0001 per share on a one (1) for thirteen (13) basis.

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

Table of Contents

**Series B Convertible Preferred Stock**

On May 1, 2014, the Company filed with the Secretary of State of Nevada a Certificate of Designations of Series B Convertible Preferred Stock (the Series B Certificate of Designations ) authorizing 500,000 shares of Series B Convertible Preferred Stock and establishing the designations, preferences, and other rights of the Series B Convertible Preferred Stock. The Series B Certificate of Designations became effective upon filing.

On May 2, 2014, the Company issued an aggregate of 782,000 shares of Series B Convertible Preferred Stock valued at \$2,807,380 to acquire IP Liquidity Ventures, LLC, Dynamic Advances, LLC and Sarif Biomedical, LLC. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

On September 17, 2014, the Company entered into a consulting agreement (the GRQ Consulting Agreement ) with GRQ Consultants, Inc. ( GRQ ), pursuant to which GRQ shall provide certain consulting services including, but not limited to, advertising, marketing, business development, strategic and business planning, channel partner development and other functions intended to advance the business of the Company. As consideration, GRQ was entitled to 200,000 shares of the Company's Series B Convertible Preferred Stock, 50% of which vested upon execution of the GRQ Consulting Agreement, and 50% of which shall vest in six (6) equal monthly installments of commencing on October 17, 2014. The first tranche of 100,000 shares of Series B Convertible Preferred Stock was issued to GRQ on October 6, 2014. In addition, the GRQ Consulting Agreement allows for GRQ to receive additional shares of Series B Convertible Preferred Stock upon the achievement of certain performance benchmarks. All shares of Series B Convertible Preferred Stock issuable to GRQ shall be pursuant to the 2014 Plan (as defined below) and shall be subject to shareholder approval of the 2014 Plan on or prior to September 16, 2015; the shareholders approved the 2014 Plan on July 31, 2015. The GRQ Consulting Agreement contains an acknowledgement that the conversion of the preferred stock into shares of the Company's common stock is precluded by the equity blockers set forth in the certificate of designation and in Section 17 of the 2014 Plan to ensure compliance with NASDAQ Listing Rule 5635(d).

**Common Stock**

On June 24, 2013, the reverse stock split ratio of one (1) for thirteen (13) basis was approved by the Board of Directors. On July 18, 2013, the Company filed a certificate of amendment to its Amended and Restated Articles of Incorporation with the Secretary of State of the State of Nevada in order to effectuate a reverse stock split of the Company's issued and outstanding Common Stock, par value \$0.0001 per share on a one (1) for thirteen (13) basis. All share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the reverse stock split.

On April 22, 2014, the Company issued 300,000 shares of restricted Common Stock to TT IP LLC pursuant to the acquisition of patents on November 13, 2013.



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

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

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

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

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

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

Table of Contents

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

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

On January 29, 2015, the Company issued 134,409 shares of the Company's Common Stock to DBD Credit Funding, LLC ( DBD ), an affiliate of Fortress Credit Corp. ( Fortress ), pursuant to the Fortress transaction as set forth in Note 6.

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

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

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

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

On September 21, 2015, the Company issued 150,000 shares of the Company's Common Stock to Alex Partners, LLC and Del Mar Consulting Group, Inc., pursuant to a services agreement entered into on September 21, 2015. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$2.23 per share or \$334,500. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

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

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

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

On May 11, 2016, the Company entered into a consulting agreement with the Cooper Law Firm, LLC ( Cooper ), pursuant to which the Company agreed to issue 80,000 shares of the Company's Common Stock. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$1.70 per share or \$136,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

Table of Contents

**Common Stock Warrants**

On May 1, 2014, the Company issued warrants to purchase 511,790 shares of Common Stock, at a price of \$3.75 per share of Common Stock, pursuant to the Private Placement described in detail below. The Company reviewed the issuance of warrants, done in conjunction with the financing closed on May 1, 2014, and determined that pursuant to ASC 480 and ASC 815, the warrants met the requirement to be classified as equity and were booked as Additional Paid-in Capital.

In conjunction with the issuance of \$5,550,000 in convertible debt on October 16, 2014, the Company issued two-year Warrants to purchase 258,998 shares of the Company's Common Stock, par value \$0.0001 per share pursuant to a securities purchase agreement. The warrants were valued at \$164,020 and were recorded as a discount to the fair value of the convertible notes. The Warrants are initially convertible into shares of the Company's Common Stock at an exercise price of \$8.25 per share. The conversion and exercise prices are subject to adjustment in the event of certain events, including stock splits and dividends. The Company reviewed the instruments in the context of ASC 480 and determined that the convertible notes should be recorded as a liability and analyzed the conversion feature and bifurcation pursuant to ASC 815 and ASC 470, respectively, to determine that there was no beneficial conversion feature and that the conversion feature should not be bifurcated.

On January 29, 2015, the Company and certain of its subsidiaries entered into a series of Agreements including a Securities Purchase Agreement ( Fortress Purchase Securities Agreement ) with DBD, an affiliate of Fortress, under which the Company issued a five-year warrant ( Fortress Warrant ) to purchase 100,000 shares of the Company's Common Stock exercisable at \$7.44 per share, subject to adjustment. The Company reviewed the instruments in the context of ASC 480 and determined that the convertible notes should be recorded as a liability, the warrants should be recorded as equity and analyzed the conversion feature and bifurcation pursuant to ASC 815 and ASC 470, respectively, to determine that there was no beneficial conversion feature and that the conversion feature should not be bifurcated.

During the year ended December 31, 2015, warrants to purchase 5,000 shares of Common Stock were exercised and no warrants to purchase shares of Common Stock were forfeited.

During the three and six months ended June 30, 2015, the Company recorded stock based compensation expense of \$0 and \$3,465 in connection with the vested warrants associated with one warrant-based compensatory grant, compared to no compensation expenses for the three and six months ended June 30, 2016 associated with this warrant. The warrant was valued at the time of grant on January 26, 2012, based on the Black-Scholes model, using the strike and market prices of \$3.25 per share, the term of 10 years, volatility of 191% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.96%. At December 31, 2015, there was a total of \$0 of unrecognized compensation expense related to future recognition of warrant-based compensation arrangements.

A summary of the status of the Company's outstanding stock warrants at June 30, 2016 is as follows:

Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life
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Balance at December 31, 2015	2,021,308	\$	4.27	0.87
Granted	-		-	-
Cancelled	1,310,790	\$	3.44	-
Forfeited	-		-	-
Exercised	-	\$	-	-
Balance at June 30, 2016	710,518		5.80	1.28
Warrants exercisable at June 30, 2016	710,518			
Weighted average fair value of warrants granted during the period		\$	-	

At various times during the three months ended June 30, 2016, warrants issued in conjunction with financings entered into by the Company in May 2013 and May 2014 were cancelled as they passed their expiration dates unexercised.

Table of Contents

**Warrant Amendment Letter**

On April 20, 2014, the Company sent a letter (the Warrant Amendment Letter) to all the holders of the warrants which were granted in connection with the sale of units pursuant to a securities purchase agreements which occurred between May 2013 and August 2013. The Warrant Amendment Letter offered to reduce the exercise price of the warrants from \$6.50 per share to \$5.75 per share, if the holders of the warrants accepted the Company's offer to exercise the warrants in full for cash by April 22, 2014 (the Expiration Date). The Company subsequently extended the Expiration Date to April 24, 2014. On April 24, 2014, one holder of warrants, who is an accredited investor, accepted the Company's offer and thereby exercised his warrants, for gross proceeds to the Company of approximately \$138,222. After analyzing the circumstances relative to the Warrant Amendment Letter—the extremely short period of time to exercise pursuant to the Amendment Letter, the relatively small change in the exercise price and the limited response to the Amendment Letter—the Company deemed that the change was not a significant modification of the terms of the warrant and did not assess a new fair value and consequently did not make an entry for any adjustment in the value.

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

**Common Stock Options**

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

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

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

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On May 15, 2014, the Company entered into an executive employment agreement with Francis Knuettel II ( Knuettel Agreement ) pursuant to which Mr. Knuettel would serve as the Company's Chief Financial Officer. As part of the consideration, the Company agreed to grant Mr. Knuettel a ten-year stock option to purchase an aggregate of 290,000 shares of Common Stock, with a strike price of \$4.165 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Knuettel Agreement. The option was valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 6.5 years, volatility of 63% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.97%.

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

Table of Contents

On August 29, 2014, the Company entered into an executive employment agreement with Daniel Gelbtuch ( Gelbtuch Agreement ) pursuant to which Mr. Gelbtuch would serve as the Company's Chief Marketing Officer. As part of the consideration, the Company agreed to grant Mr. Gelbtuch a ten-year stock option to purchase an aggregate of 290,000 shares of Common Stock, with a strike price of \$5.62 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Gelbtuch Agreement. Mr. Gelbtuch's employment with the Company was terminated as of January 20, 2015 and the vested shares at that time remained available for Mr. Gelbtuch to exercise until January 20, 2016. The option was valued based on the Black-Scholes model, using the strike and market prices of \$5.62 per share, life of 6.5 years, volatility of 62% based on the average volatility of comparable companies over the prior 10-year period and a discount rate as published by the Federal Reserve of 1.95%.

On September 16, 2014, the Company issued its independent board members five-year options to purchase an aggregate of 60,000 shares of the Company's Common Stock with an exercise price of \$7.445 per share, subject to adjustment, which shall vest monthly over twelve (12) months commencing on the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$7.445 per share, life of three years, volatility of 49% based on the average volatility of comparable companies over the prior 5-year period and a discount rate as published by the Federal Reserve of 1.04%.

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

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

On October 31, 2014, the Company issued existing employees, ten-year options to purchase an aggregate of 680,000 shares of the Company's Common Stock with an exercise price of \$6.40 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

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



On February 5, 2015 the Company issued to a consultant, a five-year option to purchase an aggregate of 25,000 shares of the Company's Common Stock with an exercise price of \$6.80 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.80 per share, an expected term of 3.25 years, volatility of 47% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 0.92%.

On March 6, 2015 the Company issued a new board member a five-year option to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$7.37 per share, subject to adjustment, which shall vest in twelve (12) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$7.37 per share, an expected term of 3.00 years, volatility of 41% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.16%.

On March 18, 2015 the Company issued a new board member a five-year option to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$6.61 per share, subject to adjustment, which shall vest in twelve (12) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.61 per share, an expected term of 3.00 years, volatility of 41% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 0.92%.

Table of Contents

On April 7, 2015 (the "Effective Date"), the Company entered into a consulting agreement (the "Consulting Agreement") with Richard Chernicoff, a member of the Company's Board of Directors, pursuant to which Mr. Chernicoff shall provide certain services to the Company, including serving as the interim General Counsel and interim General Manager of commercial product commercialization development. Pursuant to the terms of the Consulting Agreement, Mr. Chernicoff shall receive a monthly retainer of \$27,000 and a ten-year stock option to purchase 280,000 shares of the Company's Common Stock pursuant to the Company's 2014 Plan. The stock options shall have an exercise price of \$6.76 per share, the closing price of the Company's common stock on the date immediately prior to the Board of Directors approval of such stock options and the options shall vest as follows: 25% of the option shall vest on the 12 month anniversary of the Effective Date and thereafter 2.083% on the 21st day of each succeeding calendar month for the following twelve months, provided Mr. Chernicoff continues to provide services (in addition to as a member of the Company's Board of Directors) at the time of vesting. The option shall be subject in all respects to the terms of the 2014 Plan. Notwithstanding anything herein to the contrary, the remainder of the option shall be subject to the following as an additional condition of vesting: (A) options to purchase 70,000 shares of the Company's Common Stock under the option shall not vest at all unless the price of the Company's common stock while Mr. Chernicoff continues as an officer and/or director reaches \$8.99 and (B) options to purchase 70,000 shares of the Company's Common Stock under the option shall not vest at all unless the price of the Company's common stock while Mr. Chernicoff continues as an officer and/or director reaches \$10.14. For valuation purposes, the options were divided into two parts—the time-based vesting component and the performance-based vesting component. The time-based vesting component was valued based on the Black-Scholes model, using the strike and market prices of \$6.76 per share, an expected term of 6.25 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.53%. The performance-based vesting component was valued based on the Monte Carlo Simulation model, using the strike and market prices of \$6.76 per share, an expected term of 10.0 years, volatility of 61% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.89%. On May 15, 2016, the Company and Mr. Chernicoff entered into an amendment of his consulting agreement whereby the monthly retainer was eliminated and replaced with an hourly option for legal services and the portion of his option to purchase 140,000 shares of the Company's common stock as set forth in clauses (A) and (B) above were terminated.

On September 16, 2015, the Company issued its independent board members ten-year options to purchase an aggregate of 80,000 shares of the Company's Common Stock with an exercise price of \$2.03 per share, subject to adjustment, which shall vest monthly over twelve (12) months commencing on the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$2.03 per share, an expected term of 5.5 years, volatility of 47% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.72%.

On October 14, 2015, the Company issued certain of its employees ten-year options to purchase an aggregate of 385,000 shares of the Company's Common Stock with an exercise price of \$1.86 per share, subject to adjustment, which shall vest monthly over twenty-four (24) months commencing on the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$1.86 per share, an expected term of 6.5 years, volatility of 49% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.57%.

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

On May 10, 2016, the Company entered into an executive employment agreement with Erich Spangenberg ("Spangenberg Agreement") pursuant to which Mr. Spangenberg would serve as the Company's Director of Acquisitions, Licensing and Strategy. As part of the consideration, the Company agreed to grant Mr. Spangenberg a ten-year stock option to purchase an aggregate of 500,000 shares of Common Stock, with a strike price of \$1.69 per share, vesting in twenty-four (24) equal installments on each monthly anniversary of the date of the Spangenberg Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$1.69 per share, an expected term of 5.75 years, volatility of 47% based on the average volatility of comparable companies over the comparable prior period and a discount rate as

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published by the Federal Reserve of 1.32%.

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

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### Table of Contents

For the three and six months ended June 30, 2016 the Company recorded option-based compensation expenses of \$511,764 and \$1,062,200, respectively. A summary of the stock options as of June 30, 2016 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance at December 31, 2015	3,383,267	\$ 4.25	7.11
Granted	550,000	\$ 1.74	9.87
Cancelled	57,500	\$ 5.92	-
Forfeited	190,950	\$ 6.06	-
Exercised	-	\$ -	-
Balance at June 30, 2016	3,684,817	\$ 3.50	7.11
Options Exercisable at June 30, 2016	2,434,251		
Options expected to vest	1,250,566		
Weighted average fair value of options granted during the period		\$ 0.79	

Stock options outstanding at June 30, 2016 as disclosed in the above table have approximately \$1,074,559 in intrinsic value at June 30, 2016.

### **Non-Controlling Interest**

Non-controlling interest represents equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to the Company's ownership stake in 3D Nanocolor Corp, but rather, non-controlling interests includes the minority equity holders' proportionate share of the equity of 3d Nanocolor Corp.

Ownership interests in subsidiaries held by parties other than the Company are presented as non-controlling interest within stockholders' equity, separately from the equity held by the Company on the consolidated statements of stockholders' equity. Revenues, expenses, net income and other comprehensive income are reported in the consolidated financial statements at the consolidated amounts, which includes amounts attributable to both the Company's interest and the non-controlling interests in 3D Nanocolor Corp. Net income and other comprehensive income is then attributed to the Company's interest and the non-controlling interests. Net income to non-controlling interests is deducted from net income in the consolidated statements of income to determine net income attributable to the Company's common shareholders.

### **NOTE 6 COMMITMENTS AND CONTINGENCIES**

#### **Fortress Transaction**

On January 29, 2015, the Company and certain of its subsidiaries (each a "Subsidiary") entered into a series of Agreements including a Fortress Securities Agreement and a Subscription Agreement with DBD, an affiliate of Fortress, under which the Company sold to the purchasers:

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(i) \$15,000,000 original principal amount of Senior Secured Notes ( Fortress Notes ), (ii) a right to receive a portion of certain proceeds from monetization net revenues received by the Company (after receipt by the Company of \$15,000,000 of monetization net revenues and repayment of the Fortress Notes), (the Revenue Stream ), (iii) a five-year Fortress Warrant to purchase 100,000 shares of the Company s Common Stock exercisable at \$7.44 per share, subject to adjustment; and (iv) 134,409 shares of the Company s Common Stock. Under the Fortress Purchase Agreement, the Company has the right to require the purchasers to purchase an additional \$5,000,000 of Notes (which will increase proportionately the Revenue Stream), subject to the achievement of certain milestones, and further contemplates that Fortress may, but is not obligated to, fund up to an additional \$30,000,000, on equivalent economic terms. The Company may use the proceeds to finance the monetization of its existing assets, provide further expansion capital for new acquisitions, to repay existing debt (including without limitation, the Company s 11% convertible notes issued October 9, 2013 and for general working capital and corporate purposes.

Pursuant to the Purchase Agreement entered into on January 29, 2015, the Company issued to Fortress a Note in the original principal amount of \$15,000,000 (the Initial Note ). The Initial Note matures on July 29, 2018. If any additional Notes are issued pursuant to the Fortress Securities Purchase Agreement, the maturity date of such additional Fortress Notes shall be 42 months after issuance. The unpaid principal amount of the Initial Note (including any PIK Interest, as defined below) shall bear cash interest at a rate equal to LIBOR plus 9.75% per annum; *provided* that upon and during the continuance of an Event of Default (as defined in the Fortress Securities Purchase Agreement), the interest rate shall increase by an additional 2% per annum. As of June 30, 2016, the twelve-month LIBOR USD rate was 1.23%. Interest on the Initial Note shall be paid on the last business day of each calendar month (the Interest Payment Date ), commencing January 31, 2015. Interest shall be paid in cash except that 2.75% per annum of the interest due on each Interest Payment Date shall be paid-in-kind, by increasing the principal amount of the Notes by the amount of such interest, effective as of the applicable Interest Payment Date ( PIK Interest ). PIK Interest shall be treated as added principal of the Initial Note for all purposes, including interest accrual and the calculation of any prepayment premium.

Table of Contents

The Fortress Securities Purchase Agreement contains certain customary events of default, and also contains certain covenants including a requirement that the Company maintain minimum liquidity of \$1,000,000 in unrestricted cash and cash equivalents and that the Company shall have Monetization Revenues (as defined in the Fortress Purchase Agreement) for each of the four fiscal quarters commencing December 31, 2014 of at least \$15,000,000.

The terms of the Fortress Warrant provide that until January 29, 2020, the Fortress Warrant may be exercised for cash or on a cashless basis. Exercisability of the Fortress Warrant is limited if, upon exercise, the holder would beneficially own more than 4.99% of the Company's Common Stock.

As part of the transaction, DBD entered into a lock-up agreement (the "Lock-Up Agreement") pursuant to which the parties and certain related holders agreed until the earlier of 12 months or acceleration of an Event of Default (as defined in the Fortress Securities Purchase Agreement), that they will not, directly or indirectly, (i) offer, sell, offer to sell, contract to sell, hedge, hypothecate, pledge, sell any option or contract to purchase any option or contract to sell, grant any option, right or warrant to purchase or sell (or announce any offer, sale, offer of sale, contract of sale, hedge, hypothecation, pledge, sale of any option or contract to purchase, purchase of any option or contract of sale, grant of any option, right or warrant to purchase or other sale or disposition), or otherwise transfer or dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future), the Lock-Up Shares (as defined in the Lock-Up Agreement), beneficially owned, within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), by such Holder and his/her Related Group (as such terms are defined in the Lock-Up Agreement) on the date of the Lock-Up Agreement or thereafter acquired or (ii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Lock-Up Shares, whether or not any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of any Lock-Up Shares. The Holders may purchase additional shares of the Company's Common Stock during the Lock-Up Period (as defined in the Lock-Up Agreement) to the extent that such purchase only increases the net holding of the Holders in the Company.

In connection with the transactions described above, TechDev, Audrey Spangenberg, Erich Spangenberg, and Granicus (the "Spangenberg Holders") entered into a lock-up agreement (the "Spangenberg Lockup") with respect to 1,626,924 shares of Common Stock, 48,078 shares of Common Stock underlying warrants, and 782,000 shares of Common Stock underlying preferred stock, pursuant to which the Spangenberg Holders agreed that until payment in full of the Note Obligations (as defined in the Fortress Notes), which shall include but not be limited to all principal and interest on outstanding Notes pursuant to the Purchase Agreement, the Spangenberg Holders and certain related parties agreed that they will not, directly or indirectly, (i) offer, sell, offer to sell, contract to sell, hedge, hypothecate, pledge, sell any option or contract to purchase any option or contract to sell, grant any option, right or warrant to purchase or sell (or announce any offer, sale, offer of sale, contract of sale, hedge, hypothecation, pledge, sale of any option or contract to purchase, purchase of any option or contract of sale, grant of any option, right or warrant to purchase or other sale or disposition), or otherwise transfer or dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future), more than 5% of the Spangenberg Lockup shares (as defined in the Spangenberg Lock-Up Agreement), beneficially owned, within the meaning of Rule 13d-3 under the Exchange Act, by such Holder and his/her Related Group (as such terms are defined in the Spangenberg Lock-Up Agreement) on the date of the Spangenberg Lock-Up Agreement or thereafter acquired or (ii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of more than 5% of the Spangenberg Lock-Up Shares, whether or not any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of any Lock-Up Shares. The Spangenberg Holders may purchase additional shares of the Company's Common Stock during the Lock-Up Period (as defined in the Spangenberg Lock-Up Agreement) to the extent that such purchase only increases the net holding of the Holders in the Company.

Table of Contents

Pursuant to the Fortress Securities Purchase Agreement, as security for the payment and performance in full of the Secured Obligations (as defined in the Fortress Securities Purchase Agreement) in favor of DBD, the Company and certain subsidiaries executed and delivered in favor of DBD a Security Agreement ( Security Agreement ) and a Patent Security Agreement ( Patent Security Agreement ), including a pledge of the Company's interests in certain of its subsidiaries. As further set forth in the Security Agreement, repayment of the Note Obligations is secured by a first priority lien and security interest in all of the assets of the Company, subject to permitted liens on permitted indebtedness that existed as of January 29, 2015. The security interest does not include a lien on the assets held by Orthophoenix, LLC. Certain subsidiaries of the Company (excluding Orthophoenix) also executed guarantees in favor of the purchasers (each, a Guaranty ), guaranteeing the Note Obligations. As required by the terms of certain notes issued by the Company in October 2014 ( October Notes ), the October Note holders consented to the transactions described herein.

Within thirty days, the Company was required to open a cash collateral account into which all Company revenue shall be deposited and which shall be subject to a control agreement outlining the disbursement in accordance with the terms of the Fortress Securities Purchase Agreement of all proceeds.

Pursuant to the Fortress Securities Purchase Agreement, the Company entered into the Fortress Patent License Agreement with DBD pursuant to which the Company agreed to grant to the Licensee certain rights, including right to license certain patents and patent applications, which licensing rights to be available solely upon an acceleration of the Note Obligations, as provided in the Fortress Securities Purchase Agreement.

**Office Lease**

In October 2013, the Company entered into a net-lease for its current office space in Los Angeles, California. The lease commenced on May 1, 2014 and runs for seven years through April 30, 2021, with monthly lease payment escalating each year of the lease. In addition to paying a deposit of \$7,564 and the monthly base lease cost, the Company is required to pay a pro rata share of operating expenses and real estate taxes. Under the terms of the lease, the Company will not be required to pay rent for the first five months but must remain in compliance with the terms of the lease to continue to maintain that benefit. In addition, the Company has a one-time option to terminate the lease in the 42th month of the lease. Minimum future lease payments under this lease at June 30, 2016, for the next five years and thereafter are as follows:

2016	\$	34,608
2017		71,288
2018		74,540
2019		77,872
2020		81,336
Thereafter		27,504
Total	\$	367,148

**NOTE 7 SUBSEQUENT EVENTS**

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 Undsutry Inc, (together, Siemens ). The patents purchased by Marathon IP relate to Internet-of-Things (IOT) technology. Generally, the portfolio's subject

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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.

On August 11, 2016, our Luxembourg subsidiary PG Technologies S.a.r.l. entered into a strategic relationship with a large fund and a Fortune Global 50 company to manage, commercialize and monetize approximately 10,000 patents all within a particular industry vertical.



Table of Contents

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

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

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

**Overview**

We acquire patents and patent rights from owners or other ventures and seek to monetize the value of the patents through litigation and licensing strategies, alone or with others. Part of our acquisition strategy is to acquire or invest in patents and patent rights that cover a wide-range of subject matter which allows us to seek the benefits of a diversified portfolio of assets in differing industries and countries. Generally, the patents and patent rights that we seek to acquire have large identifiable targets who are or have been using technology that we believe infringes our patents and patent rights. We generally monetize our portfolio of patents and patent rights by entering into license discussions, and if that is unsuccessful, initiating enforcement activities against any infringing parties with the objective of entering into comprehensive settlement and license agreements that may include the granting of non-exclusive retroactive and future rights to use the patented technology, a covenant not to sue, a release of the party from certain claims, the dismissal of any pending litigation and other terms. Our strategy has been developed with the expectation that it will result in a long-term, diversified revenue stream for the Company. As of June 30, 2016, we owned 545 U.S. and foreign patents and patent rights and 69 patent applications.

Our principal office is located at 11100 Santa Monica Blvd., Suite 380, Los Angeles, CA 90225. Our telephone number is (703) 232-1701.

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

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

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

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

Table of Contents

**Critical Accounting Policies and Estimates**

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

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

Principles of Consolidation

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

Use of Estimates and Assumptions

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

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 605, Revenue Recognition. Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been substantially performed, (iii) amounts are fixed or determinable and (iv) collectability of amounts is reasonably assured.

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

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

### Accounting for Acquisitions

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

### Intangible Assets - Patents

Intangible assets include patents purchased and patents acquired in lieu of cash in licensing transactions. The patents purchased are recorded based on the cost to acquire them and patents acquired in lieu of cash are recorded at their fair market value. The costs of these assets are amortized over their remaining useful lives. Useful lives of intangible assets are periodically evaluated for reasonableness and the assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. The Company recorded 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 of 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 of the Company's portfolios.

Table of Contents

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 months ended June 30, 2016 resulted from the determination to end of life one of the Company's portfolios.

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.

Table of Contents

**Liquidity and Capital Resources**

At June 30, 2016, we had approximately \$7.2 million in cash and a working capital deficit of approximately \$5.1 million, compared to approximately \$2.6 million in cash and a working capital deficit of approximately \$12.2 million as of December 31, 2015.

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

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

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

**Recent Accounting Pronouncements**

In 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.

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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.



Table of Contents

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

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

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

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

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

**Results of Operations**

*For the Three and Six Months Ended June 30, 2016 and 2015*

We generated revenues of \$34,349,762 and \$36,409,438 during the three and six months ended June 30, 2016 as compared to \$1,368,986 and \$5,462,855 during the three and six months ended June 30, 2015. For the three and six months ended June 30, 2016, this represented an increase

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of \$32,980,776 or 2,409% and \$30,946,583 or 566%, respectively. On an absolute basis, revenue for the three and six months ended June 30, 2016 was primarily derived from the issuance of one-time patent licenses with a small amount of recurring royalties and for the three and six months ended June 30, 2015 revenue was derived from both the issuance of one-time patent licenses and recurring royalties. The increase in revenue from 2015 to 2016 resulted from a number of larger one-time license agreements entered into by the Company's Dynamic Advances and Medtech subsidiaries.

Revenues from the issuance of one-time licenses to certain of the Company's patent portfolios accounted for approximately 100% and 99% of our revenues for the three months and six ended June 30, 2016 and 79% and 91% for the three and six months ended June 30, 2015, respectively. For the three months ended June 30, 2016, revenues from the five largest settlement and license agreements accounted for approximately 99% of the Company's revenues, whereas revenues from the five largest settlement and license agreements accounted for 63% of the Company's revenue for the comparable period ending June 30, 2015.

Table of Contents

While the Company added a number of patent portfolios during the period ending June 30, 2016 and immediately after and prior to this filing, and the Company intends to move towards a recurring revenue model associated with the new, larger portfolios, the Company expects that until such transition is fully enacted that a significant portion of its revenues in the upcoming periods will be based on one-time grants of similar non-recurring, non-exclusive, non-assignable licenses to a relatively small number of entities and their affiliates. Further, with the expected small number of firms with which the Company enters into license agreements, and the amount and timing of such license agreements, the Company also expects that its revenues may be highly variable from one period to the next.

Direct cost of revenues during the three and six months ended June 30, 2016 amounted to \$15,467,763 and \$18,107,740, respectively and for the three and six months ended June 30, 2015, the direct cost of revenues amounted to \$3,860,210 and \$8,188,375, respectively. For the three and six months ended June 30, 2016, this represented an increase of \$11,607,553 or 301% and \$9,919,365 or 121%, respectively. Direct costs of revenue include contingent payments to patent enforcement legal costs, patent enforcement advisors and inventors as well as various non-contingent costs associated with enforcing the Company's patent rights and otherwise in developing and entering into settlement and licensing agreements that generate the Company's revenue. For the three and six months ended June 30, 2016, the Company had higher costs associated with contingent payments associated with higher levels of revenue. Direct cost of revenues were 45% and 50%, respectively, for the three and six months ended June 30, 2016 and direct costs of revenues were 282% and 150%, respectively, for the comparable periods in 2015. The higher direct cost of revenues in 2015 relative to 2016 result from lower levels of revenue as well as costs associated with experts in preparation for trials in 2015 and a fixed price engagement agreement with former counsel for one of those trials.

We incurred other operating expenses of \$4,872,209 and \$9,196,300 for the three and six months June 30, 2016, respectively and \$6,075,533 and \$12,140,707 for the three and six months ended June 30, 2015, respectively. For the three and six months ended June 30, 2016, this represented a decrease in other operating expenses of \$1,203,324 or 20% and \$2,944,407 or 24%, respectively. These expenses primarily consisted of amortization of patents, general expenses, compensation to our officers, directors and employees, professional and consulting fees incurred in connection with the day-to-day operation of our business and patent and goodwill impairment charges. The year over year decline in other operating expenses for the six months ended June 30, 2016 resulted from declines in most expense categories, most notably from a decrease in patent amortization expenses, compensation and professional and consulting fees.

The operating expenses consisted of the following:

	Total Other Operating Expenses			
	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
Amortization of intangible assets (1)	1,961,411	3,029,000	3,987,310	5,627,461
Compensation and related taxes (2)	1,120,924	1,087,058	2,154,270	2,668,132
Consulting fees (3)	364,836	329,081	645,612	1,225,624
Professional fees (4)	498,212	578,920	903,705	1,348,535
Other general and administrative (5)	223,130	284,976	428,513	504,457
Goodwill impairment (6)	83,000	-	83,000	-
Patent impairment (7)	620,696	766,498	993,890	766,498
Total	4,872,209	6,075,533	9,196,300	12,140,707

## Edgar Filing: Marathon Patent Group, Inc. - Form 10-Q

Operating expenses for the three and six months ended June 30, 2016 include non-cash operating expenses totaling \$3,326,155 and \$6,277,933, respectively, and for the three and six month ended June 30, 2015, the Company incurred non-cash operating expenses of \$4,548,319 and \$8,618,747, respectively. Non-cash operating expenses consisted of the following:

Table of Contents

## Non-Cash Operating Expenses

	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
Amortization of intangible assets (1)	1,961,411	3,029,000	3,987,310	5,627,461
Compensation and related taxes (2)	482,640	600,495	901,447	1,227,821
Consulting fees (3)	156,572	141,946	274,263	965,175
Professional fees (4)	8,552	8,528	17,087	17,055
Other general and administrative (5)	13,284	1,852	14,936	14,737
Goodwill impairment (6)	83,000	-	83,000	-
Patent impairment (7)	620,696	766,498	993,890	766,498
Total	3,326,155	4,548,319	6,277,933	8,618,747

- (1) Amortization of intangibles and depreciation: Amortization expenses associated with patents and the Company's website were \$1,961,411 and \$3,987,310 during the three and six months ended June 30, 2016, respectively, a decrease of \$1,067,589 or 35% and \$1,640,151 or 29% relative to the three and six months ended June 30, 2015. The decrease results from the full impairment in three of the Company's portfolios and the partial impairment of another of the Company's portfolios during the intervening period of time. When the Company acquires patents and patent rights, the Company capitalizes the cost of those assets and amortizes those costs over the remaining useful lives of the assets. All patent amortization expenses are non-cash expenses.
- (2) Compensation expense and related taxes: Compensation expense includes cash compensation and related payroll taxes and benefits, and non-cash equity compensation expenses. For the three and six months ended June 30, 2016, respectively, compensation expense and related payroll taxes were \$1,120,924 and \$2,154,270, an increase of \$33,866 or 3% to \$1,087,058 and a decrease of \$513,862 or 19% from \$2,668,132 relative to the three and six months ended June 30, 2015. The increase in compensation for the three months ended June 30, 2016 primarily reflects salaries associated with new employees and termination payments to certain former employees and the decrease for the six months ended June 30, 2016 primarily reflects bonuses paid during the six months ended March 31, 2016. We recognized non-cash employee and board equity based compensation of \$482,640 and \$901,447, respectively, for the three and six months ended June 30, 2016 and \$600,495 and \$1,227,821, respectively, for the three and six months ended June 30, 2015.
- (3) Consulting fees: For the three and six months ended June 30, 2016, respectively, we incurred consulting fees of \$364,836 and \$645,612. This represented an increase in the amount of \$35,755 or 11% and a decrease of \$580,012 or 47% compared to the three and six months ended June 30, 2015. Consulting fees include both cash and non-cash related consulting fees primarily for investor relations, public relations and general consulting services. The increase during the three months ended June 30, 2016 reflects the engagement of a trial consultant while the decrease for the six months ended June 30, 2016 versus the six months ended June 30, 2015 reflect the non-cash compensation associated with a consulting agreement entered into in September 2014 that ran through March 2015. During the three and six months ended June 30, 2016, we recognized non-cash equity based consulting expenses of \$156,572 and \$274,263, respectively compared to non-cash equity-based consulting expenses of \$141,946 and \$965,175 for the three and six months ended June 30, 2015.
- (4) Professional fees: For the three and six months ended June 30, 2016, we incurred professional fees of \$498,212 and \$903,705, respectively, a decrease of \$80,708 or 14% and \$444,830 or 33% over the comparable periods in 2015. Professional fees primarily reflect the costs of professional outside accounting fees, legal fees and audit fees. The decrease in professional fees for the three and six months ended June 30, 2016 over the three and six months ended June 30, 2015 relate to lower professional outside legal, accounting and audit fees resulting from the absence of significant costs associated with closing the Fortress transaction and preparing for the subsequently terminated Uniloc transaction. During the three and six months ended June 30, 2016, we recognized non-cash equity based professional expenses of \$8,552 and \$17,087, respectively, compared to non-cash professional expenses of \$8,527 and \$17,055, respectively, during the same periods in 2015.
- (5) Other general and administrative expenses: For the three and six months ended June 30, 2016, we incurred other general and administrative expenses of \$223,130 and \$428,513, respectively, a decrease of \$61,846 or 22% and \$75,944 or 15% over the comparable periods in 2015. General and administrative expenses reflect the other non-categorized operating costs of the Company and include expenses related to being a public company, rent, insurance, technology and other expenses incurred to support the operations

of the Company.

- (6) Goodwill impairment: Based on the Company's decision to end of life one of its portfolios, the Company took an impairment charge during the three and six months ended June 30, 2016 in the carrying value of the related goodwill in the amount of \$83,000 compared to no goodwill impairment charge during the three and six months ended June 30, 2015.
- (7) Patent impairment: Based on changes in the expected timing of proceeds from the Clouding portfolio, as well as the impairment of one portfolio during the three months ended June 30, 2016 and two portfolios during the three months ended March 31, 2016, the Company took impairment charges for three and six months June 30, 2016 in the carrying value of the Company's patents assets in the amount of \$620,696 and 993,890, respectively, compared to impairment charges for three and six months June 30, 2015 in the carrying value of the Company's patents assets in the amount of \$766,498 and \$766,498, respectively.

Table of Contents

**Operating Income (Loss)**

We reported operating income (loss) of 14,009,790 and 9,105,398 for the three and six months ended June 30, 2016 and operating income (loss) of \$(8,566,757) and \$(14,866,227), for the three and six months ended June 30, 2015. For the three and six months ended June 30, 2016, this represented an increased operating income of \$22,576,547 and 23,971,625, respectively. The increased income from operations in 2016 relative to 2015 was primarily attributable to higher revenue, lower direct cost of revenues and lower patent amortization costs, only partially offset by marginally higher expenses in other expense categories.

**Other Income (Expenses)**

Total other income (expenses) was \$(761,250) and \$(1,775,319) for the three and six months ended June 30, 2016, respectively, and \$736,556 and \$(234,384) for the three and six months ended June 30, 2015, respectively. For the three and six months ended June 30, 2016, this represented a decrease in other income of \$(1,497,806) and \$(1,540,935), respectively. The principal component of the increase in the other expenses for the three and six months ended June 30, 2016 was interest expenses offset by a much lower change in the fair value adjustment of the Clouding IP earn out in 2016 compared to 2015. Year over year, interest expense declined from 2015 to 2016.

**Income Tax Benefit (Expense)**

We recognized an income tax benefit (expense) in the amount of \$(5,345,983) and \$(3,320,935) for the three and six months ended June 30, 2016, attributable to the Company's operating income in 2016, compared to the recognition of income tax benefits in the amounts of \$3,327,505 and \$5,816,344, respectively, for the three and six months ended June 30, 2015.

**Net Income (Loss)**

We reported net income (loss) of 7,902,557 and 4,009,144 for the three and six months ended June 30, 2016, respectively, and net income (loss) of \$(4,502,696) and \$(9,284,267) for the three and six months ended June 30, 2015, respectively. For the three and six months ended June 30, 2016, this represented an increase in the net income of \$12,405,253 and 13,293,411, respectively.

**Non-GAAP Reconciliation**

The Company recorded non-GAAP reconciliation items in the amount of \$8,561,458 and \$10,095,220 for the three and six months ended June 30, 2016, respectively, compared to non-GAAP reconciliation items in the amount of \$6,310 and \$2,190,640 for the three and six months ended June 30, 2015. The details of these non-GAAP reconciliation items are set forth below:

## Non-GAAP Reconciliation

	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)	\$ 7,906,279	\$ (4,502,696)	\$ 4,012,866	\$ (9,284,267)
Non-GAAP				
Amortization of intangible assets	1,961,411	3,029,000	3,987,310	5,627,461
Equity-based compensation	647,764	750,968	1,198,797	2,210,051
Impairment of intellectual property	703,696	766,498	1,076,890	766,498
Change in earn out liability	(169,172)	(2,304,301)	(167,830)	(2,304,301)
Non-cash interest expense	58,492	1,089,798	664,182	1,703,517
Deferred tax (benefit) / tax expense	5,345,983	(3,327,505)	3,320,935	(5,816,344)
Other	13,284	1,852	14,936	3,758
Non-GAAP net income (loss)	\$ 16,467,737	\$ (4,496,386)	\$ 14,108,086	\$ (7,093,627)



## Edgar Filing: Marathon Patent Group, Inc. - Form 10-Q

### Table of Contents

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

	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
Non-GAAP net income (loss)	\$ 16,467,737	\$ (4,496,386)	\$ 14,108,086	\$ (7,093,627)
<b>Denominator</b>				
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
<b>Non-GAAP earnings (Loss) per common share:</b>				
Non-GAAP income (Loss) - Basic	\$ 1.10	\$ (0.32)	\$ 0.94	\$ (0.51)
Non-GAAP income (Loss) - Diluted	\$ 1.03	\$ (0.32)	\$ 0.88	\$ (0.51)

### **Liquidity and Capital Resources**

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. At June 30, 2016, the Company's cash balances totaled \$7,158,779 compared to \$2,555,151 at December 31, 2015. The increase in the cash balances of \$4,603,628 resulted primarily from net cash provided by operations, offset by cash payments made for the acquisition of new patent portfolios as well as the repayment of all the Medtech acquisition debt as well as a portion of the Fortress debt.

Net working capital deficit declined by \$7,084,684 to \$(5,088,062) at June 30, 2016 from \$(12,172,746) at December 31, 2015. The increase in net working capital resulted primarily from an increase in current assets related to cash from operations and a decrease in current liabilities associated with a decrease in accounts payable and accrued expenses as well as a decrease in short-term debt and the earn-out liability for Clouding.

Cash provided (used) in operating activities was \$13,124,767 during the six months ended June, 2016 and cash provided (used) in operating activities of \$(5,592,048) during the three months ended June 30, 2015.

Cash provided (used) in investing activities was \$(1,156,291) for the six months ended June 30, 2016 compared to \$(20,668) cash used in investing activities for the six months ended June 30, 2015. The use of cash during the six months ended June 30, 2016 was primarily the acquisition of new patent portfolios and cash used during the six months ended June 30, 2015 was solely related to the purchases of property, equipment and other non-patent intangible assets.

Cash provided (used) in financing activities was \$(7,364,703) during the six months ended June 30, 2016 compared to cash provided by financing activities in the amount of \$2,013,844 during the six months ended June 30, 2015. Cash used in financing activities for the six months ended June 30, 2016 resulted from the repayment of all of the Medtech portfolio acquisition debt as well as a portion of the outstanding Fortress debt and cash provided by financing activities for the six months ended June 30, 2015 resulted from the transaction entered into with Fortress on

## Edgar Filing: Marathon Patent Group, Inc. - Form 10-Q

January 29, 2015, less repayment of general and patent portfolio acquisition debt, of equal or shorter terms, incurred during 2014.

Management is uncertain that the balance of cash and cash equivalents of \$7,158,779 at June 30, 2016 is sufficient to continue to fund the Company's operations through at least the next twelve months. The Company's operations are subject to various risks and there is no assurance that changes in the operations of the Company will not require the Company to raise additional cash sooner than planned in order to continue uninterrupted operations. In that event, the Company would seek to raise additional capital from the sale of the Company's securities, from borrowing or from other sources. Should the Company seek to raise capital from the issuances of its securities, such transactions would be subject to the risks of the market for the Company's securities at the time.

Table of Contents

**Off-balance Sheet Arrangements**

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

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

Not required for smaller reporting companies.

**Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures.*

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

We conducted an evaluation of the effectiveness of our disclosure controls and procedures ( Disclosure Controls ), as defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of June 30, 2016, the end of the period covered by this Quarterly Report on Form 10-Q. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to our limited internal audit function, our Disclosure Controls were not effective as of June 30, 2016, such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

## Edgar Filing: Marathon Patent Group, Inc. - Form 10-Q

Management is in the process of determining how best to change our current system and implement a more effective system to insure that information required to be disclosed in this Quarterly Report on Form 10-Q has been recorded, processed, summarized and reported accurately. Our management acknowledges the existence of this problem, and intends to develop procedures to address them to the extent possible given limitations in financial and manpower resources. While management is working on a plan, no assurance can be made at this point that the implementation of such controls and procedures will be completed in a timely manner or that they will be adequate once implemented.

### *Changes in Internal Controls.*

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

In the ordinary course of business, we actively pursue legal remedies to enforce our intellectual property rights and to stop unauthorized use of our technology. There are no proceedings in which any of our directors, officers or affiliates, or any registered beneficial shareholder, are adverse to the Company or has a material interest adverse to us.

In the normal course of our business of patent monetization, it is generally necessary for us to initiate litigation in order to commence the process of protecting our patent rights. Such litigation is expected to lead to a monetization event. Accordingly, we are, and in the future expect to become, a party to ongoing patent enforcement related litigation alleging infringement by various third parties of certain patented technologies owned and/or controlled by us. Litigation is commenced by and managed through the subsidiary that owns the related portfolio of patents or patent rights.

**Item 1A. Risk Factors.**

Not required for smaller reporting companies.

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

On May 11, 2016, the Company entered into a consulting agreement with the Cooper Law Firm, LLC ( Cooper ), pursuant to which the Company agreed to issue 80,000 shares of the Company's Common Stock. In connection with this transaction, the Company valued the shares at the quoted market price on the date of grant at \$1.70 per share or \$136,000. The transaction did not involve any underwriters, underwriting discounts or commissions, or any public offering. The issuance of these securities was deemed to be exempt from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof, as a transaction by an issuer not involving a public offering.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

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

Pursuant to the Dynamic Advances, LLC license entered into during the three months ended June 30, 2016, an employee, or entities in which the employee has an interest, of the Company received contingent payments in the amount of \$2.4 million relative to an agreement entered into in 2014, prior to the employee becoming an employee.

**Item 6. Exhibits.**

31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of the Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of the Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.ins	XBRL Instance Document**
101.sch	XBRL Taxonomy Extension Schema **
101.cal	XBRL Taxonomy Extension Calculation Linkbase Document**
101.def	XBRL Taxonomy Extension Definition Linkbase Document**
101.lab	XBRL Taxonomy Extension Label Linkbase Document**
101.pre	XBRL Taxonomy Extension Presentation Linkbase Document**

\* Furnished herewith

\*\* Filed herein

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 15, 2016

**MARATHON PATENT GROUP, INC.**

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

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