

Marathon Patent Group, Inc.  
Form 10-Q  
November 13, 2018

**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 September 30, 2018

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)

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Nevada                      001-36555      01-0949984  
(State or other jurisdiction) (Commission (IRS Employer

of incorporation)              File Number) Identification No.)

1180 North Town Center Drive, Suite 100

89144

Las Vegas, NV

(Address of principal executive offices)              (Zip Code)

Registrant's telephone number, including area code: 702-945-2773

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large Accelerated Filer      ☐ Accelerated Filer                      ☐  
Non-accelerated Filer      ☐ Smaller Reporting Company ☒  
Emerging growth company ☐

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

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 25,519,940 shares of common stock are issued and outstanding as of November 9, 2018.

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## **OTHER PERTINENT INFORMATION**

Unless specifically set forth to the contrary, “Marathon Patent Group, Inc.,” “we,” “us,” “our” and similar terms refer to Marathon Patent Group, Inc., a Nevada corporation, and its subsidiaries. Unless otherwise indicated, the per share information has been adjusted to reflect the one for four reverse stock split that went into effect on October 30, 2017 (the “Reverse Split”).

**Item 1. Financial Statements****MARATHON PATENT GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS**

|                                                                                                                                                                 | September<br>30, 2018<br>(Unaudited) | December<br>31, 2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                   |                                      |                      |
| Current assets:                                                                                                                                                 |                                      |                      |
| Cash and cash equivalents                                                                                                                                       | \$3,188,780                          | \$14,948,529         |
| Accounts receivable - net of allowance for bad debt of \$0 and \$387,976 for September 30, 2018 and December 31, 2017, respectively                             | 102,098                              | 6,826                |
| Prepaid expenses and other current assets                                                                                                                       | 550,184                              | 92,855               |
| Total current assets                                                                                                                                            | 3,841,062                            | 15,048,210           |
| Other assets:                                                                                                                                                   |                                      |                      |
| Property and equipment, net of accumulated depreciation of \$1,517,694 and \$134,513 for September 30, 2018 and December 31, 2017, respectively                 | 3,855,812                            | 10,011               |
| Intangible assets, net of accumulated amortization of \$47,451 for September 30, 2018                                                                           | 1,162,549                            | -                    |
| Total other assets                                                                                                                                              | 5,018,361                            | 10,011               |
| <b>TOTAL ASSETS</b>                                                                                                                                             | <b>\$8,859,423</b>                   | <b>\$15,058,221</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                     |                                      |                      |
| Current liabilities:                                                                                                                                            |                                      |                      |
| Accounts payable and accrued expenses                                                                                                                           | \$1,329,165                          | \$1,961,784          |
| Litigation liability                                                                                                                                            | -                                    | 2,150,000            |
| Warrant liability                                                                                                                                               | 145,124                              | 1,794,396            |
| Convertible notes payable, net of discounts of \$2,290,028 for December 31, 2017                                                                                |                                      | 1,763,920            |
| Total current liabilities                                                                                                                                       | 1,474,289                            | 7,670,100            |
| Long-term liabilities                                                                                                                                           |                                      |                      |
| Convertible notes payable, net of discounts of \$0 for September 30, 2018                                                                                       | 999,106                              | -                    |
| Total long-term liabilities                                                                                                                                     | 999,106                              | -                    |
| Total liabilities                                                                                                                                               | 2,473,395                            | 7,670,100            |
| Commitments and Contingencies                                                                                                                                   |                                      |                      |
| Stockholders' Equity:                                                                                                                                           |                                      |                      |
| Preferred stock, \$0.0001 par value, 50,000,000 shares authorized, 0 and 5,513 issued and outstanding at September 30, 2018 and December 31, 2017, respectively | -                                    | 1                    |

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|                                                                                                                                                                             |               |              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|--------------|
| Common stock, \$0.0001 par value; 200,000,000 shares authorized; 25,519,940 and 12,477,781 issued and outstanding at September 30, 2018 and December 31, 2017, respectively | 2,552         | 1,248        |
| Additional paid-in capital                                                                                                                                                  | 104,530,234   | 97,113,723   |
| Accumulated other comprehensive loss                                                                                                                                        | (450,719 )    | (450,734 )   |
| Accumulated deficit                                                                                                                                                         | (97,696,039 ) | (89,276,117) |
| Total stockholders' equity                                                                                                                                                  | 6,386,028     | 7,388,121    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                                                                  | \$8,859,423   | \$15,058,221 |

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

**MARATHON PATENT GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(Unaudited)

|                                                         | For the three months ended<br>September 30, |               | For the nine months ended<br>September 30, |                |
|---------------------------------------------------------|---------------------------------------------|---------------|--------------------------------------------|----------------|
|                                                         | 2018                                        | 2017          | 2018                                       | 2017           |
| Revenues                                                |                                             |               |                                            |                |
| Cryptocurrency mining revenue                           | \$338,672                                   | \$-           | \$1,200,171                                | \$-            |
| Other revenue                                           | -                                           | 162,713       | 66,970                                     | 609,650        |
| Total revenues                                          | 338,672                                     | 162,713       | 1,267,141                                  | 609,650        |
| Operating costs and expenses                            |                                             |               |                                            |                |
| Cost of revenue                                         | 1,132,570                                   | 64,836        | 2,331,909                                  | 1,544,322      |
| Amortization of patents                                 | -                                           | 457,419       | -                                          | 1,803,264      |
| Compensation and related taxes                          | 137,338                                     | 1,871,946     | 803,309                                    | 3,718,034      |
| Consulting fees                                         | 347,500                                     | 133,018       | 573,286                                    | 189,819        |
| Professional fees                                       | 126,446                                     | 616,125       | 1,157,246                                  | 1,686,955      |
| General and administrative                              | 89,859                                      | 213,130       | 1,212,469                                  | 599,416        |
| Patent impairment                                       | -                                           | 723,218       | -                                          | 723,218        |
| Break-up fee - issuance of shares to GBV                | -                                           | -             | 2,850,000                                  | -              |
| Total operating expenses                                | 1,833,713                                   | 4,079,692     | 8,928,219                                  | 10,265,028     |
| Operating loss                                          | (1,495,041 )                                | (3,916,979)   | (7,661,078 )                               | (9,655,378 )   |
| Other income (expenses)                                 |                                             |               |                                            |                |
| Other income                                            | 125,125                                     | 2,252,886     | 108,670                                    | 3,151,418      |
| Foreign exchange gain (loss)                            | (8,003 )                                    | (480,240 )    | (31,096 )                                  | (463,191 )     |
| Loss on debt extinguishment                             | -                                           | (283,237 )    | -                                          | (283,237 )     |
| Loss on sale of company                                 | -                                           | (1,519,875)   | -                                          | (1,519,875 )   |
| Realized gain (loss) on sale of digital currencies      | 8,760                                       | -             | (73,533 )                                  | -              |
| Change in fair value adjustment of Clouding IP earn out | -                                           | 754,321       | -                                          | 768,200        |
| Change in fair value of warrant liability               | 45,595                                      | (1,909,879)   | 1,593,481                                  | (1,914,786 )   |
| Amortization of debt discount                           | -                                           | -             | (2,290,028 )                               | -              |
| Interest income                                         | 2,553                                       | 931           | 2,553                                      | 2,793          |
| Interest expense                                        | (19,446 )                                   | (1,283,223)   | (68,891 )                                  | (2,416,722 )   |
| Loss before income taxes                                | (1,340,457 )                                | (6,385,295)   | (8,419,922 )                               | (12,330,778)   |
| Income tax expense                                      | -                                           | (12,191 )     | -                                          | (29,433 )      |
| Net loss                                                | (1,340,457 )                                | (6,397,486)   | (8,419,922 )                               | (12,360,211)   |
| Net loss attributable to non-controlling interests      | -                                           | (280,000 )    | -                                          | (124,714 )     |
| Net loss attributable to common stockholders            | \$(1,340,457 )                              | \$(6,677,486) | \$(8,419,922 )                             | \$(12,484,925) |
| Net loss per share, basic and diluted:                  | \$(0.06 )                                   | \$(1.06 )     | \$(0.42 )                                  | \$(2.24 )      |
| Weighted average shares outstanding, basic and diluted: | 24,321,788                                  | 6,270,299     | 19,893,901                                 | 5,564,465      |
| Net loss attributable to common stockholders            | \$(1,340,457 )                              | \$(6,677,486) | \$(8,419,922 )                             | \$(12,484,925) |

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Other comprehensive income:

|                                                                |                |                |                |                 |
|----------------------------------------------------------------|----------------|----------------|----------------|-----------------|
| Unrealized gain on foreign currency translation                | -              | 482,622        | 15             | 609,768         |
| Comprehensive loss attributable to Marathon Patent Group, Inc. | \$(1,340,457 ) | \$(6,194,864 ) | \$(8,419,907 ) | \$(11,875,157 ) |

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

**MARATHON PATENT GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(Unaudited)

|                                                                               | For the nine months ended<br>September 30, |                 |
|-------------------------------------------------------------------------------|--------------------------------------------|-----------------|
|                                                                               | 2018                                       | 2017            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                   |                                            |                 |
| Net loss                                                                      | \$(8,419,922 )                             | \$(12,484,925 ) |
| Adjustments to reconcile net loss to net cash (used in) operating activities: |                                            |                 |
| Depreciation                                                                  | 1,405,147                                  | 1,248           |
| Amortization of patents and website                                           | 48,222                                     | 1,803,264       |
| Realized loss on sale of digital currencies                                   | 73,533                                     | -               |
| Change in fair value of warrant liability                                     | (1,593,481 )                               | 4,017,729       |
| Impairment of intangible assets                                               | -                                          | 704,678         |
| Stock based compensation                                                      | 496,435                                    | 1,523,187       |
| Amortization of debt discount                                                 | 2,290,028                                  | -               |
| Bad debt allowance                                                            | 6,826                                      | -               |
| Non-cash interest, discount, and financing costs                              | -                                          | (4,397,381 )    |
| Change in fair value of Clouding earnout                                      | -                                          | (768,200 )      |
| Break-up fee -issuance of shares to GBV                                       | 2,850,000                                  | -               |
| Non-controlling interest                                                      | -                                          | (27,435 )       |
| Other non-cash adjustments                                                    | -                                          | 182,024         |
| Changes in operating assets and liabilities:                                  |                                            |                 |
| Accounts receivables                                                          | (102,098 )                                 | (28,561 )       |
| Digital currencies                                                            | (1,098,073 )                               | -               |
| Proceeds from sale of digital currencies                                      | 1,024,540                                  | -               |
| Litigation liability                                                          | (2,150,000 )                               | -               |
| Prepaid expenses and other assets                                             | (457,329 )                                 | (269,693 )      |
| Other non current assets                                                      | -                                          | 201,203         |
| Accounts payable and accrued expenses                                         | (631,873 )                                 | (5,262,242 )    |
| Net cash used in operating activities                                         | (6,258,045 )                               | (14,805,104 )   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |                                            |                 |
| Acquisition of patents                                                        | (250,000 )                                 | -               |
| Disposal of patents                                                           | -                                          | 2,771,757       |
| Purchase of property and equipment                                            | (5,251,719 )                               | (6,291 )        |
| Net cash (used in) provided by investing activities                           | (5,501,719 )                               | 2,765,466       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |                                            |                 |
| Payment on note payable                                                       | -                                          | (2,741,286 )    |
| Proceeds received on issuance of notes payable                                | -                                          | 6,100,000       |
| Proceeds received on private placement                                        | -                                          | 5,158,906       |
| Proceeds received on exercise of warrants                                     | -                                          | 2,549,084       |
| Net cash provided by financing activities                                     | -                                          | 11,066,704      |

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|                                                 |              |             |
|-------------------------------------------------|--------------|-------------|
| Effect of foreign exchange rate changes         | 15           | 16,509      |
| Net decrease in cash and cash equivalents       | (11,759,749) | (956,425 )  |
| Cash and cash equivalents — beginning of period | 14,948,529   | 4,998,314   |
| Cash and cash equivalents — end of period       | \$3,188,780  | \$4,041,889 |

SUPPLEMENTAL CASH FLOW INFORMATION

|                                            |     |           |
|--------------------------------------------|-----|-----------|
| Cash paid for interest expense             | \$- | \$368,923 |
| Cash paid during the year for income taxes | \$- | \$29,433  |

Supplemental schedule of non-cash investing and financing activities:

|                                                                   |             |           |
|-------------------------------------------------------------------|-------------|-----------|
| Common stock issued for acquisition of patents                    | \$960,000   | \$-       |
| Conversion of Series E Preferred Stock to common stock            | \$551       | \$-       |
| Common stock issued for note conversion                           | \$3,055,588 | \$-       |
| Restricted stock issuance                                         | \$44        | \$-       |
| Revenue share liability incurred in conjunction with note payable | \$-         | \$225,000 |
| Warrant issued in conjunction with common stock issuance          | \$-         | \$257,957 |
| Warrants exercised into common shares                             | \$55,791    | \$-       |

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

## **MARATHON PATENT GROUP, INC. AND SUBSIDIARIES**

### **Notes to Unaudited Consolidated Condensed Financial Statements**

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

##### **Organization**

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, the Company changed its name to American Strategic Minerals Corporation and were engaged in exploration and potential development of uranium and vanadium minerals business. In June 2012, the Company discontinued the minerals business and began to invest in real estate properties in Southern California. In October 2012, the Company discontinued its real estate business when the former CEO joined the firm and the Company commenced IP licensing operations, at which time the Company’s name was changed to Marathon Patent Group, Inc. On November 1, 2017, the Company entered into a merger agreement with Global Bit Ventures, Inc. (“GBV”), which is focused on mining digital assets. The Company purchased cryptocurrency mining machines and established a data center in Canada to mine digital assets. The Company intends to expand its activities in the mining of new digital assets, while at the same time harvesting the value of our remaining IP assets.

On January 1, 2018, our Board adopted the 2018 Equity Incentive Plan, subsequently approved by the stockholders on March 7, 2018, pursuant to which up to 10,000,000 shares of common stock, stock options, restricted stock, preferred stock, stock-based awards and other awards are reserved for issuance as awards to employees, directors, consultants, advisors and other service providers.

On June 28, 2018, the Board has determined that it is in the best interests of the Company and its shareholders to allow the Amended Merger Agreement with GBV to expire on its current termination date of June 28, 2018 without further negotiation or extension. The Board approved to issue 3,000,000 shares of the Company’s common stock to GBV as a termination fee for the Company canceling the proposed merger between the two companies.

All share and per share values for all periods presented in the accompanying consolidated condensed financial statements have been retroactively adjusted to reflect the 1:4 Reverse Split which occurred on October 30, 2017.

##### **Going Concern**

The Company's consolidated condensed financial statements have been prepared assuming that it will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business.

As reflected in the consolidated condensed financial statements, the Company had an accumulated deficit of approximately \$97.7 million at September 30, 2018, a net loss of approximately \$8.4 million and approximately \$6.3 million net cash used in operating activities for the nine months ended September 30, 2018. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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

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

review strategic alternatives.

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

### **Basis of Presentation and Principles of Consolidation**

The accompanying consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. These consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year ended December 31, 2018.



## **MARATHON PATENT GROUP, INC. AND SUBSIDIARIES**

### **Notes to Unaudited Consolidated Condensed Financial Statements**

#### **Use of Estimates and Assumptions**

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

#### **Significant Accounting Policies**

There have been no material changes in the Company's significant accounting policies to those previously disclosed in the 2017 Annual Report other than the adoption of the Financial Accounting Standards Board (FASB) Accounting Standard Updates (ASU) 606, *Revenue from Contracts with Customers* and the accounting for digital assets and crypto currency machines.

#### **Segment Reporting**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group in deciding how to allocate resources and in assessing performance. Our chief operating decision-making group ("CODM") is composed of the chief executive officer and chief financial officer. The Company currently operates in the Digital Currency Blockchain segment. The Company's Crypto-currency Machines are located in Canada and the Company has employees only in the United States and views its operations as one operating segment as the CODM reviews financial information on a consolidated basis in making decisions regarding resource allocations and assessing performance.

#### **Digital Currencies**

Digital currencies are included in current assets in the consolidated balance sheets. Digital currencies are recorded at cost less impairment.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, the Company has the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If the Company concludes otherwise, it is required to perform a quantitative impairment test. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted.

The following table presents the activities of the digital currencies for the nine months ended September 30, 2018:

|                                             |             |
|---------------------------------------------|-------------|
| Digital currencies at December 31, 2017     | \$-         |
| Additions of digital currencies             | 1,200,171   |
| Realized loss on sale of digital currencies | (73,533 )   |
| Sale of digital currencies                  | (1,126,638) |
| Digital Currencies at September 30, 2018    | \$-         |

### **Crypto-currency Machines**

Management has assessed the basis of depreciation of the Company's Crypto-currency Machines used to verify digital currency transactions and generate digital currencies and believes they should be depreciated over a 2 year period. The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its transaction verification servers are influenced by a number of factors including the following:

the complexity of the transaction verification process which is driven by the algorithms contained within the bitcoin open source software;

## **MARATHON PATENT GROUP, INC. AND SUBSIDIARIES**

### **Notes to Unaudited Consolidated Condensed Financial Statements**

the general availability of appropriate computer processing capacity on a global basis (commonly referred to in the industry as hashing capacity which is measured in Petahash units); and

technological obsolescence reflecting rapid development in the transaction verification server industry such that more recently developed hardware is more economically efficient to run in terms of digital assets generated as a function of operating costs, primarily power costs i.e. the speed of hardware evolution in the industry is such that later hardware models generally have faster processing capacity combined with lower operating costs and a lower cost of purchase.

The Company operates in an emerging industry for which limited data is available to make estimates of the useful economic lives of specialized equipment. Management has determined that a two year diminishing value best reflects the current expected useful life of transaction verification servers. This assessment takes into consideration the availability of historical data and management's expectations regarding the direction of the industry including potential changes in technology. Management will review this estimate annually and will revise such estimates as and when data comes available.

To the extent that any of the assumptions underlying management's estimate of useful life of its transaction verification servers are subject to revision in a future reporting period either as a result of changes in circumstances or through the availability of greater quantities of data then the estimated useful life could change and have a prospective impact on depreciation expense and the carrying amounts of these assets.

### **Intangible Assets**

Intangible assets include the Crypto Currency Patent with original estimated useful live of 17 years. The Company amortize the cost of the 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.

The Company monitors the carrying value of long-lived assets for potential impairment and tests the recoverability of such assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If a change in circumstance occurs, the Company will perform a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. If cash flows cannot be separately and independently identified for a single asset, the Company will determine whether impairment has occurred for the

group of assets for which we can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, the Company will measure any impairment by comparing the fair value of the asset or asset group to its carrying value. During the three and nine months ended September 30, 2018, there is no impairment to the intangible assets.

## Revenue Recognition

The Company recognizes revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when there is persuasive evidence of an arrangement and that the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable and collectability is probable. Our material revenue stream is related to the mining of digital currencies. In consideration for these services, the Company receives digital currencies which are recorded as revenue, using the average U. S. dollar spot price of the related crypto-currency on the date of receipt. The coins are recorded on the balance sheet at their fair value. Gains or losses on sale of digital currencies are recorded as other income (expenses) in the statement of operations. Expenses associated with running the crypto-currency mining business, such as equipment depreciation, rent and electricity cost are also recorded as cost of revenues.

There is currently no specific definitive guidance in U.S. GAAP or alternative accounting frameworks for the accounting for the production and mining of digital currencies and management has exercised significant judgement in determining appropriate accounting treatment for the recognition of revenue for mining of digital currencies. Management has examined various factors surrounding the substance of the Company's operations and the guidance in ASC 606, *Revenue from Contracts with Customers*, including the stage of completion being the completion and addition of a block to a blockchain and the reliability of the measurement of the digital currency received. In the event authoritative guidance is enacted by the FASB, the Company may be required to change its policies which could result in a change in the Company's financial statements.

The Company recognizes revenue under ASC 606, *Revenue from Contracts with Customers*. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the company satisfies a performance obligation

## **MARATHON PATENT GROUP, INC. AND SUBSIDIARIES**

### **Notes to Unaudited Consolidated Condensed Financial Statements**

In order to identify the performance obligations in a contract with a customer, a company must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met:

The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct).

The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, an entity must consider the effects of all of the following:

Variable consideration

Constraining estimates of variable consideration

The existence of a significant financing component in the contract

Noncash consideration

Consideration payable to a customer

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis.

The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time as appropriate.

There is only one performance obligation in each digital currency transaction (transfer of a verified transaction to the blockchain). If the Company is successful in adding a block to the blockchain (by verifying an individual transaction), the Company is automatically awarded a fixed number of digital currency tokens for their effort. At the time the contract with the customer arises (upon being the first to solve the algorithm and transferring a verified transaction to the blockchain), the consideration receivable is fixed. As such, the Company concluded that there was no variable consideration. There is no significant financing component or consideration payable to the customer in these transactions.

Digital currencies are non-cash consideration and thus must be included in the transaction price at fair value at the inception of the contract, which is when the algorithm is solved and a verified transaction is transferred to the blockchain. Fair value is determined using the average U.S. dollar spot rate of the related digital currency.

Expenses associated with running the digital currency mining business, such as rent and electricity cost are also recorded as cost of revenues. Depreciation on digital currency mining equipment is recorded as a component of costs and expenses.

### **Related Party Transactions**

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

## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

### Notes to Unaudited Consolidated Condensed Financial Statements

At September 30, 2018 and December 31, 2017, the Company has fully reserved a Note Receivable on the Balance Sheets which consists of an uncollateralized note receivable in the amount of \$588,864 from nXn, an entity owned or controlled or previously owned or controlled by Erich Spangenberg. The note receivable does not carry interest and was repayable to the Company at the earlier of March 31, 2018 or based upon certain milestones. The note receivable was not repaid by nXn and the Company took a full reserve for bad debt as of December 31, 2017.

At September 30, 2018 and December 31, 2017, the Company owed Doug Croxall (former CEO), \$0 and \$124,297, respectively (comprised of \$187,500 bonus payable and \$63,203 advance).

### Fair Value of Financial Instruments

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

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

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

Financial assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level of input that is significant to their fair value measurement. The Company measures the fair value of its marketable

securities by taking into consideration valuations obtained from third-party pricing sources. The pricing services utilize industry standard valuation models, including both income and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs included reported trades of and broker-dealer quotes on the same or similar securities, issuer credit spreads, benchmark securities and other observable inputs.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis and the Company's estimated level within the fair value hierarchy of those assets and liabilities as of September 30, 2018 and December 31, 2017, respectively:

| Fair value measured at September 30, 2018 |                                                    |                                                          |                                                           |                                                    |
|-------------------------------------------|----------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                           | Total<br>carrying<br>value at<br>September<br>2018 | Quoted<br>prices in<br>active<br>markets<br>(Level<br>1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| Liabilities                               |                                                    |                                                          |                                                           |                                                    |
| Warrant liability                         | \$ 145,124                                         | \$ -                                                     | \$ -                                                      | \$ 145,124                                         |

| Fair value measured at December 31, 2017 |                                                      |                                                          |                                                           |                                                    |
|------------------------------------------|------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                          | Total<br>carrying<br>value at<br>December 31<br>2017 | Quoted<br>prices in<br>active<br>markets<br>(Level<br>1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| Liabilities                              |                                                      |                                                          |                                                           |                                                    |
| Warrant liability                        | \$ 1,794,396                                         | \$ -                                                     | \$ -                                                      | \$ 1,794,396                                       |

There were no transfers between Level 1, 2 or 3 during the nine months ended September 30, 2018.

At September 30, 2018, the Company had an outstanding warrant liability in the amount of \$145,124 associated with warrants that were issued in January 2017 and warrants issued related to the Convertible Notes issued in August and September of 2017. The following table rolls forward the fair value of the Company's warrant liability, the fair value of which is determined by Level 3 inputs for the nine months ended September 30, 2018.

# **MARATHON PATENT GROUP, INC. AND SUBSIDIARIES**

## **Notes to Unaudited Consolidated Condensed Financial Statements**

### **FV of warrant liabilities**

|                                      | Fair value  |
|--------------------------------------|-------------|
| Outstanding as of December 31, 2017  | \$1,794,396 |
| Exercised                            | (55,791 )   |
| Change in fair value of warrants     | (1,593,481) |
| Outstanding as of September 30, 2018 | \$145,124   |

### **Basic and Diluted Net Loss per Share**

Net loss per common share is calculated in accordance with ASC Topic 260: Earnings Per Share (“ASC 260”). Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. The computation of diluted net loss per share does not include dilutive common stock equivalents in the weighted average shares outstanding, as they would be anti-dilutive.

Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share at September 30, 2018 and 2017 are as follows:

|                                            | As of September 30, |            |
|--------------------------------------------|---------------------|------------|
|                                            | 2018                | 2017       |
| Warrants to purchase common stock          | 728,764             | 7,487,893  |
| Options to purchase common stock           | 416,079             | 613,194    |
| Preferred stock to exchange common stock   | -                   | 195,501    |
| Convertible notes to exchange common stock | 1,248,882           | 13,750,000 |
| Total                                      | 2,393,725           | 22,046,588 |

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

| For the three months ended<br>September 30, | For the nine months ended<br>September 30, |
|---------------------------------------------|--------------------------------------------|
|---------------------------------------------|--------------------------------------------|

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|                                                    | 2018           | 2017           | 2018           | 2017            |
|----------------------------------------------------|----------------|----------------|----------------|-----------------|
| Net loss attributable to common shareholders       | \$(1,340,457 ) | \$(6,677,486 ) | \$(8,419,922 ) | \$(12,484,925 ) |
| Denominator:                                       |                |                |                |                 |
| Weighted average common shares - basic and diluted | 24,321,788     | 6,270,299      | 19,893,901     | 5,564,465       |
| Loss per common share - basic and diluted          | \$(0.06 )      | \$(1.06 )      | \$(0.42 )      | \$(2.24 )       |

## Recent Accounting Pronouncements

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. We are evaluating the impact of this guidance on our condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, "*Improvements to Nonemployee Share-Based Payment Accounting*", which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The changes take effect for public companies for fiscal years starting after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company expects that the adoption of this ASU would not have a material impact on the Company's consolidated condensed financial statements.

## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

### Notes to Unaudited Consolidated Condensed Financial Statements

In July 2017, the FASB issued ASU 2017-11, “*Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815)*,” which addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact that the standard will have on the Company’s consolidated condensed financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. This ASU provides clarity about which changes to the terms or conditions of a share-based payment award require the application of modification accounting. Specifically, ASU 2017-09 clarifies that changes to the terms or conditions of an award should be accounted for as a modification unless all of the following are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted. The Company adopted ASU 2017-09 on January 1, 2018 and the adoption did not have a material impact on the Company’s accounting for share-based payment awards, as changes to awards’ terms and conditions subsequent to the grant date are unusual and infrequent in nature.

In January 2017, the FASB issued ASU 2017-01 *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2017-01 on January 1, 2018 and the adoption did not have a material impact on the Company’s consolidated condensed financial statements and notes thereto.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, as a new Topic, (ASC) Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. This ASU must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are considering the alternatives of adoption of this ASU and we are conducting our review of the likely impact to the existing portfolio of customer contracts entered into prior to adoption. The Company adopted ASU 2014-09 on January 1, 2018 under the modified retrospective approach and the adoption did not have a material impact on the Company's results of operations, cash flows and financial position.

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 January 1, 2019 using a modified retrospective approach. We currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of Topic 842, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption.

Any new accounting standards, not disclosed above, that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

### **NOTE 3 – PATENT PURCHASES**

On January 11, 2018, Marathon Patent Group, Inc. (the "Company") entered into a Patent Rights Purchase and Assignment Agreement (the "Agreement"), with XpresSpa Group, Inc., a Delaware Corporation (the "Seller") and Crypto Currency Patent Holdings Company LLC, a Delaware limited liability company and wholly owned subsidiary of the Company ("CCPHC"). Pursuant to the Agreement, the Seller agreed to irrevocably assign, sell, grant, transfer and convey, and CCPHC agreed to accept and acquire, the exclusive right, title and interest in and to certain patents owned by the Seller ("Assigned IP"), subject to the terms and conditions set forth in the Agreement. As consideration for the Assigned IP, the Seller shall receive (i) payment in the amount of \$250,000 from CCPHC and (ii) 250,000 shares of common stock of the Company, par value \$0.0001 per share (the "Consideration Shares"), with piggyback registration rights. The Consideration Shares shall be issued by the Company to the Seller, subject to the terms and conditions of a lock-up agreement. The fair value of the 250,000 shares was \$960,000 and was based upon the closing price of the Company's common stock.

## MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

### Notes to Unaudited Consolidated Condensed Financial Statements

As a condition to the Agreement, the Seller agreed to enter into a lock-up agreement with the Company, which lock-up agreement is included as an exhibit to the Agreement (the “Lock-up Agreement”). Pursuant to the Lock-up Agreement, the Seller shall not directly or indirectly offer, sell, pledge or transfer, or otherwise dispose of, the Consideration Shares for a period of 180 days commencing on January 11, 2018 and ending on July 11, 2018; provided, however, upon the effective date of the registration for resale of the Consideration Shares, and on each day thereafter, one twentieth (1/20) of the Consideration Shares shall be released from the restrictions contained in the Lock-up Agreement and may be freely sold, transferred, traded or otherwise disposed of. Notwithstanding the foregoing, in the event that the Consideration Shares, in whole or in part, are not registered for resale on the 6-month anniversary of the date of issuance of the Consideration Shares (“Six-Month Date”), the holders thereof may sell, transfer, trade or otherwise dispose of one twentieth (1/20) of the Consideration Shares on the Six-Month Date and on each day thereafter.

In addition, the Company agreed to issue 25,000 shares of the Company’s common stock to Andrew Kennedy Lang, one of the named inventors of the patents, in exchange for consulting services, and 50,000 shares of the Company’s common stock to another individual in exchange for consulting services, in connection with the acquisition of the Assigned IP. The fair value of these shares was \$278,750 and was based upon the closing price of the Company’s common stock on date of agreement. The Company recorded the fair value of these shares as a component of compensation and related taxes expense.

#### NOTE 4 – DIGITAL ASSET MINING

On February 7, 2018, Marathon Crypto Mining, Inc. (“MCM”), a Nevada corporation and wholly owned subsidiary of the Company, entered into an agreement to acquire 1,400 Bitmain’s Antminer S9 miners (“Antminer S9s”). The purchase price was \$4,557,072. The Company also paid installation costs of \$694,647 (total paid and capitalized was \$5,251,719). The Company will depreciate the Antminer S9’s and related installation costs over a two-year period. Depreciation for the three and nine months ended September 30, 2018 was \$598,549 and \$1,405,147, respectively.

On February 12, 2018, in connection with the intended mining operations of MCM, the Company assumed a lease contract dated November 11, 2017 (the “Lease Agreement”) by and between 9349-0001 Quebec Inc. (the “Lessor”) and Blocespace Inc., formerly known as Cryptospace Inc. (the “Lessee”). Pursuant to the Lease Agreement, among other things, the Lessee leases a building of 26,700 square feet (the “Property”) in Quebec, Canada, for an initial term of five (5) years (the “Term”), commencing on December 1, 2017 and terminating on November 30, 2022. The Lessee shall pay a monthly rent of \$10,013 Canadian Dollars (“CAD”) plus tax, or an annual rent of \$120,150 CAD plus tax (“Yearly Rent”). At the signing of the Lease Agreement, the Lessee paid the Lessor a deposit equal to the Yearly Rent which

amount will be dispersed during the Term as set forth in the Lease Agreement. Lease expense for the three and nine months ended September 30, 2018 were \$26,171 and \$70,568, respectively.

The Lessee assigned the Lease Agreement to MCM pursuant to an Assignment and Assumption Agreement (the “Assignment”) by and between the Company and the Lessee’s parent company, Bloctechologies Canada Inc. Subject to the terms and conditions of the Assignment, MCM agreed to observe all the covenants and conditions of the Lease Agreement, including the payment of all rents due. The Company shall be responsible for all necessary capital expenditures in connection with capital improvements to the Property to set up MCM’s mining operations.

## **NOTE 5 - STOCKHOLDERS’ EQUITY**

### **Series B Convertible Preferred Stock**

As of September 30, 2018, there was no share of Series B Convertible Preferred Stock outstanding.

### **Series E Preferred Stock**

During the nine months ended September 30, 2018, 5,512 shares of the Series E Convertible Preferred Stock had been converted to the Company’s Common Stock and there was no Series E Convertible Preferred Stock outstanding as of September 30, 2018.

### **Common Stock**

During the nine months ended September 30, 2018, the Company issued 3,819,485 shares of Common Stock to Note Holders in connection with debt conversions, 218,400 shares of Common Stock were issued to Board members for their services, 5,511,543 shares of Common Stock with respect to the conversion of Series E Convertible Preferred Stock, 17,731 shares of Common Stock in connection with the exercise of a warrant, 250,000 shares of Common Stock issued pursuant to a patent purchase, 225,000 shares of Common Stock issued to consultants and 3,000,000 to GBV as a termination fee for canceling the merger agreement. The termination fee was valued based upon the closing stock price as of June 28, 2018 or \$0.95 per common share.

**MARATHON PATENT GROUP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Condensed Financial Statements****Common Stock Warrants**

As of September 30, 2018, the Company had warrants outstanding to purchase 728,764 shares of Common Stock with a weighted average remaining life of 3.3 years. A summary of the status of the Company's outstanding stock warrants and changes during the period then ended is as follows:

|                                               | Number<br>of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in<br>years) |
|-----------------------------------------------|--------------------------|------------------------------------------|-----------------------------------------------------------------------|
| Outstanding as of December 31, 2017           | 773,966                  | \$ 5.99                                  | 4.1                                                                   |
| Expired                                       | (1,202 )                 | 15.60                                    | -                                                                     |
| Exercised                                     | (44,000 )                | 1.20                                     | -                                                                     |
| Outstanding as of September 30, 2018          | 728,764                  | \$ 6.26                                  | 3.3                                                                   |
| Warrants exercisable as of September 30, 2018 | 728,764                  | \$ 6.26                                  | 3.3                                                                   |

**Common Stock Options**

A summary of the stock options as of September 30, 2018 and changes during the period are presented below:

|                                                              | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (in<br>years) |
|--------------------------------------------------------------|------------------------|------------------------------------------|-----------------------------------------------------------------------|
| Outstanding as of December 31, 2017                          | 448,771                | \$ 15.50                                 | 6.23                                                                  |
| Expired                                                      | (32,692 )              | 10.71                                    | -                                                                     |
| Outstanding as of September 30, 2018                         | 416,079                | \$ 15.88                                 | 5.93                                                                  |
| Options vested and expected to vest as of September 30, 2018 | 416,079                | \$ 15.88                                 | 5.93                                                                  |
| Options vested and exercisable as of September 30, 2018      | 404,968                | \$ 16.02                                 | 5.88                                                                  |

**NOTE 6 - DEBT, COMMITMENTS AND CONTINGENCIES**

Debt consists of the following:

|                                          | Maturity<br>Date | Interest<br>Rate | September<br>30,<br>2018 | December<br>31,<br>2017 |
|------------------------------------------|------------------|------------------|--------------------------|-------------------------|
| Convertible Note                         | 12/31/2019       | 5 %              | \$999,106                | \$4,053,948             |
| Less: debt discount                      | and 12/31/2019   |                  | -                        | (2,290,028)             |
| Total Convertible notes, net of discount |                  |                  | \$999,106                | \$1,763,920             |
| Total                                    |                  |                  | \$999,106                | \$1,763,920             |
| Less: current portion                    |                  |                  | (999,106)                | (1,763,920)             |
| Total, net of current portion            |                  |                  | \$-                      | \$-                     |

On August 14, 2017, the Company entered into a unit purchase agreement (the “Unit Purchase Agreement”) with certain accredited investors providing for the sale of up to \$5,500,000 of 5% secured convertible promissory notes (the “Convertible Notes”), which are convertible into shares of the Corporation’s common stock, and the issuance of warrants to purchase 6,875,000 shares of the Company’s Common Stock (the “Warrants”). The Convertible Notes are convertible into shares of the Company’s Common Stock at the lesser of (i) \$0.80 per share or (ii) the closing bid price of the Company’s common stock on the day prior to conversion of the Convertible Note; provided that such conversion price may not be less than \$0.40 per share. The Warrants have an exercise price of \$1.20 per share. The Convertible Notes mature on May 31, 2018 and bear interest at the rate of 5% per annum. In two closings of the Unit Purchase Agreement, the Company issued all \$5,500,000 in Convertible Notes to the investors. The investor has agreed to an extension of the maturity date of the note to December 31, 2019. As of September 30, 2018, the Company had an outstanding obligation pursuant to the Convertible Notes in the amount of \$999,106. Accrued interest as of September 30, 2018 was \$132,390. During the three and nine months ended September 30, 2018 the interest expense were \$19,446 and \$59,513, and \$73,622 and \$73,622 for the three and nine months ended September 30, 2017, respectively.

## **MARATHON PATENT GROUP, INC. AND SUBSIDIARIES**

### **Notes to Unaudited Consolidated Condensed Financial Statements**

During the three and nine months ended September 30, 2018, the amortization of debt discount were \$0 and \$2.3 million, and \$0 and \$789,392 for the three nine months ended September 30, 2017, respectively.

#### **Office Lease**

Effective June 1, 2018, the Company rented its corporate office at 1180 North Town Center Drive, Suite 100, Las Vegas, Nevada 89144, on a month to month basis. The monthly rent is \$1,907. A security deposit of \$3,815 has been paid.

#### **Legal Proceedings**

##### *Feinberg Litigation*

On March 27, 2018, Jeffrey Feinberg, joined by the Jeffrey L. Feinberg Personal Trust and the Jeffrey L. Feinberg Family Trust, filed a complaint against the Company and certain of its former officers and directors. The complaint was filed in the Supreme Court of the State of New York, County of New York. On June 15, 2018, defendants filed a motion to dismiss all claims asserted in the complaint and, on July 27, 2018, plaintiffs filed an opposition to that motion. The motion to dismiss has been submitted for resolution by the court, with a hearing set for January 15, 2019. In addition, on June 15, 2018, defendants filed a motion for a protective order declaring that no discovery should proceed in the case pending the resolution of defendants' motion to dismiss the complaint. On July 27, 2018, plaintiffs filed a statement of non-opposition to the motion for a protective order. Accordingly, all discovery in the case is effectively stayed pending the resolution of defendants' motion to dismiss.

##### *Ramirez Litigation*

On July 20, 2018, Tony Ramirez filed a complaint against the Company and certain of its former directors. The complaint was filed in the United States District Court for the Central District of California. Mr. Ramirez alleges that he was and is a shareholder of the Company, and purports to assert a single claim under Section 14(a) of the Securities

and Exchange Act of 1934 and SEC Rule 14a-9 promulgated thereunder. The defendants were recently served with the complaint, and have not yet responded to the complaint.

#### **NOTE 7 – Subsequent Events**

The Company has evaluated subsequent events through the date the consolidated financial statements were available to be issued and has concluded that no such events or transactions took place that would require disclosure herein.

On October 11, 2018, the Company entered into a 2-year Employment Agreement, subject to successive 1 year extension, with Merrick Okamoto, pursuant to which Mr. Okamoto will serve as the Executive Chairman and Chief Executive Officer of the Company. Pursuant to the terms of the Agreement, Mr. Okamoto shall receive a base salary at an annual base salary of \$350,000 (subject to annual 3% cost of living increase) and an annual bonus up to 100% of base salary as determined by the Compensation Committee or the Board. As further consideration for Mr. Okamoto's services, the Company agreed to issue Mr. Okamoto 10-year stock options to purchase 5,000,000 shares of Common Stock, with a strike price of \$0.58 per share, vesting 50 % on the date of grant and 25% on each 6 months anniversary of the date of grant.

On October 12, 2018, the Company granted its board members an option to purchase 250,000 shares of the Company's common stock, with a strike price of \$0.58 per share, vesting 50 % on the date of grant and 25% on each 6 months anniversary of the date of grant.

On October 15, 2018, the Company entered into a 2-year Employment Agreement, subject to successive 1 year extension, with David Lieberman, pursuant to which Mr. Lieberman will serve as the Chief Financial Officer of the Company. Pursuant to the terms of the Lieberman Agreement, Mr. Lieberman shall receive a base salary at an annual base salary of \$180,000 (subject to annual 3% cost of living increase) and an annual bonus up to 100% of base salary as determined by the Compensation Committee or the Board. As further consideration for Mr. Lieberman's services, the Company agreed to issue Mr. Lieberman 10-year stock options to purchase 200,000 shares of Common Stock, with a strike price of \$0.58 per share, vesting 50% on the date of grant and 25% on each 6 months anniversary of the date of grant.

## **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 relate 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 were incorporated in the State of Nevada on February 23, 2010 under the name Verve Ventures, Inc. On December 7, 2011, we changed our name to American Strategic Minerals Corporation and were engaged in exploration and potential development of uranium and vanadium minerals business. In June 2012, we discontinued our minerals business and began to invest in real estate properties in Southern California. In October 2012, we discontinued our real estate business when our former CEO joined the firm and we commenced our IP licensing operations, at which time the Company's name was changed to Marathon Patent Group, Inc. On November 1, 2017, we entered into a merger agreement with Global Bit Ventures, Inc. ("GBV"), which is focused on mining digital assets. We have since purchased our cryptocurrency mining machines and established a data center in Canada to mine digital assets. Following the merger, we intended to add GBV's existing technical capabilities and digital asset miners and expand our activities in the mining of new digital assets, while at the same time harvesting the value of our remaining IP assets. On June 28, 2018, the board has determined that it is in the best interests of the Company and its shareholders to allow the Amended Merger Agreement to expire on its current termination date of June 28, 2018 without further negotiation or extension. The Board approved to issue 3,000,000 shares of our common stock to GBV as a termination fee for canceling the proposed merger between the two companies. The fair value of the common stocks was \$2,850,000.

## **Recent Developments**

### *Patent Purchase*

On January 11, 2018, the Company entered into a Patent Rights Purchase and Assignment Agreement (the “Agreement”), with XpresSpa Group, Inc., a Delaware Corporation (the “Seller”) and Crypto Currency Patent Holdings Company LLC, a Delaware limited liability company and wholly owned subsidiary of the Company (“CCPHC”). Pursuant to the Agreement, the Seller agreed to irrevocably assign, sell, grant, transfer and convey, and CCPHC agreed to accept and acquire, the exclusive right, title and interest in and to certain patents owned by the Seller (“Assigned IP”), subject to the terms and conditions set forth in the Agreement. As consideration for the Assigned IP, the Seller shall receive (i) payment in the amount of \$250,000 from CCPHC and (ii) 250,000 shares of common stock of the Company, par value \$0.0001 per share (the “Consideration Shares”), with piggyback registration rights. The Consideration Shares were issued by the Company to the Seller, subject to the terms and conditions of a lock-up agreement. The fair value of the 250,000 shares was \$960,000 and was based upon the closing price of the Company’s common stock.

As a condition to the Agreement, the Seller agreed to enter into a lock-up agreement with the Company, which lock-up agreement is included as an exhibit to the Agreement (the “Lock-up Agreement”). Pursuant to the Lock-up Agreement, the Seller shall not directly or indirectly offer, sell, pledge or transfer, or otherwise dispose of, the Consideration Shares for a period of 180 days commencing on January 11, 2018 and ending on July 11, 2018; provided, however, upon the effective date of the registration for resale of the Consideration Shares, and on each day thereafter, one twentieth (1/20) of the Consideration Shares shall be released from the restrictions contained in the Lock-up Agreement and may be freely sold, transferred, traded or otherwise disposed of. Notwithstanding the foregoing, in the event that the Consideration Shares, in whole or in part, are not registered for resale on the 6-month anniversary of the date of issuance of the Consideration Shares (“Six-Month Date”), the holders thereof may sell, transfer, trade or otherwise dispose of one twentieth (1/20) of the Consideration Shares on the Six-Month Date and on each day thereafter.

In addition, the Company agreed to issue 25,000 shares of the Company’s common stock to Andrew Kennedy Lang, one of the named inventors of the patents, in exchange for consulting services, and 50,000 shares of the Company’s common stock to another individual in exchange for consulting services, in connection with the acquisition of the Assigned IP. The fair value of these shares was \$278,750 and was based upon the closing price of the Company’s common stock on date of agreement. The Company recorded the fair value of these shares as a component of compensation and related taxes expense.

*Lease and Purchase of Digital Asset Mining Servers*

On February 7, 2018, Marathon Crypto Mining, Inc. (“MCM”), a Nevada corporation and wholly owned subsidiary, entered into an agreement to acquire 1,400 Bitmain’s Antminer S9 miners (“Antminer S9s”). The purchase price was \$4,557,072. We also paid installation costs of \$694,647 (total paid and capitalized was \$5,251,719). We will depreciate the Antminer S9’s over a two-year period.

On February 12, 2018, in connection with the intended mining operations of MCM, the Company assumed a lease contract dated November 11, 2017 (the “Lease Agreement”) by and between 9349-0001 Quebec Inc. (the “Lessor”) and Bloccspace Inc., formerly known as Cryptospace Inc. (the “Lessee”). Pursuant to the Lease Agreement, among other things, the Lessee leases a building of 26,700 square feet (the “Property”) in Quebec, Canada, for an initial term of five (5) years (the “Term”), commencing on December 1, 2017 and terminating on November 30, 2022. The Lessee shall pay a monthly rent of \$10,013 plus tax, or an annual rent of \$120,150 plus tax (“Yearly Rent”). At the signing of the Lease Agreement, the Lessee paid the Lessor a deposit equal to the Yearly Rent which amount will be dispersed during the Term as set forth in the Lease Agreement.

The Lessee assigned the Lease Agreement to MCM pursuant to an Assignment and Assumption Agreement (the “Assignment”) by and between the Company and the Lessee’s parent company, Blocctechnologies Canada Inc. Subject to the terms and conditions of the Assignment, MCM agreed to observe all the covenants and conditions of the Lease Agreement, including the payment of all rents due. The Company shall be responsible for all necessary capital expenditures in connection with capital improvements to the Property to set up MCM’s mining operations.

The 1,400 Antminer S9s were delivered to the Property and installation commenced on or about March 7, 2018, with the commencement of digital asset mining shortly thereafter.

*GBV Merger Termination*

On April 3, 2018, the Company and GBV entered into the Amended and Restated Agreement and Plan of Merger (the “Amended Merger Agreement”), which amends certain terms, among others, in the Merger Agreement, as follows: (i) the Outside Closing Date, as amended, shall be further extended to ninety (90) days from April 3, 2018, subject to consecutive 30-day extensions upon mutual written consent of the Parties; (ii) the Company Shareholders shall receive 70,000,000 Parent Common Shares (reduced from 126,674,557 Parent Common Shares) on a fully diluted basis, which include any Parent Common Shares underlying the Parent’s Series C Preferred Stock issuable in lieu of the Parent Common Shares at the election of the Company Shareholders who would own more than 2.49% of the Parent Common Shares as a result of the Merger; and (iii) in the event that the Merger fails to close by August 9, 2018 or the Company’s Shareholders vote not to approve the Merger, the Parent will issue to the Company, an aggregate of

3,000,000 Parent Common Shares to reimburse GBV for its costs and expenses. All capitalized terms otherwise not defined herein shall have the meanings set forth in the Amended Merger Agreement.

On July 3, 2018, the board has determined that it is in the best interests of the Company and its shareholders to allow the Amended Merger Agreement to expire on its current termination date of June 28, 2018 without further negotiation or extension. The Board approved to issue 3,000,000 shares of the Company's common stock to GBV as a termination fee for the Company canceling the proposed merger between the two companies.

### **Critical Accounting Policies and Estimates**

Our critical accounting policies and significant estimates are detailed in our 2017 Annual Report. Our critical accounting policies and significant estimates have not changed from those previously disclosed in our 2017 Annual Report, except for those accounting subjects mentioned in the section of the notes to the condensed consolidated financial statements titled Adoption of Recent Accounting Pronouncements.

### **Results of Operations**

*For the Three and Nine Months Ended September 30, 2018 and 2017*

We generated revenues of \$338,673 and \$1.3 million during the three and nine months ended September 30, 2018 as compared to \$162,713 and \$609,650 during the three and nine months ended September 30, 2017. For the three and nine months ended September 30, 2018, this represented an increase of \$175,960 or 108% and \$657,491 or 108%, respectively. Revenue for the three and nine months ended September 30, 2018 were derived primarily from cryptocurrency mining.

For the three and nine months ended September 30, 2018, the Company received no revenues from newly-issued settlement and license agreements.

Direct cost of revenues during the three and nine months ended September 30, 2018 amounted to approximately \$1.1 million and \$2.3 million and for the three and nine months ended September 30, 2017, the direct cost of revenues amounted to \$64,836 and \$1.5 million. For the three and nine months ended September 30, 2018, this represented an increase of \$1.1 million or 1,647% and \$787,588 or 51%, respectively. Direct costs of revenue include depreciation and amortization expenses of the cryptocurrency mining machines and patents, 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.

We incurred other operating expenses of \$701,143 and \$6.6 million for the three and nine months September 30, 2018 and \$4.0 million and \$8.7 million for the three and nine months ended September 30, 2017. For the three and nine months ended September 30, 2018, this represented a decrease of \$3.3 million or 83% and \$2.1 million or 24%, respectively. These expenses primarily consisted of compensation to our officers, directors and employees, professional fees and consulting incurred in connection with the day-to-day operation of our business.

The operating expenses consisted of the following:

|                                          | Total Other Operating Expenses<br>For the Three Months<br>Ended |                       | Total Other Operating Expenses<br>For the Nine Months<br>Ended |                       |
|------------------------------------------|-----------------------------------------------------------------|-----------------------|----------------------------------------------------------------|-----------------------|
|                                          | September<br>30, 2018                                           | September<br>30, 2017 | September<br>30, 2018                                          | September<br>30, 2017 |
| Amortization of patents (1)              | \$-                                                             | \$457,419             | \$-                                                            | \$1,803,264           |
| Compensation and related taxes (2)       | 137,338                                                         | 1,871,946             | 803,309                                                        | 3,718,034             |
| Consulting fees (3)                      | 347,500                                                         | 133,018               | 573,286                                                        | 189,819               |
| Professional fees (4)                    | 126,446                                                         | 616,125               | 1,157,246                                                      | 1,686,955             |
| Other general and administrative (5)     | 89,859                                                          | 213,130               | 1,212,469                                                      | 599,416               |
| Patent Impairment (6)                    | -                                                               | 723,218               | -                                                              | 723,218               |
| Break-up fee - issuance of shares to GBV | -                                                               | -                     | 2,850,000                                                      | -                     |
| Total                                    | \$701,143                                                       | \$4,014,856           | \$6,596,310                                                    | \$8,720,706           |

Non-cash other operating expenses for the three and nine months ended September 30, 2018 include non-cash other operating expenses totaling \$39,053 and \$473,619, respectively. Non-cash operating expenses consisted of the following:

| Non-Cash Other Operating Expenses<br>For the Three Months Ended | Non-Cash Other Operating Expenses<br>For the Nine Months Ended |
|-----------------------------------------------------------------|----------------------------------------------------------------|
|-----------------------------------------------------------------|----------------------------------------------------------------|

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|                                      | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Amortization of patents (1)          | \$-                | \$ 457,419         | \$-                | \$ 1,803,264       |
| Compensation and related taxes (2)   | 39,053             | 1,319,629          | 473,619            | 1,636,906          |
| Consulting fees (3)                  | -                  | 42,910             | -                  | (91,228 )          |
| Professional fees (4)                | -                  | 108                | -                  | 325                |
| Other general and administrative (5) | -                  | (1,486 )           | -                  | (3,072 )           |
| Patent Impairment (6)                | -                  | 723,218            | -                  | 723,218            |
| Total                                | \$39,053           | \$ 2,541,798       | \$473,619          | \$ 4,069,413       |

(1) Amortization of patents: Amortization expenses were \$457,419 and \$1.8 million during the three and nine months ended September 30, 2017, a decrease of \$457,419 or 100% and \$1.8 million or 100%. The decrease results from the expiration of some of the Company's patents and lower book value associated with remaining patent portfolios following impairment charges taken over the last twelve months to some of the Company's portfolios. When the Company acquires patents and patent rights, the Company capitalizes the cost of those assets and amortizes those costs over the remaining useful lives of the assets. All patent amortization expenses are non-cash expenses.

(2) Compensation expense and related taxes: Compensation expense includes cash compensation and related payroll taxes and benefits, and non-cash equity compensation expenses. For the three and nine months ended September 30, 2018, compensation expense and related payroll taxes were \$137,338 and \$803,309, a decrease of \$1.7 million or 93% and \$2.9 million or 78% over the comparable periods in 2017. During the three and nine months ended September 30, 2018, we recognized non-cash employee and board equity-based compensation of \$39,053 and \$473,619, respectively and \$1.3 million and \$1.6 million for three and nine months ended September 30, 2017, respectively.

- Consulting fees: For the three and nine months ended September 30, 2018, we incurred consulting fees of \$347,500 and \$573,286, respectively, an increase of \$214,482 or 161% and \$383,467 or 202% over the comparable periods in 2017. Consulting fees include both cash and non-cash related consulting fees primarily for investor relations and public relations services as well as other consulting services. The increase in consulting fees for the three and nine months ended September 30, 2018 compared to the
- (3) same period in the prior year was primarily the result of a credit associated with the mark to market of an option grant issued to a consultant, who no longer derives a majority of his compensation from the Company and the Company therefore must mark to market his option grant on a quarterly basis. Given the considerable decline in the Company's stock price since the issuance of the grant, this resulted in a sizable credit. During the three and nine months ended September 30, 2017, we recognized non-cash equity-based consulting fees of \$42,910 and consulting credit of \$91,228 respectively.
- Professional fees: For the three and nine months ended September 30, 2018, professional fees were \$126,445 and \$1.2 million, respectively, a decrease of \$489,680 or 79% and \$529,710 or 31% over the
- (4) comparable periods in 2017. Professional fees primarily reflect the costs of professional outside accounting fees, legal fees and audit fees.
- Other general and administrative expenses: For the three and nine months ended September 30, 2018, other general and administrative expenses were \$89,860 and \$1.2 million, respectively, a decrease of \$123,270 or 58% and an increase of \$613,053 or 102% over the comparable periods in 2017. General
- (5) 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.
- Patent impairment: For the three and nine months ended September 30, 2017, the Company took an
- (6) impairment charge of the carrying value of the Company's Clouding portfolio patents based on changes in the expected timing of proceeds from the Clouding portfolio in the amount of \$723,218 and \$723,218, respectively.

## Operating Loss

We reported operating loss from continuing operations of \$1.5 million and \$7.7 million for the three and nine months ended September 30, 2018 and operating loss of \$3.9 million and \$9.7 million, for the three and nine months ended September 30, 2017.

## Other Expenses

Total other expenses were \$154,584 and \$758,844 for the three and nine months ended September 30, 2018 and \$2.5 million and \$2.7 million for the three and nine months ended September 30, 2017. The changes were mainly due to the interest expense accrued related to the outstanding notes in the nine months ended 2017 and amortization of debt discount related to the notes conversions in nine months ended 2018.

### **Net Loss Available to Common Shareholders**

We reported net loss of \$1.3 million and \$8.4 million for the three and nine months ended September 30, 2018 and net loss of \$6.4 million and \$12.4 million for the three and nine months ended September 30, 2017.

### **Liquidity and Capital Resources**

The Company's condensed consolidated financial statements have been prepared assuming that it will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business.

As reflected in the condensed consolidated financial statements, the Company had and accumulated deficit of approximately \$97.7 million at September 30, 2018, a net loss of approximately \$8.4 million and approximately \$6.3 million net cash used in operating activities for the nine months ended September 30, 2018. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. At September 30, 2018, the Company's cash and cash equivalents balances totaled \$3.2 million compared to \$14.9 million at December 31, 2017.

Net working capital decreased by \$6.0 million, to \$2.4 million at September 30, 2018 from \$7.4 million at December 31, 2017.

Cash used in operating activities was \$6.3 million during the nine months ended September 30, 2018 and cash used in operating activities of \$14.8 million during the nine months ended September 30, 2017.

Cash used in investing activities was \$5.5 million during the nine months ended September 30, 2018 and cash provided by investing activities of \$2.8 million for the nine months ended September 30, 2017.

Cash provided by financing activities was \$0 during the nine months ended September 30, 2018 compared to cash provided by financing activities in the amount of \$11.1 million during the nine months ended September 30, 2017. Cash provided by financing activities for the nine months ended September 30, 2017 resulted from proceeds from issuance of notes payable, the sale of common stock issued pursuant to an ATM offering, offset by payments made for notes payable.

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

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

review strategic alternatives.

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

### **Off-balance Sheet Arrangements**

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

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

Not required for smaller reporting companies.

**Item 4. Controls and Procedures.**

***Disclosure Controls and Procedures.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States. Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework in the 2013 COSO framework. Based on this assessment, management concluded that our disclosure controls and procedures were not effective.

Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, we will implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals.

We believe that the foregoing steps if implemented, will help remediate the material weakness identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate. Due to the nature of this material weakness in our internal control over financial reporting, there is more than a remote likelihood that misstatements which could be material to our annual or interim financial statements could occur that would not be prevented or detected.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company’s financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

***Changes in Internal Controls.***

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

*Feinberg Litigation*

On March 27, 2018, Jeffrey Feinberg, joined by the Jeffrey L. Feinberg Personal Trust and the Jeffrey L. Feinberg Family Trust, filed a complaint against the Company and certain of its former officers and directors. The complaint was filed in the Supreme Court of the State of New York, County of New York. On June 15, 2018, defendants filed a motion to dismiss all claims asserted in the complaint and, on July 27, 2018, plaintiffs filed an opposition to that motion. The motion to dismiss has been submitted for resolution by the court, with a hearing set for January 15, 2019. In addition, on June 15, 2018, defendants filed a motion for a protective order declaring that no discovery should proceed in the case pending the resolution of defendants' motion to dismiss the complaint. On July 27, 2018, plaintiffs filed a statement of non-opposition to the motion for a protective order. Accordingly, all discovery in the case is effectively stayed pending the resolution of defendants' motion to dismiss.

*Ramirez Litigation*

On July 20, 2018, Tony Ramirez filed a complaint against the Company and certain of its former directors. The complaint was filed in the United States District Court for the Central District of California. Mr. Ramirez alleges that he was and is a shareholder of the Company, and purports to assert a single claim under Section 14(a) of the Securities and Exchange Act of 1934 and SEC Rule 14a-9 promulgated thereunder. The defendants were recently served with the complaint, and have not yet responded to the complaint.

Other than as disclosed herein, we know of no other material, active or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceedings or pending litigation other than in the normal course of

business.

**Item 1A. Risk Factors.**

Not required for smaller reporting companies.

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

None.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

101.ins XBRL Instance Document\*\*

101.sch XBRL Taxonomy Schema Document\*\*

101.cal XBRL Taxonomy Calculation Document\*\*

101.def XBRL Taxonomy Linkbase Document\*\*

101.lab XBRL Taxonomy Label Linkbase Document\*\*

101.pre XBRL Taxonomy Presentation Linkbase Document\*\*

\* Furnished herewith

\*\* Filed herein

## **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: November 13, 2018

### **MARATHON PATENT GROUP, INC.**

By: */s/ Merrick Okamoto*

Name: Merrick Okamoto

Title: Chief Executive Officer  
(Principal Executive Officer)

By: */s/ David Lieberman*

Name: David Lieberman

Title: Chief Financial Officer and Director  
(Principal Financial and Accounting Officer)

