

Marathon Patent Group, Inc.
Form 10-Q
May 12, 2016
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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 March 31, 2016

or

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

For the transition period from _____ to _____

MARATHON PATENT GROUP, INC.

(Exact Name of Registrant as Specified in Charter)

Nevada
(State or other jurisdiction
of incorporation)

001-36555
(Commission File Number)

01-0949984
(IRS Employer Identification No.)

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11100 Santa Monica Blvd., Ste. 380

Los Angeles, CA

(Address of principal executive offices)

90025

(Zip Code)

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

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

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

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

| | | | |
|--|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer (Do not check if smaller reporting company) | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 14,967,141 shares of common stock are issued and outstanding as of May 6, 2016.

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OTHER PERTINENT INFORMATION

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

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MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | March 31, 2016 (Unaudited) | December 31, 2015 |
|--|-------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 1,420,390 | \$ 2,555,151 |
| Accounts receivable - net of allowance for bad debt of \$375,750 and \$375,750 for March 31, 2016 and December 31, 2015 | 153,112 | 136,842 |
| Bonds posted with courts | 1,443,457 | 1,748,311 |
| Prepaid expenses and other current assets, net of discounts of \$3,414 and \$3,414 for March 31, 2016 and December 31, 2015 | 146,336 | 338,598 |
| Total current assets | 3,163,295 | 4,778,902 |
| Other assets: | | |
| Property and equipment, net of accumulated depreciation of \$77,653 and \$67,052 for March 31, 2016 and December 31, 2015 | 52,793 | 61,297 |
| Intangible assets, net of accumulated amortization of \$16,423,203 and \$15,557,353 for March 31, 2016 and December 31, 2015 | 23,208,298 | 25,457,639 |
| Deferred tax assets | 14,385,393 | 12,437,741 |
| Other non current assets, net of discounts of \$3,900 and \$4,831 for March 31, 2016 and December 31, 2015 | 207,100 | 9,169 |
| Goodwill | 4,605,733 | 4,482,845 |
| Total other assets | 42,459,317 | 42,448,691 |
| Total Assets | \$ 45,622,612 | \$ 47,227,593 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 8,832,010 | \$ 6,534,825 |
| Clouding IP earn out - current portion | 103,049 | 33,646 |
| Notes payable, net of discounts of \$754,421 and \$730,945 for March 31, 2016 and December 31, 2015 | 11,379,212 | 10,383,177 |
| | 20,314,271 | 16,951,648 |
| Long-term liabilities | | |
| Notes payable, net of discount of \$1,224,817 and \$1,425,167 for March 31, 2016 and December 31, 2015 | 10,493,877 | 12,223,884 |
| Clouding IP earn out | 3,213,177 | 3,281,238 |
| Deferred tax liability | 964,998 | 1,044,997 |
| Revenue share liability | 1,000,000 | 1,000,000 |
| Other long term liability | 49,075 | 50,084 |
| Total long-term liabilities | 15,721,127 | 17,600,203 |
| Total liabilities | 36,035,398 | 34,551,851 |
| Stockholders Equity: | | |

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| | | |
|---|-----------------|--------------|
| Preferred stock Series B, \$.0001 par value, 50,000,000 shares authorized: 782,004 and 782,004 issued and outstanding at March 31, 2016 and December 31, 2015 | 78 | 78 |
| Common stock, \$.0001 par value; 200,000,000 shares authorized; 14,967,141 and 14,867,141 at March 31, 2016 and December 31, 2015 | 1,497 | 1,487 |
| Additional paid-in capital | 43,774,961 | 43,217,513 |
| Accumulated other comprehensive income (loss) | (1,018,385) | (1,265,812) |
| Accumulated deficit | (33,170,937) | (29,277,524) |
| Total Marathon Patent Group stockholders equity | 9,587,214 | 12,675,742 |
| Total liabilities and stockholders equity | \$ 45,622,612\$ | 47,227,593 |

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

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MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

| | For The Three Months Ended March 31, 2016 (Unaudited) | For The Three Months Ended March 31, 2015 (Unaudited) |
|---|--|--|
| Revenues | \$ 2,059,676 | \$ 4,093,869 |
| Expenses | | |
| Cost of revenues | 2,639,976 | 4,328,165 |
| Amortization of patents and website | 2,025,899 | 2,598,461 |
| Compensation and related taxes | 1,033,346 | 1,581,074 |
| Consulting fees | 280,776 | 896,543 |
| Professional fees | 405,493 | 769,615 |
| General and administrative | 217,010 | 219,481 |
| Patent impairment | 373,195 | - |
| Total operating expenses | 6,975,695 | 10,393,339 |
| Operating loss | (4,916,019) | (6,299,470) |
| Other income (expenses) | | |
| Other income (expense) | (2,159) | (39,402) |
| Foreign exchange gain (loss) | 6,978 | - |
| Change in fair value adjustment of Clouding IP earn out | (1,342) | - |
| Interest income | 931 | 2 |
| Interest expense | (1,006,850) | (931,541) |
| Total other income (expenses) | (1,002,442) | (970,941) |
| Loss before benefit for income taxes | (5,918,461) | (7,270,411) |
| Income tax benefit | 2,025,048 | 2,488,840 |
| Net loss | (3,893,413) | (4,781,571) |
| Loss per common share, basic and diluted: | \$ (0.26) | \$ (0.34) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - Basic and Diluted | 14,967,141 | 13,868,811 |
| Other comprehensive income (loss) | | |
| Foreign currency translation adjustments | \$ 247,427 | \$ (950,239) |

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

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MARATHON PATENT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For The Three Months Ended March 31, 2016 (Unaudited) | For The Three Months Ended March 31, 2015 (Unaudited) |
|---|--|--|
| Cash flows from operating activities: | | |
| Net loss | \$ (3,893,413) | \$ (4,781,571) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,652 | 1,869 |
| Amortization of patents and website | 2,025,899 | 2,598,461 |
| Deferred tax asset | (1,934,419) | (2,335,116) |
| Deferred tax liability | (76,463) | (161,984) |
| Impairment of intangible assets | 373,195 | - |
| Stock based compensation | 550,436 | 685,753 |
| Stock issued for services | - | 750,334 |
| Non-cash interest, discount, and financing costs | 605,690 | 613,719 |
| Change in fair value of Clouding earnout | 1,342 | - |
| Other non-cash adjustments | (33,607) | 83,148 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (15,275) | (546,101) |
| Bonds posted with courts | 359,960 | - |
| Prepaid expenses and other current assets | 192,352 | 26,248 |
| Other non current assets | 2,069 | - |
| Accounts payable and accrued expenses | 1,953,751 | 1,920,185 |
| Net cash provided by (used in) operating activities | 113,169 | (1,145,055) |
| Cash flows from investing activities: | | |
| Purchase of property, equipment, and other intangible assets | (2,097) | (37,147) |
| Net cash used in investing activities | (2,097) | (37,147) |
| Cash flows from financing activities: | | |
| Payment on note payable in connection with the acquisition of Medtech and Orthophoenix | - | (3,000,000) |
| Payment on note payable in connection with the acquisition of Orthophoenix | - | (3,750,000) |
| Payment on note payable in connection with the acquisition of Sarif | - | (276,250) |
| Payment on note payable in connection with the acquisition of IP Liquidity | - | (1,068,750) |
| Payment on note payable in connection with the acquisition of Dynamic Advances | - | (905,000) |
| Payment on convertible debt | - | (5,050,000) |
| Payment on Fortress note payable | (1,184,600) | - |
| Cash received upon issuance of note payable, net of \$400,000 loan fee | - | 19,600,000 |
| Cash received upon exercise of warrant | - | 18,750 |
| Payments of notes payable to vendors | (63,840) | - |
| Net cash provided (used in) by financing activities | (1,248,440) | 5,568,750 |
| Effect of exchange rate changes on cash | 2,607 | 8,852 |
| Net increase (decrease) in cash | (1,134,761) | 4,395,400 |
| Cash at beginning of period | 2,555,151 | 5,082,569 |
| Cash at end of period | \$ 1,420,390 | \$ 9,477,969 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for: | | |
| Interest expense | \$ 401,159 | \$ 317,821 |
| Taxes paid | \$ 7,999 | \$ 8,260 |
| Loan fees | \$ - | \$ 400,000 |

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| | | | | |
|-------------------------|----|---------|----|---|
| Cash invested in 3DNano | \$ | 115,000 | \$ | - |
|-------------------------|----|---------|----|---|

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

| | | | | |
|---|----|-------|----|-----------|
| Common stock issued in conjunction with note payable | \$ | - | \$ | 1,000,000 |
| Warrant issued in conjunction with note payable | \$ | - | \$ | 318,679 |
| Revenue share liability incurred in conjunction with note payable | \$ | - | \$ | 1,000,000 |
| Convertible debt warrant repricing | \$ | 6,425 | \$ | - |

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

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NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Organization

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

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

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

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

On October 1, 2012, the shareholders holding a majority of the Company's voting capital had voted and authorized the Company to (i) change the name of the Company to Marathon Patent Group, Inc. (the Name Change) and (ii) effectuate a reverse stock split of the Company's common stock by a ratio of 3-for-2 (the Reverse Split) within one year from the date of approval of the stockholders of the Company. The Board of Directors approved the Name Change and the Reverse Split on October 1, 2012. The Board of Directors determined the name Marathon Patent Group, Inc. better reflected the long-term strategy in exploring other opportunities and the identity of the Company going forward. On February 15, 2013, the Company filed the Certificate of Amendment with the Secretary of

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

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

Cash

The Company considers all highly liquid debt instruments and other short-term investments with maturity of three months or less, when purchased, to be cash equivalents. The Company maintains cash and cash equivalent balances at one financial institution that is insured by the Federal Deposit Insurance Corporation. The Company's accounts held at this institution, up to a limit of \$250,000, are insured by the Federal Deposit Insurance Corporation (FDIC). As of March 31, 2016, the Company had bank balances exceeding the FDIC insurance limit. To reduce its risk associated with the failure of such financial institution, the Company evaluates at least annually the rating of the financial institution in

which it holds deposits.

Use of Estimates and Assumptions

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

Accounts Receivable

The Company has a policy of reserving for questionable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the bad debt expense after all means of collection have been exhausted and the potential for recovery is considered remote. At March 31, 2016 and December 31, 2015, the Company had recorded an allowance for bad debts in the amounts of \$375,750 and \$375,750, respectively. Accounts receivable-net at March 31, 2016 and December 31, 2015, amounted to \$153,112 and \$136,842, respectively. As of March 31, 2016, accounts receivable related to one license accounted for approximately 41% of the Company's total accounts receivable, accounts receivable related to recurring royalties represented approximately 42% of total accounts receivable and the remainder of the accounts receivable is primarily related to a trade receivable associated with the terminated Uniloc merger. As of December 31, 2015, accounts receivable related to one license accounted for approximately 54% of the Company's total accounts receivable and accounts receivable related to recurring royalties represented 46% of total accounts receivable. As of March 31, 2016, accounts receivable represented 7% of revenues for the three months ended March 31, 2016 and as of December 31, 2015, accounts receivable represented 2% of revenues for the three months ended December 31, 2015.

Table of Contents**Concentration of Revenue and Geographic Area**

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

Revenues from two licenses accounted for approximately 93% of the Company's operating revenues for the three months ended March 31, 2016 and revenue from the five largest licenses accounting for 87% of the revenue for the three months ended March 31, 2015 as set forth below.

| For the Three Months Ended March 31, 2016 | | | For the Three Months Ended March 31, 2015 | | |
|---|---------------------|--------------|---|---------------------|--------------|
| Licensor | License Amount | % of Revenue | Licensor | License Amount | % of Revenue |
| Signal IP, Inc. | \$ 1,900,000 | 92% | Vantage Point Technology, Inc. | \$ 2,750,000 | 67% |
| Signal IP, Inc. | \$ 15,000 | 1% | Signal IP, Inc. | \$ 275,000 | 7% |
| | | | Sarif Biomedical, LLC | \$ 225,000 | 6% |
| | | | TLIF, LLC | \$ 220,000 | 5% |
| | | | Vantage Point Technology, Inc. | \$ 80,000 | 2% |
| | % of Total Revenues | 93% | | % of Total Revenues | 87% |

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

While the Company has a growing portfolio of patents, the Company has historically received a significant portion of its revenue and expects that a significant portion of its future revenues were and will be based on one-time grants of similar non-recurring, non-exclusive, non-assignable licenses to a relatively small number of entities and their affiliates. Further, with the expected small number of firms with which the Company enters into license agreements, and the amount and timing of such license agreements, the Company also expects that its revenues may be highly variable from one period to the next.

Revenue Recognition

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

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

Also, due to the fact that the settlement element and license element for past and future use are the major central business, the Company does not present these two elements as different revenue streams in its statement of operations. The Company does not expect to provide licenses that do not provide some form of settlement or release. The Company derived approximately 93% of its revenues for the three months ended March 31, 2016 from the one-time issuance of non-recurring, non-exclusive, non-assignable licenses for certain of the Company's patents, with the balance comprised of recurring royalties.

The Company's subsidiaries entered into two license agreements during the three months ended March 31, 2016.

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Cost of Revenue

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

Prepaid Expenses, Bonds Posted and Other Current Assets

Prepaid expenses and other current assets of \$146,336 and \$338,598 at March 31, 2016 and December 31, 2015, respectively, consist primarily of costs paid for future services, which will occur within a year. Prepaid expenses include prepayments in cash and equity instruments for public relation services, business advisory, consulting, and prepaid insurance, which are being amortized over the terms of their respective agreements.

In addition, the Company had outstanding litigation bonds in the amount of \$1,443,457 and \$1,748,311 at March 31, 2016 and December 31, 2015, respectively. These bonds were entered into in Germany after the successful ruling by the court in first instance trials related to some of the Company's patents in German courts. The difference in the balance of the litigation bonds at March 31, 2016 compared to December 31, 2015 is attributable to \$55,106 in currency translation impact and the return of \$359,960 in bonds related to the litigation against Schrader and TRW, which were resolved in the fourth quarter of 2015.

Fair Value of Financial Instruments

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

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

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

Clouding IP earn out liability was determined as a Level 3 liability, which requires fair assessment of fair value at each period end by using discounted cash flow as valuation technique using unobservable inputs, such as revenue and expenses forecasts, timing of proceeds, and discount rate. Based on reassessment of fair value as of March 31, 2016, the Company determined that there was no change to the Clouding IP earn out liability or the carrying value of the Clouding IP intangible assets.

Under certain circumstances related to litigations in Germany, the Company is either required to or may decide to enter a bond with the courts. As of March 31, 2016 and December 31, 2015, the Company had outstanding bonds in the amount of \$1,443,457 and \$1,748,311, respectively. The Company adjusted the value as of March 31, 2016 of the bonds to reflect changes to the exchange rate between the Euro and the US Dollar.

Accounting for Acquisitions

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

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Income Taxes

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

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

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

The Company has adopted ASC 740-10-25 Definition of Settlement, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For a tax position considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The federal and state income tax returns of the Company are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed. The Company is in the process of filing the 2015 tax returns. After review of the 2015 financial statements and the results of operations through March 31, 2016, the Company has recorded a deferred tax asset in the amount of \$14,385,393, from which the Company expects to realize benefits in the future, and a deferred tax liability of \$964,998.

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

Basic and Diluted Net Earnings (Loss) per Share

Net earnings (loss) per common share is calculated in accordance with ASC Topic 260: Earnings Per Share (ASC 260). Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of shares of common stock outstanding during the period. The

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computation of diluted net earnings (loss) per share does not include dilutive common stock equivalents in the weighted average shares outstanding, as they would be anti-dilutive. The Company has options to purchase 3,339,100 shares of common stock and warrants to purchase 2,021,308 shares of common stock outstanding at March 31, 2016, which were excluded from the computation of diluted shares outstanding, as they would have had an anti-dilutive impact on the Company's net loss.

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

| | For the Three Months Ended March 31, 2016 | For the Three Months Ended March 31, 2015 |
|--|--|--|
| Net loss | (3,893,413) | (4,781,571) |
| Denominator | | |
| Weighted Average Common Shares - Basic | 14,967,141 | 13,868,811 |
| Weighted Average Common Shares - Diluted | 14,967,141 | 13,868,811 |
| Earnings (Loss) per common share: | | |
| Income (Loss) - Basic | \$ (0.26) | \$ (0.34) |
| Income (Loss) - Diluted | \$ (0.26) | \$ (0.34) |

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Intangible Assets

Intangible assets include patents purchased and patents acquired in lieu of cash in licensing transactions. The patents purchased are recorded based on the cost to acquire them and patents acquired in lieu of cash are recorded at their fair market value. The costs of these assets are amortized over their remaining useful lives. Useful lives of intangible assets are periodically evaluated for reasonableness and the assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. The Company recorded an impairment charge to its intangible assets during the three months ended March 31, 2016 in the amount of \$373,195 associated with the end of life of two of the Company's portfolios, compared to no impairment charge during the three months ended March 31, 2015.

Goodwill

Goodwill is tested for impairment at the reporting unit level at least annually in accordance with ASC 350, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. In accordance with ASC 350-30-65, *Intangibles - Goodwill and Others*, the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following:

1. Significant underperformance relative to expected historical or projected future operating results;
2. Significant changes in the manner of use of the acquired assets or the strategy for the overall business;
3. Significant negative industry or economic trends; and
4. Significant reduction or exhaustion of the potential licenses of the patents which gave rise to the goodwill.

When the Company determines that the carrying value of intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. The Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that goodwill is impaired. If it is determined by a qualitative evaluation that it is more likely than not that goodwill is impaired, the Company then applies a two-step impairment test. The two-step impairment test first compares the fair value of the Company's reporting unit to its carrying or book value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds its fair value, the Company determines the implied fair value of the reporting unit's goodwill and if the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded in the consolidated statement of operations. The Company performs the annual testing for impairment of goodwill at the reporting unit level during the quarter ended September 30.

For the three months ended March 31, 2016 and March 31, 2015, the Company recorded no impairment charge to its goodwill.

Other Intangible Assets

In accordance with ASC 350-30-65, Intangibles - Goodwill and Others, the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following: (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner of use of the acquired assets or the strategy for the overall business; and (3) significant negative industry or economic trends.

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

Impairment of Long-lived Assets

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

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Stock-based Compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the consolidated financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the measurement date. The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date. As stock-based compensation expense is recognized based on awards expected to vest, forfeitures are also estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. For the three months ended March 31, 2016, the expected forfeiture rate was 11.0%, which resulted in an expense of \$14,785 recognized in the Company's compensation expenses. The Company will continue to re-assess the impact of forfeitures if actual forfeitures increase in future quarters.

Reclassification

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

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. Accordingly, the standard is effective for us on September 1, 2017 and we are currently evaluating the impact that the standard will have on our consolidated financial statements.

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

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

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

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

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

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

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

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

NOTE 3 ACQUISITIONS

Dynamic Advances, IP Liquidity and Sarif Biomedical

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

Dynamic Advances

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Pursuant to the DA Agreement, the Company acquired 100% of the limited liability company membership interests of Dynamic Advances, LLC, a Texas limited liability company, in consideration for: (i) two cash payments of \$2,375,000, one payment due at closing and the other payment due on or before September 30, 2014, with such second payment being subject to increase to \$2,850,000 if not made on or before June 30, 2014; and (ii) 195,500 shares of the Company's Series B Convertible Preferred Stock. Under the terms of the DA Agreement, TechDev and SFF are entitled to possible future payments for a maximum consideration of \$250,000,000 pursuant to the Pay Proceeds Agreement described below. Dynamic Advances, LLC holds exclusive license to monetize certain patents owned by a third party.

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

After evaluating the facts and circumstances of the purchase, the Company determined that this was an asset purchase. In coming to its conclusion, the Company reviewed the status of the assets, the historical activity and the absence of any employees, licenses, revenues, and any other assets other than the IP Assets. Further, as there were no assumed licensees or historical revenues, the Company was not certain that it would be able to obtain access to customers pursuant to AC 805-10-55-7.

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IP Liquidity

Pursuant to the IP Liquidity Agreement, the Company acquired 100% of the limited liability company membership interests of IP Liquidity Ventures, LLC, a Delaware limited liability company, in consideration for: (i) two cash payments of \$2,375,000, one payment due at closing and the other payment due on or before September 30, 2014, with such second payment being subject to increase to \$2,850,000 if not made on or before June 30, 2014; and (ii) 195,500 shares of the Company's Series B Convertible Preferred Stock. Under the terms of the IP Liquidity Agreement, Granicus and SFF are entitled to possible future payments for a maximum consideration of \$250,000,000 pursuant to the Pay Proceeds Agreement described below. IP Liquidity Ventures, LLC holds contract rights to the proceeds from the monetization of certain patents owned by a number of third parties.

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

After evaluating the facts and circumstances of the purchase, the Company determined that this was an asset purchase. In coming to its conclusion, the Company reviewed the status of the assets, the historical activity and the absence of any employees, licenses, revenues, and any other assets other than the IP Assets. Further, as there were no assumed licensees or historical revenues, the Company was not certain that it would be able to obtain access to customers pursuant to AC 805-10-55-7.

Sarif Biomedical

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

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

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consideration paid for Dynamic Advances the higher principal amount of the promissory note. The total amount of consideration paid by the Company for Sarif Biomedical, including capitalized costs associated with the purchase, was \$552,024.

After evaluating the facts and circumstances of the purchase, the Company determined that this was an asset purchase. In coming to its conclusion, the Company reviewed the status of the assets, the historical activity and the absence of any employees, licenses, revenues, and any other assets other than the IP Assets. Further, as there were no assumed licensees or historical revenues, the Company was not certain that it would be able to obtain access to customers pursuant to AC 805-10-55-7.

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Dynamic Advances, IP Liquidity and Sarif Biomedical

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

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

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

Selene Communication Technologies

On June 17, 2014, Selene Communication Technologies Acquisition LLC (Acquisition LLC), a Delaware limited liability company and newly formed wholly owned subsidiary of the Company, entered into a merger agreement with Selene Communication Technologies, LLC (Selene).

Selene owns a patent portfolio consisting of three United States patents in the field of search and network intrusion that relate to tools for intelligent searches applied to data management systems as well as global information networks such as the internet. IP Nav will continue to support and manage the portfolio of patents and retain a contingent participation interest in all recoveries. IP Nav provides patent monetization and support services under an existing agreement with Selene.

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

The Company accounted for the acquisition as a business combination in accordance with ASC 805 Business Combinations in which the Company is the acquirer for accounting purposes and Selene is the acquired company. The Company engaged a third party valuation firm to

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determine the fair value of the assets purchases, and the net purchase price paid by the Company was subsequently allocated to assets acquired and liabilities assumed on the records of the Company as follows:

| | | |
|---------------------|----|------------------|
| Intangible assets | \$ | 990,000 |
| Net working capital | | 37,000 |
| Goodwill | | 3,000 |
| Net purchase price | \$ | 1,030,000 |

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Clouding Corp.

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

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

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

| | | |
|--------------------|----|-------------------|
| Intangible assets | \$ | 14,500,000 |
| Goodwill | | 1,296,000 |
| Net purchase price | \$ | 15,796,000 |

Total consideration paid of the following:

| | | |
|--------------------|----|-------------------|
| Cash | \$ | 1,400,000 |
| Promissory Note | | 1,000,000 |
| Common Stock | | 281,000 |
| Earn Out Liability | | 13,115,000 |
| Net purchase price | \$ | 15,796,000 |

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

TLI Communications LLC

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

Pursuant to the terms of the TLIC Interests Sale Agreement, TLIC merged with and into TLIA with TLIC surviving the merger as the wholly-owned subsidiary of the Company. The Company (i) agreed to issue 60,000 shares of Common Stock to the sellers of TLIC (TLIC Sellers), (ii) paid the TLIC Sellers \$350,000 cash and (iii) agreed to pay the TLIC Sellers a fifty percent (50%) of the net recoveries (gross revenues minus certain defined expenses and the cash portion of the acquisition consideration) that the Company makes with respect to the patent purchased pursuant to the acquisition of TLIC. The Company valued the Common Stock at the fair market value on the date of the Interests Sale Agreement at \$13.63 per share or \$818,000. The cash portion of the consideration was outstanding at September 30, 2014 and was subsequently paid in October 2014. The transaction resulted in a business combination and caused TIC to become a wholly-owned subsidiary of the Company.

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

| | | |
|--------------------|----|------------------|
| Intangible assets | \$ | 940,000 |
| Goodwill | | 228,000 |
| Net purchase price | \$ | 1,168,000 |

Table of ContentsMedtech Entities

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

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

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

| | | |
|--------------------|----|------------|
| Intangible assets | \$ | 12,800,000 |
| Goodwill | | 2,700,000 |
| Net purchase price | \$ | 15,500,000 |

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

NOTE 4 INTANGIBLE ASSETS

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

| | March 31, 2016 | December 31, 2015 |
|---------------------------------------|----------------|-------------------|
| Intangible Assets | \$ 39,631,501 | \$ 41,014,992 |
| Accumulated Amortization & Impairment | (16,423,203) | (15,557,353) |

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| | | | | |
|------------------------|----|------------|----|------------|
| Intangible assets, net | \$ | 23,208,298 | \$ | 25,457,639 |
|------------------------|----|------------|----|------------|

Other than the Company's website as set forth in the table above, intangible assets are comprised of patents with estimated useful lives between approximately 1 to 15 years. The website was determined to have an estimated useful life of 3 years. Once placed in service, the Company will amortize the costs of intangible assets over their estimated useful lives on a straight-line basis. Costs incurred to acquire patents, including legal costs, are also capitalized as long-lived assets and amortized on a straight-line basis with the associated patent. Amortization of patents is included in operating expenses as reflected in the accompanying consolidated statements of operations. The Company recorded an impairment charge to its long-lived assets during the three months ended March 31, 2016 in the amount of \$373,195 associated with the end of life of two of the Company's portfolios, compared to no impairment charge during the three months ended March 31, 2015.

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Patent and website amortization expense for the three months ended March 31, 2016 and March 31, 2015 was \$2,025,899 and \$2,598,461, respectively, net of foreign currency translation adjustments. Future amortization of intangible assets, net of foreign currency translation adjustments is as follows:

| | | |
|---------------------|----|------------|
| 2016 | \$ | 5,440,463 |
| 2017 | | 5,251,025 |
| 2018 | | 3,691,108 |
| 2019 | | 2,846,570 |
| 2020 | | 2,121,609 |
| 2021 and thereafter | | 3,857,523 |
| Total | \$ | 23,208,298 |

The Company made the following patent purchases:

- In April 2013, the Company through its subsidiary, Relay IP, Inc. acquired a US patent for \$350,000;
- In April 2013, the Company acquired 10 US patents, 27 foreign patents and 1 patent pending from CyberFone Systems valued at \$1,135,512;
- In June 2013, in connection with the closing of a licensing agreement with Siemens Technology, we acquired a patent portfolio from that company valued at \$1,000,000;
- In September 2013, the Company acquired 14 US patents for a total purchase price of \$1,100,000;
- In November 2013, the Company acquired four patents for 150,000 shares of the Company's Common Stock, which the Company valued at \$718,500 based on the fair market value of the stock issued;
- In December 2013, the Company acquired certain patents from Delphi Technologies, Inc. for \$1,700,000 pursuant to a Patent Purchase Agreement entered into on October 31, 2013 and Amended on December 16, 2013;
- In December 2013, in connection with a licensing agreement with Zhone, the Company acquired a portfolio of patents from Zhone;
- In December 2013, in connection with a settlement and license agreement, we agreed to settle and release another defendant for past and future use of our patents, whereby the defendant agreed to assign and transfer 2 U.S. patents and rights to the Company;
- In May 2014, we acquired ownership rights of Dynamic Advances, LLC, a Texas limited liability company, IP Liquidity Ventures, LLC, a Delaware limited liability company, and Sarif Biomedical, LLC, a Delaware limited liability company, all of which hold patent portfolios or contract rights to the revenue generated from the patent portfolios;
- In June 2014, we acquired Selene Communication Technologies, LLC, which holds multiple patents in the search and network intrusion field;
- In August 2014, we acquired patents from Clouding IP LLC, with such patents related to network and data management technology;
- In September 2014, we acquired TLI Communications, which owns a single patent in the telecommunication field;
- In October 2014, we acquired three patent portfolios from MedTech Development, LLC, which owns medical technology patents.

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As of March 31, 2016, the Company's patent portfolios consist of 320 U.S. and foreign patents, 11 patent applications and contract rights to seven patents. In the aggregate, the earliest date for expiration of a patent in the Company's patent portfolio is past (the patent is expired, but patent rules allow for six year look-back for royalties), the median expiration date for patents in the Company's portfolio is June 17, 2017, and the latest expiration date for a patent in any of the Company's patent portfolios is July 29, 2029. A summary of the Company's patent portfolios is as follows:

| Subsidiary | Number of Patents | Earliest Expiration Date | Median Expiration Date | Latest Expiration Date | Subject Matter |
|--|-------------------|--------------------------|------------------------|------------------------|---|
| Bismarck IP Inc. | 17 | 09/15/16 | 09/15/15 | 01/22/18 | Communication and PBX equipment |
| Clouding Corp. | 61 | Expired | 10/05/21 | 03/29/29 | Network and data management |
| CRFD Research, Inc. | 5 | 09/17/21 | 08/11/22 | 08/19/23 | Web page content translator |
| Cyberfone Systems, LLC | 35 | Expired | 01/31/17 | 06/07/20 | Telephony and data transactions |
| Dynamic Advances, LLC | 4 | Expired | 10/02/17 | 03/06/23 | Natural language interface |
| E2E Processing, Inc. | 4 | 04/27/20 | 11/17/23 | 07/18/24 | Manufacturing schedules using adaptive learning |
| Hybrid Sequence IP, Inc. | 2 | 11/14/15 | 09/09/16 | 07/17/17 | Asynchronous communications |
| IP Liquidity Ventures, LLC | 3 | Expired | 04/09/17 | 07/26/20 | Pharmaceuticals / tire pressure systems |
| Loopback Technologies, Inc. | 10 | Expired | 09/25/17 | 08/27/22 | Automotive |
| Medtech Group Acquisition Corp. | 131 | Expired | 06/01/18 | 07/29/29 | Medical technology |
| Relay IP, Inc. | 1 | Expired | Expired | Expired | Multicasting |
| Sampo IP, LLC | 3 | 03/13/18 | 03/13/18 | 11/16/23 | Centrifugal communications |
| Sarif Biomedical LLC | 4 | Expired | Expired | Expired | Microsurgery equipment |
| Selene Communication Technologies, LLC | 3 | 05/05/18 | 11/23/20 | 11/28/21 | Communications |
| Signal IP, Inc. | 7 | 03/10/14 | 12/01/15 | 08/06/22 | Automotive |
| TLI Communications, LLC | 6 | 06/17/17 | 06/17/17 | 06/17/17 | Telecommunications |
| Vantage Point Technology, Inc. | 31 | Expired | 12/21/16 | 03/09/18 | Computer networking and operations |
| | | Median | 09/25/17 | | |

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NOTE 5 - STOCKHOLDERS EQUITY

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

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

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

Series B Convertible Preferred Stock

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

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

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

Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Common Stock Warrants

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

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

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

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

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

A summary of the status of the Company's outstanding stock warrants at March 31, 2016 is as follows:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Life |
|------------------------------|--------------------|---------------------------------|---------------------------------|
| Balance at December 31, 2015 | 2,021,308 | \$ 4.27 | 0.87 |
| Granted | - | - | - |

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| | | | |
|---|-----------|------|------|
| Cancelled | - | - | - |
| Forfeited | - | - | - |
| Exercised | - | \$ - | - |
| Balance at March 31, 2016 | 2,021,308 | 4.27 | 0.63 |
| Warrants exercisable at March 31, 2016 | 2,021,308 | | |
| Weighted average fair value of warrants granted during the period | | \$ - | |

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Warrant Amendment Letter

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

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

Common Stock Options

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

On May 14, 2014, the Company issued existing employees, ten (10) year options to purchase an aggregate of 80,000 shares of the Company's Common Stock with an exercise price of \$4.165 per share, subject to adjustment, which shall vest in three (3) annual installments, with 33% vesting on the first anniversary of the date of grant, 33% on the second anniversary of the date of grant and 34% on the third anniversary of the date of grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 6.5 years, volatility of 63% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.97%.

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

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On May 15, 2014, the Company entered into an executive employment agreement with Francis Knuettel II (Knuettel Agreement) pursuant to which Mr. Knuettel would serve as the Company's Chief Financial Officer. As part of the consideration, the Company agreed to grant Mr. Knuettel a ten (10) year stock option to purchase an aggregate of 290,000 shares of Common Stock, with a strike price of \$4.165 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Knuettel Agreement. The option was valued based on the Black-Scholes model, using the strike and market prices of \$4.165 per share, life of 6.5 years, volatility of 63% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.97%.

On June 15, 2014, the Company issued to a consultant a five (5) year stock option to purchase an aggregate of 40,000 shares of the Company's Common Stock with an exercise price of \$5.05 per share, subject to adjustment, which shall vest in twenty-four (24) each monthly installments on each monthly anniversary date of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$5.05 per share, life of 3.25 years, volatility of 50% based on the closing price of the 50 trading sessions immediately preceding the grant and a discount rate as published by the Federal Reserve of 1.05%.

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

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

On October 31, 2014, the Company entered into an executive employment agreement with Enrique Sanchez (Sanchez Agreement) pursuant to which Mr. Sanchez would serve as the Company s Senior Vice President of Licensing. As part of the consideration, the Company agreed to grant Mr. Sanchez ten (10) year stock options to purchase an aggregate of 160,000 shares of Common Stock, with a strike price of \$6.40 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Sanchez Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company entered into an executive employment agreement with Umesh Jani (Jani Agreement) pursuant to which Mr. Jani would serve as the Company s Chief Technology Officer and SVP of Licensing. As part of the consideration, the Company agreed to grant Mr. Jani ten (10) year stock options to purchase an aggregate of 100,000 shares of Common Stock, with a strike price of \$6.40 per share, vesting in thirty-six (36) equal installments on each monthly anniversary of the date of the Jani Agreement. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company issued existing employees, ten (10) year options to purchase an aggregate of 680,000 shares of the Company s Common Stock with an exercise price of \$6.40 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 5.75 years, volatility of 53% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.78%.

On October 31, 2014, the Company issued to a consultant, a five (5) year options to purchase an aggregate of 30,000 shares of the Company s Common Stock with an exercise price of \$6.40 per share, subject to adjustment, which shall vest in twenty-four (24) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.40 per share, an expected term of 3.25 years, volatility of 49% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.03%.

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

On March 6, 2015 the Company issued a new board member a five (5) year options to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$7.37 per share, subject to adjustment, which shall vest in twelve (12) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$7.37 per share, an expected term of 3.00 years, volatility of 41% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 1.16%.

On March 18, 2015 the Company issued a new board member a five (5) year options to purchase an aggregate of 20,000 shares of the Company's Common Stock with an exercise price of \$6.61 per share, subject to adjustment, which shall vest in twelve (12) equal installments on each monthly anniversary of the grant. The options were valued based on the Black-Scholes model, using the strike and market prices of \$6.61 per share, an expected term of 3.00 years, volatility of 41% based on the average volatility of comparable companies over the comparable prior period and a discount rate as published by the Federal Reserve of 0.92%.

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

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

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

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

For the three months ended March 31, 2016 the Company recorded option-based compensation expenses of \$550,436. A summary of the stock options as of March 31, 2016 is as follows:

| Number of Options | Weighted Average Exercise | Weighted Average |
|----------------------|------------------------------|---------------------|
|----------------------|------------------------------|---------------------|

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| | | | Price | Remaining Life |
|--|-----------|----|-------|----------------|
| Balance at December 31, 2015 | 3,383,267 | \$ | 4.25 | 7.11 |
| Granted | - | \$ | - | - |
| Cancelled | - | \$ | - | - |
| Forfeited | 44,167 | \$ | 6.45 | 6.31 |
| Exercised | - | \$ | - | - |
| Balance at March 31, 2016 | 3,339,100 | \$ | 4.22 | 6.93 |
| Options Exercisable at March 31, 2016 | 2,122,560 | | | |
| Options expected to vest | 1,216,541 | | | |
| Weighted average fair value of options granted during the period | | \$ | - | |

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Stock options outstanding at March 31, 2016 as disclosed in the above table have approximately \$59,150 in intrinsic value at March 31, 2016.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Fortress Transaction

On January 29, 2015, the Company and certain of its subsidiaries (each a "Subsidiary") entered into a series of Agreements including a Fortress Securities Agreement and a Subscription Agreement with DBD, an affiliate of Fortress, under which the Company sold to the purchasers: (i) \$15,000,000 original principal amount of Senior Secured Notes ("Fortress Notes"), (ii) a right to receive a portion of certain proceeds from monetization net revenues received by the Company (after receipt by the Company of \$15,000,000 of monetization net revenues and repayment of the Fortress Notes), (the "Revenue Stream"), (iii) a five-year Fortress Warrant to purchase 100,000 shares of the Company's Common Stock exercisable at \$7.44 per share, subject to adjustment; and (iv) 134,409 shares of the Company's Common Stock. Under the Fortress Purchase Agreement, the Company has the right to require the purchasers to purchase an additional \$5,000,000 of Notes (which will increase proportionately the Revenue Stream), subject to the achievement of certain milestones, and further contemplates that Fortress may, but is not obligated to, fund up to an additional \$30,000,000, on equivalent economic terms. The Company may use the proceeds to finance the monetization of its existing assets, provide further expansion capital for new acquisitions, to repay existing debt (including without limitation, the Company's 11% convertible notes issued October 9, 2013 and for general working capital and corporate purposes.

Pursuant to the Purchase Agreement entered into on January 29, 2015, the Company issued to Fortress a Note in the original principal amount of \$15,000,000 (the "Initial Note"). The Initial Note matures on July 29, 2018. If any additional Notes are issued pursuant to the Fortress Securities Purchase Agreement, the maturity date of such additional Fortress Notes shall be 42 months after issuance. The unpaid principal amount of the Initial Note (including any PIK Interest, as defined below) shall bear cash interest at a rate equal to LIBOR plus 9.75% per annum; *provided* that upon and during the continuance of an Event of Default (as defined in the Fortress Securities Purchase Agreement), the interest rate shall increase by an additional 2% per annum. As of March 31, 2016, the twelve-month LIBOR USD rate was 1.21040%. Interest on the Initial Note shall be paid on the last business day of each calendar month (the "Interest Payment Date"), commencing January 31, 2015. Interest shall be paid in cash except that 2.75% per annum of the interest due on each Interest Payment Date shall be paid-in-kind, by increasing the principal amount of the Notes by the amount of such interest, effective as of the applicable Interest Payment Date ("PIK Interest"). PIK Interest shall be treated as added principal of the Initial Note for all purposes, including interest accrual and the calculation of any prepayment premium.

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

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

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

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

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

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

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

Office Lease

In October 2013, the Company entered into a net-lease for its current office space in Los Angeles, California. The lease will commence on May 1, 2014 and runs for seven years through April 30, 2021, with monthly lease payment escalating each year of the lease. In addition, to paying a deposit of \$7,564 and the monthly base lease cost, the Company is required to pay pro rata share of operating expenses and real estate taxes. Under the terms of the lease, the Company will not be required to pay rent for the first five months but must remain in compliance with the terms of the lease to continue to maintain that benefit. In addition, the Company has a one-time option to terminate the lease in the 42th month of the lease. Minimum future lease payments under this lease at March 31, 2016, for the next five years and thereafter are as follows:

| | | |
|--------------------|----|---------|
| 2016 (Nine Months) | \$ | 51,669 |
| 2017 | | 71,288 |
| 2018 | | 74,540 |
| 2019 | | 77,872 |
| 2020 | | 81,336 |
| Thereafter | | 27,504 |
| Total | \$ | 384,209 |

NOTE 7 SUBSEQUENT EVENTS

On April 18, 2016, a wholly-owned subsidiary of the Company entered into a settlement agreement under which the Company agreed to dismiss with prejudice certain pending litigation. Under the terms of the settlement the Company will book revenue on the amount of \$24.9 million. A portion of the proceeds of the settlement will be paid to the original patent owner as well as contingent fees to counsel. In connection with the settlement, the parties have agreed to keep the additional terms of the settlement confidential. The Company believes that other voice recognition services also infringe patents involved in the settled action.

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

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

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

Overview

We acquire patents and patent rights from owners or other ventures and seek to monetize the value of the patents through litigation and licensing strategies, alone or with others. Part of our acquisition strategy is to acquire or invest in patents and patent rights that cover a wide-range of subject matter which allows us to seek the benefits of a diversified portfolio of assets in differing industries and countries. Generally, the patents and patent rights that we seek to acquire have large identifiable targets who are or have been using technology that we believe infringes our patents and patent rights. We generally monetize our portfolio of patents and patent rights by entering into license discussions, and if that is unsuccessful, initiating enforcement activities against any infringing parties with the objective of entering into comprehensive settlement and license agreements that may include the granting of non-exclusive retroactive and future rights to use the patented technology, a covenant not to sue, a release of the party from certain claims, the dismissal of any pending litigation and other terms. Our strategy has been developed with the expectation that it will result in a long-term, diversified revenue stream for the Company. As of March 31, 2016, we owned 327 U.S. and foreign patents and patent rights and 11 patent applications.

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

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

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

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

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

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Critical Accounting Policies and Estimates

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

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

Principles of Consolidation

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

Use of Estimates and Assumptions

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

Revenue Recognition

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

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

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

Accounting for Acquisitions

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

Intangible Assets - Patents

Intangible assets include patents purchased and patents acquired in lieu of cash in licensing transactions. The patents purchased are recorded based on the cost to acquire them and patents acquired in lieu of cash are recorded at their fair market value. The costs of these assets are amortized over their remaining useful lives. Useful lives of intangible assets are periodically evaluated for reasonableness and the assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. The Company recorded an impairment charge to its intangible assets during the three months ended March 31, 2016 in the amount of \$373,195 associated with the end of life of two of the Company's portfolios, compared to no impairment charge during the three months ended March 31, 2015.

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Goodwill

Goodwill is tested for impairment at the reporting unit level at least annually in accordance with ASC 350, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. In accordance with ASC 350-30-65, *Intangibles - Goodwill and Others*, the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following:

1. Significant underperformance relative to expected historical or projected future operating results;
2. Significant changes in the manner of use of the acquired assets or the strategy for the overall business;
3. Significant negative industry or economic trends; and
4. Significant reduction or exhaustion of the potential licenses of the patents which gave rise to the goodwill.

When the Company determines that the carrying value of intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. The Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. When conducting its annual goodwill impairment assessment, the Company initially performs a qualitative evaluation of whether it is more likely than not that goodwill is impaired. If it is determined by a qualitative evaluation that it is more likely than not that goodwill is impaired, the Company then applies a two-step impairment test. The two-step impairment test first compares the fair value of the Company's reporting unit to its carrying or book value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds its fair value, the Company determines the implied fair value of the reporting unit's goodwill and if the carrying value of the reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded in the consolidated statement of operations. The Company performs the annual testing for impairment of goodwill at the reporting unit level during the quarter ended September 30.

For the three months ended March 31, 2016 and March 31, 2015, the Company recorded no impairment charge to its goodwill.

Other Intangible Assets

In accordance with ASC 350-30-65, *Intangibles - Goodwill and Others*, the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers to be important which could trigger an impairment review include the following: (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner of use of the acquired assets or the strategy for the overall business; and (3) significant negative industry or economic trends.

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

Impairment of Long-lived Assets

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

Stock-based Compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the consolidated financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

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Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third parties, compensation expense is determined at the measurement date. The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date. As stock-based compensation expense is recognized based on awards expected to vest, forfeitures are also estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. For the three months ended March 31, 2016, the expected forfeiture rate was 11.0%, which resulted in an expense of \$14,785 recognized in the Company's compensation expenses. The Company will continue to re-assess the impact of forfeitures if actual forfeitures increase in future quarters.

Liquidity and Capital Resources

At March 31, 2016, we had \$1.4 million in cash and cash equivalents and a working capital deficit of \$17.2 million.

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

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

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

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. Accordingly, the standard is effective for us on September 1, 2017 and we are currently evaluating the impact that the standard will have on our consolidated financial statements.

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

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

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

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

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

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

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

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

Results of Operations

For the Three Months Ended March 31, 2016 and 2015

We generated revenues of \$2,059,676 during the three months ended March 31, 2016 as compared to \$4,093,869 during the three months ended March 31, 2015. For the three months ended March 31, 2016, this represented a decrease of \$2,034,193 or 50%. Revenue for the three months

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ended March 31, 2016 and the three months ended March 31, 2015 were derived primarily from the issuance of one-time patent licenses, with the balance of the revenue coming from recurring royalties.

For the three months ended March 31, 2016, revenues from two settlement and license agreements accounted for approximately 93% of the Company's total revenues and 100% of license revenues, whereas revenues from the largest five settlement and license agreements accounted for 87% of the Company's total revenue and 92% of license revenues for the period ending March 31, 2015.

The Company expects that a significant portion of its future revenues will be based on one-time grants of similar non-recurring, non-exclusive, non-assignable licenses to a relatively small number of entities and their affiliates. Further, with the expected small number of firms with which the Company enters into license agreements, and the amount and timing of such license agreements, the Company also expects that its revenues may be highly variable from one period to the next.

While the number of patents is not determinative of revenue, during the time that the Company's merger with Uniloc was pending, the Company did not add to its patent portfolios and the Company determined that it had fully utilized some of its existing patent portfolios. As a result, the total number of patents declined. Following the termination of the merger, however, the Company aggressively began reviewing new portfolios with the intent to add to its patent holdings.

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Direct cost of revenues during the three months ended March 31, 2016 amounted to \$2,639,976 and for the three months ended March 31, 2015, the direct cost of revenues amounted to \$4,328,165. For the three months ended March 31, 2015, this represented a decrease of \$1,688,189 or 39%. Direct costs of revenue include contingent payments to patent enforcement legal costs, patent enforcement advisors and inventors as well as various non-contingent costs associated with enforcing the Company's patent rights and otherwise in developing and entering into settlement and licensing agreements that generate the Company's revenue. For the three months ended March 31, 2016, the decline in the direct cost of revenues was associated with lower contingent counsel expenses and the termination as of September 30, 2015 of a fixed-fee engagement agreement with litigation counsel for numerous enforcement actions with trials held during the second and third quarters of 2015, offset by increased activity in Germany and France.

We incurred other operating expenses of \$4,335,719 for the three months March 31, 2016 and \$6,065,174 for the three months March 31, 2015. For the three months ended March 31, 2016, this represented a decrease of \$1,729,455 or 29%. These expenses primarily consisted of amortization of patents, general expenses, compensation to our officers, directors and employees, professional fees and consulting incurred in connection with the day-to-day operation of our business. Total other operating expenses declined for the three months ended March 31, 2016 relative to the same period in the prior year in virtually every category of expenses, with the largest decreases resulting from declines in expenses associated with patent amortization, compensation and consulting costs, offset by a patent impairment charge in the amount of \$373,195 for the three months ended March 31, 2016 compared to no impairment charge for the three months ended March 31, 2015.

The operating expenses consisted of the following:

Total Other Operating Expenses

| | For the Three Months Ended March 31, 2016 | For the Three Months Ended March 31, 2015 |
|--------------------------------------|--|--|
| Amortization of patents(1) | \$ 2,025,899 | \$ 2,598,461 |
| Compensation and related taxes (2) | 1,033,346 | 1,581,074 |
| Consulting fees (3) | 280,776 | 896,543 |
| Professional fees (4) | 405,493 | 769,615 |
| Other general and administrative (5) | 217,010 | 219,481 |
| Patent Impairment (6) | 373,195 | - |
| Total | \$ 4,335,719 | \$ 6,065,174 |

Operating expenses for the three months ended March 31, 2016 and March 31, 2015 include non-cash operating expenses totaling \$2,952,492 and \$4,067,802, respectively. Non-cash operating expenses consisted of the following:

Non-Cash Operating Expenses

**For the Three
Months Ended**

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For the Three
Months Ended
March 31, 2016

March 31, 2015

| | | | | |
|--------------------------------------|----|-----------|----|-----------|
| Amortization of patents (1) | \$ | 2,025,899 | \$ | 2,598,461 |
| Compensation and related taxes (2) | | 424,807 | | 637,308 |
| Consulting fees (3) | | 117,691 | | 813,248 |
| Professional fees (4) | | 8,535 | | 8,527 |
| Other general and administrative (5) | | 1,652 | | 10,258 |
| Patent Impairment (6) | | 373,195 | | - |
| Total | \$ | 2,951,779 | \$ | 4,067,802 |

(1) Amortization of patents: Amortization expenses were \$2,025,899 and \$2,598,461 during the three months ended March 31, 2016 and 2015, respectively, a decrease of \$572,562 or 22%. 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.

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(2) Compensation expense and related taxes: Compensation expense includes cash compensation and related payroll taxes and benefits, and non-cash equity compensation expenses. For the three months ended March 31, 2016 and 2015, respectively, compensation expense and related payroll taxes were \$1,033,346 and \$1,581,074, a decrease of \$547,728 or 35%. The decrease in compensation primarily reflects bonuses earned and paid during the three months ended March 31, 2015, the termination of certain employees in 2015 and a decrease in non-cash equity-based compensation expenses. During the three months ended March 31, 2016 and 2015, we recognized non-cash employee and board equity-based compensation of \$424,807 and \$637,308, respectively. The decline in non-cash equity-based compensation expenses during the three months ended March 31, 2016 compared to the same period in 2015 resulted from the termination of options in 2015 held by former employees and board members, completion of vesting of certain option grants issued when the Company's stock was higher and smaller new grants to employees.

(3) Consulting fees: For the three months ended March 31, 2016 and 2015, we incurred consulting fees of \$280,776 and \$896,543, respectively, a decrease of \$615,767 or 69%. 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 decline in consulting fees for the three months ended March 31, 2016 compared to the same period in the prior year was primarily the result of higher non-cash equity-based compensation expenses provided to a consultant during the three months ended March 31, 2015. During the three months ended March 31, 2016 and 2015, we recognized non-cash equity-based consulting fees of \$117,691 and \$813,248, respectively. For the three months ended March 31, 2015, \$750,328 of the non-cash equity based consulting expenses are non-recurring.

(4) Professional fees: For the three months ended March 31, 2016 and 2015, professional fees were \$405,493 and \$769,615, respectively, a decrease of \$364,122 or 47%. Professional fees primarily reflect the costs of professional outside accounting fees, legal fees and audit fees. The decrease in professional fees for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 related to professional outside legal, accounting and audit fees resulting from a lower level of patent acquisition efforts during the pendency of the Uniloc merger agreement during the three months ended March 31, 2016 and the higher costs associated with closing the Fortress transaction during the three months ended March 31, 2015. During the three months ended March 31, 2016 and 2015, we recognized non-cash equity based consulting of \$8,535 and \$8,527, respectively.

(5) Other general and administrative expenses: For the three months ended March 31, 2016 and 2015, other general and administrative expenses were \$228,636 and \$219,481, respectively, an increase of \$9,155 or 4%. General and administrative expenses reflect the other non-categorized operating costs of the Company and include expenses related to being a public company, rent, insurance, technology and other expenses incurred to support the operations of the Company. The increase in general and administrative costs in the three months ended March 31, 2016 compared to the three months ended March 31, 2015 resulted from an increase in these expenses, including opening an office in Germany, in support of the continued expansion of the operations of the Company.

(6) Patent impairment: Based on the Company's determination that the fair value of two of the Company's portfolios were less than the carrying amounts, the Company took an impairment charge in the carrying value of the two

portfolios in the amount of \$373,195 for the three months ended March 31, 2016. There was no impairment charge during the comparable periods in 2015.

Operating Income (loss)

We reported operating income (loss) from continuing operations of \$(4,916,019) for the three months ended March 31, 2016 and operating income (loss) of \$(6,299,470), for the three months ended March 31, 2015. For the three months ended March 31, 2016, this represented a reduction in the operating loss in the amount of \$1,383,451. The decreased loss from operations during the three months ended March 31, 2016 relative to the same period in 2015 was primarily decreases in expenses in almost all categories, offset by lower revenue.

Other Income (expenses)

Total other income (expenses) was \$(1,002,445) for the three months ended March 31, 2016 and \$(970,941) for the three months ended March 31, 2015. For the three months ended March 31, 2016, this represented a decrease in other income (expenses) of \$31,504. The principal component of the increase in the other income (loss) for the three months ended March 31, 2016 was an increase in interest expenses.

Income Tax Benefit

We recognized an income tax benefit in the amount of \$2,025,048 for the three months ended March 31, 2016, compared to the recognition of an income tax benefit in the amount of \$2,488,839 for the three months ended March 31, 2015.

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Net Income (Loss)

We reported net income (loss) of \$(3,893,413) for the three months ended March 31, 2016 and net income (loss) of \$(4,781,572) for the three months ended March 31, 2015. For the three months ended March 31, 2016, this represented a reduction in the net loss in the amount of \$888,159.

Non-GAAP Reconciliation

The Company incurred total net non-cash expenses in the amount of \$1,533,763 and \$2,197,909 for the three months ended March 31, 2016 and March 31, 2015, respectively. The details of those expenses and non-GAAP reconciliation of these non-cash items are set forth below:

| | Non-GAAP Reconciliation | |
|--|--|--|
| | For the Three Months Ended March 31, 2016 | For the Three Months Ended March 31, 2015 |
| Net income (loss) | (3,893,413) | (4,781,572) |
| Non-GAAP | | |
| Amortization of intangible assets & depreciation | 2,025,899 | 2,598,461 |
| Equity-based compensation | 551,033 | 1,459,083 |
| Impairment of Intellectual Property | 373,195 | - |
| Change in Earn Out Liability | 1,342 | - |
| Non-cash interest expense | 605,690 | 627,207 |
| Deferred tax benefit | (2,025,048) | (2,497,100) |
| Other | 1,652 | 10,258 |
| Non-GAAP net income (loss) | (2,359,650) | (2,583,663) |

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

| | For the Three Months Ended March 31, 2016 | | For the Three Months Ended March 31, 2015 | |
|--|--|-------------|--|-------------|
| Non-GAAP net income (loss) | \$ | (2,359,650) | \$ | (2,583,663) |
| Denominator | | | | |
| Weighted Average Common Shares - Basic | | 14,967,141 | | 13,868,811 |
| Weighted Average Common Shares - Diluted | | 14,967,141 | | 13,868,811 |
| Non-GAAP earnings (Loss) per common share: | | | | |
| Non-GAAP income (Loss) - Basic | \$ | (0.16) | \$ | (0.19) |
| Non-GAAP income (Loss) - Diluted | \$ | (0.16) | \$ | (0.19) |

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. At March 31, 2016, the Company's cash and cash equivalents balances totaled \$1,420,390 compared to \$2,555,151 at December 31, 2015. The decrease in the cash balances of \$1,134,761 resulted primarily from repayment of principal of debt to Fortress, offset by net cash provided by operations.

Net working capital declined by \$4,978,230 to \$(17,150,976) at March 31, 2016 from \$(12,172,746) at December 31, 2015. The decline in net working capital resulted primarily from a decline in current assets related to cash used to repay debt and an increase in current liabilities associated with an increase in accounts payable and accrued expenses and an increase in short-term debt classified as long-term debt in the prior reporting period.

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Cash provided (used) in operating activities was \$113,169 during the three months ended March 31, 2016 and cash provided (used) in operating activities of \$(1,145,055) during the three months ended March 31, 2015.

Cash provided (used) in investing activities was \$(2,097) for the three months ended March 31, 2016 compared to \$(37,147) cash used in investing activities for the three months ended March 31, 2015. The use of cash during the three months ended March 31, 2016 and the three months ended March 31, 2015 was solely related to the purchases of property, equipment and other non-patent intangible assets.

Cash provided (used) in financing activities was \$(1,248,440) during the three months ended March 31, 2016 compared to cash provided by financing activities in the amount of \$5,568,750 during the three months ended March 31, 2015. Cash used in financing activities for the three months ended March 31, 2016 resulted from the repayment of Fortress debt and cash provided by financing activities for the three months ended March 31, 2015 resulted from the transaction entered into with Fortress on January 29, 2015, less repayment of general and patent portfolio acquisition debt, of equal or shorter terms, incurred during 2014.

Management believes that the balance of cash and cash equivalents of \$1,420,390 at March 31, 2016, combined with licensing activity during the three months ended June 30, 2016, is sufficient to continue to fund the Company's current operations. However, the Company's operations are subject to various risks and there is no assurance that changes in the operations of the Company will not require the Company to raise additional cash sooner than planned in order to continue uninterrupted operations. In that event, the Company would seek to raise additional capital from the sale of the Company's securities, from borrowing or from other sources. Should the Company seek to raise capital from the issuances of its securities, such transactions would be subject to the risks of the market for the Company's securities at the time.

Off-balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

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

We conducted an evaluation of the effectiveness of our disclosure controls and procedures (Disclosure Controls), as defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of March 31, 2016, the end of the period covered by this Quarterly Report on Form 10-Q. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to our limited internal audit function, our Disclosure Controls were not effective as of March 31, 2016, such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

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

Changes in Internal Controls.

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2016 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.

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

In the normal course of our business of patent monetization, it is generally necessary for us to initiate litigation in order to commence the process of protecting our patent rights. Such litigation is expected to lead to a monetization event. Accordingly, we are, and in the future expect to become, a party to ongoing patent enforcement related litigation alleging infringement by various third parties of certain patented technologies owned and/or controlled by us. Litigation is commenced by and managed through the subsidiary that owns the related portfolio of patents or patent rights. In connection with our enforcement activities, we are currently involved in multiple patent infringement cases. As of March 31, 2016, the Company is involved in a total of 28 lawsuits against defendants in the following jurisdictions:

| | |
|---|---|
| United States | |
| District of Delaware | 8 |
| Central District of California | 5 |
| Eastern District of Michigan | 1 |
| Northern District of New York | 1 |
| US Court of Appeals for the Federal Circuit | 3 |
| Foreign | |
| Germany | 9 |
| France | 1 |

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.

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

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Item 6. Exhibits.

| | |
|---------|---|
| 10.1 | Termination Agreement dated February 22, 2016 of Business Combination Agreement dated August 14, 2015 |
| 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

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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: May 12, 2016

MARATHON PATENT GROUP, INC.

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

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