UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10–Q

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2017

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ______________

Commission file number: 001–32698

MGT CAPITAL INVESTMENTS, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**13–4148725**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

512 S. Magnum Street, Suite 408
Durham, NC 27701
(Address of principal executive offices)

(914) 630–7430
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [ ]	Accelerated filer [X]
Non–accelerated filer [ ] (Do not check if smaller reporting company)	Smaller reporting company [ ]
Emerging growth company [ ]	

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

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

As of May 18, 2017, there were 36,047,855 shares of the registrant's Common stock, $0.001 par value per share, issued and outstanding.

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PART I. FINANCIAL INFORMATION

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per–share amounts)

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 334	$ 345
Prepaid expenses and other current assets	280	153
Investments available for sale	–	44
Digital currencies	19	10
Total current assets	633	552
Non–current assets		
Property and equipment, at cost, net	503	602
Intangible assets, net	426	468
Investments, at cost	–	287
Total assets	**$ 1,562**	**$ 1,908**
Liabilities and equity / (deficit)		
Current liabilities		
Accounts payable	$ 329	$ 66
Accrued expenses	196	124
Convertible notes payable, net of debt discount and debt issuance cost	411	–
Other payables	6	1
Total current liabilities	942	191
Non–current liabilities		
Notes payable	500	2,300
Total liabilities	1,442	2,491
Commitments and contingencies		
Redeemable convertible preferred stock – Temporary equity		
Preferred stock, Series A convertible preferred, $0.001 par value, 1,500,000 shares authorized at September 30, 2016 and December 31, 2016; No shares outstanding at March 31, 2017 and December 31, 2016.	–	–
Equity / (deficit)		
Undesignated preferred stock, $0.001 par value, 8,583,840 shares authorized at March 31, 2017 and December 31, 2016. No shares issued and outstanding at March 31, 2017 and December 31, 2016	–	–
Common stock, $0.001 par value; 75,000,000 shares authorized; 34,797,855 and 28,722,855 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	35	29
Additional paid–in capital	334,465	327,943
Accumulated other comprehensive loss	–	(66)
Accumulated deficit	(334,358)	(328,467)
Total equity / (deficit) attributable to MGT stockholders	142	(561)
Non–controlling interests	(22)	(22)
Total equity / (deficit)	120	(583)
Total equity / (deficit), liabilities, redeemable convertible preferred stock and non–controlling interest	**$ 1,562**	**$ 1,908**

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

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except share and per–share amounts, unaudited)

	Three months ended March 31,	
	2017	**2016**
Revenues		
Bitcoin mining	$ 312	$ –
Cost of revenues		
Bitcoin mining	201	–
Gross margin	**111**	**–**
Operating expenses		
General and administrative	2,835	654
Sales and marketing	118	–
Research and development	103	–
Total operating expenses	3,056	654
Operating loss	**(2,945)**	**(654)**
Other non–operating (expense) / income		
Interest and other (expense) / income	(38)	25
Accretion of debt discount	(37)	–
Impairment – equity method investment, related party	(2,500)	–
Impairment of long–term investments	(287)	–
Loss on sale of investments	(84)	(731)
Total other non–operating expense	(2,946)	(706)
Net loss before non–controlling interest	**(5,891)**	**(1,360)**
Net loss attributable to non–controlling interest	–	23
Net loss attributable to Common stockholders	**$ (5,891)**	**$ (1,337)**
Other comprehensive loss		
Reclassification adjustment for loss included in net loss	$ 66	$ 678
Unrealized holding loss	–	(248)
Comprehensive loss	**$ (5,825)**	**$ (907)**
Per–share data		
Basic and diluted loss per share	$ (0.20)	$ (0.07)
Weighted average number of Common shares outstanding	29,699,244	18,002,617

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

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands, unaudited)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash flows from operating activities		
Net loss	$ (5,891)	$ (1,360)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	99	6
Amortization of intangible assets	42	57
Stock–based expense	1,299	40
Loss on sale of investments	84	731
Impairment – equity method investment, related party	2,500	–
Impairment of long–term investments	287	–
Accretion of debt discount	37	–
Change in operating assets and liabilities		
Prepaid expenses and other current assets	33	58
Accounts payable	263	59
Accrued expenses	72	22
Digital currencies	(9)	–
Other payables	5	11
Net cash used in operating activities	(1,180)	(376)
Cash flows from investing activities		
Release of restricted cash	–	39
Purchase of note receivable– long term	–	(30)
Proceeds from sale of investments	26	197
Net cash provided by investing activities	26	206
Cash flows from financing activities		
Proceeds on issuance of convertible notes	600	–
Issuance costs paid on convertible notes	(107)	
Proceeds from private placement	650	–
Proceeds from issuance of note payable	–	–
Net cash provided by financing activities	1,143	–
Net change in cash and cash equivalents	(11)	(170)
Cash and cash equivalents, beginning of period	345	359
Cash and cash equivalents, end of period	**$ 334**	**$ 189**
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 7	$ –
Cash paid for taxes	–	–
Supplemental non–cash disclosures (investing and financing activities)		
Settlement of note receivable for FNCX Common stock	$ –	$ 825
Settlement of note receivable for FNCX Preferred Series D stock	–	110
Beneficial conversion feature on convertible debt and warrants issued concurrent with debt	279	–
Conversion of convertible debt	1,800	–
Issuance of commitment note as a deferred offering cost	160	–
Reclassification adjustment upon sale of available for sale investments into net loss	66	678
Unrealized loss on available for sale investments	-	(248)

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

Note 1. Organization and basis of presentation

Organization

MGT Capital Investments, Inc. ("MGT," "the Company," "we," "us") is a Delaware corporation, incorporated in 2000. The Company was originally incorporated in Utah in 1977. MGT is comprised of the parent company, wholly–owned subsidiaries MGT Cybersecurity, Inc. ("MGT Cybersecurity"), Medicsight, Inc. ("Medicsight"), MGT Sports, Inc. ("MGT Sports"), MGT Studios, Inc. ("MGT Studios"), MGT Interactive, LLC ("MGT Interactive") and MGT Gaming, Inc. ("MGT Gaming"). MGT Studios also owns a controlling minority interest in the subsidiary M2P Americas, Inc. Our corporate office is located in Durham, North Carolina.

The Company is in the process of acquiring and developing a diverse portfolio of cybersecurity technologies.

Also as part of its corporate efforts in secure technologies, MGT is growing its capacity in mining Bitcoin.

On September 8, 2016, MGT stockholders have voted to change the corporate name of MGT to "John McAfee Global Technologies, Inc." Following a dispute over ownership and permitted usage of the name McAfee, the Company and Intel have agreed to a mediation process to avoid unnecessary legal costs.

Cybersecurity

On May 9, 2016, the Company, through its wholly owned subsidiary, MGT Cybersecurity, Inc. entered an asset purchase agreement (APA) to acquire certain assets owned by D–Vasive, Inc., a Wyoming corporation in the business of developing and marketing certain privacy and anti–spy applications (the "D–Vasive APA). Pursuant to the terms of the D–Vasive APA, the Company had agreed to purchase assets including but not limited to applications for use on mobile devices, intellectual property, customer lists, databases, sales pipelines, proposals and project files, licenses and permits. The proposed purchase price for D–Vasive was $300 in cash and 23.8 million shares of MGT Common stock. On October 5, 2016, the Company paid a $70 refundable advance as part of a modification of terms. The advance will be refundable if the APA is not close within twelve months of the modification.

On May 26, 2016, the Company entered an asset purchase agreement with Demonsaw LLC, a Delaware company, for the purchase of certain technology and assets. Demonsaw is in the business of developing and marketing secure and anonymous information sharing applications. Pursuant to the terms of the Demonsaw APA, we had agreed to purchase assets including the source code for the Demonsaw solution, intellectual property, customer lists, databases, sales pipelines, proposals and project files, licenses and permits. The proposed purchase price for Demonsaw was 20.0 million shares of MGT Common stock.

On July 7, 2016, and prior to the closing of either of the above transactions, the Company and Demonsaw terminated the Demonsaw APA. Simultaneously, D–Vasive entered an agreement with the holders of Demonsaw outstanding membership interests, whereby D–Vasive would purchase all such membership interests. The closing of that transaction was contingent on the closing of the transaction contemplated under the D–Vasive APA. Accordingly, the proposed purchase price for D–Vasive (inclusive of the Demonsaw assets) was increased to 43.8 million shares of MGT Common stock (the "Amended APA").

On August 8, 2016, the Company filed a Definitive Proxy Statement to solicit, among other things, shareholder approval of the D–Vasive acquisition, at the upcoming Annual Meeting of Stockholders. On September 8, 2016, shareholder approval was obtained. However, on September 19, 2016, the New York Stock Exchange informed the Company that it would not approve the listing on the Exchange of the 43.8 million shares required to be issue to complete the closing of the D–Vasive acquisition. Not reaching this critical closing condition resulted in the termination of the Amended APA.

On October 24, 2016, the Company consummated the July 2016 asset purchase agreement with Cyberdonix, Inc., an Alabama corporation for the purchase of the "Sentinel" network intrusion detection device, all underlying software and firmware, the server contract, and case and circuit board inventory by issuing 150,000 shares of MGT Common stock.

On March 3, 2017, MGT purchased 46% of the outstanding membership interests in Demonsaw LLC for 2.0 million MGT Common shares from Future Tense Secure Systems, Inc. ("FTS"). The Company recorded the purchase using the fair value of the common shares provided and immediately impaired the equity method investment during the three months ended March 31, 2017.

Janice Dyson, wife of John McAfee, the Company's Executive Chairman of the Board of Directors and Chief Executive Officer, is the sole director of FTS and owns 33% of the currently outstanding shares of Common stock of such company.

On April 3, 2017, the Company terminated the APA dated May 9, 2016, as amended on July 7, 2016, entered into by and among MGT, D–Vasive, the shareholders of D–Vasive and MGT Cybersecurity. The termination of the APA was premised on Section 3.4(b) of the APA which states that the APA may be terminated by either party thereto if the Closing contemplated thereunder did not occur on or before a specified date and the same is not otherwise extended by the parties, in writing or otherwise. Pursuant to the APA, as amended, MGT would have acquired certain technology and assets of D–Vasive if the Closing had occurred on the terms of the APA, as amended.

Bitcoin mining

On September 13, 2016, the Company announced launch of its 5.0 PH/s Bitcoin mining operation, based in central Washington.

Legacy businesses

Prior to second quarter ending June 30, 2016, the Company and its subsidiaries were principally engaged in the business of acquiring, developing and monetizing assets in the online and mobile gaming space as well as the social casino industry.

Basis of presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10–Q and Rule 10 of Regulation S–X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America. However, in the opinion of the management of the Company, all adjustments necessary for a fair presentation of the financial position and operating results have been included in these statements. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10–K for the fiscal year ended December 31, 2016, as filed with the SEC on April 20, 2017. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for any subsequent quarters or for the year ending December 31, 2017.

Note 2. Going concern and management plans

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of March 31, 2017, the Company had incurred significant operating losses since inception and continues to generate losses from operations and has an accumulated deficit of $334,358. These matters raise substantial doubt about the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Commercial results have been limited and the Company has not generated significant revenues. The Company's primary source of operating funds since inception has been debt and equity financings. On October 19, 2016, the Company received a letter from the New York Stock Exchange ("NYSE" or the "Exchange") stating that the staff of NYSE Regulation has determined to commence proceedings to delist the Company's Common stock (the "Action"). The delisting could have an adverse effect on the Company's ability to secure operating funds from debt and equity financings. The Company cannot assure its stockholders that the Company's revenues will be sufficient to fund its operations. If adequate funds are not available, the Company may be required to curtail its operations significantly or to obtain funds through entering into arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of our technologies or products that the Company would not otherwise relinquish.

At March 31, 2017, MGT's cash and cash equivalents were $334. The Company intends to raise additional capital, either through debt or equity financings or through the continued sale of the Company's assets or equity securities in order to achieve its business plan objectives. Management believes that it can be successful in obtaining additional capital; however, no assurance can be provided that the Company will be able to do so. There is no assurance that any funds raised will be sufficient to enable the Company to attain profitable operations or continue as a going concern. To the extent that the Company is unsuccessful, the Company may need to curtail or cease its operations and implement a plan to extend payables or reduce overhead until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Note 3. Summary of significant accounting policies

Use of estimates and assumptions and critical accounting 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(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s).

Critical accounting estimates are estimates for which (a) the nature of the estimate is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change and (b) the impact of the estimate on financial condition or operating performance is material. The Company's critical accounting estimates and assumptions affecting the financial statements were:

(1) *Fair value of long–lived assets:* Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. If long–lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long–lived assets are depreciated over the newly determined remaining estimated useful lives. The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under–performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company's overall strategy with respect to the manner or use of the acquired assets or changes in the Company's overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company's stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates acquired assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events.

(2) *Valuation allowance for deferred tax assets:* Management assumes that the realization of the Company's net deferred tax assets resulting from its net operating loss ("NOL") carry–forwards for Federal income tax purposes that may be offset against future taxable income was not considered more likely than not and accordingly, the potential tax benefits of the net loss carry–forwards are offset by a full valuation allowance. Management made this assumption based on (a) the Company has incurred recurring losses, (b) general economic conditions, and (c) its ability to raise additional funds to support its daily operations by way of a public or private offering, among other factors.

(3) *Estimates and assumptions used in valuation of equity instruments:* Management estimates expected term of share options and similar instruments, expected volatility of the Company's Common shares and the method used to estimate it, expected annual rate of quarterly dividends, and risk free rate(s) to value share options and similar instruments.

These significant accounting estimates or assumptions bear the risk of change due to the fact that there are uncertainties attached to these estimates or assumptions, and certain estimates or assumptions are difficult to measure or value.

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable in relation to the financial statements taken as a whole 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.

Management regularly evaluates the key factors and assumptions used to develop the estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such evaluations, if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

Principles of consolidation

All intercompany transactions and balances have been eliminated. Non–controlling interest represents the minority equity investment in MGT subsidiaries, plus the minority investors' share of the net operating results and other components of equity relating to the non–controlling interest.

Fair value of financial instruments

The Company follows ASC 820–10 of the FASB Accounting Standards Codification to measure the fair value of its financial instruments and disclosures about fair value of its financial instruments. ASC 820–10 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, ASC 820–10 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The three (3) levels of fair value hierarchy defined by ASC 820–10 are described below:

Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally unobservable inputs and not corroborated by market data.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The carrying amounts of the Company's financial assets and liabilities, such as cash, prepaid expenses and other current assets, accounts payable and accrued expenses approximate their fair values because of the short maturity of these instruments.

The Company's had no Level 3 financial assets or liabilities as of March 31, 2017 and December 31, 2016.

Fair value of financial assets and liabilities measured on a recurring basis

The Company uses Level 1 of the fair value hierarchy to measure the fair value of digital currencies and revalues its digital currencies at every reporting period and recognizes gains or losses in the consolidated statements of operations that are attributable to the change in the fair value of the digital currency.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below and disclosed on the balance sheets as follows:

		Fair value measurement using			
	Carrying value	Level 1	Level 2	Level 3	Total
Digital currencies	$ 19	$ 19	$ –	$ –	$ 19

The following table provides the investments carried at fair value measured on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Investments – FNCX Common shares	$ 44	$ –	$ –	$ 44
Digital currencies	10	–	–	10

Derivative instruments

The Company evaluates its convertible debt, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with ASC 815–15. The result of this accounting treatment is that the fair value of the embedded derivative is marked–to–market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statements of operations as other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re–assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date.

Management analyzed the contingent variable conversion features embedded within the convertible notes issued during the three months ended March 31, 2017 and concluded that the contingent conversion features should be bifurcated and accounted for as a derivative liability upon the triggering of a default event. Because all default events were cured prior to the release of the financial statements, no derivative liability was recognized.

Beneficial Conversion Feature of Convertible Notes Payable

The Company accounts for convertible notes payable in accordance with the guidelines established by the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 470-20, Debt with Conversion and Other Options, Emerging Issues Task Force ("EITF") 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, and EITF 00-27, Application of Issue No 98-5 To Certain Convertible Instruments. The Beneficial Conversion Feature ("BCF") of a convertible note is normally characterized as the convertible portion or feature of certain notes payable that provide a rate of conversion that is below market value or in-the-money when issued. The Company records a BCF related to the issuance of a convertible note when issued and also records the estimated fair value of any warrants issued with those convertible notes. Beneficial conversion features that are contingent upon the occurrence of a future event are recorded when the contingency is resolved.

The BCF of a convertible note is measured by allocating a portion of the note's proceeds to the warrants, if applicable, and as a discount on the carrying amount of the convertible note equal to the intrinsic value of the conversion feature, both of which are credited to additional paid-in-capital. The value of the proceeds received from a convertible note is then allocated between the conversion features and warrants and the debt on an allocated fair value basis. The allocated fair value is recorded in the financial statements as a debt discount (premium) from the face amount of the note and such discount is amortized over the expected term of the convertible note (or to the conversion date of the note, if sooner) and is charged to interest expense.

Revenue recognition

The Company recognizes revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when there is persuasive evidence of an arrangement and that the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable and collectability is probable. Our material revenue streams are related to the delivery of intellectual property license fees and gaming fees:

- *Digital currencies operating revenues* – The Company derives its revenue by providing transaction verification services within the digital currency network of Bitcoin, Commonly termed "Bitcoin mining." In consideration for these services the Company receives digital currency, Bitcoins ("BTC," "coins"). The coins are recorded as revenue, using the average spot price of Bitcoin on the date of receipt. The coins are recorded on the balance sheet at their fair value and re–measured at each reporting date. Revaluation gains or losses, as well gains or losses on sale of BTC are recorded in the statement of operations. Expenses associated with running the Bitcoin mining business, such as equipment deprecation, rent and electricity cost are recorded as cost of revenues.

- *Licensing* – License fee revenue is derived from the licensing of intellectual property. Revenue from license fees is recognized when notification of shipment to the end user has occurred, there are no significant Company obligations with regard to implementation and the Company's services are not considered essential to the functionality of other elements of the arrangement.

- *Gaming* – Gaming revenue is derived from entry fees charged in contests minus prizes paid out in contests.

Loss per share

Basic loss per share is calculated by dividing net loss applicable to Common shareholders by the weighted average number of Common shares outstanding during the period. Diluted loss per share is calculated by dividing the net loss attributable to Common shareholders by the sum of the weighted average number of Common shares outstanding plus potential dilutive Common shares outstanding during the period. Potential dilutive securities, comprised of the convertible Preferred Stock, unvested restricted shares, stock warrants and stock options, are not reflected in diluted net loss per share because such shares are anti–dilutive.

The computation of diluted loss per share for the three months ended March 31, 2017, excludes 1,500,000 unvested restricted shares, 6,000,000 shares issuable under options and 5,375,000 shares issuable under warrants, as they are anti–dilutive due to the Company's net loss. The computation of diluted loss per share for the three months ended March 31, 2016, excluded 10,768 shares in connection to the Convertible Preferred stock, 96,000 unvested restricted shares and 3,820,825 shares issuable under warrants, as they were anti–dilutive due to the Company's net loss.

Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision–making group in deciding how to allocate resources and in assessing performance. Our chief operating decision–making group is composed of the chief executive officer and chief financial officer. We currently operate in the cybersecurity and bitcoin mining segment. During the three months ended March 31, 2017, we operated in two operational segments, Cybersecurity, and Bitcoin Mining. Certain corporate expenses are not allocated to segments.

Stock–based compensation

The Company recognizes compensation expense for all equity–based payments in accordance with *ASC 718 "Compensation – Stock Compensation"*. Under fair value recognition provisions, the Company recognizes equity–based compensation net of an estimated forfeiture rate and recognizes compensation cost only for those shares expected to vest over the requisite service period of the award.

Restricted stock awards are granted at the discretion of the Company. These awards are restricted as to the transfer of ownership and generally vest over the requisite service periods, typically over an eighteen–month period (vesting on a straight–line basis). The fair value of a stock award is equal to the fair market value of a share of Company stock on the grant date.

The fair value of option award is estimated on the date of grant using the Black–Scholes option valuation model. The Black–Scholes option valuation model requires the development of assumptions that are input into the model. These assumptions are the expected stock volatility, the risk–free interest rate, the expected life of the option, the dividend yield on the underlying stock and the expected forfeiture rate. Expected volatility is calculated based on the historical volatility of our Common stock over the expected option life and other appropriate factors. Risk–free interest rates are calculated based on continuously compounded risk–free rates for the appropriate term. The dividend yield is assumed to be zero as the Company has never paid or declared any cash dividends on our Common stock and does not intend to pay dividends on our Common stock in the foreseeable future. The expected forfeiture rate is estimated based on historical experience.

Determining the appropriate fair value model and calculating the fair value of equity–based payment awards requires the input of the subjective assumptions described above. The assumptions used in calculating the fair value of equity–based payment awards represent management's best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, our equity–based compensation could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the equity–based compensation could be significantly different from what the Company has recorded in the current period.

The Company accounts for share–based payments granted to non–employees in accordance with *ASC 505–40, "Equity Based Payments to Non–Employees"*. The Company determines the fair value of the stock–based payment as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete. The fair value of the equity instruments is re–measured each reporting period over the requisite service period.

Recent accounting pronouncements

Management does not believe that any recently issued, but not yet effective accounting pronouncements, when adopted, will have a material effect on the accompanying consolidated financial statements, other than those disclosed in the Annual Report on Form 10–K.

Note 4. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following:

	March 31, 2017	December 31, 2016
Prepaid services	$ 120	$ 153
Deferred offering costs (See note 8)	160	–
Total prepaid expenses and other current assets	**$ 280**	**$ 153**

Note 5. Investments

Equity security investments available for sale, at market value, reflect unrealized appreciation and depreciation, as a result of temporary changes in market value during the period, in shareholders' equity, net of income taxes in "accumulated other comprehensive loss" in the condensed consolidated balance sheets. For non–publicly traded securities, market prices are determined through the use of pricing models that evaluate securities. For publicly traded securities, market value is based on quoted market prices or valuation models that use observable market inputs.

Investments available for sale

	March 31, 2017	December 31, 2016
FNCX Common shares	$ –	$ 44

For non–public, non–controlled investments in equity securities, the Company uses the cost–method of accounting.

Investments at cost

	March 31, 2017	December 31, 2016
DDGG Common shares	$ –	$ 287

During the three months ended March 31, 2017, the Company recognized an impairment charge of $287 related to its investment in DDGG.

Note 6. Goodwill and intangible assets

Goodwill represents the difference between purchase cost and the fair value of net assets acquired in business acquisitions. Indefinite lived intangible assets, representing trademarks and trade names, are not amortized unless their useful life is determined to be finite. Long–lived intangible assets are subject to amortization using the straight–line method. Goodwill and indefinite lived intangible assets are tested for impairment annually as of December 31, and more often if a triggering event occurs, by comparing the fair value of each reporting unit to its carrying value. The Company concluded that a triggering event had occurred based on the overall deterioration of the market capitalization of the Company and evaluated the goodwill for possible impairment. After the evaluation as of December 31, 2016, management concluded that a full impairment existed based on the Company's current efforts to capitalize and execute its business plan relating to the asset.

The Company's intangible assets for continuing operations consisted of the following:

	Intangible assets
January 1, 2017	**$ 468**
Impairment	–
Amortization	(42)
March 31, 2017	**$ 426**

For the three months ended March 31, 2017 and 2016, the Company recorded amortization expense of $42 and $57, respectively.

The following table outlines estimated future annual amortization expense for the next five years and thereafter:

Twelve–month period March 31,	
2017	$ 123
2018	165
2019	138
	$ 426

Note 6. Property and Equipment

Property and equipment related to continuing operations consisted of the following:

	March 31, 2017	December 31, 2016
Computer hardware and software	$ 10	$ 10
Bitcoin machines	708	708
	718	718
Less: Accumulated depreciation	(215)	(116)
Property and equipment, net	**$ 503**	**$ 602**

The Company recorded depreciation expense of $99 and $6 for the three months ended March 31, 2017, and 2016, respectively.

Note 7. Accrued expenses

Accrued expenses consisted of the following:

	March 31, 2017	December 31, 2016
Legal, consulting, interest and others	$ 196	$ 124

Note 8. Notes payable

August 2016 Notes

On August 2, 2016 (the "Closing Date"), the Company entered into a Securities Purchase Agreement (the "SPA") with selected accredited investors (each an "Investor" and collectively, the "Investors"). Pursuant to the terms of the Purchase Agreement, the Company sold $2,300 in unsecured promissory notes ("Notes) in a private placement (the "Offering"). The Notes mature on September 30, 2019 or such other date as set forth in the Notes. The Notes bear interest at a rate of twelve per cent (12%) per annum, to be paid quarterly in arrears, with the first payment due on September 30, 2016 to be calculated on a pro–rata basis. In addition, for each one thousand dollars invested by an Investor, the Investor shall receive two detachable Warrants ("Warrant"), each of which is exercisable for one hundred (100) shares of the Company's Common stock: Each Warrant has an exercise price of $3.31 per share, and is exercisable for a period of thirty–six (36) months from the date of issuance.

The relative fair value of these warrants granted, estimated on the date of grant, was $761, which was recorded as a discount to the notes payable. The Company amortizes the discount over the term of the notes.

On October 28, 2016 and on November 4, 2016, the Company entered into a Note Exchange Agreement ("Note Exchange Agreement") and a Warrant Exchange Agreement (the "Warrant Exchange Agreement") with all the holders ("Holders") of the 12% unsecured promissory notes (the "Notes") previously issued by the Company pursuant to the above Securities Purchase Agreement dated August 2, 2016 (the "Purchase Agreement"). Pursuant to the Note Exchange Agreement, the Company and the Holders agreed to exchange the Notes, including accrued but unpaid interest thereon, for an 8% Senior Unsecured Promissory Notes in the aggregate principal amount of $2,300 (the "New Notes"). The New Notes are convertible, at the option of the holder thereof, into shares of the Company's Common stock at a conversion price of $1.00 per share, subject to adjustments as set forth in the New Note.

In addition, and pursuant to the Exchange Agreement, the Company and the Holders also agreed to a cashless exercise of warrants to purchase 460,000 shares of Company Common stock. The value of the shares issued for warrants of $600 was recorded as a loss on extinguishment of debt in the Consolidated Statement of Operations during the year ended December 31, 2016.

The Company analyzed the modification and concluded that extinguishment accounting was to be applied. Unamortized discount on warrants of $711 was reversed and recorded as a loss on extinguishment of debt during the year ended December 31, 2016. The Company calculated beneficial conversion feature on the conversion option added in the new modified note payable of $702 and recorded it as a loss on extinguishment of debt for the year ended December 31, 2016.

In February and March 2017, holders of the Company's 8% Convertible Notes converted a total of $1,800 principal value into a total of 1,900,000 shares of the Company's Common stock.

March 2017 Equity Purchase Agreement

On March 14, 2017, the Company and L2 Capital, LLC ("L2 Capital"), a Kansas limited liability company, entered into an equity purchase agreement (the "Equity Purchase Agreement"), pursuant to which the Company shall issue and sell to L2 Capital from time to time up to $5 million of the Company's Common stock that will be registered with the Securities and Exchange Commission (the "SEC") under a registration statement on a form S–1. Pursuant to the Equity Purchase Agreement, the Company may require L2 Capital to purchase shares of Common Stock in a minimum amount of $25 and maximum of the lesser of (a) $1 million or (b) 150% of the Average Daily Trading Value, upon the Company's delivery of a Put Notice to L2 Capital. L2 Capital shall purchase such number of shares of Common Stock at a per share price that equals to the lowest closing bid price of the Common Stock during the Pricing Period multiplied by 90%. Before the expiration of the term of the Equity Purchase Agreement, the said Agreement shall terminate, subject to certain exceptions set forth therein, at any time by a written notice from the Company to L2 Capital.

In connection with the Equity Purchase Agreement, the Company has issued to L2 Capital an 8% convertible promissory note (the "Commitment Note") in the principal amount of $160 in consideration of L2 Capital's contractual commitment to the Equity Purchase Agreement. The Commitment Note matures six months after the Issue Date. All or part of the Commitment Note is convertible into the Common Stock of the Company upon the occurrence of any of the Events of Default at a Variable Conversion Price that equals to 75% of the lowest Trading Price for the Common Stock during a thirty–day Trading Day period immediately prior to the Conversion Date.

The Company recorded the Commitment Note as a deferred offering costs as the Company is yet to receive equity proceeds from the Equity Purchase Agreement. The Company is yet to file a registration statement on the offering. Management analyzed the contingent variable conversion price and concluded that the contingent conversion features should be bifurcated and accounted for as a derivative liability upon the triggering of a default event. Because all default events were cured prior to the release of the financial statements, no derivative liability was recognized.

March 2017 Securities Purchase Agreement

In addition, on March 10, 2017, the Company and L2 Capital entered into a securities purchase agreement (the "Securities Purchase Agreement"), pursuant to which the Company issued two 10% convertible notes (the "Convertible Notes") in an aggregate principal amount of $1 million with a 20% original issue discount, of which first convertible note was funded on March 14, 2017. The Company received gross proceeds of $393 (which represents the deduction of the 20% original discount and $7 for L2 Capital's legal fees) in exchange for issuance of the first Convertible Note (the "First Note") in the Principal Amount of $500. The First Note matures six months from the Issue Date and the accrued and unpaid interest at a rate of 10% per annum is due on such date. At any time on or after the occurrence of an Event of Default, the Holder of the First Note shall have the right to convert all or part of the unpaid and outstanding Principal Amount and the accrued and unpaid interest to shares of Common Stock at a Conversion Price that equals 65% multiplied by the lowest Trading Price for the Common Stock during a thirty–day Trading Day period immediately prior to the Conversion Date (the "Market Price").

Management analyzed the contingent variable conversion price and concluded that the contingent conversion features should be bifurcated and accounted for as a derivative liability upon the triggering of a default event. Because all default events were cured prior to the release of the financial statements, no derivative liability was recognized.

The Company received a L2 Capital Back End Note ("L2 Collateralized Note") secured with the First Note for its issuance of the Second Note to L2 Capital. In accordance with the Second Note, the Company shall pay to the order of L2 Capital a Principal Amount of $500 and the accrued and unpaid interest at a rate of 10% per annum on the Maturity Date, which is eight months from the Issue Date. At any time on or after the occurrence of an Event of Default, the Holder of the Second Note shall have the right to convert all or part of the unpaid and outstanding Principal Amount and the accrued and unpaid interest into shares of Common Stock at a Conversion Price that equals to 65% multiplied by the Market Price. Pursuant to the L2 Collateralized Note, L2 Capital promises to pay the Company the Principal Amount of $500 (consisting $393 in cash, legal fees of $7 and an original issuance discount of $100) no later than November 10, 2017.

Under ASC 210–20–45–1, management offset the L2 Collateralized Note by the receivable due from the investor on November 10, 2017. Currently the $500 L2 Collateralized Note is shown net of the $500 receivable from the investor.

In connection with the issuance of the First Note, the Company also issued to L2 Capital Warrants to purchase up to 400,000 shares of Common Stock (the "Warrant Shares") pursuant to the Common stock purchase warrant (the "Common Stock Purchase Warrant") executed by the Company. The Warrant shall be exercisable at a price of 110% multiplied by the closing bid price of the Common Stock on the Issuance Date (the "Exercise Price"), subject to adjustments and exercisable from the Issue Date until the seven–year anniversary. At the time that the Second Note is funded by the Holder thereof in cash, then on such funding date, the Warrant Shares shall immediately and automatically be increased by the quotient (the "Second Warrant Shares") of $375 divided by the lesser of (i) the Exercise Price and (ii) 110% multiplied by the closing bid price of the Common Stock on the funding date of the Second Note. With respect to the Second Warrant Shares, the Exercise Price hereunder shall be redefined to equal the lesser of (i) the Exercise Price and (ii) 110% multiplied by the closing bid price of the Common Stock on the funding date of the Second Note. L2 Capital may exercise the Warrant cashless unless the underlying shares of Common Stock have been registered with the SEC prior to the exercise.

Management recorded the warrants at relative fair value to additional paid in capital. The corresponding debt discount is being amortized over the life of the note.

The Company utilized the following management assumptions in valuing the derivative conversion feature during the three months ended March 31, 2017:

Exercise price	$	0.98
Risk free interest rate		2.01%
Dividend yield		0%
Expected volatility		128%
Remaining term		7.0 years

During the three months ended March 31, 2017, the Company charged to operations $27 as amortization of debt issuance cost and debt discount on this note and warrants issued concurrent with this note.

10% Convertible Promissory Notes

During February and March 2017, the Company issued two $50,000, 10% convertible promissory notes. Both notes mature 1 year from the date of issuance. Both notes are convertible at a fixed rate of $0.25. Management recorded a beneficial conversion feature on both of the notes in aggregate of $100 and recorded to additional paid in capital. The beneficial conversion features are being accreted to interest expense over the 1 year life of the notes.

During the three months ended March 31, 2017, the Company charged to operations $10 as amortization of debt discount on this note.

Note 9. Common stock issuances

Sale of Common stock

In February and March 2017, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") with accredited investors (the "Investors") relating to the issuance and sale of 1,625,000 shares of the Company's Common stock, par value $0.001 per share (the "Shares") at a purchase price of $0.40 per Share. In addition, for every Share purchased, the Investors shall receive detachable warrants, as follows (i) one Series A Warrant; (ii) one Series B Warrant; and (iii) one Series C Warrant (collectively the "Warrants").

Each Series A Warrant is exercisable for one (1) Share, for a period of three (3) years at a price of $0.50 per Share. Each Series B Warrant is exercisable for one (1) Share, for a period of three (3) years at a price of $0.75 per Share, and each Series C Warrant is exercisable is exercisable for one (1) Share, for a period of three (3) years at a price of $1.00 per Share.

The gross proceeds from the Purchase Agreements were $650.

Common stock awards to employees

During the three months ended March 31, 2017, the Company issued 550,000 shares of restricted Common stock to certain employees. The Company valued the awards on the grant date ($338) and is expensing over the 16-18 months vesting period. During the three months ended March 31, 2017, the Company expensed $51 of the stock based compensation.

Note 10. Stock–based compensation

Issuance of restricted shares – directors, officers and employees

	Number of shares		Weighted average grant date fair value
Non–vested at December 31, 2016	1,000,000	$	2.31
Granted	550,000		0.81
Vested	–		–
Forfeited	–		–
Non–vested at March 31, 2017	**1,550,000**	**$**	**1.78**

For the three months ended March 31, 2017 and 2016, the Company has recorded $338 and $nil, respectively, in employee and director stock–based compensation expense, which is a component of selling, general and administrative expense in the condensed consolidated statement of operations.

In the three months ended March 31, 2017 and 2016, the Company did not allocate any stock–based compensation expense to non–controlling interest.

Unrecognized compensation cost

As of March 31, 2017, unrecognized compensation costs related to non–vested stock–based compensation arrangements was $1,728 (2016: $nil), and is expected to be recognized over a weighted average period of 1.75 years (2016: 0 years).

Stock options

The following is a summary of the Company's option activity:

	Options		Weighted Average Exercise Price
Outstanding – January 1, 2017	**6,000,000**	**$**	**0.71**
Exercisable – January 1, 2017	**500,000**	**$**	**0.71**
Granted	–		–
Exercised	–		–
Forfeited/Cancelled	–		–
Outstanding – March 31, 2017	**6,000,000**	**$**	**0.71**
Exercisable – March 31, 2017	**1,250,000**	**$**	**0.71**

Exercise price		Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price		Number exercisable	Weighted average exercise price	
$	0.71	6,000,000	4.64 years	$	0.71	1,250,000	$	0.71

For the three months ended March 31, 2017 and 2016, the Company has recorded $962 and $nil, respectively, in employee and director stock–based compensation expense, which is a component of selling, general and administrative expense in the condensed consolidated statement of operations.

As of March 31, 2017, unrecognized compensation costs related to non–vested stock–based compensation arrangements was $6,095 (2016: $nil), and is expected to be recognized over a weighted average period of 1.6 years (2016: 0 years).

At March 31, 2017, the total intrinsic value of options outstanding and exercisable was $1,360 and $0, respectively.

Warrants

During the three months ended March 31, 2017 the Company issued a total of 5,275,000 stock purchase warrants in connection with the Company's March 2017 Securities Purchase Agreement and sales of Common stock (Notes 8 and 9).

The following table summarizes information about shares issuable under warrants outstanding at March 31, 2017:

	Warrant shares outstanding	Weighted average exercise price	
At January 1, 2017	**100,000**	**$**	**3.75**
Issued	5,275,000		0.75
Exercised	–		–
Expired	–		–
At March 31, 2017	**5,375,000**	**$**	**0.82**

As of March 31, 2017, the Company had 5,375,000 shares issuable under warrants outstanding at a weighted average exercise price of $0.82 and an intrinsic value of $797. All issued warrants are exercisable and expire through 2024.

Note 11. Non–controlling interest

At March 31, 2017, the Company's non–controlling interest was as follows:

	M2P Americas		Total	
At January 1, 2017	**$**	**(22)**	**$**	**(22)**
Non–controlling share of net loss		(–)		(–)
At March 31, 2017	**$**	**(22)**	**$**	**(22)**

Note 12. Operating leases, commitments and legal

Operating leases

On October 26, 2015, the Company entered into an Office License Agreement commencing December 1, 2015. The term expired on November 30, 2016 and carried a monthly fee of $4, with one month (January) rent free. The Company paid a refundable service retainer of $6 and a non–refundable set up fee of $1.

On August 9, 2016, the Company entered into a Sublease Agreement for an office lease in Durham, North Carolina. The lease commences thirty days after landlord consent (August 22, 2016) and expires on January 31, 2020. Monthly rent will be $6 for the first 12–month period, $7 for the second 12–month period, $7 for the third 12–month period and $7 per month for the remaining months until expiration of the lease. A security deposit of $13 was required upon execution of the sublease.

Total lease rental expense for the three months ended March 31, 2017 and 2016, was $36 and $13, respectively.

Total future minimum payments required under the new operating lease are as follows.

Twelve month period March 31,		
2018	$	78
2019		74
2020		69
	$	**221**

Commitments

On July 7, 2016, the Company entered into an employment agreement with Robert B. Ladd, to act as its President and Chief Operating Officer. The terms of his agreement were reviewed and approved by the Company's Nominations and Compensation Committee. Under the terms of the agreement, Mr. Ladd will, serve as President and Chief Operating Officer and for services rendered; Mr. Ladd shall receive a salary of $240 per year and is eligible for a cash and/or equity bonus as determined by the Nomination and Compensation Committee. Further, Mr. Ladd received 2,000,000 shares of the Company's Common stock, 1/3 of which shall vest within 12 months from the execution of the agreement, another 1/3 within 18 months, and the remaining 1/3 within 24 months from the execution of the agreement. Lastly, the agreement also provides for certain rights granted to Mr. Ladd in the event of his death, permanent incapacity, voluntary termination or discharge for cause.

On November 18, 2016, the Company agreed to enter into an employment agreement with John McAfee pursuant to which Mr. McAfee will join the Company as Executive Chairman of the Board of Directors and Chief Executive Officer of the Company at the closing of the transaction contemplated in the D–Vasive APA. It is currently contemplated that Mr. McAfee will have a base annual salary of $1.00 per day; payable at such times as the Company customarily pays is other senior level employees. In addition, Mr. McAfee will be granted Executive options (the "Options") to purchase an aggregate of six million (6,000,000) shares of the Company's Common stock (the "Option Shares"), which shall be exercisable for a period of five (5) years as follows:

- options to purchase 1,000,000 shares of the Company's Common Stock at a per–share price of the lower of $0.25 or the closing price of the Company's Common Stock as quoted on the OTC Pink as of the date of the execution of his Employment Agreement on November 18, 2016;

- options to purchase 2,000,000 shares of the Company's Common Stock at a purchase price of $0.50 per share; and

- options to purchase 3,000,000 shares of the Company's Common Stock at a purchase price of $1.00 per share.

Mr. McAfee will also be eligible to earn a cash and/or equity bonus as the Compensation Committee may determine, from time to time, based on meeting performance objectives and bonus criteria to be mutually identified by Mr. McAfee and the Nomination and Compensation Committee. Such objectives and criteria may be based on a favorable sale or merger of the Company, in additional to operating metrics.

The appointment of Mr. McAfee is pursuant to the terms of the Employment Agreement, dated May 9, 2016, as approved by stockholders on September 8, 2016.

During the year ended December 31, 2016, the Company purchased 400 bitcoin mining machines from Bitmain Technologies Limited for $630 and power supplies from Hash The Planet ("HTP") for $53. The Company also entered a 12–month agreement with HTP to host, power, connect, monitor and service the machines for $136. The hosting data center in located in Cashmere, WA. MGT launched its bitcoin mining operations and earned its first BTC on September 3, 2016.

Legal

On September 1, 2016, the Company and John McAfee filed an action in the United States District Court for the Southern District of New York seeking a declaration that the use of or reference to the personal name of John McAfee and/or McAfee in its business, and specifically in the context of renaming the Company, of which McAfee is the Executive Chairman, to "John McAfee Global Technologies, Inc.," does not infringe upon Intel's trademark rights or breach any agreement between the parties. Intel has submitted an Amended Answer and Counterclaims alleging Lanham Act and federal/state trademark violations and Common law unfair competition relating to the same factual circumstances. The Company filed a Reply to Counterclaims on November 3, 2016, and a case management plan and scheduling order was filed on October 28, 2016. The Plaintiffs vigorously dispute these allegations and on or about January 3, 2017, Plaintiffs filed a Motion to Dismiss Defendants' Counterclaims on the grounds that they fail as a matter of law. The Motion is still pending before the Court. The parties met for a court supervised settlement conference on April 21, 2017. A second court supervised settlement conference has been scheduled for June 29, 2017.

A number of law firms have issued press releases announcing that they are investigating claims on behalf of shareholders of the Company regarding potential violations of the Exchange Act.

In September 2016, various investors in the Company filed putative class action lawsuits against the Company, its president and certain of its individual officers and directors. The cases were filed in the United States District Court for the Southern District of New York and allege violations of federal securities laws and seek damages. On April 11, 2017 those cases were consolidated into a single action (the "Securities Action").

On January 24, 2017, the Company was served with a copy of a summons and complaint filed by plaintiff Atul Ojha in New York state court against certain officers and directors of the Company and the Company as a nominal defendant. The lawsuit is styled as a derivative action (the "Derivative Action") and was originally filed on October 15, 2016. The Derivative Action substantively alleges that the defendants, collectively or individually, inadequately managed the business and assets of the Company resulting in the deterioration of the Company's financial condition. The Derivative Action asserts claims including but not limited to breach of fiduciary duties, unjust enrichment and waste of corporate assets. On February 27, 2017, the parties to the Derivative Action executed a stipulated stay of proceedings pending full or partial resolution of the Securities Action. Thereafter, the Company plans to address the Derivative Action.

On March 3, 2017 and April 4, 2017 respectively, two additional actions were filed against the Company by investor Barry Honig ("Honig"). The first action was filed in federal court in North Carolina (the "North Carolina Action") against the Company and its president and alleges claims for libel, slander, conspiracy, interference with prospective economic advantage, and unfair trade practices. The North Carolina Action substantively alleges that the defendants defamed Honig by causing or allowing certain statements to be published about Honig in news blogs and articles authored by a journalist, who is also a defendant in the case.

The second action was brought by Honig and certain investors in the United States District Court for the Southern District of New York (the "Breach of Contract Action") against the Company and certain of its officers and directors. The Breach of Contract Action alleges claims for tortious interference with contractual relations, breach of contract, and unjust enrichment related to the Company's unsuccessful attempt to acquire D–Vasive and Demonsaw in 2016 and the alleged resulting harm to certain D–Vasive and Demonsaw noteholders. The damages claimed include (a) an amount of $46,750,000, (b) together with interest, costs and reasonable attorneys' fees as provided by law and relevant agreements, and (c) any further or different relief as this Court deems lawful and proper under the circumstances.

The Company believes that there is little merit to each of the above actions and has no indication or reason to believe that it is or will be liable for any alleged wrongdoing. The Company is consulting with its counsel to determine the appropriate legal strategy but intends to defend against the actions vigorously. The Company cannot presently rule out that adverse developments in one or more of the above actions could have a materially adverse effect on the Company, and has notified its Director's and Officer's Liability Insurance carrier.

Note 13. Segment reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision–making group in deciding how to allocate resources and in assessing performance. The Company's chief operating decision–making group is composed of the Chief Executive Officer. The Company operates in two segments, Cybersecurity and Bitcoin Mining. Certain corporate expenses are not allocated to segments.

The Company evaluates performance of its operating segments based on revenue and operating loss. The following table summarizes our segment information for the three months ended March 31, 2017 and 2016:

	Intellectual property	Cybersecurity	Unallocated corporate/other	Bitcoin mining	Total
Three months ended March 31, 2017					
Revenue	$ –	$ –	$ –	$ 312	$ 312
Cost of revenue	–	–	–	(201)	(201)
Gross margin	–	–	–	111	111
Operating loss	–	(221)	(2,835)	111	(2,945)
Three months ended March 31, 2016					
Revenue	$ –	$ –	$ –	–	$ –
Cost of revenue	–	–	–	–	–
Gross margin	–	–	–	–	–
Operating loss	(50)	–	(604)	–	(654)
March 31, 2017					
Cash and cash equivalents	$ –	$ –	$ 334	–	$ 334
Property and equipment	–	–	6	497	503
Intangible assets	–	–	426	–	426
December 31, 2016					
Cash and cash equivalents	$ –	$ –	$ 345	–	$ 345
Property and equipment	–	–	8	594	602
Intangible assets	–	–	468	–	468

Note 14. Subsequent events

The Company has evaluated events that occurred subsequent to March 31, 2017, and through the date of the Consolidated Financial Statements.

In April 2017, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") with accredited investors (the "Investors") relating to the issuance and sale of 1,250,000 shares of the Company's common stock, par value $0.001 per share (the "Shares") at a purchase price of $0.40 per Share. In addition, for every Share purchased, the Investors shall receive detachable warrants, as follows (i) one Series A Warrant; (ii) one Series B Warrant; and (iii) one Series C Warrant (collectively the "Warrants").

Each Series A Warrant is exercisable for one (1) Share, for a period of three (3) years at a price of $0.50 per Share. Each Series B Warrant is exercisable for one (1) Share, for a period of three (3) years at a price of $0.75 per Share, and each Series C Warrant is exercisable is exercisable for one (1) Share, for a period of three (3) years at a price of $1.00 per Share.

The gross and net proceeds from the Purchase Agreements were $500.

In May 2017, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") with accredited investors (the "Investors") relating to the issuance and sale of $330 principal value in 10% Amortizing Notes, due October 1, 2018. Beginning on October 1, 2017 the Company is required to make monthly payments of interest and principal to pay off the Note on maturity. Under certain circumstances, including default, the Investors have the right to convert the Note into common shares of the Company at a 35% discount to the then current market price. In addition, Investors received 360,000 detachable warrants exercisable for a period of five (5) years at a price of $0.50 per Share.

The Note carried an original issue discount of $30 and expense reimbursement of $35, providing net proceeds to the Company of $265.

Item 2. Management's discussion and analysis of financial condition and results of operations

This Quarterly Report on Form 10–Q contains forward–looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward–looking statements. The statements contained herein that are not purely historical are forward–looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward–looking statements are often identified by the use of words such as, but not limited to, "anticipate," "estimates," "should," "expect," "guidance," "project," "intend," "plan," "believe" and similar expressions or variations intended to identify forward–looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward–looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward–looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in our Annual Report on Form 10–K filed with the SEC on April 20, 2017, in addition to other public reports we filed with the Securities and Exchange Commissions ("SEC"). The forward–looking statements set forth herein speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward–looking statements to reflect events or circumstances after the date of such statements.

Executive summary

MGT Capital Investments, Inc. ("MGT," "the Company," "we," "us") is a Delaware corporation, incorporated in 2000. The Company was originally incorporated in Utah in 1977. MGT is comprised of the parent company, wholly–owned subsidiaries MGT Cybersecurity, Inc. ("MGT Cybersecurity"), Medicsight, Inc. ("Medicsight"), MGT Sports, Inc. ("MGT Sports"), MGT Studios, Inc. ("MGT Studios"), MGT Interactive, LLC ("MGT Interactive") and MGT Gaming, Inc. ("MGT Gaming"). MGT Studios also owns a controlling minority interest in the subsidiary M2P Americas, Inc. Our corporate office is located in Durham, North Carolina.

The Company is in the process of acquiring and developing a diverse portfolio of cybersecurity technologies. With industry pioneer John McAfee at its helm, MGT is positioning itself to address various cyber threats through advanced protection technologies for mobile and personal tech devices, as well as corporate networks.

Also as part of its corporate efforts in secure technologies, MGT is growing its capacity in mining Bitcoin. Currently at 5.0 PH/s, the Company's facility in WA state produces about 100 Bitcoins per month, ranking it as one of the largest U.S. based Bitcoin miners. Further, MGT is in active discussions with potential financial partners to grow Bitcoin output materially.

Lastly, MGT stockholders have voted to change the corporate name of MGT to "John McAfee Global Technologies, Inc." Following a dispute over ownership and permitted usage of the name McAfee, the Company and Intel have agreed to a mediation process to avoid unnecessary legal costs.

Cybersecurity

On May 9, 2016, we, through our wholly owned subsidiary, MGT Cybersecurity, Inc. entered an asset purchase agreement (APA) to acquire certain assets owned by D–Vasive, Inc., a Wyoming corporation in the business of developing and marketing certain privacy and anti–spy applications (the "D–Vasive APA). Pursuant to the terms of the D–Vasive APA, the Company had agreed to purchase assets including but not limited to applications for use on mobile devices, intellectual property, customer lists, databases, sales pipelines, proposals and project files, licenses and permits. The proposed purchase price for D–Vasive was $300 in cash and 23.8 million shares of MGT Common stock. On October 5, 2016, the Company paid a $70 refundable advance as part of a modification of terms. The advance will be refundable if the APA is not closed within twelve months of the modification.

On May 26, 2016, the Company entered an asset purchase agreement with Demonsaw LLC, a Delaware company, for the purchase of certain technology and assets. Demonsaw is in the business of developing and marketing secure and anonymous information sharing applications. Pursuant to the terms of the Demonsaw APA, we had agreed to purchase assets including the source code for the Demonsaw solution, intellectual property, customer lists, databases, sales pipelines, proposals and project files, licenses and permits. The proposed purchase price for Demonsaw was 20.0 million shares of MGT Common stock.

On July 7, 2016, and prior to the closing of either of the above transactions, the Company and Demonsaw terminated the Demonsaw APA. Simultaneously, D–Vasive entered an agreement with the holders of Demonsaw outstanding membership interests, whereby D–Vasive would purchase all such membership interests. The closing of that transaction was contingent on the closing of the transaction contemplated under the D–Vasive APA. Accordingly, the proposed purchase price for D–Vasive (inclusive of the Demonsaw assets) was increased to 43.8 million shares of MGT Common stock (the “Amended APA”).

On August 8, 2016, the Company filed a Definitive Proxy Statement to solicit, among other things, shareholder approval of the D–Vasive acquisition, at the upcoming Annual Meeting of Stockholders. On September 8, 2016, shareholder approval was obtained. However, on September 19, 2016, the New York Stock Exchange informed the Company that it would not approve the listing on the Exchange of the 43.8 million shares required to be issue to complete the closing of the D–Vasive acquisition. Not reaching this critical closing condition resulted in the termination of the Amended APA.

On October 24, 2016, the Company consummated the July 2016 asset purchase agreement with Cyberdonix, Inc., an Alabama corporation for the purchase of the “*Sentinel*” network intrusion detection device, all underlying software and firmware, the server contract, and case and circuit board inventory by issuing 150,000 shares of MGT Common stock.

On March 3, 2017, MGT purchased from Future Tense Secure Systems, Inc. (“Future Tense”) 46% of the outstanding membership interests in Demonsaw, LLC for 2.0 million unregistered MGT Common shares, which were issued to Future Tense on the same date.

On April 3, 2017, the Company terminated the APA dated May 9, 2016, as amended on July 7, 2016, entered into by and among MGT, D–Vasive, the shareholders of D–Vasive and MGT Cybersecurity. The termination of the APA was premised on Section 3.4(b) of the APA which states that the APA may be terminated by either party thereto if the Closing contemplated thereunder did not occur on or before a specified date and the same is not otherwise extended by the parties, in writing or otherwise. Pursuant to the APA, as amended, MGT would have acquired certain technology and assets of D–Vasive if the Closing had occurred on the terms of the APA, as amended.

Bitcoin mining

On September 13, 2016, the Company announced launch of its 5.0 PH/s Bitcoin mining operation. Based in central Washington, the mining facility currently produces about 100 Bitcoins per month.

Legacy businesses

Prior to second quarter ending June 30, 2016, the Company and its subsidiaries were principally engaged in the business of acquiring, developing and monetizing assets in the online and mobile gaming space as well as the social casino industry.

Draft Day Gaming Group

On March 24, 2016, the Company entered into an Exchange Agreement (the “FNCX March 24th Agreement”) with FNCX. The purpose of the FNCX March 24th Agreement was to exchange the FNCX Note for other equity and debt securities of FNCX, after the Note went into default on March 8, 2016. On the effective date of the FNCX March 24th Agreement, the Note had an outstanding principal balance of $1,875 and accrued interest in the amount of $51 (the “March 24th Interest”). Pursuant to the FNCX March 24th Agreement, a portion consisting of $825 of the outstanding principal of the FNCX Note was exchanged for 137,418 shares of FNCX’s Common stock, and an additional portion of $110 of the outstanding principal was exchanged for 110 shares (the “FNCX Preferred shares”) of a newly created class of Preferred stock, the Series D Convertible Preferred stock. The FNCX Preferred shares were subsequently converted into 18,332 shares of FNCX’s Common stock. Finally, FNCX agreed to make a cash payment to MGT Sports for the total amount of March 24th Interest. In exchange for the forgoing, MGT Sports and the Company agreed to waive all Events of Default under the FNCX Note prior to the effective date of the FNCX March 24th Agreement and to release FNCX from any rights, remedies and claims related thereto. After giving effect to the forgoing, the remaining outstanding principal balance of the FNCX Note was $940 which continued to accrue interest a rate of 5% per annum, and all terms of the Note remained unchanged except that the maturity date was changed to July 31, 2016.

On June 14, 2016, the Company and MGT Sports entered into a Securities Exchange Agreement (the “FNCX June 14th Agreement”) with FNCX to exchange $940 remaining outstanding principal of the FNCX Note for 132,092 shares of FNCX’s Common stock and FNCX shall make a cash payment to MGT Sports for the total amount of interest accrued until consummation of the transaction contemplated in the FNCX June 14th Agreement. The closing of the FNCX June 14th Agreement was conditioned on FNCX’s shareholders’ approval of the issuance of the FNCX Common shares and satisfaction of other closing conditions set forth in the FNCX June 14th Agreement.

On September 16, 2016, FNCX amended its Certificate of Incorporation to effect a reverse stock split of all issued and outstanding shares of Common stock at a ratio of 1 for 20 (the “Reverse Stock Split”). The effective date of the Reverse Stock Split is September 16, 2016. The above Common stock share amounts received from FNCX have been adjusted to reflect the Reverse Stock Split.

On October 10, 2016, the Note was satisfied through the issuance of 136,304 shares of Common stock and payment of interest of $16. These shares were sold during December 2016, and the Company recorded a loss on sale of investments of $86 and loss on conversion of the Note of $196.

Other assets

On August 16, 2016, the Company purchased 17.5% membership interest in Two minute Quests LLC (“2MQ”) for $115. 2MQ is introducing a game for the iWatch and iPhone. As of December 31, 2016, the Company recorded an impairment charge for the full value of $115 of this investment.

On May 13, 2016, the Company acquired 6% Membership Interest in The Round House LLC for cash consideration of $150. Round House LLC is an Alabama–based technology incubator, offering co–working space, accelerator services and angel investment. As of December 31, 2016, the Company recorded an impairment charge for the full value of $150 of this investment.

Critical accounting policies and estimates

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The notes to the consolidated financial statements contained in this Quarterly Report describe our significant accounting policies used in the preparation of the consolidated financial statements. The preparation of these financial statements requires us 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 periods. Actual results could differ from those estimates. We continually evaluate our critical accounting policies and estimates.

We believe the critical accounting policies listed below reflect significant judgments, estimates and assumptions used in the preparation of our consolidated financial statements.

Derivative instruments

The Company evaluates its convertible debt, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with ASC 815–15. The result of this accounting treatment is that the fair value of the embedded derivative is marked–to–market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statements of operations as other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re–assessed at the end of each reporting period. Equity instruments that are initially classified as equity that become subject to reclassification are reclassified to liability at the fair value of the instrument on the reclassification date.

Management analyzed the contingent variable conversion features embedded within the convertible notes issued during the three months ended March 31, 2017 and concluded that the contingent conversion features should be bifurcated and accounted for as a derivative liability upon the triggering of a default event. Because all default events were cured prior to the release of the financial statements, no derivative liability was recognized.

Beneficial Conversion Feature of Convertible Notes Payable

The Company accounts for convertible notes payable in accordance with the guidelines established by the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 470-20, Debt with Conversion and Other Options, Emerging Issues Task Force ("EITF") 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, and EITF 00-27, Application of Issue No 98-5 To Certain Convertible Instruments. The Beneficial Conversion Feature ("BCF") of a convertible note is normally characterized as the convertible portion or feature of certain notes payable that provide a rate of conversion that is below market value or in-the-money when issued. The Company records a BCF related to the issuance of a convertible note when issued and also records the estimated fair value of any warrants issued with those convertible notes. Beneficial conversion features that are contingent upon the occurrence of a future event are recorded when the contingency is resolved.

The BCF of a convertible note is measured by allocating a portion of the note's proceeds to the warrants, if applicable, and as a discount on the carrying amount of the convertible note equal to the intrinsic value of the conversion feature, both of which are credited to additional paid-in-capital. The value of the proceeds received from a convertible note is then allocated between the conversion features and warrants and the debt on an allocated fair value basis. The allocated fair value is recorded in the financial statements as a debt discount (premium) from the face amount of the note and such discount is amortized over the expected term of the convertible note (or to the conversion date of the note, if sooner) and is charged to interest expense.

Revenue recognition

The Company recognizes revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when there is persuasive evidence of an arrangement and that the product has been shipped or the services have been provided to the customer, the sales price is fixed or determinable and collectability is probable. Our material revenue streams are related to the delivery of intellectual property license fees and gaming fees:

- *Digital currencies operating revenues:* The Company derives its revenue by providing transaction verification services within the digital currency network of Bitcoin, Commonly termed "Bitcoin mining." In consideration for these services the Company receives digital currency, Bitcoins ("BTC," "coins"). The coins are recorded as revenue, using the average spot price of Bitcoin on the date of receipt. The coins are recorded on the balance sheet at their fair value and re–measured at each reporting date. Revaluation gains or losses, as well gains or losses on sale of BTC are recorded in the statement of operations. Expenses associated with running the Bitcoin mining business, such as equipment deprecation, rent and electricity cost are recorded as cost of revenues.

- *Licensing* – License fee revenue is derived from the licensing of intellectual property. Revenue from license fees is recognized when notification of shipment to the end user has occurred, there are no significant Company obligations with regard to implementation and the Company's services are not considered essential to the functionality of other elements of the arrangement.

- *Gaming* – Gaming revenue is derived from entry fees charged in contests minus prizes paid out in contests.

Stock–based compensation

The Company recognizes compensation expense for all equity–based payments in accordance with *ASC 718 "Compensation – Stock Compensation"*. Under fair value recognition provisions, the Company recognizes equity–based compensation net of an estimated forfeiture rate and recognizes compensation cost only for those shares expected to vest over the requisite service period of the award.

Restricted stock awards are granted at the discretion of the Company. These awards are restricted as to the transfer of ownership and generally vest over the requisite service periods, typically over an eighteen–month period (vesting on a straight–line basis). The fair value of a stock award is equal to the fair market value of a share of Company stock on the grant date.

The fair value of option award is estimated on the date of grant using the Black–Scholes option valuation model. The Black–Scholes option valuation model requires the development of assumptions that are input into the model. These assumptions are the expected stock volatility, the risk–free interest rate, the expected life of the option, the dividend yield on the underlying stock and the expected forfeiture rate. Expected volatility is calculated based on the historical volatility of our Common stock over the expected option life and other appropriate factors. Risk–free interest rates are calculated based on continuously compounded risk–free rates for the appropriate term. The dividend yield is assumed to be zero as the Company has never paid or declared any cash dividends on our Common stock and does not intend to pay dividends on our Common stock in the foreseeable future. The expected forfeiture rate is estimated based on historical experience.

Determining the appropriate fair value model and calculating the fair value of equity–based payment awards requires the input of the subjective assumptions described above. The assumptions used in calculating the fair value of equity–based payment awards represent management's best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, our equity–based compensation could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the equity–based compensation could be significantly different from what the Company has recorded in the current period.

The Company accounts for share–based payments granted to non–employees in accordance with *ASC 505–40, "Equity Based Payments to Non–Employees"*. The Company determines the fair value of the stock–based payment as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete. The fair value of the equity instruments is re–measured each reporting period over the requisite service period.

Results of operations

The Company currently has two operational segments, Cybersecurity and Bitcoin Mining. Intellectual property and Gaming are no longer considered business segments. Certain corporate expenses are not allocated to a particular segment.

Three Months ended March 31, 2017 and 2016

The Company achieved the following results for the three months ended March 31, 2017 and 2016, respectively:

- Revenues totaled $312 (2016: $0);
- Costs of revenues were $201 (2016: $0);
- Operating expenses were $3,056 (2016: $654);
- Net loss attributable to Common shareholders was $5,891 (2016: $1,337) and resulted in a basic and diluted loss per share of $0.20 (2016: $0.07).

Our operating expenses increased approximately 367% during the three months ended March 31, 2017 compared to the comparable three months ended March 31, 2016. The increase is primarily attributed to increases in headcount, professional fees, corporate governance and stock–based compensation expense.

Intellectual property

During the three months ended March 31, 2017 and 2016, the Company recognized no revenues in either period.

Selling, general and administrative expenses for the three months ended March 31, 2017 and 2016 were $0 (2016: $50), consisting of legal and consulting costs and the amortization of intellectual property assets.

Cybersecurity

During the three months ended March 31, 2017 and 2016, the Company recognized operating expenses of $221 (2016: $0).

Bitcoin mining

During the three months ended March 31, 2017, the Company recognized $312 in revenues for this segment as compared to no revenue for the same period last year. Bitcoin mining operation commenced in September 2016.

There was $201 cost of revenue for the three months ended March 31, 2017 and 2016 (2016: $0). The increase in 2017 is attributed to the start of the Bitcoin mining operation in September 2016.

Unallocated Corporate / Other

Selling, general and administrative expenses during the three months ended March 31, 2017 and 2016 were $2,835 (2015: $604). The increase was primarily due to increased stock–based compensation expense, driven by higher stock price and increased professional fees, such as legal and investor relations fees.

For the three months ended March 31, 2017, non–operating expenses mainly consisted of impairment of equity method investment – related party of $2,500, impairment of long term investments of $287, a loss on sale of investments of $84, interest and other expenses of $38 and accretion of debt discount of $37. During the comparable period ended March 31, 2016, non–operating expenses mainly consisted of a loss of $731 on sale of investments offset by interest income of $25.

Liquidity and Capital Resources

	As of March 31,	
	2017	2016
Working capital summary		
Cash and cash equivalents	$ 334	$ 189
Other current assets	280	3
Investments – current	–	880
Digital currencies	19	–
Notes receivable	–	640
Current liabilities	(942)	(171)
Working capital (deficit) surplus	**$ (309)**	**$ 1,541**

	Three Months ended March 31,	
	2017	2016
Cash (used in) / provided by		
Operating activities	$ (1,180)	$ (376)
Investing activities	26	206
Financing activities	1,143	–
Net decrease in cash and cash equivalents	**$ (11)**	**$ (170)**

On March 31, 2017, MGT's cash and cash equivalents were $334. The Company continues to exercise discipline with respect to current expense levels, as revenues remain limited. Our cash and cash equivalents decreased during the three months ended March 31, 2017, primarily due to $1,180 used in operating activities, mostly offset by funds provided by the sale of convertible notes yielding a net increase in cash provided by financing activities of $1,143.

Operating activities

Our net cash used in operating activities differs from the net loss predominantly because of various non–cash adjustments such as depreciation, amortization and impairment of intangibles, stock–based compensation, loss on sale of investments, impairment of investments, accretion of debt discount, and the movement in working capital.

Investing activities

During the three months ended March 31, 2017, the Company received $26 from investing activities as compared to $206 from the corresponding prior period. The proceeds were a result of the sale of investments.

Financing activities

In February and March 2017, the Company entered into Securities Purchase Agreements (the "Purchase Agreements") with accredited investors (the "Investors") relating to the issuance and sale of 1,625,000 shares of the Company's Common stock, par value $0.001 per share (the "Shares") at a purchase price of $0.40 per Share. In addition, for every Share purchased, the Investors shall receive detachable warrants, as follows (i) one Series A Warrant; (ii) one Series B Warrant; and (iii) one Series C Warrant (collectively the "Warrants").

Each Series A Warrant is exercisable for one (1) Share, for a period of three (3) years at a price of $0.50 per Share. Each Series B Warrant is exercisable for one (1) Share, for a period of three (3) years at a price of $0.75 per Share, and each Series C Warrant is exercisable is exercisable for one (1) Share, for a period of three (3) years at a price of $1.00 per Share.

The gross proceeds from the Purchase Agreements were $650.

In February and March 2017, holders of the Company's 8% Convertible Notes converted a total of $1,800 principal value into a total of 1,900,000 shares of the Company's Common stock.

On March 14, 2017, the Company and L2 Capital, LLC ("L2 Capital"), a Kansas limited liability company, entered into an equity purchase agreement (the "Equity Purchase Agreement"), pursuant to which the Company shall issue and sell to L2 Capital from time to time up to $5 million of the Company's Common stock that will be registered with the Securities and Exchange Commission (the "SEC") under a registration statement on a form S–1. Pursuant to the Equity Purchase Agreement, the Company may require L2 Capital to purchase shares of Common Stock in a minimum amount of $25 and maximum of the lesser of (a) $1 million or (b) 150% of the Average Daily Trading Value, upon the Company's delivery of a Put Notice to L2 Capital. L2 Capital shall purchase such number of shares of Common Stock at a per share price that equals to the lowest closing bid price of the Common Stock during the Pricing Period multiplied by 90%. Before the expiration of the term of the Equity Purchase Agreement, the said Agreement shall terminate, subject to certain exceptions set forth therein, at any time by a written notice from the Company to L2 Capital. A form of the Equity Purchase Agreement is attached herein as Exhibit 10.1.

In connection with the Equity Purchase Agreement, the Company has issued to L2 Capital an 8% convertible promissory note (the "Commitment Note") in the principal amount of $160 in consideration of L2 Capital's contractual commitment to the Equity Purchase Agreement. The Commitment Note matures six months after the Issue Date. All or part of the Commitment Note is convertible into the Common Stock of the Company upon the occurrence of any of the Events of Default at a Variable Conversion Price that equals to 75% of the lowest Trading Price for the Common Stock during a thirty–day Trading Day period immediately prior to the Conversion Date. A form of the Commitment Note is attached herein as Exhibit 10.2.

In addition, on March 10, 2017, the Company and L2 Capital entered into a securities purchase agreement (the "Securities Purchase Agreement"), pursuant to which the Company issued two 10% convertible notes (the "Convertible Notes") in an aggregate principal amount of $1 million with a 20% original issue discount, of which first convertible note was funded on March 14, 2017. The Company received gross proceeds of $393 (which represents the deduction of the 20% original discount and $7 for L2 Capital's legal fees) in exchange for issuance of the first Convertible Note (the "First Note") in the Principal Amount of $500. The First Note matures six months from the Issue Date and the accrued and unpaid interest at a rate of 10% per annum is due on such date. At any time on or after the occurrence of an Event of Default, the Holder of the First Note shall have the right to convert all or part of the unpaid and outstanding Principal Amount and the accrued and unpaid interest to shares of Common Stock at a Conversion Price that equals 65% multiplied by the lowest Trading Price for the Common Stock during a thirty–day Trading Day period immediately prior to the Conversion Date (the "Market Price"). A form of the Securities Purchase Agreement is attached herein as Exhibit 10.3 and a form of the Convertible Note is attached herein as Exhibit 10.4.

On the date stated immediately above, the Company received a L2 Capital Back End Note ("L2 Collateralized Note") secured with the First Note for its issuance of the Second Note to L2 Capital. In accordance with the Second Note, the Company shall pay to the order of L2 Capital a Principal Amount of $500 and the accrued and unpaid interest at a rate of 10% per annum on the Maturity Date, which is eight months from the Issue Date. At any time on or after the occurrence of an Event of Default, the Holder of the Second Note shall have the right to convert all or part of the unpaid and outstanding Principal Amount and the accrued and unpaid interest into shares of Common Stock at a Conversion Price that equals to 65% multiplied by the Market Price. Pursuant to the L2 Collateralized Note, L2 Capital promises to pay the Company the Principal Amount of $500 (consisting $393 in cash, legal fees of $7 and an original issuance discount of $100) no later than November 10, 2017.

In connection with the issuance of the First Note, the Company also issued to L2 Capital Warrants to purchase up to 400,000 shares of Common Stock (the "Warrant Shares") pursuant to the Common stock purchase warrant (the "Common Stock Purchase Warrant") executed by the Company. The Warrant shall be exercisable at a price of 110% multiplied by the closing bid price of the Common Stock on the Issuance Date (the "Exercise Price"), subject to adjustments and exercisable from the Issue Date until the seven–year anniversary. At the time that the Second Note is funded by the Holder thereof in cash, then on such funding date, the Warrant Shares shall immediately and automatically be increased by the quotient (the "Second Warrant Shares") of $375,000.00 divided by the lesser of (i) the Exercise Price and (ii) 110% multiplied by the closing bid price of the Common Stock on the funding date of the Second Note. With respect to the Second Warrant Shares, the Exercise Price hereunder shall be redefined to equal the lesser of (i) the Exercise Price and (ii) 110% multiplied by the closing bid price of the Common Stock on the funding date of the Second Note. L2 Capital may exercise the Warrant cashless unless the underlying shares of Common Stock have been registered with the SEC prior to the exercise. A form of the Common Stock Purchase Warrant is attached herein as Exhibit 10.5.

Risks and uncertainties related to our future capital requirements

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of March 31, 2017, the Company had incurred significant operating losses since inception and continues to generate losses from operations and has an accumulated deficit of $334,465. These matters raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Commercial results have been limited and the Company has not generated significant revenues. The Company cannot assure its stockholders that the Company's revenues will be sufficient to fund its operations. If adequate funds are not available, the Company may be required to curtail its operations significantly or to obtain funds through entering into arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of our technologies or products that the Company would not otherwise relinquish.

At March 31, 2017, MGT's cash, cash equivalents and restricted cash were $334. The Company intends to raise additional capital, either through debt or equity financings or through the continued sale of the Company's assets in order to achieve its business plan objectives. Management believes that it can be successful in obtaining additional capital; however, no assurance can be provided that the Company will be able to do so. There is no assurance that any funds raised will be sufficient to enable the Company to attain profitable operations or continue as a going concern. To the extent that the Company is unsuccessful, the Company may need to curtail or cease its operations and implement a plan to extend payables or reduce overhead until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Off–balance sheet arrangements

We have no obligations, assets or liabilities which would be considered off–balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off–balance sheet arrangements.

Inflation

The effect of inflation on the Company's operating results was not significant.

Item 3. Quantitative and qualitative disclosures about market risk

At March 31, 2017, the Company had approximately $334 in cash, cash equivalents. The Company's investment policy and strategy are focused on preservation of capital and supporting the Company's liquidity requirements.

We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

Item 4. Controls and procedures

(a) Evaluation of disclosure controls and procedures. Our management, with the participation of our Chief Executive Officer, who is also our Interim Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a–15(e) or 15d–15(e) of the Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures as of March 31, 2017 (the end of the period covered by this Quarterly Report on Form 10–Q), have not been designed and are not functioning effectively to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted 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) that such information is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. During the quarter ended March 31, 2017, management engaged an independent third party to perform a controls assessment and analysis. Management is currently establishing a controls implementation plan and plan to incorporate such controls during the year ended December 31, 2017.

PART II. OTHER INFORMATION

Item 1. Legal proceedings

On September 1, 2016, the Company and John McAfee filed an action in the United States District Court for the Southern District of New York seeking a declaration that the use of or reference to the personal name of John McAfee and/or McAfee in its business, and specifically in the context of renaming the Company, of which McAfee is the Executive Chairman, to "John McAfee Global Technologies, Inc.," does not infringe upon Intel's trademark rights or breach any agreement between the parties. Intel has submitted an Amended Answer and Counterclaims alleging Lanham Act and federal/state trademark violations and Common law unfair competition relating to the same factual circumstances. The Company filed a Reply to Counterclaims on November 3, 2016, and a case management plan and scheduling order was filed on October 28, 2016. The Plaintiffs vigorously dispute these allegations and on or about January 3, 2017, Plaintiffs filed a Motion to Dismiss Defendants' Counterclaims on the grounds that they fail as a matter of law. The Motion is still pending before the Court. The parties met for a court supervised settlement conference on April 21, 2017. A second court supervised settlement conference has been scheduled for June 29, 2017.

On September 15, 2016, the Company received a subpoena from the U.S. Securities and Exchange Commission. The Company has cooperated fully with the Commission and its Staff. The Company does not presently believe it or its officers are the focus of the Staff's investigation.

In September 2016, various shareholders of the Company filed putative class action lawsuits against the Company, its president and certain of its individual officers and directors. The cases were filed in the United States District Court for the Southern District of New York and allege violations of federal securities laws and seek damages. On April 11, 2017 those cases were consolidated into a single action (the "Securities Action") and two individual shareholders were appointed lead plaintiffs by the Court. The Company believes there is no merit to the Securities Action and intends to defend against the action vigorously.

On January 24, 2017, the Company was served with a copy of a summons and complaint filed by plaintiff Atul Ojha in New York state court against certain officers and directors of the Company and the Company as a nominal defendant. The lawsuit is styled as a derivative action (the "Derivative Action") and was originally filed on October 15, 2016. The Derivative Action substantively alleges that the defendants, collectively or individually, inadequately managed the business and assets of the Company resulting in the deterioration of the Company's financial condition. The Derivative Action asserts claims including but not limited to breach of fiduciary duties, unjust enrichment and waste of corporate assets. The Company believes there is no merit to the Derivative Action and intends to defend against the action vigorously. On February 27, 2017, the parties to the Derivative Action executed a stipulated stay of the proceedings pending full or partial resolution of the Securities Action.

On March 3, 2017 and April 4, 2017 respectively, two additional actions were filed against the Company by shareholder Barry Honig ("Honig"). The first action was filed in federal court in North Carolina (the "Defamation Action") against the Company and its president and alleges claims for libel, slander, conspiracy, interference with prospective economic advantage, and unfair trade practices. The North Carolina Action substantively alleges that the defendants defamed Honig by causing or allowing certain statements to be published about Honig in news blogs and articles authored by a journalist, who is also a defendant in the case.

The second action was brought by Honig and others in the United States District Court for the Southern District of New York (the "Breach of Contract Action") against the Company and certain of its officers and directors. The Breach of Contract Action alleges claims for tortious interference with contractual relations, breach of contract, and unjust enrichment related to the Company's unsuccessful attempt to acquire D–Vasive and Demonsaw in 2016 and the alleged resulting harm to certain D–Vasive and Demonsaw noteholders. The damages claimed include (a) an amount of $46,750,000, (b) together with interest, costs and reasonable attorneys' fees as provided by law and relevant agreements, and (c) any further or different relief as this Court deems lawful and proper under the circumstances.

The Company believes that there is little merit to each of the above actions and has no indication or reason to believe that it is or will be liable for any alleged wrongdoing. The Company is consulting with its counsel to determine the appropriate legal strategy but intends to defend against the actions vigorously. The Company cannot presently rule out that adverse developments in one or more of the above actions could have a materially adverse effect on the Company, and has notified its Director's and Officer's Liability Insurance carrier.

The Company cannot presently rule out that adverse developments in one or more of the Securities Action, Derivative Action, Defamation Action or Breach of Contract Action actions could have a materially adverse effect on the Company, and has notified its Director's and Officer's Liability Insurance carrier.

Item 1–A. Risk factors

There are no additional risk factors other than those discussed in our Annual Report Form 10–K filed April 20, 2017.

Item 2. Unregistered sales of equity securities and use of proceeds

During the three months ended March 31, 2017, the Company issued 550,000 shares of restricted Common stock to certain employees.

The above issuances were made in reliance on an exemption from registration set forth in Section 4(2) of the Securities Act. The issuances did not result in any proceeds to the Company.

In addition, on March 3, 2017 the Company issued 2,000,000 unregistered shares of Common stock to Future Tense in connection with its purchase of 46% Demonsaw's membership interests from Future Tense. This issuance was made in reliance on an exemption from registration set forth in Section 4(2) of the Securities Act, as amended.

Item 3. Defaults upon senior securities

None.

Item 4. Mine safety disclosures

Not applicable.

Item 5. Other information

None.

Item 6. Exhibits

10.1	Form of the Equity Purchase Agreement
10.2	Form of the Commitment Note
10.3	Form of the Securities Purchase Agreement
10.4	Form of the Convertible Note
10.5	Form of the Common Stock Purchase Warrant
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 Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

In accordance with 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.

MGT CAPITAL INVESTMENTS, INC

May 18, 2017

By: */s/ ROBERT B. LADD*

Robert B. Ladd
President and Interim Chief Financial Officer
(Principal Executive Officer, Principal Financial and Accounting Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.