

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

**FORM 10-Q**

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

For the quarterly period ended **September 30, 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**

(State or other jurisdiction of  
incorporation or organization)

**13-4148725**

(I.R.S. Employer  
Identification No.)

**512 S. Mangum 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Non-accelerated filer  (Do not check if smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

As of November 7, 2017, there were 48,564,481 shares of the registrant's Common stock, \$0.001 par value per share, issued and outstanding.

MGT CAPITAL INVESTMENTS, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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## PART 1 - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	As of	
	September 30, 2017 (unaudited)	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 43	\$ 345
Prepaid expenses and other current assets	1,165	153
Investments available for sale	-	44
Digital currencies	17	10
Total current assets	<u>1,225</u>	<u>552</u>
Non-current assets:		
Property and equipment, net	3,731	602
Intangible assets, net	344	468
Investments, at cost	-	287
Total assets	<u>\$ 5,300</u>	<u>\$ 1,908</u>
<b>Liabilities and Equity (Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 1,462	\$ 66
Accrued expenses	323	124
Other payables	15	1
Convertible notes payable, net of discount, current portion	11	-
Total current liabilities	<u>1,811</u>	<u>191</u>
Non-current liabilities:		
Convertible notes payable, net of discount	9	2,300
Total liabilities	<u>1,820</u>	<u>2,491</u>
<b>Commitments and Contingencies</b>		
Redeemable convertible preferred stock - Temporary equity		
Preferred stock, Series A Convertible Preferred, \$0.001 par value, 1,500,000 shares authorized at September 30, 2017 and December 31, 2016. 1,416,160 shares issued and held in treasury as of September 30, 2017 and December 31, 2016. No shares outstanding at September 30, 2017 and December 31, 2016.	-	-
<b>Equity (Deficit)</b>		
Undesignated preferred stock, \$0.001 par value, 8,500,000 shares authorized at September 30, 2017 and December 31, 2016. No shares issued or outstanding at September 30, 2017 and December 31, 2016	-	-
Common stock, \$0.001 par value; 75,000,000 shares authorized; 46,417,406 and 28,722,855 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	46	29
Additional paid-in capital	358,513	327,943
Accumulated other comprehensive loss	-	(66)
Accumulated deficit	(355,057)	(328,467)
Total equity (deficit) attributable to MGT stockholders	<u>3,502</u>	<u>(561)</u>
Non-controlling interest	(22)	(22)
Total equity (deficit)	<u>3,480</u>	<u>(583)</u>
<b>Total liabilities, equity (deficit), redeemable convertible preferred stock and non-controlling interest</b>	<u>\$ 5,300</u>	<u>\$ 1,908</u>

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)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenues</b>				
Crypto-currency mining	\$ 515	\$ 53	\$ 1,215	\$ 53
<b>Cost of revenues</b>				
Crypto-currency mining	365	31	754	31
Gross margin	150	22	461	22
<b>Operating expenses:</b>				
General and administrative	9,614	10,572	16,621	14,995
Sales and marketing	29	110	212	110
Research and development	83	184	269	184
Impairment of goodwill	-	-	-	1,496
Impairment of intangible assets	-	-	-	673
Total operating expenses	9,726	10,866	17,102	17,458
<b>Operating loss</b>	<b>(9,576)</b>	<b>(10,844)</b>	<b>(16,641)</b>	<b>(17,436)</b>
<b>Other non-operating (expense) / income</b>				
Interest and other (expense) / income	(110)	221	(300)	257
Accretion of debt discount	(1,023)	(41)	(1,071)	(41)
(Loss) gain on sale of investments	-	110	(84)	(1,083)
Gain on sale of property and equipment	9	-	57	-
Impairment of investments, at cost	-	(276)	(287)	(276)
Impairment - equity method investment, related party	-	-	(2,500)	-
Inducement expense	(5,764)	-	(5,764)	-
Total other non-operating expenses	(6,888)	14	(9,949)	(1,143)
<b>Net loss before non-controlling interest</b>	<b>\$ (16,464)</b>	<b>\$ (10,830)</b>	<b>\$ (26,590)</b>	<b>\$ (18,579)</b>
Net loss attributable to non-controlling interest	-	-	-	319
<b>Net loss attributable to Common stockholders</b>	<b>\$ (16,464)</b>	<b>\$ (10,830)</b>	<b>\$ (26,590)</b>	<b>\$ (18,260)</b>
<b>Other comprehensive loss</b>				
Reclassification adjustment for loss included in net loss	\$ -	\$ (94)	\$ 66	\$ 1,111
Unrealized holding gain	-	3	-	85
<b>Comprehensive loss</b>	<b>\$ (16,464)</b>	<b>\$ (10,921)</b>	<b>\$ (26,524)</b>	<b>\$ (17,064)</b>
<b>Per-share data</b>				
Basic and diluted loss per share	\$ (0.43)	\$ (0.42)	\$ (0.77)	\$ (0.84)
Weighted average number of Common shares outstanding	38,628,092	25,859,214	34,434,638	21,848,424

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

**MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, except share and per-share amounts)  
(unaudited)

	For Nine Months Ended September 30,	
	2017	2016
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (26,590)	\$ (18,579)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation	385	30
Amortization of intangible assets	124	57
Stock-based compensation expense	11,856	10,538
Stock issued for amendment of notes payable	118	-
Warrant modification expense	-	431
Loss on sale of investments - short term	84	1,083
Impairment of long-term investments	2,787	276
Impairment of intangible assets	-	673
Amortization of debt discount	1,071	41
Gain on sale of property and equipment	(58)	-
Impairment of goodwill	-	1,496
Inducement expense	5,764	-
<b>Change in operating assets and liabilities</b>		
Prepaid expenses and other current assets	(681)	(130)
Digital currencies	(7)	-
Accounts payable	1,797	210
Accrued expenses	258	95
Other payables	-	7
Net cash used in operating activities	<u>(3,092)</u>	<u>(3,772)</u>
<b>Cash Flows From Investing Activities</b>		
Release of restricted cash and security deposit	-	39
Purchase of investment - short term	-	(414)
Purchase of investment - long term	-	(265)
Purchase of note receivable- long term	-	(45)
Proceeds from sale of investments	26	1,805
Purchase of property and equipment	(3,897)	(321)
Proceeds from sale of property and equipment	440	-
Net cash (used in) provided by investing activities	<u>(3,431)</u>	<u>799</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuance of L2 Front End Note	393	-
Proceeds from issuance of L2 Back End Note	393	-
Proceeds from issuance of 10% convertible promissory notes	100	-
Proceeds from issuance of Spring 2017 Notes	265	-
Proceeds from issuance of Iliad Notes	1,125	-
Proceeds from issuance of August 2017 Notes	295	-
Proceeds from issuance of September 2017 Notes	400	-
Proceeds from issuance of UAHC Notes	2,000	-
Proceeds from private placement	1,150	-
Proceeds from issuance of notes payable and warrants	-	2,300
Proceeds from sale of common stock warrants	100	2,427
Net cash provided by financing activities	<u>6,221</u>	<u>4,727</u>
Net change in cash and cash equivalents	(302)	1,754
Cash and cash equivalents, beginning of period	<u>345</u>	<u>359</u>
Cash and cash equivalents, end of period	<u>\$ 43</u>	<u>\$ 2,113</u>

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

**MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, except share and per-share amounts)  
(unaudited)

	For Nine Months Ended September 30,	
	2017	2016
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 48	\$ -
Cash paid for income tax	\$ -	\$ -
<b>Non-cash investing and financing activities:</b>		
Conversion of convertible debt and accrued interest	\$ 3,935	\$ -
Issuance of L2 commitment note	\$ 160	\$ -
Reclassification adjustment upon sale of available for sale investment in net loss	\$ 66	\$ 1,205
Unrealized gain on available for sale investments	\$ -	\$ 82
Beneficial conversion feature on convertible debt and warrants issued concurrent with debt	\$ 4,593	\$ -
Shares issued in satisfaction of accounts payable	\$ 401	\$ -
Shares issued for prepaid services	\$ 343	\$ -

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

**MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share and per-share amounts)**

**Note 1. Organization and basis of presentation**

**Organization**

MGT Capital Investments, Inc. ("MGT" or "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"), MGT Gaming, Inc. ("MGT Gaming"), and MGT Mining One, Inc. ("Mining One") and MGT Mining Two, Inc. ("Mining Two"). MGT Studios also owns a controlling minority interest in the subsidiary M2P Americas, Inc. Our corporate office is located in Durham, North Carolina. Mining One was formed in April 2017 for the purpose of facilitating the issuance of the Iliad Note. Mining Two was formed on August 1, 2017 for the purpose of facilitating the issuance of the UAHC Note.

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 and expanding into other cryptocurrency technologies.

On September 8, 2016, MGT stockholders voted to change the corporate name of MGT to "John McAfee Global Technologies, Inc." Following a dispute over the right to use the name "John McAfee", the Company and Intel Corporation ("Intel") agreed to a mediation process to avoid unnecessary legal costs. On June 30, 2017 the Company entered into a settlement agreement with Intel (See Note 13), whereby the Company agreed not to use the name John McAfee Global Technologies, and reverted to using the name MGT Capital Investments. More information about the litigation and settlement can be found in Item 1. Legal Proceedings of Part II Other Information of this quarterly report on Form 10-Q.

**Cybersecurity**

On May 9, 2016, the Company, through its wholly owned subsidiary, MGT Cybersecurity, Inc., entered into an asset purchase agreement (APA) to acquire certain assets owned by D-Vasive, Inc. (the "D-Vasive APA"), a Wyoming corporation in the business of developing and marketing certain privacy and anti-spy applications. 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 into an asset purchase agreement with Demonsaw LLC (the "Demonsaw APA"), 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, the Company 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's 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 issued to complete the closing of the D-Vasive acquisition. Not reaching this critical closing condition resulted in the termination of the Amended APA.

**MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share and per-share amounts)**

**Note 1. Organization and basis of presentation, continued**

**Cybersecurity, continued**

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 Chief Cybersecurity Visionary, 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.

**Crypto-currency mining**

In September 2016, the Company began a crypto-currency mining operation. Crypto-currencies are a medium of exchange that uses decentralized control (a block chain) as opposed to a central bank to track and validate transactions. The Company is currently involved in mining Bitcoin and Ethereum, whereby the Company earns revenue by solving "blocks" to be added to the block chain.

On September 13, 2016, the Company announced launch of its 5.0 PH/s Bitcoin mining operation, based in central Washington. The facility was subsequently being expanded with the addition of 13 PH/s Bitcoin mining in computing power.

On September 6, 2017, the Company entered into an agreement to purchase 50 Ethereum mining machines, which it plans to deploy in order to begin an Ethereum mining operation. The Company expects to take delivery of these machines during the fourth quarter of 2017. On September 8, 2017, the Company paid \$180 for this purchase and recorded them as property and equipment on its unaudited condensed consolidated balance sheet.

**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 September 30, 2017, the Company had incurred significant operating losses since inception and continues to generate losses from operations and as of September 30, 2017, has an accumulated deficit of \$355,057. At September 30, 2017, MGT's cash and cash equivalents were \$43. 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. The Company intends to raise additional capital through debt and equity financings. 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.

**MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share and per-share amounts)**

**Note 3. Summary of significant accounting policies**

**Basis of presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") 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 U.S. GAAP. 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 unaudited 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 and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for any subsequent quarters or for the year ending December 31, 2017.

**Use of estimates and assumptions and critical accounting estimates and assumptions**

The preparation of financial statements, in conformity with U.S. 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 and debt instruments*: Management estimates the expected term of embedded conversion features, 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 derivative financial instruments, 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.

**MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands, except share and per-share amounts)**

**Note 3. Summary of significant accounting policies, continued**

**Principles of consolidation**

All intercompany transactions and balances have been eliminated. Non-controlling interest represented 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 Financial Accounting Standards Board's ("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 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 had no Level 3 financial assets or liabilities as of September 30, 2017 and December 31, 2016.

**MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands, except share and per-share amounts)

**Note 3. Summary of significant accounting policies, continued**

**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:

The following table provides the investments carried at fair value measured on a recurring basis as of September 30, 2017:

	Carrying value	Fair value measurement using			Total
		Level 1	Level 2	Level 3	
Digital currencies	\$ 17	\$ 17	\$ –	\$ –	\$ 17

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

	Carrying Value	Level 1	Level 2	Level 3	Total
Digital currencies	10	10	–	–	10

**Beneficial conversion feature of convertible notes payable**

The Company accounts for convertible notes payable in accordance with the guidelines established by the FASB Accounting Standards Codification (“ASC”) Topic 470-20, Debt with Conversion and Other Options. The beneficial conversion feature 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 beneficial conversion feature 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. The beneficial conversion features that are contingent upon the occurrence of a future event are recorded when the contingency is resolved.

The beneficial conversion feature of a convertible note is measured by first allocating a portion of the note’s proceeds to any warrants, if applicable, as a discount on the carrying amount of the convertible on a relative fair value basis. The discounted face value is then used to measure the effective conversion price of the note. The effective conversion price and the market price of the Company’s common stock are used to calculate the intrinsic value of the conversion feature. The intrinsic value is recorded in the financial statements as a debt discount 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 stream is related to the mining of digital currencies. The Company derives its revenue by providing transaction verification services within the digital currency networks of crypto-currencies, such as Bitcoin and Ethereum, commonly termed “crypto- currency mining.” In consideration for these services, the Company receives digital currency (“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 Coins are recorded in the statement of operations. Expenses associated with running the crypto-currency mining business, such as equipment depreciation, rent and electricity cost are recorded as cost of revenues.

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**Note 3. Summary of significant accounting policies, continued**

**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 unvested restricted shares, convertible debt 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 and nine months ended September 30, 2017, excludes 4,100,000 unvested restricted shares, 6,000,000 shares issuable under options, 4,357,143 shares issuable from the conversion of notes payable and 13,196,699 shares issuable under warrants. The computation of diluted loss per share for the three and nine months ended September 30, 2016, excluded 3,000,000 unvested restricted shares and 560,000 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. We currently operate in the Cybersecurity and Crypto-Currency Mining segments. 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 18 to 24 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 an 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.

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**Note 3. Summary of significant accounting policies, continued**

**Stock-based compensation, continued**

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 unvested equity instruments is re-measured each reporting period and such re-measured value is amortized over the requisite remaining service period.

**Reclassification**

Certain amounts in prior periods have been reclassified to conform to current period presentation. These reclassifications had no effect on the previously reported net loss.

**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 below and in the Annual Report on Form 10-K.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." The guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The FASB delayed the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. In addition, in March and April 2016, the FASB issued new guidance intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. Both amendments permit the use of either a retrospective or cumulative effect transition method and are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early application permitted. The Company is assessing the impact of this new standard on its financial statements and has not yet selected a transition method.

In February 2016, FASB issued ASU No. 2016-02, "Leases (Topic 842)", which creates new accounting and reporting guidelines for leasing arrangements. The new guidance requires organizations that lease assets to recognize assets and liabilities on the balance sheet related to the rights and obligations created by those leases, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a finance or operating lease. The guidance also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early application permitted. The new standard is to be applied using a modified retrospective approach. The Company is currently evaluating the impact of the new pronouncement on its financial statements.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15—Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance for eight specific cash flow issues with respect to how cash receipts and cash payments are classified in the statements of cash flows, with the objective of reducing diversity in practice. The effective date for ASU 2016-15 is for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact of this new standard on its financial statements.

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, Intangibles – Goodwill and Other (Topic 350). The amendments in this update simplify the test for goodwill impairment by eliminating Step 2 from the impairment test, which required the entity to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining fair value of assets acquired and liabilities assumed in a business combination. The amendments in this update are effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

### Note 3. Summary of significant accounting policies, continued

#### Recent accounting pronouncements, continued

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805); Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this update are effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception". Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. ASU 2017-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company has adopted the ASU beginning with these condensed consolidated financial statements. As a result, the conversion features of certain of its convertible notes payable and equity instruments that contain "down round" provisions will not be bifurcated and will not be recorded as a derivative liability.

#### Note 4. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following:

	September 30, 2017	December 31, 2016
Prepaid expenses	\$ 1,005	\$ 153
Deferred offering costs (see Note 9)	160	—
Total prepaid expenses and other current assets	<u>\$ 1,165</u>	<u>\$ 153</u>

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**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 publicly traded securities, market value is based on quoted market prices or valuation models that use observable market inputs.

**Investments available for sale**

	September 30, 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**

	September 30, 2017	December 31, 2016
DDGG common shares	\$ —	\$ 287

During the three and nine months ended September 30, 2017, the Company recognized an impairment charge of \$0 and \$287, respectively, related to its investment in DDGG.

**Note 6. Intangible assets**

The Company's intangible assets consisted of the following:

	Intangible assets
January 1, 2017	\$ 468
Impairment	—
Amortization	(124)
September 30, 2017	\$ 344

The Company recorded amortization expense of \$41 and \$0 for the three months ended September 30, 2017 and 2016, respectively. The Company recorded amortization expense of \$124 and \$57, for the nine months ended September 30, 2017 and 2016, respectively.

The following table outlines estimated future annual amortization expense for the next three years:

Years ended December 31,	Amount
2017 (three months)	\$ 42
2018	165
2019	137
	\$ 344

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**Note 7. Property and equipment**

Property and equipment consisted of the following:

	September 30, 2017	December 31, 2016
Computer hardware and software	\$ 10	\$ 10
Crypto-currency machines	4,223	708
Property and equipment, gross	4,233	718
Less: Accumulated depreciation	(502)	(116)
Property and equipment, net	<u>\$ 3,731</u>	<u>\$ 602</u>

Property and equipment, net includes \$180 of crypto-currency machines not yet received. This equipment is expected to be received and placed into service by December 31, 2017.

The Company recorded depreciation expense of \$189 and \$19 for the three months ended September 30, 2017, and 2016, respectively. The Company recorded depreciation expense of \$385 and \$30 for the nine months ended September 30, 2017, and 2016, respectively.

During the second quarter of 2017, the Company sold bitcoin machines with a book value of \$262 for gross proceeds of \$310 and recorded a gain on sale of \$48.

During the third quarter of 2017, the Company sold Bitcoin machines with a book value of \$121 for gross proceeds of \$130 and recorded a gain on sale of \$9.

**Note 8. Accrued expenses**

Accrued expenses consisted of the following:

	September 30, 2017	December 31, 2016
Interest on notes payable	\$ 100	\$ -
Legal, consulting, and other fees	223	124
Total	<u>\$ 323</u>	<u>\$ 124</u>

**Note 9. Convertible notes payable**

As of September 30, 2017, the Company's convertible notes payable consisted of the following:

	Gross	Discount	Net	Current	Long Term
Iliad Note	\$ 1,355	\$ (1,352)	\$ 3	\$ -	\$ 3
August 2017 Notes	330	(316)	14	11	3
UAHC Note	2,410	(2,408)	2	-	2
September 2017 Note	480	(479)	1	-	1
Total	<u>\$ 4,575</u>	<u>\$ (4,555)</u>	<u>\$ 20</u>	<u>\$ 11</u>	<u>\$ 9</u>

As of December 31, 2016, the Company's notes payable consisted of the following:

	Gross	Discount	Net	Current	Long Term
August 2016 Notes	\$ 2,300	\$ -	\$ 2,300	\$ -	\$ 2,300

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**Note 9. Notes payable**

**August 2016 Notes**

On August 2, 2016, the Company sold \$2,300 in unsecured promissory notes in a private placement, which were subsequently exchanged for new notes in the same principal amount (the "August 2016 Notes"). The August 2016 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, which was to be adjusted for any future issuances of equity. During the first quarter of 2017, the conversion price of the August 2016 Notes was adjusted down to \$0.75 per share.

During February and March 2017, holders of the Company's August 2016 Notes converted a total of \$1,800 principal value into a total of 1,900,000 shares of the Company's common stock.

On June 27, 2017, holders of the Company's August 2016 Notes converted a total of \$75 principal value into a total of 100,000 shares of the Company's common stock.

On July 7, 2017, holders of the Company's August 2016 Notes converted a total of \$175 principal value into a total of 233,334 shares of the Company's common stock.

On August 14, 2017, holders of the Company's August 2016 Notes converted a total of \$250 principal value into a total of 333,334 shares of the Company's common stock.

For each conversion, the book value of the notes was recorded as equity.

**10% convertible promissory notes**

During February and March 2017, the Company issued two \$50, 10% convertible promissory notes. Both notes mature one year from the date of issuance. Both notes are convertible at a fixed rate of \$0.25 per share. Management recorded a beneficial conversion feature on both of the notes in the aggregate of \$100 and recorded that amount to additional paid in capital. The debt discounts are being accreted using the effective interest method over the one year life of the notes.

On August 14 and September 6, 2017, the holder of the notes converted an aggregate of \$100 principal into a total of 400,000 shares of the Company's common stock. In connection with the conversion, the Company charged the remaining discount in the amount of \$92 to accretion of debt discount.

During the three and nine months ended September 30, 2017, the Company charged to operations \$97 and \$100, respectively as accretion of debt discount on this note.

**Iliad Note**

On May 18, 2017, the Company sold to Iliad Research and Trading, L.P., ("Iliad"), a Utah limited partnership, a secured convertible note (the "Iliad Note") in the original principal amount of \$1,355, with an original issuance discount of \$225 and reimbursed legal and accounting expenses of \$5, and a warrant to purchase 1,231,819 shares of common stock of the Company.

The principal and all accrued and unpaid interest on the outstanding balance on the date that is twenty-four (24) months from the issuance date. The Iliad Note is secured with the Company's ownership of Mining One and all assets of Mining One. The Iliad Note bears an interest rate of 10% per annum, provided that at any time on or after the occurrence of an Event of Default, the interest rate shall be adjusted to 22% per annum. Subject to the terms and conditions set forth in the Iliad Note, the Company may prepay the outstanding balance of the Iliad Note in part or in full in cash of an amount equal to 125% multiplied by the outstanding balance of the Iliad Note.

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**Note 9. Notes payable, continued**

**Iliad Note, continued**

At any time beginning on the date that is six months from the issuance date until the outstanding balance of the Iliad Note has been paid in full, Iliad may, at its option, convert all or any portion of the outstanding balance into shares of common stock of the Company on a cashless basis at a price of \$1.05 per share, which will be adjusted for any future issuances of equity that contain a lower per-share exercise price. In addition, beginning three months after the issuance date, Iliad has the right to redeem a portion of the outstanding balance of the Iliad Note in any amount that is less than \$90 per calendar month. The Company has the right to fund each redemption using cash or shares of the Company's common stock at a price that is the lower of \$1.05 per share and the price that is 65% of the Company's market price.

Management recorded a debt discount for (a) the original issue discounts (b) the relative fair value of the warrants issued and (c) the intrinsic value of the beneficial conversion feature on the Iliad Note in the amounts of \$230, \$202 and \$923, respectively. The debt discounts will be accreted using the effective interest method over the term of the Iliad Note. During the three months ended September 30, 2017 and 2016, the Company recorded accretion of the debt discount on the Iliad Note of \$2 and \$0, respectively. During the nine months ended September 30, 2017 and 2016 the Company recorded accretion of the debt discount on the Iliad Note of \$3 and \$0, respectively.

**March 2017 equity purchase agreement**

On March 10, 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 may issue and sell to L2 Capital from time to time up to \$5,000 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) \$1,000 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 Company may terminate the Equity Purchase Agreement 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 only 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.

On May 18, 2017, the Company amended the Equity Purchase Agreement to (a) facilitate the issuance of the Iliad Note and (b) to increase the capacity of the Equity Purchase Agreement to \$6,500.

On September 6, 2017, the Company further amended the Equity Purchase Agreement to increase the capacity of the Equity Purchase Agreement to the lesser of (a) 12,319,159 shares or (b) the maximum number of shares the Company is able to include in a registration statement.

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**Note 9. Notes payable, continued**

**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"), which was subsequently amended on March 15, 2017 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 the 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 only upon the triggering of a default event. A default event occurred on May 15, 2017. However, on May 18, 2017, the Company and L2 Capital amended the note in order to waive all rights resulting from default events under the note. Therefore, 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 a \$500 note to L2 Capital with substantially similar terms to the First Note (the "Second Note"). 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 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.

On September 1, 2017, the Company received net proceeds of \$392 for the funding of the Second Note, in satisfaction of the L2 Collateralized Note. Upon receipt of the proceeds, the warrant shares were increased by 417,975. All other terms under the warrant remained the same.

The Company recorded an initial debt discount of \$500, representing (a) an original issue discounts of \$108 and (b) a beneficial conversion feature of \$392. The debt discounts will be amortized using the effective interest method.

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 using the effective interest method. During the three and nine months ended September 30, 2017, the Company charged to operations \$49 and \$82, respectively, as accretion of debt discount on this note and warrants issued concurrent with this note.

On September 5, 2017, L2 notified the Company regarding certain matters which might have impacted the Company's compliance covenants under the terms of the Commitment Note, the First Note, and the Second Note.

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**Note 9. Notes payable, continued**

**March 2017 securities purchase agreement, continued**

The Company discussed these matters with L2 Capital, and without prejudice, induced L2 Capital to accept 2,166,850 additional shares of the Company's common stock in connection with the conversion of the full balance of the L2 Capital notes outstanding. Accordingly, on September 8, 2017, L2 Capital converted all of their notes and accrued interest of \$32 into a total of 3,853,553 shares of the Company's common stock. On the date of conversion, the Company (a) recorded the remaining discount of the note in the amount of \$709 as accretion of debt discount, and (b) recorded the fair value of the additional shares issued to L2 Capital in the amount of \$5,764 as inducement expense.

**May 2017 Notes**

On May 1, 2017, the Company issued notes payable to two investors in the aggregate amount of \$330 (the "May 2017 Notes"). The May 2017 Notes mature on October 1, 2018, with mandatory repayments beginning on October 1, 2017 in the amount of \$25 and continuing monthly thereafter. The May 2017 Notes accrue interest at a rate of 10% per annum.

The May 2017 Notes are convertible into the Company's common stock only after an event of default. Events of default include failure to pay payments due under the May 2017 Notes, entrance into any bankruptcy or insolvency proceedings, failure to meet the obligations of any other notes payable in an amount exceeding \$100, the Company's stock being suspending for trading or delisted, losing the Company's ability to deliver shares, or becoming more than 15 days delinquent on any filings required with the SEC.

The May 2017 Notes feature a "most favored nation" clause, in which, if the Company were to issue convertible notes with more favorable terms to another investor, the holders of the May 2017 Notes can elect to replace their notes with new notes with the same terms as the more favorable notes. As of the date of the issuance of this report, the Company has not replaced the May 2017 Notes under this clause.

The Company recorded an initial debt discount of \$165, representing \$65 related to an original issue discount and \$100 representing the relative fair value of warrants issued to the note holders. The debt discount will be amortized using the effective interest method.

On September 29, 2017, the holders of the May 2017 Notes converted their notes with principal value of \$330 and the related accrued interest of \$14 into 327,382 shares of common stock. In connection with the conversion, the Company recorded the remaining note discount of \$110 to accretion of debt discount.

During the three and nine months ended September 30, 2017, the Company recorded accretion of debt discount of \$151 and \$165, respectively, on the May 2017 Notes.

**August 2017 Notes**

On August 9, 2017, the Company issued notes payable to two investors in the aggregate amount of \$330 (the "August 2017 Notes") with an aggregate original issuance discount of \$35. The August 2017 Notes mature on December 8, 2018, with mandatory repayments beginning on January 8, 2018 in the amount of \$26 and continuing monthly thereafter. The August 2017 Notes accrue interest at a rate of 10% per annum.

At any time the August 17 Notes are outstanding the two investors are entitled to convert any outstanding principal and accrued but unpaid interest into shares of the Company's common stock at \$1.05 per share.

The Company recorded a debt discount for (a) the original issue discount, (b) the relative fair value of the warrants issued, and (c) the intrinsic value of the beneficial conversion feature on the August 2017 Notes in the amounts of \$35, \$135, and \$160, respectively.

During the three and nine months ended September 30, 2017, the Company recorded amortization of debt discount of \$14 and \$14, respectively, on the August 2017 Notes.

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**Note 9. Notes payable, continued**

**UAHC Note**

On August 18, 2017, the Company sold to UAHC Ventures, LLC, a Nevada limited liability company, a secured convertible note (the "UAHC Note") in the original principal amount of \$2,410, with an original issuance discount of \$400 and reimbursed legal and accounting expenses of \$10, and a warrant to purchase 861,905 shares of common stock of the Company.

The principal and all accrued and unpaid interest is due on August 18, 2019. The UAHC Note is secured with the Company's ownership of Mining Two and all assets of Mining Two. The Note bears an interest rate of 10% per annum, provided that at any time on or after the occurrence of an event of default, the interest rate shall be adjusted to 22% per annum. Subject to the terms and conditions set forth in the UAHC Note, the Company may prepay the outstanding balance of the UAHC Note in part or in full in cash in an amount equal to 125% multiplied by the outstanding balance of the UAHC Note.

At any time beginning on the date that is six months from the issuance date until the outstanding balance of the UAHC Note has been paid in full, UAHC may, at its option, convert all or any portion of the outstanding balance into shares of common stock of the Company on a cashless basis at a price of \$1.05 per share, which will be adjusted for any future issuances of equity that contain a lower per-share exercise price. In addition, beginning three months after the issuance date, UAHC has the right to redeem a portion of the outstanding balance of the UAHC Note in any amount that is less than \$90 per calendar month. The Company has the right to fund each redemption using cash or shares of the Company's common stock at a price of \$1.05 per share.

Management recorded a debt discount for (a) the original issue discount, (b) the relative fair value of the warrants issued and (c) the intrinsic value of the beneficial conversion feature on the UAHC Note in the amounts of \$410, \$819, and \$1,181, respectively. The debt discounts will be accreted using the effective interest method over the term of the UAHC Note. During the three months ended September 30, 2017 and 2016, the Company recorded accretion of the debt discount on the UAHC Note of \$2 and \$0, respectively. During the nine months ended September 30, 2017 and 2016 the Company recorded accretion of the debt discount on the UAHC Note of \$2 and \$0, respectively.

**September 2017 Note**

On September 12, 2017, the Company issued a note payable to an investor in the amount of \$480 (the "September 2017 Note") with an original issue discount of \$80, and a warrant to purchase 1,000,000 shares of the Company's common stock. The principal and all accrued and unpaid interest on the outstanding balance is due on September 12, 2019.

From March 12, 2018 until the outstanding balance of the September 2017 Note has been paid in full, the holder may, at its option, convert all or any portion of the outstanding balance into shares of common stock of the Company at a price of \$1.05 per share, which will be adjusted for any future issuances of equity that contain a lower per-share exercise price. In addition, beginning December 12, 2017, the holder has the right to redeem a portion of the outstanding balance of the September 2017 Note in any amount that is less than \$25 per calendar month. The Company has the right to fund each redemption using cash or shares of the Company's common stock at a price of \$1.05 per share.

Management recorded a debt discount for (a) the original issue discount, (b) the relative fair value of the warrants issued and (c) the intrinsic value of the beneficial conversion feature on the September 2017 Note in the amounts of \$80, \$275 and \$125, respectively. The debt discounts will be accreted using the effective interest method over the term of the September 2017 Note. During the three months ended September 30, 2017 and 2016, the Company recorded accretion of the debt discount on the September 2017 Note of \$1 and \$0, respectively. During the nine months ended September 30, 2017 and 2016 the Company recorded accretion of the debt discount on the September 2017 Note of \$1 and \$0, respectively.

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**Note 10. Common stock issuances**

**Sale of common stock**

During February and March 2017, the Company sold 1,625,000 shares of its common stock to accredited investors at a purchase price of \$0.40 per Share for aggregate proceeds received of \$650. In addition, for every Share purchased, the Investors received detachable warrants, as follows: (i) one Series A Warrant; (ii) one Series B Warrant; and (iii) one Series C Warrant.

During May 2017, the Company sold 1,250,000 shares of its common stock at \$0.40 per share for total proceeds of \$500. In addition, for every Share purchased, the Investors received detachable warrants, as follows: (i) one Series A Warrant; (ii) one Series B Warrant; and (iii) one Series C Warrant.

Each Series A Warrant is exercisable for one share of common stock, for a period of three years at a price of \$0.50 per share. Each Series B Warrant is exercisable for one share of common stock, for a period of three years at a price of \$0.75 per share, and each Series C Warrant is exercisable for one share of common stock, for a period of three years at a price of \$1.00 per share.

Management evaluated the terms of the warrants and determined that each were considered "fixed for fixed" and that they were properly classified as equity instruments.

During the three and nine months ended September 30, 2017, the Company issued 845,000 and 1,855,000, respectively, shares of its common stock to consultants in exchange for services. For the three and nine months ended September 30, 2017, the Company charged \$1,712 and \$2,681 to stock based compensation, which is a component of selling, general and administrative expenses in the Company's Statements of Operations and Comprehensive Loss.

During the three and nine months ended September 30, 2017, the Company issued 846,948 shares of its common stock from the cashless exercise of warrants to purchase 1,160,000 shares of common stock.

**Note 11. Stock-based compensation**

**Issuance of restricted shares – directors, officers and employees**

During the nine months ended September 30, 2017, the Company issued 3,800,000 shares of restricted common stock to certain employees. The Company valued each award on its grant date and is expensing the grant date fair value over the 16-24 month vesting period.

The Company's activity in restricted shares was as follows for the nine months ended September 30, 2017:

	Number of shares	Weighted average grant date fair value
Non-vested at December 31, 2016	1,000,000	\$ 2.31
Granted	4,000,000	\$ 1.25
Vested	(900,000)	\$ 1.74
Forfeited	-	
Non-vested at September 30, 2017	<u>4,100,000</u>	<u>\$ 1.40</u>

For the three and nine months ended September 30, 2017 the Company has recorded \$1,248 and \$2,253, 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 and comprehensive loss.

As of September 30, 2017, unamortized stock-based compensation costs related to restricted share arrangements was \$4,135, and will be recognized over a weighted average period of 1.51 years.

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**Note 11. Stock-based compensation, continued**

**Stock options**

The following is a summary of the Company's stock option activity for the nine months ended September 30, 2017:

	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Life	Intrinsic Value
Outstanding – January 1, 2017	6,000,000	\$ 0.71	\$ 1.28		
Granted	–				
Exercised	–				
Forfeited/Cancelled	–				
Outstanding – September 30, 2017	<u>6,000,000</u>	<u>\$ 0.71</u>	<u>\$ 1.29</u>	<u>4.87</u>	<u>\$ 12,550</u>
Exercisable – September 30, 2017	<u>6,000,000</u>	<u>\$ 0.71</u>	<u>\$ 1.29</u>	<u>4.87</u>	<u>\$ 12,550</u>

On August 14, 2017, in connection with the new employment agreement with Mr. McAfee, the Company modified his stock options to (a) extend the term of the stock options to August 14, 2022 and (b) to make the stock options immediately exercisable. In connection with this modification, the Company recognized the incremental value of the modified stock options of \$37 as stock-based compensation, which is included below.

For the three months ended September 30, 2017 and 2016, the Company has recorded \$5,169 and \$0, 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.

For the nine months ended September 30, 2017 and 2016, the Company has recorded \$7,094 and \$0, 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 September 30, 2017, there were no unrecognized compensation costs related to non-vested stock options.

**Warrants**

During February and March, 2017, the Company issued warrants to purchase 4,875,000 shares of the Company's common stock in connection with private placements. One third of the warrants have an exercise price of \$0.50 per share, one third of the warrants have an exercise price of \$0.75 per share and one third of the warrants have an exercise price of \$1.00 per share. All of the warrants expire three years from the date of issuance.

On March 10, 2017, the Company issued a warrant to purchase 400,000 shares of the Company's common stock to L2 Capital in connection with the March 2017 Equity Purchase Agreement. These warrants have an exercise price of \$0.957 per share and expire on March 10, 2024.

On May 1, 2017, the Company issued warrants to purchase 360,000 shares of the Company's common stock to the holders of the May 2017 Notes. These warrants have an exercise price of \$0.50 per share and expire on May 31, 2022.

On May 18, 2017, the Company issued warrants to purchase 1,231,819 shares of the Company's common stock to Iliad, in connection with the issuance of the Iliad Note. These warrants have an exercise price of \$1.05 per share and expire on May 31, 2022.

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**Note 11. Stock-based compensation, continued**

**Warrants, continued**

On May 1, 2017, the Company issued warrants to purchase 3,750,000 shares of the Company's common stock in connection with a private placement. One third of the warrants have an exercise price of \$0.05 per share, one third of the warrants have an exercise price of \$0.75 per share and one third of the warrants have an exercise price of \$1.00 per share. All of the warrants expire three years from the date of issuance.

In June 2017, the Company issued warrants to purchase 1,000,000 shares of the Company's common stock in connection with a private placement. The warrants have an exercise price of \$1.25 per share. All of the warrants expire three years from the date of issuance.

On August 9, 2017, the Company issued warrants to purchase 360,000 shares of the Company's common stock to the holders of the August 2017 Notes. The warrants have an exercise price of \$1.05 per share and expire five years from the date of issuance.

On August 18, 2017, the Company issued warrants to purchase 861,905 shares of the Company's common stock to the holder of the UAHC Note. The warrant has an exercise price of \$1.05 per share and expires five years from the date of issuance.

On September 1, 2017, in accordance with the terms of the warrant (see Note 9) upon the funding of the Second Note, the shares issuable under the warrants issued to L2 Capital on March 10, 2017 increased by 417,975 shares. All other terms remained the same.

On September 8, 2017, L2 Capital exercised warrants to purchase 800,000 common shares on a cashless basis and the Company issued 620,282 shares.

On September 12, 2017, the Company issued a warrant to purchase 1,000,000 shares of the Company's common stock to the holder of the September 2017 Note. The warrant has an exercise price of \$2.00 per share and expires three years from the date of issuance.

On September 29, 2017, the holders of the May 2017 Notes exercised their warrants to purchase 360,000 shares of the Company's common stock on a cashless basis. The Company issued 226,666 shares of its common stock to these holders.

The following table summarizes information about shares issuable under warrants outstanding at September 30, 2017:

	Warrant shares outstanding	Weighted average exercise price	Weighted average remaining life	Intrinsic Value
Outstanding at January 1, 2017	100,000	\$ 3.75		
Issued	14,256,699	\$ 0.93		
Exercised	(1,160,000)	\$ 0.82		
Expired	-			
Outstanding at September 30, 2017	<u>13,196,699</u>	<u>\$ 0.96</u>	<u>2.95</u>	<u>\$ 24,358</u>
Exercisable at September 30, 2017	<u>13,196,699</u>	<u>\$ 0.96</u>	<u>2.95</u>	<u>\$ 24,358</u>

**Note 12. Non-controlling interest**

At September 30, 2017, the Company's non-controlling interest was as follows:

	M2P Americas
At January 1, 2017	\$ (22)
Non-controlling share of net loss	-
At September 30, 2017	<u>\$ (22)</u>

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**Note 13. 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 commenced on September 1, 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 totaled \$27 and \$32 during the three months ended September 30, 2017 and 2016, respectively, and \$87 and \$53 for the nine months ended September 30, 2017 and 2016, respectively.

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

Years ended December 31,	Amount
2017 (three months)	\$ 21
2018	85
2019	85
2020	7
	<u>\$ 198</u>

**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 receives 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 entered into an employment agreement with John McAfee pursuant to which Mr. McAfee joined the Company as Executive Chairman of the Board of Directors and Chief Executive Officer of the Company. Mr. McAfee has a base annual salary of \$1.00 per day; payable at such times as the Company customarily pays its other senior level employees. In addition, Mr. McAfee was 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 purchase price of \$0.25 per share;
- 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 is also 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 addition to operating metrics.

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**Note 13. Operating leases, commitments and legal, continued**

**Commitments, continued**

On August 16, 2017, Mr. McAfee resigned as the Executive Chairman of the Board and as the Chief Executive Officer of the Company, effective on August 15, 2017. On August 16, 2017, Mr. McAfee accepted the appointment as the Chief Cybersecurity Visionary of the Company overseeing the design of the Company's cybersecurity platforms, effective immediately. In connection with Mr. McAfee's new appointment as Chief Cybersecurity Visionary, Mr. McAfee entered into a new employment, effective August 14, 2017. Mr. McAfee's new agreement is for a term of 24 months at a rate of \$7.25 or the minimum wage of the state of North Carolina, whichever is higher. Upon execution, the Company notified Mr. McAfee's previously granted stock options to (a) extend their term to August 4, 2022 and (b) cause them to be immediately exercisable.

In connection with Mr. McAfee's resignation, on August 16, 2017, the Board appointed Mr. Robert Ladd, the current President of the Company as the Chief Executive Officer of the Company and H. Robert Holmes, a member of the Board, as the Chairman of the Board, effective upon appointment.

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 is located in Cashmere, WA. MGT launched its bitcoin mining operations and earned its first BTC on September 3, 2016.

On July 31, 2017, the Company's agreement with HTP expired and the Company entered into a new agreement with Zoom Hash for the same services expiring July 31, 2018. The cost of those services is \$131.

**Legal**

On September 2, 2016, the Company and John McAfee filed an action (the "Action") against Intel Corporation ("Intel") in the United States District Court for the Southern District of New York (the "Court") 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 to "John McAfee Global Technologies, Inc.," does not infringe upon Intel's trademark rights or breach any agreement between the parties. Following a series of motions and counter-motions, both parties agreed to a court-supervised mediation process.

On June 30, 2017, the Company entered into a settlement agreement (the "Settlement Agreement") with Intel in which the Company agreed not to use "John McAfee Global Technologies," "John McAfee Privacy Phone," "John McAfee" or "McAfee" as (or as part of) a trademark, logo, trade name, business name, slogan, service mark or brand name in connection with cybersecurity related products or services. Notwithstanding, the Company is permitted to use the name "John McAfee" in promotional and advertising materials and on product packages, provided that the name is used in a descriptive manner and in compliance with the specifications set forth in the Settlement Agreement. Additionally, the Company may use John McAfee's likeness without restrictions.

On July 5, 2017, the Court dismissed with prejudice all claims and counterclaims filed in the Action.

Based upon a stipulation of voluntary dismissal (the "Stipulation") entered into by the parties of the Action pursuant to the Settlement Agreement dated June 30, 2017. The Court will retain jurisdiction over the Parties for purposes of enforcing this Settlement Agreement.

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**Note 13. Operating leases, commitments and legal, continued**

**Legal, continued**

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.

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 in a timely manner. The Company intends to fully comply with any additional requests the Company may receive from the SEC in the future.

In September 2016, various shareholders 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 alleged 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. On June 30, 2017, the lead plaintiffs filed an amended complaint. On August 29, 2017, the defendants moved to dismiss the plaintiffs' amended complaint, which the plaintiffs opposed on October 13, 2017. On November 3, 2017, the defendants filed a reply brief in support of their motion to dismiss the amended complaint. The Company is vigorously defending the lawsuits and believes it has meritorious defenses against the claims alleged in the amended complaint.

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 its shareholder 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. On June 5, 2017, the Company filed a motion to dismiss the lawsuit, and on July 17, 2017 the plaintiff filed an opposition brief to the motion to dismiss. The Company and its president are vigorously defending the suit and believe they have good and meritorious defenses.

The second action was brought by Honig and certain shareholders 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, (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 filed a motion to dismiss on June 5, 2017 and the plaintiffs filed an amended complaint on June 26, 2017. On June 30, 2017, the court granted a motion for extension of time filed by the Company and granted the Company until August 28, 2017 to file its response. On August 24, 2017, the court partially granted the Company's motion to dismiss and allowed some of the plaintiff's claims to proceed. The case has moved to the discovery phase. On September 28, 2017, the plaintiffs and defendants completed their briefing on the defendants' motion to dismiss the amended complaint. The defendants' motion to dismiss is currently under review by the court. The Company and its officers and directors believe that they have meritorious defense against the claims alleged in the amended complaint.

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**Note 13. Operating leases, commitments and legal, continued**

**Legal, continued**

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 14. Related Party Transactions**

Janice Dyson, wife of John McAfee, the Company's Chief Cybersecurity Visionary is the sole director of Future Tense Secure Systems, Inc. ("FTS") and owns 33% of the currently outstanding shares of common stock of such company. On March 3, 2017, the Company and FTS entered into the Demonsaw LLC Membership Interest Purchase Agreement (the "Purchase Agreement"). Pursuant to the Purchase Agreement, Future Tense sold its 46% membership interest in Demonsaw, LLC, a Delaware limited liability company for 2,000,000 unregistered shares of MGT's common stock.

On May 9, 2016, the Company entered a consulting agreement with FTS, pursuant to which FTS would provide advice, consultation, information and services to the Company including assistance with executive management, business and product development and potential acquisitions or related transactions. During the three months ended September 30, 2017 and 2016, the Company recorded consulting fees of \$63 and \$83, respectively, to FTS for such services. During the nine months ended September 30, 2017 and 2016, the Company recorded consulting fees of \$197 and \$349, respectively, to FTS for such services. As of September 30, 2017, the Company owed \$0 to FTS.

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**Note 15. 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 Crypto-Currency 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 as of and for the three and nine months ended September 30, 2017 and 2016:

	Intellectual Property	Gaming	Cybersecurity	Crypto- Currency Mining	Unallocated corporate/ other	Total
<b>Three months ended September 30, 2017</b>						
Revenue	\$ –	\$ –	\$ –	\$ 515	\$ –	\$ 515
Cost of revenue	–	–	–	(365)	–	(365)
Gross margin	–	–	–	150	–	150
Operating (loss) income	–	–	(112)	150	(9,614)	(9,576)
<b>Three months ended September 30, 2016</b>						
Revenue	\$ –	\$ –	\$ –	\$ 53	\$ –	\$ 53
Cost of revenue	–	–	–	(31)	–	(31)
Gross margin	–	–	–	22	–	22
Operating income (loss)	–	–	–	22	(10,866)	(10,844)
<b>Nine months ended September 30, 2017</b>						
Revenue	\$ –	\$ –	\$ –	\$ 1,215	\$ –	\$ 1,215
Cost of revenue	–	–	–	(754)	–	(754)
Gross margin	–	–	–	461	–	461
Operating (loss) income	–	–	(481)	461	(16,621)	(16,641)
<b>Nine months ended September 30, 2016</b>						
Revenue	\$ –	\$ –	\$ –	\$ 53	\$ –	\$ 53
Cost of revenue	–	–	–	(31)	–	(31)
Gross margin	–	–	–	22	–	22
Operating income (loss)	(673)	(1,510)	–	22	(15,275)	(17,436)
<b>September 30, 2017</b>						
Cash and cash equivalents	\$ –	\$ –	\$ –	\$ –	\$ 43	\$ 43
Property and equipment	–	–	–	3,727	4	3,731
Intangible assets	–	–	344	–	–	344
<b>December 31, 2016</b>						
Cash and cash equivalents	\$ –	\$ –	\$ –	\$ –	\$ 345	\$ 345
Property and equipment	–	–	–	594	8	602
Intangible assets	–	–	–	–	468	468

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**Note 16. Subsequent events**

The Company has evaluated the impacts of subsequent events through November 9, 2017, and has determined that no such events occurred that were required to be reflected in the condensed consolidated financial statements, except as described below.

**Management Agreement**

On October 12, 2017, the Company, entered into two management agreements (collectively "Management Agreements") with two accredited investors ("Users"), respectively, on substantially similar terms whereby Users agreed to purchase a total number of 1,944 Bitmain Antminer S9 mining computers (the "Bitcoin Hardware") to mine bitcoins with the Company acting as the exclusive manager for each of the Users. Pursuant to the Management Agreements, the Company shall install, host, maintain, repair and provide ancillary services necessary to operate the Bitcoin Hardware. In accordance with each of the Management Agreements, the Company will receive a management fee that equals 10% of the total bitcoins produced by each User's Bitcoin Hardware and share the respective net profits of such bitcoin mining operation with each User. In connection with the Management Agreements, the Company issued 193,000 shares of the Company's common stock and a Series F Warrant to purchase 193,000 shares of the Company's common stock at an initial exercise price of \$2.00 per share exercisable for a period of three years to one User and 154,400 shares of the Company's common stock and another Series F Warrant to purchase 154,400 shares of the Company's common stock at an initial exercise price of \$2.00 per share exercisable for a period of three years to the other User.

**Shares Issued to Consultants**

Subsequent to September 30, 2017 through November 7, 2017, the Company issued an aggregate of 437,000 shares of its common stock to consultants.

**Warrant Exercise**

On November 1, 2017 the Company received proceeds of \$94 from the exercise of a warrant to purchase 125,000 shares at an exercise price of \$0.75 per share.

**Shares Issued to Employees**

On October 2, 2017, the Company issued 1,400,000 shares of common stock to an employee that were granted on August 15, 2017. These shares were valued on the date of grant and are being amortized over a 24 - month vesting period.

## 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", or "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"), MGT Gaming, Inc. ("MGT Gaming"), and MGT Mining One, Inc. ("Mining One") and MGT Mining Two, Inc. ("Mining Two"). MGT Studios also owns a controlling minority interest in the subsidiary M2P Americas, Inc. Our corporate office is located in Durham, North Carolina. Mining One was formed in April 2017 for the purpose of facilitating the issuance of the Iliad Note. Mining Two was formed on August 1, 2017 for the purpose of facilitating the issuance of the UAHC Note.

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

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

On September 8, 2016, MGT stockholders voted to change the corporate name of MGT to "John McAfee Global Technologies, Inc." On September 2, 2016, the Company and John McAfee ("Plaintiffs") commenced an action in the United States District Court for the Southern District of New York seeking a declaratory judgment that the Company's proposed name change to "John McAfee Global Technologies, Inc." does not infringe on Intel's trademarks and does not breach any agreement between John McAfee and Intel's subsidiaries and/or predecessors. Following the judicial procedures, on June 30, 2017 the Company and Intel entered into the Settlement Agreement based on which and a stipulation of voluntary dismissal, on July 5, 2017, the Court dismissed with prejudice all claims and counterclaims filed in this case. Item 1 of Part II of this Quarterly Report on Form 10-Q shall have more details relating to this Action.

All figures set forth in this Quarterly Report as of and for the three and nine months ended September 30, 2017 on this Form 10-Q are in thousands, except share and per-share amounts.

### **Cybersecurity**

On May 9, 2016, we, through our wholly owned subsidiary, MGT Cybersecurity, Inc., entered into an asset purchase agreement (the "D-Vasive 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. 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 into an asset purchase agreement with Demonsaw LLC, a Delaware company, for the purchase of certain technology and assets (the "Demonsaw APA"). 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 issued 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 in exchange for 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 3.2(a)(ii) of the APA that required as a condition of Closing, that Buyer and Sellers obtain from each Governmental Authority, including NYSE MKT, all approvals, waivers, and consents necessary to the consummation of, or in connection with, the transactions contemplated by the APA. On September 19, 2016, NYSE MKT denied the issuance of shares required to close the transaction. In addition, the termination 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.

On May 5, 2017 the Company entered into a joint venture agreement with Nordic IT Sourcing Association Venture Partners (“Nordic IT”), pursuant to which the Company and Nordic IT shall co-develop and market a new generation of secure mobile phones. Nordic IT and the Company share equal equity interest in the joint venture, JMPP Oy, which is domiciled in Helsinki, Finland. In accordance with the terms of the agreement with Nordic IT, the Company shall design, engineer and test mobile phones with certain privacy features and Nordic IT will source strategic partners to manufacture such cell phones and conduct marketing and sales of such mobile phones.

#### Crypto-Currency Mining

In September 2016, we began a crypto-currency mining operation. Crypto-currencies are a medium of exchange that uses decentralized control (a block chain) as opposed to a central bank to track and validate transactions. We are currently involved in mining Bitcoin and Ethereum, whereby we earn revenue by solving “blocks” to be added to the block chain.

On September 13, 2016, we announced a launch of our 5.0 PH/s Bitcoin mining operation, based in central Washington. The facility was subsequently being expanded with the addition of 13 PH/s Bitcoin mining in computing power.

On September 6, 2017, we entered into an agreement to purchase 50 Ethereum mining machines, which we plan to deploy in order to begin an Ethereum mining operation. We expect to take delivery of these machines during the fourth quarter of 2017. On September 8, 2017, the Company paid \$180 for this purchase and recorded them as property and equipment on its unaudited condensed consolidated balance sheet.

#### 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 (“U.S. 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.

#### 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. The beneficial conversion feature 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 beneficial conversion feature 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 beneficial conversion feature of a convertible note is measured by first allocating a portion of the note's proceeds to any warrants, if applicable, as a discount on the carrying amount of the convertible on a relative fair value basis. The discounted face value is then used to measure the effective conversion price of the note. The effective conversion price and the market price of the Company's common stock are used to calculate the intrinsic value of the conversion feature. The intrinsic value is recorded in the financial statements as a debt discount 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 stream is related to the mining of digital currencies. The Company derives its revenue by providing transaction verification services within the digital currency networks of crypto-currencies, such as Bitcoin and Ethereum, commonly termed "Crypto-Currency Mining." In consideration for these services, the Company receives digital currency ("Coins"). The Coins are recorded as revenue, using the average spot price of the Coins 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 Coins are recorded in the statement of operations. Expenses associated with running the Crypto-Currency Mining business, such as equipment depreciation, rent and electricity cost are recorded as cost of revenues.

#### 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 common 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 Crypto-currency Mining. Intellectual property and Gaming are no longer considered business segments. Certain corporate expenses are not allocated to a particular segment.

#### Three months ended September 30, 2017 and 2016

The Company achieved the following results for the three months ended September 30, 2017 and 2016, respectively:

- Revenues totaled \$515 for the three months ended September 30, 2017 (2016: \$53);
- Costs of revenues were \$365 for the three months ended September 30, 2017 (2016: \$31);
- Operating expenses were \$9,726 for the three months ended September 30, 2017 (2016: \$10,866);
- Net loss attributable to common shareholders was \$16,464 for the three months ended September 30, 2017 (2016: \$10,830) and resulted in a basic and diluted loss per share of \$0.43 for the three months ended September 30, 2017 (2016: \$0.42).

The Company's revenue and cost of revenue increased by \$462 and \$334, respectively, during the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This was due to the expansion of the Company's Crypto-Currency Mining operations.

Our operating expenses decreased approximately 10% during the three months ended September 30, 2017 compared to the comparable three months ended September 30, 2016. The decrease is primarily attributed to decreases in investor relations and other professional fees.

#### *Cybersecurity*

During the three months ended September 30, 2017, the Company recognized operating expenses of \$112 (2016: \$0).

#### *Crypto-Currency Mining*

During the three months ended September 30, 2017, the Company recognized \$515 in revenue for this segment (2016:\$53). The Company's Crypto-Currency Mining operation commenced in September 2016 and the Company added additional Crypto-Currency Mining capacity during 2017.

There was \$365 in cost of revenue for the three months ended September 30, 2017 (2016: \$31). The increase in 2017 is attributed to a full quarter of Crypto-Currency Mining in the 2017 quarter.

#### *Unallocated Corporate / Other*

Operating expenses during the three months ended September 30, 2017 were \$9,614 (2016: \$10,866). The decrease of \$1,252 was primarily due to a decrease in stock-based compensation of \$1,166.

For the three months ended September 30, 2017, non-operating expenses mainly consisted of, interest and other expenses of \$110, accretion of debt discount of \$1,023 and inducement expense of \$5,764. The inducement expense was due to the induced conversion of the notes payable to L2 Capital. During the comparable period ended September 30, 2016, non-operating expenses mainly consisted of an impairment of long-term investments of \$276. This was offset by interest income of \$221 and a gain on sale of investment of \$110.

Nine months ended September 30, 2017 and 2016

The Company achieved the following results for the nine months ended September 30, 2017 and 2016, respectively:

- Revenues totaled \$1,215 for the nine months ended September 30, 2017 (2016: \$53);
- Costs of revenues were \$754 for the nine months ended September 30, 2017 (2016: \$31);
- Operating expenses were \$17,102 for the nine months ended September 30, 2017 (2016: \$17,458);
- Net loss attributable to Common shareholders was \$26,590 for the nine months ended September 30, 2017 (2016: \$18,260) and resulted in a basic and diluted loss per share of \$0.77 for the nine months ended September 30, 2017 (2016: \$0.84).

The Company's revenue and cost of revenue increased by \$1,162 and \$723, respectively, during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. This was due to the expansion of the Company's Crypto-Currency Mining operation during 2017.

Our operating expenses decreased approximately 2% during the nine months ended September 30, 2017 compared to the comparable nine months ended September 30, 2016. The decrease is primarily attributed to decreases in impairment of goodwill and intangible assets offset by increases in stock-based compensation and legal and professional fees.

*Intellectual property*

During the nine months ended September 30, 2017 and 2016, the Company recognized no revenues in either period due to the discontinuation of such business segment. Operating expenses for the nine months ended September 30, 2017 was \$0 (2016: \$673), consisting of impairment of a gaming patent.

*Gaming*

During the nine months ended September 30, 2017, the Company recognized operating expenses of \$0 (2016: \$1,510). During the nine months ended September 30, 2016 the Company recognized an impairment charge of \$1,496 related to goodwill and \$14 related to intangible assets.

*Cybersecurity*

During the nine months ended September 30, 2017, the Company recognized operating expenses of \$481 (2016: \$0).

*Crypto-Currency Mining*

During the nine months ended September 30, 2017, the Company recognized \$1,215 in revenue for this segment (2016: \$53). Crypto-Currency Mining operations commenced in September 2016. The Company deployed additional Crypto-Currency Mining capacity during 2017.

There was \$754 cost of revenue for the nine months ended September 30, 2017 (2016: \$31). The increase in 2017 is attributed to a full period of Crypto-Currency Mining during 2017.

*Unallocated Corporate / Other*

Operating expenses during the nine months ended September 30, 2017 was \$16,621 (2016: \$15,275). The increase of \$1,346 was primarily due an increase of \$1,318 in stock-based compensation and an increase of \$1,108 in legal and professional fees.

For the nine months ended September 30, 2017, non-operating expenses mainly consisted of gain on sale of assets of \$57, impairment of equity method investments, related party of \$2,500, impairment of long-term investments of \$287, interest and other expenses of \$300, loss on sale of investments of \$84, accretion of debt discount of \$1,071 and inducement expense of \$5,764. The inducement expense was related to the induced conversion of the L2 Capital notes. During the comparable period ended September 30, 2016, non-operating expenses mainly consisted of a loss on sale of investments of \$1,083 and impairment of long-term investments of \$276. This was offset by interest income of \$257.

## Liquidity and capital resources

	As of	
	September 30, 2017	December 31, 2016
<b>Working capital summary</b>		
Cash and cash equivalents	\$ 43	\$ 345
Other current assets	1,165	153
Investments – current	–	44
Digital currencies	17	10
Current liabilities	(1,811)	(191)
Working capital (deficit) surplus	<u>\$ (586)</u>	<u>\$ 361</u>
	Nine months ended September 30,	
	2017	2016
<b>Cash (used in) / provided by</b>		
Operating activities	\$ (3,092)	\$ (3,772)
Investing activities	(3,431)	799
Financing activities	6,221	4,727
Net (decrease)/ increase in cash and cash equivalents	<u>\$ (302)</u>	<u>\$ 1,754</u>

On September 30, 2017, MGT's cash and cash equivalents were \$43. The Company continues to exercise discipline with respect to current expense levels, as revenues remain limited. Our cash and cash equivalents decreased during the nine months ended September 30, 2017, primarily due to \$3,092 used in operating activities, \$3,431 used in investing activities offset by funds provided by the sale of convertible notes and shares resulting in a net increase in cash provided by financing activities of \$6,221.

### 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, inducement expense, 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 nine months ended September 30, 2017, the Company used \$3,431 in investing activities as compared to receiving \$799 from investing activities in the corresponding prior period. The cash used in investing activities during the nine months ended September 30, 2017 were primarily due to purchases of property and equipment of \$3,897 offset by sale of property and equipment of \$440 and investments properties of \$26. The cash provided by investing activities in 2016 were primarily a result of the sale of investments.

### Financing activities

#### *Conversion of Notes*

During the nine months ended September 30, 2017, holders of \$3,890 in principal and \$45 in accrued interest of the Company's notes payable converted their notes into 7,147,603 shares of common stock.

On March 10, 2017, the Company and L2 Capital, LLC ("L2 Capital"), a Kansas limited liability company, entered into an equity purchase agreement (the "Equity Purchase Agreement"), which was subsequently amended on May 18, 2017, pursuant to which the Company may issue and sell to L2 Capital from time to time up to \$6,500 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 Company may terminate the Equity Purchase Agreement, 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.

In addition, on March 10, 2017, the Company and L2 Capital entered into a securities purchase agreement (the "Securities Purchase Agreement"), which was subsequently amended on March 15, 2017, 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").

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 Common Stock Purchase 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.

On May 18, 2017, the Company and L2 Capital entered into an amendment to the Equity Purchase Agreement and Registration Rights Agreement (the "Amended Equity Purchase Agreement") and an amendment to the Convertible Promissory Note (the "Amended Convertible Promissory Note"), to facilitate the transactions of the Company and Iliad as described below. Pursuant to the Amended Equity Purchase Agreement, L2 Capital and the Company agreed to increase the amount of common stock issuable to L2 Capital from \$5,000 to \$6,500. In accordance with the Amendment to the Convertible Promissory Note, L2 Capital agreed to waive all its rights under the Convertible Promissory Note issued to it on March 10, 2017 with respect to certain events of default that would or could have been triggered by the Company by entering into the Iliad financing. In consideration of such waiver, the Company issued 200,000 shares of the Company's common stock to L2 Capital.

On September 1, 2017, in accordance with the terms of the warrant (see Note 9) upon the funding of the Second Note, the shares issuable under the warrants issued to L2 Capital on March 10, 2017 increased by 417,975 shares. All other terms remained the same.

On September 8, 2017, L2 Capital exercised warrants to purchase 800,000 common shares on a cashless basis and the Company issued 620,282 shares.

On September 5, 2017, L2 notified the Company regarding certain matters which might have impacted the Company's compliance covenants under the terms of the Commitment Note, the First Note, and the Second Note.

The Company discussed these matters with L2 Capital, and without prejudice, induced L2 Capital to accept 2,166,850 additional shares of the Company's common stock in connection with the conversion of the full balance of the L2 Capital notes outstanding. Accordingly, on September 8, 2017, L2 Capital converted all of their notes and accrued interest of \$32 into a total of 3,853,553 shares of the Company's common stock.

#### *Iliad note*

On May 18, 2017, the Company together with MGT Mining One, Inc. ("Mining One"), a wholly-owned subsidiary of the Company, and Iliad Research and Trading, L.P., ("Iliad"), a Utah limited partnership, entered into a securities purchase agreement (the "Securities Purchase Agreement"), pursuant to which the Company issued and sold to Iliad a secured convertible note (the "Note") in the original principal amount (the "Original Principal Amount") of \$1,355, with an original issuance discount (the "OID") of \$225 and legal and accounting expenses of \$5, and a warrant (the "Warrant") to purchase shares of common stock of the Company. In accordance with the Securities Purchase Agreement, Iliad shall fund the Company and Mining One (together the "Borrowers") the purchase price (the "Purchase Price") in an amount of \$1,125, which equals to the result of deducting the OID and legal and accounting expenses from the Original Principal Amount.

On May 18, 2017, in connection with the Securities Purchase Agreement, the Company executed the secured convertible promissory note (the "Secured Convertible Promissory Note" or the "Note"), promising to pay Iliad the Original Principal Amount and all amounts of accrued and unpaid interest on the outstanding balance on the date that is twenty-four (24) months from when Iliad transfers the funds in the amount of \$1,125 to the Borrowers (the "Purchase Price Date"). The Note is secured with all assets of the Mining One, currently owned and later acquired, and the Company's three thousand (3,000) shares of common stock of the Mining One. The Note bears an interest rate of ten per cent (10%) per annum. Subject to the terms and conditions set forth in the Note, the Borrowers may prepay the outstanding balance of the Note in part or in full in cash of an amount equal to 125% multiplied by the outstanding balance of the Note. At any time beginning on the date that is six (6) months from the Purchase Price Date until the outstanding balance of the Note has been paid in full, Iliad may, at its option, convert all or any portion of the outstanding balance into shares of common stock of the Company on a cashless basis at a price of \$1.05 per share (the "Lender Conversion Price"), as adjusted from time to time depending on circumstances as defined in the Secured Convertible Promissory Note. In addition, beginning three (3) months after the Purchase Price Date, Iliad has the right to redeem a portion of the outstanding balance of the Note in any amount that is less than \$90 per month, in cash or, in the Event of Default by converting such Redemption Amount, in full or in part, into shares of the Company's common stock at a per share price that is the lower of the Lender Conversion Price and the price that is sixty-five percent (65%) of Market Price.

In connection with the issuance of the Note, the Company also issued to Iliad a Warrant to purchase up to 1,231,819 shares of Common Stock of the Company in accordance with the terms of the warrant to purchase shares of common stock. The Warrant shall be exercisable at a cash price of \$1.05 per share for a term of five years.

#### *May 2017 notes*

On May 1, 2017, the Company issued notes payable to two investors in the aggregate amount of \$330,000 (the "May 2017 Notes"). The May 2017 Notes mature on October 1, 2018, with mandatory repayments beginning on October 1, 2017 in the amount of \$25 and continuing monthly thereafter. The May 2017 Notes accrue interest at a rate of 10% per annum.

The May 2017 Notes are convertible into the Company's common stock only after an event of default. Events of default include failure to pay payments due under the May 2017 Notes, entrance into any bankruptcy or insolvency proceedings, failure to meet the obligations of any other notes payable in an amount exceeding \$100, the Company's stock being suspended for trading or delisted, losing the Company's ability to deliver shares, or becoming more than 15 days delinquent on any filings required with the SEC.

The May 2017 Notes feature a "most favored nation" clause, in which, if the Company were to issue convertible notes with more favorable terms to another investor, the holders of the May 2017 Notes can elect to replace their notes with new notes with the same terms as the more favorable notes. On September 29, 2017, the May 2017 Notes were converted into 327,382 shares of the Company's Common Stock.

#### *UAHC Note*

On August 18, 2017, the Company sold to UAHC Ventures, LLC, a Nevada limited liability company, a secured convertible note (the "UAHC Note") in the original principal amount of \$2,410, with an original issuance discount of \$400 and reimbursed legal and accounting expenses of \$10, and a warrant to purchase 861,905 shares of common stock of the Company.

The principal and all accrued and unpaid interest is due on August 18, 2019. The UAHC Note is secured with the Company's ownership of Mining One and all assets of Mining One. The Note bears an interest rate of 10% per annum, provided that at any time on or after the occurrence of an event of default, the interest rate shall be adjusted to 22% per annum. Subject to the terms and conditions set forth in the UAHC Note, the Company may prepay the outstanding balance of the UAHC Note in part or in full in cash in an amount equal to 125% multiplied by the outstanding balance of the UAHC Note.

At any time beginning on the date that is six months from the issuance date until the outstanding balance of the UAHC Note has been paid in full, UAHC may, at its option, convert all or any portion of the outstanding balance into shares of common stock of the Company on a cashless basis at a price of \$1.05 per share, which will be adjusted for any future issuances of equity that contain a lower per-share exercise price. In addition, beginning three months after the issuance date, UAHC has the right to redeem a portion of the outstanding balance of the UAHC Note in any amount that is less than \$90 per calendar month. The Company has the right to fund each redemption using cash or shares of the Company's common stock at a price that is the lower of \$1.05 per share and the price that is 65% of the Company's market price.

#### *August 2017 Notes*

On August 9, 2017, the Company issued notes payable to two investors in the aggregate amount of \$330,000 (the "August 2017 Notes") with an aggregate original issuance discount of \$35,000. The August 2017 Notes mature on December 8, 2018, with mandatory repayments beginning on January 8, 2018 in the amount of \$13 and continuing monthly thereafter. The August 2017 Notes accrue interest at a rate of 10% per annum.

At any time the August 2017 Notes are outstanding the two investors are entitled to convert any outstanding principal and accrued but unpaid interest into shares of the Company's common stock at \$1.05 per share.

#### *September 2017 Note*

On September 12, 2017, the Company issued a note payable to an investor in the amount of \$480 (the "September 2017 Note") with an original issue discount of \$80, and a warrant to purchase 1,000,000 shares of the Company's common stock. The principal and all accrued and unpaid interest on the outstanding balance on the date that is twenty-four (24) months from the issuance date.

At any time beginning on the date that is six months from the issuance date until the outstanding balance of the September 2017 Note has been paid in full, the holder may, at its option, convert all or any portion of the outstanding balance into shares of common stock of the Company at a price of \$1.05 per share, which will be adjusted for any future issuances of equity that contain a lower per-share exercise price. In addition, beginning three months after the issuance date, the holder has the right to redeem a portion of the outstanding balance of the September 2017 Note in any amount that is less than \$25 per calendar month. The Company has the right to fund each redemption using cash or shares of the Company's common stock at a price that is the lower of \$1.05 per share and the price that is 65% of the Company's market price.

#### *Sales of stock*

During February and March 2017, the Company sold 1,625,000 shares of its common stock to investors at a purchase price of \$0.40 per Share for aggregate gross proceeds of \$650. 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.

During May 2017, the Company sold 1,250,000 shares of its common stock at \$0.40 per share for total proceeds of \$500. In addition, for every Share purchased, the Investors received detachable warrants, as follows: (i) one Series A Warrant; (ii) one Series B Warrant; and (iii) one Series C Warrant.

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 for one (1) Share, for a period of three (3) years at a price of \$1.00 per Share.

During the three and nine months ended September 30, 2017, the Company issued 846,948 shares of its common stock from the cashless exercise of warrants to purchase 1,160,000 shares of common stock.

#### **Risks and uncertainties related to our future capital requirements**

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 September 30, 2017, the Company had incurred significant operating losses since inception and continues to generate losses from operations and has an accumulated deficit of \$355,057.

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 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.

As of September 30, 2017, MGT's cash, cash equivalents and restricted cash were \$43. 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*

As of September 30, 2017 we had 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**

As of September 30, 2017, the Company had approximately \$43 in cash and 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 September 30, 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 three months ended September 30, 2017, there were no changes to the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal proceedings**

On September 2, 2016, the Company and John McAfee filed an action (the "Action") against Intel Corporation ("Intel") in the United States District Court for the Southern District of New York (the "Court") 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 to "John McAfee Global Technologies, Inc.," does not infringe upon Intel's trademark rights or breach any agreement between the parties. Following a series of motions and counter-motions, both parties agreed to a court-supervised mediation process.

On June 30, 2017, the Company entered into a settlement agreement (the "Settlement Agreement") with Intel in which the Company agreed not to use "John McAfee Global Technologies," "John McAfee Privacy Phone," "John McAfee" or "McAfee" as (or as part of) a trademark, logo, trade name, business name, slogan, service mark or brand name in connection with cybersecurity related products or services. Notwithstanding, the Company is permitted to use the name "John McAfee" in promotional and advertising materials and on product packages, provided that the name is used in a descriptive manner and in compliance with the specifications set forth in the Settlement Agreement. Additionally, the Company may use John McAfee's likeness without restrictions.

On July 5, 2017, the Court dismissed with prejudice all claims and counterclaims filed in the Action, based upon a stipulation of voluntary dismissal (the "Stipulation") entered into by the parties of the Action pursuant to the Settlement Agreement dated June 30, 2017. The Court will retain jurisdiction over the Parties for purposes of enforcing this Settlement Agreement.

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.

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 in a timely manner. The Company intends to fully comply with any additional requests the Company may receive from the SEC in the future.

In September 2016, various shareholders 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 alleged 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. On June 30, 2017, the lead plaintiffs filed an amended complaint. On August 29, 2017, the defendants moved to dismiss the plaintiffs' amended complaint, which the plaintiffs opposed on October 13, 2017. On November 3, 2017, the defendants filed a reply brief in support of their motion to dismiss the amended complaint. The Company is vigorously defending the lawsuits and believes it has meritorious defenses against the claims alleged in the amended complaint.

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 its shareholder 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. On June 5, 2017, the Company filed a motion to dismiss the lawsuit, and on July 17, 2017 the plaintiff filed an opposition brief to the motion to dismiss. The Company and its president are vigorously defending the suit and believe they have good and meritorious defenses.

The second action was brought by Honig and certain shareholders 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, (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 filed a motion to dismiss on June 5, 2017 and the plaintiffs filed an amended complaint on June 26, 2017. On June 30, 2017, the court granted a motion for extension of time filed by the Company and granted the Company until August 28, 2017 to file its response. On August 24, 2017, the court partially granted the Company's motion to dismiss and allowed some of the plaintiff's claims to proceed. The case has moved to the discovery phase. On September 28, 2017, the plaintiffs and defendants completed their briefing on the defendants' motion to dismiss the amended complaint. The defendants' motion to dismiss is currently under review by the court. The Company and its officers and directors believe that they have meritorious defense against the claims alleged in the amended complaint.

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.

#### **Item 1A. Risk factors**

Except as stated below, there are no additional risk factors other than those discussed in our Annual Report Form 10-K filed on April 20, 2017.

***Significant Bitcoin Network contributors could propose amendments to the Bitcoin Network's protocols and software that, if accepted and authorized by the Bitcoin Network, could adversely affect an investment in us.***

To the extent that a significant majority (approximately 80%) of the miners on the Bitcoin Network agree, the Bitcoin Network could be subject to new protocols and software that may adversely affect an investment in the Company. In such an event, or in the event a developer or group of developers proposes a modification to the Bitcoin Network that is not accepted by a majority of miners it would result in, two or more competing and incompatible blockchain implementations known as a "hard fork". In such a case, the "hard fork" in the blockchain could materially and adversely affect the perceived value of bitcoin as reflected on one or both incompatible blockchains that as a result of which may adversely affect an investment in the Company.

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

During the nine months ended September 30, 2017, the Company issued 4,000,000 shares of restricted Common stock to certain employees and directors.

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.

During May 2017, the Company sold 1,250,000 shares of its common stock at \$0.40 per share for total proceeds of \$500. In addition, for every Share purchased, the Investors received detachable warrants, as follows: (i) one Series A Warrant; (ii) one Series B Warrant; (iii) one Series C Warrant. Each Series A Warrant is exercisable for one share of common stock, for a period of three years at a price of \$0.50 per share. Each Series B Warrant is exercisable for one share of common stock, for a period of three years at a price of \$0.75 per share, and each Series C Warrant is exercisable for one share of common stock, for a period of three years at a price of \$1.00 per share. The above issuance was made in reliance on an exemption from registration set forth in the Section 4(2) of the Securities Act. The Company uses the proceeds from such sale of its common stock and warrants for general working capital purposes.

In addition, the Company sold a number of convertible notes to various investors a summarized below. During February and March 2017, the Company issued two 10% convertible promissory notes with the principal amount of \$50 each. Both notes mature one year from the date of issuance. Both notes are convertible at a fixed rate of \$0.25 per share. On August 14 and September 6, 2017, the holder of the two notes converted the notes of the aggregate amount of \$100 in principal into a total of 400,000 share of the Company's common stock. On May 1, 2017, the Company issued notes payable to two investors in the aggregate principal amount of \$330 (the "May 2017 Notes") with an original issuance discount of \$65. The May 2017 Notes bear a 10% interest rate per annum and mature on October 1, 2018, with mandatory repayments beginning on October 1, 2017 in the amount of \$25 and continuing monthly thereafter. On September 29, 2017, the holders of the May 2017 Notes converted the notes and the related accrued interest into 327,382 shares of common stock. On August 9, 2017, the Company issued convertible notes payable to two investors in the aggregate amount of \$330 (the "August 2017 Notes") with an aggregates original issuance discount of \$35. The August 2017 Notes mature on December 8, 2018, with mandatory repayments beginning on January 8, 2018 in the amount of \$26 and continuing monthly thereafter. The August 2017 Notes accrue interest at a rate of 10% per annum. On September 12, 2017, the Company issued a convertible note payable to an investor in the amount of \$480 (the "September 2017 Notes") with an original issue discount of \$80, and a warrant to purchase 1,000,000 share of the Company's common stock. The principal and all accrued and unpaid interest on the outstanding balance are due on September 12, 2019. The above issuance were made in reliance on exemption from registration set forth in Section 4(2) of the Securities Act, as amended. The Company used the proceeds from such issuances of convertible notes and warrants for general working capital purposes.

**Item 3. Defaults upon senior securities**

None.

**Item 4. Mine safety disclosures**

Not applicable.

**Item 5. Other information**

None.

**Item 6. Exhibits**

31	<a href="#">Certification pursuant to Section 302 of the Sarbanes–Oxley Act of 2002</a>
32	<a href="#">Certification pursuant to Section 906 of the Sarbanes–Oxley Act of 2002</a>
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

November 9, 2017

By: /s/ ROBERT B. LADD

Robert B. Ladd

President and Chief Executive Officer

*(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)*

