

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

**Form 10-K
(Mark One)**

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

For the fiscal year ended: **December 31, 2018**

OR

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)

**512 S. Mangum Street, Suite 408
Durham, NC**

(Address of principal executive offices)

13-4148725

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

27701

(Zip Code)

(914) 630-7430

(Registrant's telephone number, including area code)

Securities registered under section 12(b) of the Act:

common stock, par value \$0.001 per share

Securities registered under section 12(g) of the Act:

Not applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 requirement for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 []
Emerging growth company []

Accelerated filer []
Smaller reporting company [X]

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

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

As of June 30, 2018, the last day of the registrant’s most recently completed second fiscal quarter; the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately \$49,154,105.

As of April 15, 2019, the registrant had outstanding 195,770,183 shares of common stock, \$0.001 par value. (the “Common Stock”)

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
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(in thousands, except share and per-share amounts)

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NOTE REGARDING FORWARD LOOKING STATEMENTS

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

These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors” and the risks set out below, any of which may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks include, by way of example and not in limitation:

- The uncertainty of profitability based upon our history of losses;
- Risks related to failure to obtain adequate financing on a timely basis and on acceptable terms to continue as going concern; and
- Other risks and uncertainties related to our business plan and business strategy.

This list is not an exhaustive list of the factors that may affect any of our forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on our forward-looking statements. Forward looking statements are made based on management’s beliefs, estimates and opinions on the date the statements are made and we undertake no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Information regarding market and industry statistics contained in this Annual Report on Form 10-K is included based on information available to us that we believe is accurate. It is generally based on industry and other publications that are not produced for purposes of securities offerings or economic analysis. We have not reviewed or included data from all sources. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. As a result, investors should not place undue reliance on these forward-looking statements.

As used in this annual report, the terms “we”, “us”, “our”, “MGT” and the “Company” mean MGT Capital Investments, Inc. and its subsidiaries, unless otherwise indicated.

All dollar amounts set forth in this Annual Report as of and for the year ended December 31, 2018 on this Form 10-K are in thousands, except per-share amounts.

PART I

Item 1. Business

MGT Capital Investments, Inc. is a Delaware corporation, incorporated in 2000. The predecessor of the Company was originally incorporated in Utah in 1977. Our corporate office is located in Durham, North Carolina. MGT was formerly comprised of the parent company and its wholly-owned subsidiaries MGT Cybersecurity, Inc., Medicsight, Inc., MGT Sports, Inc. MGT Studios, Inc. (“MGT Studios”), MGT Interactive, LLC, MGT Gaming, Inc., MGT Mining One, Inc. and MC Mining Two, Inc., and MGT Sweden AB. MGT Studios also owned a controlling minority interest in the subsidiary M2P Americas, Inc. During the first quarter of 2019, MGT dissolved all its wholly-owned subsidiaries excluding MGT Sweden AB.

Cryptocurrency Mining Business

Industry Summary

Bitcoin is a world-recognized cryptocurrency, which can be traded and converted into major fiat currencies on cryptocurrency exchanges. Cryptocurrencies are a medium of exchange that are transacted through and recorded on a decentralized distributed ledger system, called the "Blockchain." The Blockchain is built by a chronological addition of transactions, which are grouped into blocks. Each new block requires a mathematical problem to be solved before it can be confirmed and added to the Blockchain. The speed at which these mathematical problems are solved is called Hash Rate. It represents the overall computing power of the network and is measured in Hashes per second ("H/s"). The complexity of these problems, also referred to as mining difficulty, increases with the network's growing Hash Rate.

Bitcoin mining entails solving these complex mathematical problems using custom designed and programmed application-specific integrated circuit ("ASIC") computers (also referred to as "miners"). Bitcoin miners perform a vital function on the Bitcoin Blockchain network, by performing these Hash calculations and adding transactions blocks to the Blockchain ledger. When a miner is successful in adding a block to the Blockchain, it is rewarded with a fixed number of Bitcoin; a miner can also be compensated by network transaction fees.

Additional information about Bitcoin, Blockchain and cryptocurrencies can be found on publicly available educational sources such as www.Bitcoin.org.

Our Operations

In September 2016, we commenced our Bitcoin mining operations in the Wenatchee Valley area of central Washington. Throughout 2017, we expanded our mining capacity with the purchase of additional Bitcoin mining machines and by entering into hosting and power agreements with Washington facilities owners. We have also entered into management agreements with third party investors whereby the investors purchased the mining hardware, and we receive both a fee to manage the mining operations plus one-half of the net operating profit.

Towards the end of 2017, we determined that there was inadequate electric power in Washington to support our growth, and we moved swiftly to find a new facility to conduct our mining operations. By the end of 2017, we made the decision to move our principal mining operations to northern Sweden, a geographic location with historically low ambient temperatures and available inexpensive electricity. We entered into a hosting agreement (the "Hosting Agreement") with Beacon Leasing LLC ("Beacon"), pursuant to which Beacon agreed to deliver a turn-key solution in northern Sweden with up to 15 megawatts of electricity capacity, including a facility with power, cooling, and hosting services for a fixed price of \$810 per month. The facility in Sweden is owned by the city of Älvsbyn and leased by a subsidiary of Beacon. Beacon committed to provide a fully functional facility by the end of March 2018. The Hosting Agreement required us to pay \$1,620 to Beacon, representing the first and last month of service. During the first quarter of 2018, we took delivery of an additional 2,000 Bitcoin mining machines in Sweden and moved 4,300 machines (including 2,100 investor-owned machines) from Washington to Sweden.

Beacon failed to deliver the fully built out facility and necessary power supply levels required by us by the end of March 2018. Through the first quarter of 2018 and into the second quarter, our personnel made visits to Sweden and assisted Beacon with efforts to get the facility up and running. We also advanced additional funds to Beacon to maximize operational capacity as quickly as possible. During April 2018, we became involved in the design and setup of the Sweden facility due to concern that Beacon may have overstated their construction abilities and financial capacity.

On May 16, 2018, we were informed that none of the amounts due from Beacon to the electric utility serving the Älvsbyn facility had been paid and that the utility would begin shutting down the electricity to the Älvsbyn facility. On the same day, we notified Beacon that it was in material breach of the Hosting Agreement. In order to avoid a shutdown of the facility and a suspension of mining operations, we paid the utility provider \$368, as a good faith deposit. During the three months ended September 30, 2018, we paid an additional aggregate of \$947 to the utility provider for power consumed.

Subsequent to May 16, 2018, we intensified our efforts to determine the extent of Beacon's non-performance under the Hosting Agreement. Management made several more trips to Sweden to supervise the completion of the facility as well as investigate Beacon's accounting records. We determined that Beacon also was faced with unpaid invoices from various material and service providers to the facility.

Beginning in late May 2018, we took steps to become the direct operator of the Swedish facility to gain control of the situation, protect our assets, and maximize operational capacity as quickly as possible. These actions included paying some of the outstanding amounts owed by Beacon in order to maintain key vendor relationships needed to complete the facility. We also formed MGT Sweden AB in anticipation of assuming the building lease and the power agreements.

Continuing issues arising from poor engineering and demands from the electric utility forced us to devote a significant amount of time and effort to the operations in Sweden. Further, we determined that the financial investment to fully assume the position of Beacon was excessive. Simultaneously, based on an analysis of available facilities in the United States, we concluded that the United States provided hosting opportunities for us. On September 24, 2018, the combination of these factors led us to decide to forgo any further monetary investment in Sweden. We have subsequently relocated all of the miners in Sweden to facilities in Colorado and Ohio.

As of December 31, 2018, MGT owned and operated approximately 500 miners located in a leased facility in Quincy, Washington. Prior to the relocation of the mining assets to the United States, the Company conducted a physical observation concluding there were approximately 5,750 operating machines in Sweden. In connection with the relocation to the U.S., approximately 3,000 machines were shipped to Colorado and 2,750 machines were shipped to Ohio. Of the 5,750 machines relocated to the U.S, 3,800 of these machines are owned by the Company, while the remaining are investor owned. All miners owned or managed by us are S9 Antminers sold by Bitmain Technologies LTD. In addition to the S9 Antminers, we own 50 custom designed GPU-based Ethereum mining rigs. During the year ended December 31, 2018, we mined 245 Bitcoin for total revenue of \$2,010. In addition, the miners we operate pursuant to the management agreements mined 184 Bitcoin during the same period.

Because the price of Bitcoin has steadily decreased during 2018, and throughout the first quarter of 2019, the Company decided it is not economically feasible to commence mining operations in Colorado or Ohio. Until the price of Bitcoin rises, the Company does not plan to commence mining with these machines.

Management Agreements

On October 12, 2017, we entered into two management agreements (each, a “Management Agreement”, collectively “Management Agreements”) with two accredited investors, Deep South Mining LLC and BDLM, LLC. On November 21 2017, we entered into a third management agreement with another accredited investor, Buckhead Crypto, LLC (all three accredited investors together are “Users”). Each of the Users agreed on substantially similar terms to purchase an aggregate of 2,376 Bitmain Antminer S9 mining computers (the “Bitcoin Hardware”) for a total of \$3,650 to mine Bitcoin with us acting as the exclusive manager for each of the Users. In addition, the Users have agreed to pay to us, in advance, the first three months of expected electricity costs of the Bitcoin mining operations in the sum of \$691. Initial electricity cost for the first three months following delivery of the Bitcoin Hardware was reimbursed to the Users within the first three months of operations. Each Management Agreement is in effect for 24 months from the date that the Bitcoin Hardware begins mining operations, and may be terminated by mutual written agreement.

Pursuant to the Management Agreements, the Company shall provide for installation, hosting, maintenance and repair and provide ancillary services necessary to operate the Bitcoin Hardware. In accordance with each of the Management Agreements, each of the Users will gain a portion of the Bitcoin mined called the User Distribution Portion. The User Distribution Portion is 50% of the amount of Bitcoin mined net of the operating fee (10% of the total Bitcoin mined) and the electricity cost.

On February 13, 2018, the Company entered into a new management agreement with a third party with substantially the same terms as the other Management Agreements. The third party agreed to purchase 200 Bitmain Antminer S9 mining computers for a total of \$428 to mine Bitcoin with the Company acting as the exclusive manager. This management agreement is in effect for 24 months from the date that the Bitcoin Hardware begins mining operations, and may be terminated by mutual written agreement.

On February 28, 2018, the Company and Buckhead Crypto, LLC terminated their Management Agreement. The Company agreed to purchase the Bitcoin mining machines and the prepaid electricity from Buckhead Crypto, LLC for an aggregate amount of \$767.

Bitcoin And Blockchain Overview

A Bitcoin is one type of a digital asset that is issued by, and transmitted through, an open source, math-based protocol platform using cryptographic security (the “Bitcoin Network”). The Bitcoin Network is an online, peer-to-peer user network that hosts the public transaction ledger, known as the “Blockchain,” and the source code that comprises the basis for the cryptography and math-based protocols governing the Bitcoin Network. No single entity owns or operates the Bitcoin Network, the infrastructure of which is collectively maintained by a decentralized user base. Bitcoin can be used to pay for goods and services or can be converted to fiat currencies, such as the US Dollar, at rates determined on Bitcoin exchanges or in individual end-user-to-end-user transactions under a barter system.

Bitcoins are “stored” or reflected on the digital transaction ledger known as the “Blockchain,” which is a digital file stored in a decentralized manner on the computers of each Bitcoin Network user. The Blockchain records the transaction

history of all Bitcoin in existence and, through the transparent reporting of transactions, allows the Bitcoin Network to verify the association of each Bitcoin with the digital wallet that owns them. The Bitcoin Network and Bitcoin software programs can interpret the Blockchain to determine the exact Bitcoin balance, if any, of any digital wallet listed in the Blockchain as having taken part in a transaction on the Bitcoin Network.

The Bitcoin Network is decentralized and does not rely on either governmental authorities or financial institutions to create, transmit or determine the value of Bitcoin. Rather, Bitcoin are created and allocated by the Bitcoin Network protocol through a “mining” process subject to a strict, well-known issuance schedule. The value of Bitcoin is determined by the supply and demand of Bitcoin in the Bitcoin exchange market (and in private end-user-to-end-user transactions), as well as the number of merchants that accept them. As Bitcoin transactions can be broadcast to the Bitcoin Network by any user’s Bitcoin software and Bitcoin can be transferred without the involvement of intermediaries or third parties, there are little or no transaction costs in direct peer-to-peer transactions on the Bitcoin Network. Third party service providers such as Bitcoin Exchanges and Bitcoin third party payment processing services may charge significant fees for processing transactions and for converting, or facilitating the conversion of, Bitcoin to or from fiat currency.

Miners dedicate substantial resources to mining. Given the increasing difficulty of the target established by the Bitcoin Network, current miners must invest in expensive mining devices with adequate processing power to hash at a competitive rate.

Bitcoin is an example of a digital asset that is not a fiat currency (i.e., a currency that is backed by a central bank or a national, supra-national or quasi-national organization) and are not backed by hard assets or other credit. As a result, the value of Bitcoin is determined by the value that various market participants place on Bitcoin through their transactions.

The cryptocurrency markets have grown rapidly in both popularity and market size. These markets are local, national and international and include an ever-broadening range of products and participants. The United States Securities and Exchange Commission (the “SEC”), and other governmental agencies around the world, are evaluating the cryptocurrency markets and are likely to institute new rules and regulations within this market to protect investors and such regulations could result in the restriction of the acquisition, ownership, holding, selling, use or trading of our common stock.

Legacy Businesses

Cybersecurity

On May 9, 2016, MGT entered into an asset purchase agreement to acquire certain assets owned by D–Vasive, Inc. (“D-Vasive”), a company in the business of developing and marketing certain privacy and anti-spy applications. Pursuant to the terms of the agreement, the Company would purchase assets including applications for use on mobile devices, intellectual property, customer lists, databases, project files and licenses. The proposed purchase price for D–Vasive was \$300 in cash and 23.8 million shares of MGT common stock.

On May 26, 2016, the Company agreed to acquire certain technology and assets of Demonsaw LLC (“Demonsaw”), a company in the business of developing and marketing secure and anonymous information sharing applications. Pursuant to the terms of this agreement, the Company would purchase assets including the source code for the Demonsaw solution, intellectual property, customer lists, databases, project files and licenses. 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 their agreement. Simultaneously, D–Vasive entered an agreement with the holders of Demonsaw’s outstanding membership interests, whereby D–Vasive would purchase all such membership interests. Accordingly, the proposed purchase price for D–Vasive (inclusive of the Demonsaw assets) was increased to 43.8 million shares of MGT common stock.

Both D-Vasive and Demonsaw were partly owned by Future Tense Secure Systems (“FTS”), an entity controlled by the wife of cybersecurity pioneer John McAfee, and as an integral part of the acquisition, Mr. McAfee would become Chairman and Chief Executive Officer of MGT, and the Company would enter into a consulting agreement with FTS.

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 Annual Meeting of Stockholders. On September 8, 2016, shareholder approval was obtained. However, on September 19, 2016, the New York Stock Exchange (the “Exchange”) informed the Company that it would not approve for listing on the Exchange the 43.8 million shares required to be issued to complete the closing of the D–Vasive acquisition, resulting in the termination of the acquisition.

In March 2017, MGT purchased 46% of the outstanding membership interests of Demonsaw from FTS for 2.0 million shares of MGT common stock.

Notwithstanding the termination of the D-Vasive acquisition, John McAfee agreed to join MGT in November 2016 and served as Chairman and CEO until August 2017, at which time he was appointed Chief Cybersecurity Visionary, a position he held until his relationship with the Company ended in January 2018.

Prior to the expected September 2016 closing of the above transaction, the Company added employees and consultants to develop a cybersecurity business, and position itself to address various cyber threats through advanced protection technologies for mobile devices and corporate networks. In November 2016, we acquired intellectual property from a third party for 150,000 shares of our common stock for a total acquisition price of \$495. In August 2017, we commenced commercial development of our cybersecurity business, including Sentinel, a network intrusion detector released in October 2017. We incurred \$47 and \$346 in research and development expenses in 2018 and 2017, respectively. Prior to the sale described below, we realized nominal revenue from our cybersecurity business.

On March 19, 2018, we announced the end of our cybersecurity operations by selling the Sentinel product line to a new entity formed by the unit's management team and stopping development of a secure mobile phone. The Sentinel assets were sold for consideration of \$60 in cash and a \$1,000 promissory note, convertible into a 20% equity interest of the buyer.

Online and Mobile Gaming

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

Strategy

MGT's strategy is to oversee the operation of approximately 5,750 cryptocurrency mining machines in Colorado and Ohio and continue to execute on an expansion model to secure low cost power and grow its cryptocurrency assets. The Company's immediate focus is to grow free cash flow. Our longer-term objective is focused towards vertical integration of our cryptocurrency mining business as well as diversification into other areas of the rapidly emerging Blockchain and cryptocurrency industry.

Competition

Our industry is extremely new and subject to rapid change and constant innovation. We face significant competition, including from companies that have entered this space much earlier than us and are better capitalized, with vertically integrated business models. Some of these companies are our suppliers. We compete to attract, engage, and retain personnel, educated and skilled in the Blockchain and cryptocurrency mining space.

We compete with vertically integrated companies such as Bitfury Group Limited and Bitmain Technologies LTD that engage in both the design and distribution of mining machines, as well as cryptocurrency mining. We also compete with many other companies that are engaged in cryptocurrency mining, some of which may have lower operating costs or cost of capital than MGT.

Employees

Currently, the Company and its subsidiaries have 4 full-time employees. None of our employees are represented by a union and we believe our relationships with our employees are good.

Available Information

MGT maintains a website at www.mgtci.com. The Company makes available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, including any amendments to the foregoing reports, as soon as is reasonably practicable after such material is electronically filed with, or furnished to, the SEC. These materials along with our Code of Business Conduct and Ethics are also available through our corporate website at www.mgtci.com. A copy of this Annual Report is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The public may also download these materials from the SEC's website at <http://www.sec.gov>. Any amendments to, and waivers of, our Code of Business Conduct and Ethics will be posted on our corporate website. The Company is not including the information contained at mgtci.com as a part of this Annual Report.

Item 1A. Risk Factors

Discussion of our business and operations included in this Annual Report should be read together with the risk factors set forth below. They describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties, together with other factors described elsewhere in this report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our financial performance. Each of the risks described below could adversely impact the value of our securities. These statements, like all statements in this report, speak only as of the date of this Annual Report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments.

The Company generates limited revenue from operations upon which an evaluation of our prospects can be made. The Company's prospects must be considered keeping in mind the risks, expenses and difficulties frequently encountered in the establishment of a new business in a constantly changing industry. There can be no assurance that the Company will be able to achieve profitable operations in the foreseeable future, if at all.

The Company has identified a number of specific risk areas that may affect our operations and results in the future:

Risks Related to Our Business

We have had limited commercial results and revenues, and we may be required to curtail operations if adequate funds are not available to us.

Our commercial results have been limited. Historically, the Company has not generated significant revenues to fund its operations, and the Company cannot be certain that revenues will be sufficient to fund operations for the foreseeable future. The Company's primary source of operating funds since inception has been debt and equity financings. The Company has also earned a limited amount of revenue through its Bitcoin operations. At December 31, 2018, MGT's cash and cash equivalents were approximately \$96.

The Company may raise additional capital, either through debt or equity financings, 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, moreover, 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 its operations and implement a plan to extend payables or reduce overhead until sufficient additional capital is raised to support further operations. The Company may also attempt 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. There can be no assurance that any such plan will be successful.

The Company's consolidated financial statements have been prepared on a going concern basis, and do not include adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company's 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 December 31, 2018, the Company had incurred significant operating losses since inception, and continues to generate losses from operations, and has an accumulated deficit of \$405,285. These matters raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements incorporated in this Annual Report 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.

The further development and acceptance of Bitcoin and other cryptographic and algorithmic protocols governing the issuance of transactions in Bitcoin and other digital currencies, which represent a new and rapidly changing industry, are subject to a variety of factors that are difficult to evaluate. The slowing or stopping of the development or acceptance of Bitcoin may adversely affect our results of operations.

The use of digital currencies such as Bitcoin to, among other things, buy and sell goods and services, and the acquisition of digital currencies as an investment, is part of a new and rapidly evolving industry that employs digital assets based upon a computer-generated mathematical and/or cryptographic protocol. Bitcoin is a prominent, but not a unique part of this industry. The growth of this industry in general, and Bitcoin in particular, is subject to a high degree of uncertainty. The factors affecting the further development of this industry, include, but are not limited to:

- continued worldwide growth in the adoption and use of Bitcoin and other digital currencies;
- government and quasi-government regulation of Bitcoin and other digital assets and their use, or restrictions on or regulation of access to and operation of the Bitcoin network or similar digital asset systems;
- changes in consumer demographics and public tastes and preferences;

- the maintenance and development of the open-source software protocol of the Bitcoin network;
- the availability and popularity of other forms or methods of buying and selling goods and services, including new means of using fiat currencies;
- general economic conditions and the regulatory environment relating to digital assets; and
- negative consumer perception of Bitcoin specifically and cryptocurrencies generally.

A decline in the popularity or acceptance of Bitcoin may adversely affect our results of operations.

Currently, there is relatively small use of Bitcoin in the retail and commercial marketplace in comparison to relatively large use by speculators, thus contributing to price volatility that could adversely affect our results of operations.

Bitcoin has only recently become accepted as a means of payment for goods and services by certain major retail and commercial outlets, and use of Bitcoin by consumers to pay such retail and commercial outlets remains limited. Conversely, a significant portion of Bitcoin demand is generated by speculators and investors seeking to profit from the short- or long-term holding of Bitcoin. Many industry commentators believe that Bitcoin's best use case is as a store of wealth, rather than as a currency for transactions, and that other cryptocurrencies having better scalability and faster settlement times will better serve as currency. This could limit Bitcoin's acceptance as transactional currency. A lack of expansion by Bitcoin into retail and commercial markets, or a contraction of such use, may result in increased volatility or a reduction in the Bitcoin Index Price, either of which could adversely affect our results of operations.

Security threats could result in the halting of our operations and a loss of assets or damage to our reputation, each of which could have a material adverse effect on our business.

Security breaches, computer malware and computer hacking attacks have been a prevalent concern in the Blockchain industry. Any security breach caused by hacking, which involves efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses, could harm our business operations or result in loss of our assets. Any breach of our infrastructure could result in damage to our reputation.

Any Bitcoin we mine may be subject to loss, damage, theft or restriction on access.

There is a risk that some or all of the Bitcoin we mine could be lost, stolen or destroyed. Although we will seek to use various technology to minimize the risk of loss, damage and theft, we cannot guarantee the prevention of such loss, damage or theft, whether caused intentionally, accidentally or by an act of God. Access to our Bitcoin could also be restricted by natural events (such as an earthquake or flood) or human actions (such as a terrorist attack). Any of these events may adversely affect our operations. In addition, government regulations in the United States and abroad could materially alter the landscape for Bitcoin and other cryptocurrencies use and accessibility, including through tax regulations, restrictions on use in transactions and regulation or prohibition of cryptocurrency exchanges.

If we do not keep pace with technological changes, our solutions may become less competitive and our business may suffer.

The market for Bitcoin technology is characterized by rapid technological change, frequent product and service innovation and evolving industry standards. We may need to continuously modify and enhance our solutions to keep pace with changes in internet-related hardware, software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development expenses. Any failure of our solutions to keep pace with technological changes or operate effectively with future network platforms and technologies could adversely affect our business.

Adverse economic conditions or reduced technology spending may adversely impact our business.

Our business depends on the overall demand for technology and on the economic health of our prospective customers. In general, worldwide economic conditions remain unstable, and these conditions may make it difficult for our prospective customers and us to forecast and plan future business activities accurately. Weak global economic conditions, or a reduction in technology spending even if economic conditions improve, could adversely impact our business, financial condition and results of operations in a number of ways, including longer sales cycles, lower prices for our solutions, reduced bookings and lower or no growth.

Our ability to attract, train and retain qualified employees is crucial to our results of operations and any future growth.

To execute our growth plan, we must attract and retain highly qualified personnel. Competition for these individuals is intense, especially for engineers with high levels of experience in designing and developing software and internet-related services, and professional services personnel with appropriate financial reporting experience. We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees have breached their legal obligations or that we have induced such breaches, resulting in a diversion of our time and resources. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

Regulatory changes or actions may alter the nature of an investment in the Company or restrict the use of cryptocurrencies in a manner that adversely affects the Company's business, prospects or operations.

Governments around the world have reacted differently to cryptocurrencies, with certain governments deeming them illegal while others have allowed their use and trade. On-going and future regulatory actions may impact the ability of the Company to continue to operate and such actions could affect the ability of the Company to continue as a going concern or to pursue this segment at all, which could have a material adverse effect on the business, prospects or operations of the Company.

The effect of any future regulatory change on the Company or any cryptocurrency that the Company may mine or hold for others is impossible to predict, and such change could have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, which would have a material adverse effect on the business, prospects or operations of the Company.

Governments may in the future curtail or outlaw the acquisition, use or redemption of cryptocurrencies. Ownership of, holding or trading in cryptocurrencies may then be considered illegal and subject to sanction. Governments may also take regulatory action that may increase the cost and/or subject cryptocurrency companies to additional regulation.

On July 25, 2017, the SEC released an investigative report which states that the United States would, in some circumstances, consider the offer and sale of Blockchain tokens pursuant to an initial coin offering ("ICO") subject to federal securities laws. Thereafter, China released statements and took similar actions. Although the Company does not participate in ICOs, its clients and customers may participate in ICOs and these actions may be a prelude to further action which chills widespread acceptance of Blockchain and cryptocurrency adoption and have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, which would have a material adverse effect on the business, prospects or operations of the Company.

Governments may in the future take regulatory actions that prohibit or severely restrict the right to acquire, own, hold, sell, use or trade cryptocurrencies or to exchange cryptocurrencies for fiat currency. Similar actions by governments or regulatory bodies (such as an exchange on which the Company's securities are listed, quoted or traded) could result in restrictions of the acquisition, ownership, holding, selling, use or trading in the Company's securities. Such a restriction could result in the Company liquidating its inventory at unfavorable prices and may adversely affect the Company's shareholders and have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, raise new capital or maintain a securities listing with an exchange which could have a material adverse effect on the business, prospects or operations of the Company and harm investors in the Company's securities.

Terrorist actions and attacks may have a negative impact on economic conditions and market liquidity.

There is a risk of terrorist attacks on the United States and elsewhere causing significant loss of life and property damage and disruptions in the global market. Economic and diplomatic sanctions may be in place or imposed on certain states and military action may be commenced. The impact of such events is unclear, but could have a material effect on general economic conditions and market liquidity.

Reliance on third parties to operate our mining machines may cause delays in production and mining and could have an impact on our business, financial condition and prospects.

The Company relies on third parties to operate its Bitcoin mining machinery. These third parties are not our employees and, except for restrictions imposed by our contracts with such third parties, we have limited ability to control the amount or timing of resources that they devote to our programs. Although we rely on these third parties to operate our mining machinery, we remain responsible for the overall mining operations. Many of the third parties with whom we contract may also have relationships with other commercial entities, some of which may compete with us. If the third parties operating our machinery

do not perform their contractual duties or obligations we may need to enter into new arrangements with alternative third parties. This could be costly, and mining operations may be delayed or terminated. If any of our relationships with these third parties terminate, we may not be able to enter into arrangements with alternative third party contractors or to do so on commercially reasonable terms. Though we carefully manage our relationships with our contract machinery operators, there can be no assurance that we will not encounter similar challenges or delays in the future or that these delays or challenges will not have a material adverse impact on our business, financial condition and prospects.

The Company's reliance on a third-party mining pool service provider, such as Slush Pool or Antpool, for our mining revenue payouts may have a negative impact on the Company operations.

We use a third-party mining pool to receive our mining rewards from the network. Bitcoin mining pools allow miners to combine their computing power, increasing their chances of solving a block and getting paid by the network. The rewards are distributed by the pool operator, proportionally to our contribution to the pool's overall mining power, used to generate each block. Should the pool operator's system suffer downtime due to a cyber-attack, software malfunction or other similar issues, it will negatively impact our ability to mine and receive revenue.

Banks and financial institutions may not provide banking services, or may cut off services, to businesses that provide cryptocurrency-related services or that accept cryptocurrencies as payment, including financial institutions of investors in the Company's securities.

A number of companies that provide Bitcoin and/or other cryptocurrency-related services have been unable to find banks or financial institutions that are willing to provide them with bank accounts and other services. Similarly, a number of companies and individuals or businesses associated with cryptocurrencies may have had and may continue to have their existing bank accounts closed or services discontinued with financial institutions. We also may be unable to obtain or maintain these services for our business. The difficulty that many businesses that provide Bitcoin and/or other cryptocurrency-related services have and may continue to have in finding banks and financial institutions willing to provide them services may be decreasing the usefulness of cryptocurrencies as a payment system and harming public perception of cryptocurrencies and could decrease its usefulness and harm its public perception in the future. Similarly, the usefulness of cryptocurrencies as a payment system and the public perception of cryptocurrencies could be damaged if banks or financial institutions were to close the accounts of businesses providing Bitcoin and/or other cryptocurrency-related services. This could occur as a result of compliance risk, cost, government regulation or public pressure. The risk applies to securities firms, clearance and settlement firms, national stock and commodities exchanges, the over the counter market and the Depository Trust Company, which, if any of such entities adopts or implements similar policies, rules or regulations, could result in the inability of our investors to open or maintain stock or commodities accounts, including the ability to deposit, maintain or trade the Company's securities. Such factors would have a material adverse effect the ability of the Company to continue as a going concern or to pursue this segment at all, which could have a material adverse effect on the business, prospects or operations of the Company and harm investors.

To the extent that the profit margins of Bitcoin mining operations are not high, operators of Bitcoin mining operations are more likely to immediately sell Bitcoin earned by mining in the market, resulting in a reduction in the price of Bitcoin that could adversely impact the Company and similar actions could affect other cryptocurrencies.

Over the past two years, Bitcoin mining operations have evolved from individual users mining with computer processors, graphics processing units and first generation ASIC servers. Currently, new processing power is predominantly added by incorporated and unincorporated "professionalized" mining operations. Professionalized mining operations may use proprietary hardware or sophisticated ASIC machines acquired from ASIC manufacturers. They require the investment of significant capital for the acquisition of this hardware, the leasing of operating space (often in data centers or warehousing facilities), incurring of electricity costs and the employment of technicians to operate the mining farms. As a result, professionalized mining operations are of a greater scale than prior miners and have more defined, regular expenses and liabilities. These regular expenses and liabilities require professionalized mining operations to more immediately sell Bitcoin earned from mining operations, whereas it is believed that individual miners in past years were more likely to hold newly mined Bitcoin for more extended periods. The immediate selling of newly mined Bitcoins greatly increases the supply of Bitcoin, creating downward pressure on the price of Bitcoin.

The extent to which the value of Bitcoin mined by a professionalized mining operation exceeds the allocable capital and operating costs determines the profit margin of such operation. A professionalized mining operation may be more likely to sell a higher percentage of its newly mined Bitcoin rapidly if it is operating at a low profit margin—and it may partially or completely cease operations if its profit margin is negative. In a low profit margin environment, a higher percentage could be sold more rapidly, thereby potentially reducing Bitcoin prices. Lower Bitcoin prices could result in further tightening of profit margins, particularly for professionalized mining operations with higher costs and more limited capital reserves, creating a network effect that may further reduce the price of Bitcoin until mining operations with higher operating costs become unprofitable and remove mining power. The network effect of reduced profit margins resulting in greater sales of newly mined Bitcoin could result in a reduction in the price of Bitcoin that could adversely impact the Company.

The foregoing risks associated with Bitcoin could be equally applicable to other cryptocurrencies, existing now or introduced in the future. Such circumstances would have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, which could have a material adverse effect on the business, prospects or operations of the Company and potentially the value of any cryptocurrencies the Company holds or expects to acquire for its

own account.

Political or economic crises may motivate large-scale sales of Bitcoin and Ethereum, or other cryptocurrencies, which could result in a reduction in value and adversely affect the Company.

As an alternative to fiat currencies that are backed by central governments, digital assets such as Bitcoin and Ethereum, which are relatively new, are subject to supply and demand forces based upon the desirability of an alternative, decentralized means of buying and selling goods and services, and it is unclear how such supply and demand will be impacted by geopolitical events. Nevertheless, political or economic crises may motivate large-scale acquisitions or sales of Bitcoins and Ethereum and other cryptocurrencies either globally or locally. Large-scale sales of Bitcoin and Ethereum or other cryptocurrencies would result in a reduction in their value and could adversely affect the Company. Such circumstances could have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, which would have a material adverse effect on the business, prospects or operations of the Company and potentially the value of any cryptocurrencies the Company holds or expects to acquire for its own account.

It may be illegal now, or in the future, to acquire, own, hold, sell or use Bitcoin, Ethereum, or other cryptocurrencies, participate in the Blockchain or utilize similar digital assets in one or more countries, the ruling of which could adversely affect the Company.

Although currently Bitcoin, Ethereum, and other cryptocurrencies, the Blockchain and digital assets generally are not regulated or are lightly regulated in most countries, including the United States, one or more countries such as China and Russia may take regulatory actions in the future that could severely restrict the right to acquire, own, hold, sell or use these digital assets or to exchange for fiat currency. Such restrictions may adversely affect the Company. Such circumstances could have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, which could have a material adverse effect on the business, prospects or operations of the Company and potentially the value of any cryptocurrencies the Company holds or expects to acquire for its own account and harm investors.

If regulatory changes or interpretations require the regulation of Bitcoin or other digital assets under the securities laws of the United States or elsewhere, including the Securities Act of 1933, the Securities Exchange Act of 1934 (the “Exchange Act”) and the Investment Company Act of 1940 or similar laws of other jurisdictions and interpretations by the SEC, the Commodity Futures Trading Commission (the “CFTC”), the Internal Revenue Service (“IRS”), Department of Treasury or other agencies or authorities, the Company may be required to register and comply with such regulations, including at a state or local level. To the extent that the Company decides to continue operations, the required registrations and regulatory compliance steps may result in extraordinary expense or burdens to the Company. The Company may also decide to cease certain operations. Any disruption of the Company’s operations in response to the changed regulatory circumstances may be at a time that is disadvantageous to the Company.

Current and future legislation and SEC rulemaking and other regulatory developments, including interpretations released by a regulatory authority, may impact the manner in which Bitcoin or other cryptocurrency is viewed or treated for classification and clearing purposes. In particular, Bitcoin and other cryptocurrency may not be excluded from the definition of “security” by SEC rulemaking or interpretation requiring registration of all transactions, unless another exemption is available, including transacting in Bitcoin or cryptocurrency amongst owners and require registration of trading platforms as “exchanges” such as Coinsquare. The Company cannot be certain as to how future regulatory developments will impact the treatment of Bitcoin and other cryptocurrencies under the law. If the Company fails to comply with such additional regulatory and registration requirements, the Company may seek to cease certain of its operations or be subjected to fines, penalties and other governmental action. Such circumstances could have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, which could have a material adverse effect on the business, prospects or operations of the Company and potentially the value of any cryptocurrencies the Company holds or expects to acquire for its own account and harm investors.

There have been calls for Bitcoin and other cryptocurrency regulation in China, which might make Bitcoin mining uneconomical for us.

The Peoples Bank of China has recently instituted restrictions on certain exchange trading in cryptocurrencies and ICOs. Further governmental regulation could negatively impact pricing for Bitcoin. In addition, the Company’s sole source of mining computers is a Chinese company, exposing the Company to risk if restrictions are placed on the export of such computers.

Demand for Bitcoin is driven, in part, by its status as the most prominent and secure digital asset. It is possible that a digital asset other than Bitcoin could have features that make it more desirable to a material portion of the digital asset user base, resulting in a reduction in demand for Bitcoins.

Bitcoin holds a “first-to-market” advantage over other digital currencies. This first-to-market advantage is driven in large

part by having the largest user base and, more importantly, the largest combined mining power in use. Having a large mining network results in greater user confidence regarding the security and long-term stability of a digital asset's network and its Blockchain; as a result, the advantage of more users and miners makes a digital asset more secure, which makes it more attractive to new users and miners, resulting in a network effect that strengthens the first-to-market advantage. Nonetheless, it is possible that another form of digital currency could become materially popular due to either a perceived or exposed shortcoming of the Bitcoin network or a perceived advantage of another form of digital currency. If another form of digital currency obtains significant market share, this could reduce the profitability of our Bitcoin operations.

Because the number of Bitcoin awarded for solving a block in the Bitcoin network Blockchain continually decreases, miners must invest in increasing processing power to maintain their yield of Bitcoins, which might make Bitcoin mining uneconomical for the Company.

The award of new Bitcoin for solving blocks continually declines, so that Bitcoin miners must invest in increasing processing power in order to maintain or increase their yield of Bitcoin. The Company is committed to increasing its investment in its Bitcoin mining operations, but if the pricing of Bitcoin were to decline significantly, there can be no assurance that the Company would be able to recover its investment in the computer hardware and processing power required to upgrade its mining operations. There can, moreover, be no assurance that the Company will have the resources to upgrade its processing power in order to maintain the continuing profitability of its Bitcoin mining operations. Also, the developers of the Bitcoin network or other programmers could propose amendments to the network's protocols and software that, if accepted, might require the Company to modify its Bitcoin operations, and increase its investment in Bitcoin, in order to maintain profitability. There can be no assurance, however, that the Company will be able to do so.

The Company continues to have discussions with potential investors to purchase more Bitcoin mining machines, but we cannot assure you that we will be successful in obtaining the necessary financing.

The Company is considering further increasing the processing power of its Bitcoin mining operations, as the Company seeks to leverage its experience and expertise in this area of operations. To do so, however, the Company will need to raise additional investment capital. While we are in discussions with potential investors to provide the necessary capital to purchase additional Bitcoin mining machines, we cannot assure you that these discussions will lead to our obtaining additional capital or that we will otherwise be successful in obtaining the necessary financing to expand our Bitcoin operations. If we are successful in raising capital to expand our Bitcoin operations, the form in which the capital is invested could be different from the way we have traditionally structured capital investments in the Company. For example, funds could be invested through a joint venture or similar arrangement, in which the Company does not have the entire equity ownership interest.

A number of claims have been filed against the Company alleging violations of federal securities laws.

A number of law firms have filed claims, or announced an intention to file, on behalf of stockholders of the Company, alleging that the company has violated the Exchange Act. While the Company believes that there are no merits to claims that the Company violated applicable securities laws, the results of any investigation, or the outcome of any claims that may be brought against us, if any, cannot be predicted with certainty. Moreover, regardless of the outcome, investigations can have an adverse impact on us because they may entail a significant amount of costs to defend the Company against any claims, such claims may negatively affect morale of employees and may divert the attention of management.

A claim has been filed against the Company's former Chief Executive Officer alleging violations of federal securities laws.

On September 7, 2018, the SEC commenced a legal action in the United States District Court for the Southern District of New York (the "Court") naming as defendant Robert Ladd, the Company's then Chief Executive Officer and President, among others. The SEC filed civil charges against multiple individuals and entities who are alleged to have violated the securities laws in connection with certain microcap stocks. To our knowledge there is no other ongoing investigation by any government agency related to the Company or any of its officers or directors. We cannot predict the outcome or impact of any ongoing matters, and there exists the possibility that we could be subject to liability, penalties and other restrictive sanctions and adverse consequences if the SEC, the Department of Justice, or any other government agency were to pursue legal action in the future. Moreover, we expect to incur costs in responding to related requests for information and subpoenas, and if instituted, in defending against any governmental proceedings.

The Company has received a subpoena from the SEC.

On September 15, 2016, the Company received a subpoena from the SEC requesting certain information from the Company, and in December 2017 our President and Chief Executive Officer also received a subpoena from the SEC. Except as detailed in the previous paragraph, we have no indication or reason to believe that the Company or its officers or directors are or will be the subject of any enforcement proceedings. The Company has publicly announced its receipt of the subpoena and is fully cooperating to comply with the SEC's request. Nevertheless, response to the subpoena has entailed, and may continue to entail legal costs and the diversion of management's attention, and the issuance of the subpoena may create a perception of wrongdoing that could be harmful to our business.

Risks Related to Our Stock

The Company is subject to the risks relating to penny stocks.

Trading in our Common Stock is also subject to the requirements of certain rules promulgated under the Exchange Act. These rules require additional disclosure by broker–dealers in connection with any trades involving a stock defined as a “penny stock” and impose various sales practice requirements on broker–dealers who sell penny stocks to persons other than established customers and accredited investors, generally institutions. These additional requirements may discourage broker–dealers from effecting transactions in securities that are classified as penny stocks, which could severely limit the market price and liquidity of such securities and the ability of purchasers to sell such securities in the secondary market. A penny stock is defined generally as any non–exchange listed equity security that has a market price of less than \$5.00 per share, subject to certain exceptions.

Our stock price and trading volume may be volatile, which could result in losses for our stockholders.

The equity markets may experience periods of volatility, which could result in highly variable and unpredictable pricing of equity securities. The market price of our Common Stock could change in ways that may or may not be related to our business, our industry or our operating performance and financial condition and could negatively affect our share price or result in fluctuations in the price or trading volume of our Common Stock. We cannot predict the potential impact of these periods of volatility on the price of our Common Stock. The Company cannot assure you that the market price of our Common Stock will not fluctuate or decline significantly in the future.

If securities or industry analysts do not publish research or reports about our business, or if they publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.

The trading market for our Common Stock will, to some extent, depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our business prospects, our share price would likely decline. If one or more of these analysts ceases coverage of our Company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price and volume to decline.

Offers or availability for sale of a substantial number of shares of our Common Stock may cause the price of our Common Stock to decline.

If our stockholders sell substantial amounts of our Common Stock in the public market, including upon the expiration of any statutory holding period under Rule 144 under the Securities Act of 1933, as amended, or registration for resale, or the conversion of preferred stock or exercise of warrants, circumstances commonly referred to as an “overhang” could result, in anticipation of which the market price of our Common Stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, could also make more difficult our ability to raise additional financing through the sale of equity or equity–related securities in the future at a time and price that we deem reasonable or appropriate.

The price of the Company’s shares could be subject to wide price swings since the value of cryptocurrencies may be subject to pricing risk and have historically been subject to wide swings in value.

The Company’s shares are subject to arbitrary pricing factors that are not necessarily associated with traditional factors that influence stock prices or the value of non-cryptocurrency assets such as revenue, cashflows, profitability, growth prospects or business activity levels since the value and price, as determined by the investing public, may be influenced by future anticipated adoption or appreciation in value of cryptocurrencies or the Blockchain generally, factors over which the Company has little or no influence or control. The Company’s share prices may also be subject to pricing volatility due to supply and demand factors associated with few or limited public company options for investment in the segment.

Cryptocurrency market prices are determined primarily using data from various exchanges, over-the-counter markets, and derivative platforms. Furthermore, such prices may be subject to factors such as those that impact commodities, more so than business activities, which could be subjected to additional influence from fraudulent or illegitimate actors, real or perceived scarcity, and political, economic, regulatory or other conditions. Pricing may be the result of, and may continue to result in, speculation regarding future appreciation in the value of cryptocurrencies, or the Company or its share price, inflating and making their market prices more volatile or creating “bubble” type risks.

In addition, the success of the Company, the Company’s share price, and the interest in investors and the public in the Company as an early entrant into the Blockchain and cryptocurrency ecosystem may in large part be the result of the Company’s early emergence as a publicly traded company in which holders of appreciated cryptocurrency have an opportunity

to invest inflated cryptocurrency profits for shares of the Company, which could be perceived as a way to maintaining investing exposure to the Blockchain and cryptocurrency markets without exposing the investor to the risk in a particular cryptocurrency. Cryptocurrency holders have realized exponential value due to large increases in the prices of cryptocurrencies and may seek to lock in cryptocurrency appreciation, which investing in the Company's securities may be perceived as a way to achieve that result, but may not continue in the future. As a result, the value of the Company's securities, and the value of cryptocurrencies generally may be more likely to fluctuate due to changing investor confidence in future appreciation (or depreciation) in market prices, profits from related or unrelated investments or holdings of cryptocurrency. Such factors or events would have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, or on the price of the Company's securities, which would have a material adverse effect on the business, prospects or operations of the Company and potentially the value of any cryptocurrencies the Company holds or expects to acquire for its own account.

Investor relations activities, nominal “float” and supply and demand factors may affect the price of our stock.

The Company may utilize various techniques such as non-deal road shows and investor relations campaigns in order to create investor awareness for the Company. These campaigns may include personal, video and telephone conferences with investors and prospective investors in which our business practices are described. The Company may provide compensation to investor relations firms and pay for newsletters, websites, mailings and email campaigns that are produced by third-parties based upon publicly-available information concerning the Company. The Company does not intend to review or approve the content of such analysts' reports or other materials based upon analysts' own research or methods. Investor relations firms should generally disclose when they are compensated for their efforts, but whether such disclosure is made or complete is not under our control. In addition, investors in the Company may, from time to time, also take steps to encourage investor awareness through similar activities that may be undertaken at their own expense. Investor awareness activities may also be suspended or discontinued, which may impact the trading market for our Common Stock. Any of these activities could affect our stock price in a manner that is unrelated to the underlying value of our Company.

The ability of our board of directors (the “Board”) to issue additional stock may prevent or make more difficult certain transactions, including a sale or merger of the Company.

Our board of directors is authorized to issue up to 10,000,000 shares of preferred stock with powers, rights and preferences designated by it. Shares of voting or convertible preferred stock could be issued, or rights to purchase such shares could be issued, to create voting impediments or to frustrate persons seeking to effect a takeover or otherwise gain control of the Company. The ability of the Board to issue such additional shares of preferred stock, with such rights and preferences it deems advisable, could discourage an attempt by a party to acquire control of the Company by tender offer or other means. Such issuances could therefore deprive stockholders of benefits that could result from such an attempt, such as the realization of a premium over the market price for their shares in a tender offer or the temporary increase in market price that such an attempt could cause. Moreover, the issuance of such additional shares of preferred stock to persons friendly to the board of directors could make it more difficult to remove incumbent officers and directors from office even if such removal would be favorable to stockholders generally. In addition, the Board is authorized to issue up to 2,500,000,000 shares of Common Stock. The issuance of these authorized but unissued shares of Common Stock may dilute the ownership interests of existing stockholders and may have a dilutive effect on our Common Stock.

We do not anticipate paying any cash dividends on our Common Stock in the foreseeable future.

We have not declared or paid cash dividends on our Common Stock to date. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of any existing or future debt agreements may preclude us from paying dividends.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal corporate office is located at 512 S. Mangum Street, Suite 408 Durham, NC 2770, under a sublease that expires on January 31, 2020. Monthly rent is \$7 until expiration of the lease. A security deposit of \$13 was required upon execution of the sublease. The Company believes our office is in good condition and is sufficient to conduct our operations.

The Company has a mining operation in the state of Colorado under a lease that expires on November 1, 2010. The Company is in the process of negotiating a formal management agreement with respect to a mining operation in Ohio. The Company had a month-to-month mining operation in Washington which it terminated on March 22, 2019.

Item 3. Legal Proceedings

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 “2016 Securities Class 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 amended complaint, which the plaintiffs opposed. The Court heard oral argument on the motion to dismiss on February 7, 2018. On February 27, 2018, the Court issued a Memorandum and Order dismissing the 2016 Securities Class Action in its entirety, with prejudice. The time for plaintiffs to file a notice of appeal expired on March 30, 2018.

Separately, on September 15, 2016, the Company received a subpoena from the SEC and in December 2017, the Company’s former Chief Executive Officer and President received a subpoena from the SEC. The Company has cooperated fully with the SEC 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.

On January 24, 2017, the Company was served with a summons and complaint filed by plaintiff shareholder Atul Ojha in New York state court against certain officers and directors of the Company, and naming the Company as a nominal defendant. The lawsuit is styled as a derivative action (the “Ojha Derivative Action”) and was originally filed (but not served on any defendant) on October 15, 2016. The Ojha 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 Ojha 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 Ojha Derivative Action executed a stipulated stay of proceedings pending resolution of the 2016 Securities Class Action. Shortly after issuance of the February 27, 2018, ruling dismissing the 2016 Securities Class Action, the parties to the Ojha Derivative Action agreed to extend the stay indefinitely, with the plaintiff having the option to vacate the stay on thirty days’ notice. Should the plaintiff seek to vacate the stay, the Company will address and defend the Ojha Derivative Action.

On September 7, 2018, the SEC commenced a legal action in the United States District Court for the Southern District of New York (the “SEC Action”) which asserts civil charges against multiple individuals and entities who are alleged to have violated the securities laws by engaging in pump-and-dump schemes in connection with certain microcap stocks and three unidentified companies. The Company is one of the three unidentified companies but is not named as a defendant. However, the SEC named as defendants Robert Ladd, the Company’s former Chief Executive Officer and President, as well as certain individuals alleged to have participated in the schemes while they were stockholders in the Company, among others. The SEC filed an amended complaint in the SEC Action on March 8, 2019. The Company, through its counsel, is monitoring the progress of the SEC Action.

In September 2018 and October 2018, various shareholders of the Company filed putative class action lawsuits against the Company, its former Chief Executive Officer and certain of its individual officers and shareholders, alleging violations of federal securities laws and seeking damages (the “2018 Securities Class Actions”). The 2018 Securities Class Action followed and referenced the allegations made against the Company’s former Chief Executive Officer and others in the SEC Action. The first putative class action lawsuit was filed on September 28, 2018, in the United States District Court for the District of New Jersey, and alleges that the named defendants engaged in a pump-and-dump scheme to artificially inflate the price of the Company’s stock and that, as a result, defendants’ statements about the Company’s business and prospects were materially false and misleading and/or lacked a reasonable basis at relevant times. The second putative class action was filed on October 9, 2018, in the United States District Court for the Southern District of New York and makes similar allegations. The Company intends to defend against the 2018 Securities Class Actions vigorously.

In November 2018, the Company’s board received a shareholder demand letter dated November 6, 2018, from shareholders Nicholas Fulton and Kelsey Thacker (the “Fulton Demand”). The Fulton Demand referenced the SEC Action and the allegations therein, and demanded that the board take action to investigate, address and remedy the allegations raised in the SEC Action. The Company’s counsel has communicated with counsel for the shareholders, advising them concerning the existence and status of the 2018 Securities Class Actions, the Ojha Derivative Action, and the Thomas Derivative Action (defined below). Shareholders’ counsel has indicated a general willingness to defer further action until resolution of the 2018 Securities Class Actions, and counsel continue to communicate concerning the details.

On December 12, 2018, a shareholder derivative action was filed by shareholder Bob Thomas against the Company and certain of its current and former directors, officers and shareholders in New York state court, alleging breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste and seeking declaratory relief and damages (the “Thomas Derivative Action”). The underlying allegations in the Thomas Derivative Action largely repeat the allegations of

wrongdoing in the 2018 Securities Class Actions. Based on recent communications between the Company's counsel and plaintiff's counsel in the Thomas Derivative Action, plaintiff intends to seek consolidation of this case with the Ojha Derivative Action, and then to stay the consolidated derivative action pending resolution of the 2018 Securities Class Actions. The Company-related defendants' time to respond to the Thomas Derivative Action has been extended until thirty days after the Court rules on plaintiff's motion.

With respect to the Thomas Derivative Action, plaintiffs' counsel have indicated that they intend to move for an order consolidating the Thomas Derivative Action with the shareholder derivative action captioned *Ojha v. Ladd, et al.*, Index No. 65647/2016 (New York Supreme Court, Westchester County) and staying the consolidated action pending resolution of the pending parallel class actions captioned *Klinabera v. MGT Capital Investments, et al.* No. 2:18-cv-14380 (United States District Court, District of New Jersey), and *Guver v. MGT Capital Investments, Inc., et al.* No. 1:18-cv-09228 (United States District Court, Southern District of New York). Plaintiffs' counsel in the Thomas Derivative Action have also extended the Company's time to respond to the complaint until 30 days after the Court rules on that motion.

The Company believes that the claims in the actions filed against the Company are without merit and intends to vigorously defend against these actions.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters And Issuer's Purchases Of Equity Securities

Market Information

Our Common Stock is traded on the OTC QB tier of OTC Markets LLC under the symbol "MGTL."

The following table sets forth the high and low last reported sales prices of our Common Stock for each quarterly period during 2019, 2018 and 2017.

	<u>High</u>	<u>Low</u>
2019		
First quarter	\$ 0.12	\$ 0.03
2018		
Fourth quarter	\$ 0.19	\$ 0.05
Third quarter	1.08	0.10
Second quarter	2.18	0.68
First quarter	5.39	1.21
2017		
Fourth quarter	\$ 8.14	\$ 1.54
Third quarter	4.26	0.92
Second quarter	1.45	1.45
First quarter	1.37	1.37

Holdings

On April 15, 2019, the Company's Common Stock closed on the OTC QB tier of OTC Markets LLC at \$0.06 per share and there were 359 stockholders of record.

Dividends

The Company has never declared or paid cash dividends on its Common Stock and has no intention to do so in the foreseeable future.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

In September 2016, we commenced our Bitcoin mining operations in the Wenatchee Valley area of central Washington. Throughout 2017, we expanded our mining capacity with the purchase of additional Bitcoin mining machines and by entering into hosting and power agreements with Washington facilities owners. We have also entered into management agreements with third party investors whereby the investors purchased the mining hardware, and we receive both a fee to manage the mining operations plus one-half of the net operating profit.

Towards the end of 2017, we determined that there was inadequate electric power in Washington to support our growth, and we moved swiftly to find a new facility to conduct our mining operations. By the end of 2017, we made the decision to move our principal mining operations to northern Sweden, a geographic location with historically low ambient temperatures and available inexpensive electricity. We entered into the Hosting Agreement with Beacon, pursuant to which Beacon agreed to deliver a turn-key solution in northern Sweden with up to 15 megawatts of electricity capacity, including a facility with power, cooling, and hosting services for a fixed price of \$810 per month. The facility in Sweden is owned by the city of Älvsbyn and leased by a subsidiary of Beacon. Beacon committed to provide a fully functional facility by the end of March 2018. The Hosting Agreement required us to pay \$1,620 to Beacon, representing the first and last month of service. During the first quarter of 2018, we took delivery of an additional 2,000 Bitcoin mining machines in Sweden and moved 4,300 machines (including 2,100 investor-owned machines) from Washington to Sweden.

Beacon failed to deliver the fully built out facility and necessary power supply levels required by us by the end of March 2018. Through the first quarter of 2018 and into the second quarter, our personnel made visits to Sweden and assisted Beacon with efforts to get the facility up and running. We also advanced additional funds to Beacon to maximize operational capacity as quickly as possible. During April 2018, we became involved in the design and setup of the Sweden facility due to concern that Beacon may have overstated their construction abilities and financial capacity.

On May 16, 2018, we were informed that none of the amounts due from Beacon to the electric utility serving the Älvsbyn facility had been paid and that the utility would begin shutting down the electricity to the Älvsbyn facility. On the same day, we notified Beacon that it was in material breach of the Hosting Agreement. In order to avoid a shutdown of the facility and a suspension of mining operations, we paid the utility provider \$368, as a good faith deposit. During the three months ended September 30, 2018, we paid an additional aggregate of \$947 to the utility provider for power consumed.

Subsequent to May 16, 2018, we intensified our efforts to determine the extent of Beacon’s non-performance under the Hosting Agreement. Management made several more trips to Sweden to supervise the completion of the facility as well as investigate Beacon’s accounting records. We determined that Beacon also was faced with unpaid invoices from various material and service providers to the facility.

Beginning in late May 2018, we took steps to become the direct operator of the Swedish facility to gain control of the situation, protect our assets, and maximize operational capacity as quickly as possible. These actions included paying some of the outstanding amounts owed by Beacon in order to maintain key vendor relationships needed to complete the facility. We also formed MGT Sweden AB in anticipation of assuming the building lease and the power agreements.

During the three months ended June 30, 2018, we recorded restructuring expense of \$2,499, which included the write-off of the unamortized balance of the initial deposit paid to Beacon in the amount of \$1,350 and \$1,149, for additional costs paid by us to service providers and vendors engaged to complete the facility. These costs consisted of unpaid obligations for services provided prior to the second quarter of 2018, including:

Costs to bring electricity provider current and set up additional transformers	\$	893
Satisfaction of payables for materials, repairs and supplies		206
Satisfaction of payables for payroll and consulting fees		50
TOTAL	\$	1,149

Continuing issues arising from poor engineering and demands from the electric utility forced us to devote a significant amount of time and effort to the operations in Sweden. Further, we determined that the financial investment to fully assume the position of Beacon was excessive. Simultaneously, based on an analysis of available facilities in the United States, we concluded that the United States provided hosting opportunities for us. On September 24, 2018, the combination of these factors led us to decide to forgo any further monetary investment in Sweden. We have subsequently relocated all the miners in Sweden to facilities in Colorado and Ohio.

As of December 31, 2018, MGT owned and operated approximately 500 miners located in a leased facility in Quincy, Washington. Prior to the relocation of the mining assets to the United States, the Company conducted a physical observation concluding there were approximately 5,750 operating machines in Sweden. In connection with the relocation to the U.S., approximately 3,000 machines were shipped to Colorado and 2,750 machines were shipped to Ohio. Of the 5,750 machines relocated to the U.S, 3,800 of these machines are owned by the Company, while the remaining machines are investor owned. All miners owned or managed by us are S9 Antminers sold by Bitmain Technologies LTD. In addition to the S9 Antminers, we own 50 custom designed GPU-based Ethereum mining rigs. During the year ended December 31, 2018, we mined 245 Bitcoin for total revenue of \$2,010. In addition, the miners we operate pursuant to the management agreements mined 184 Bitcoin during the same period.

Based on the significant decline in the price of Bitcoin during the year ended December 31, 2018, the Company performed a recoverability test of its cryptocurrency mining assets. Due to the unpredictable volatility of bitcoin's price, the Company believes there are indications that the decrease in Bitcoin's price could be other than temporary. Accordingly, the Company decided to fully impair its cryptocurrency mining assets as of December 31, 2018. In addition to the \$3,668 impairment charge recorded in the third quarter of 2018, the Company recorded an additional impairment charge of \$2,677 during the fourth quarter of 2018. As of December 31, 2018, the Company's cryptocurrency mining assets have no carrying value on the Company's balance sheet, however, they are still operational and management plans to commence mining in the Colorado and Ohio locations upon improvement of Bitcoin economics.

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 Annual 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.

Revenue recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2014-09, Revenue from Contracts with Customers (Topic 606) which was subsequently amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2017-13. These ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance includes a five-step framework that requires an entity to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. A full retrospective or modified retrospective approach was required upon adoption. The Company has adopted ASU No. 2014-09 effective January 1, 2018.

The Company has elected to apply the modified retrospective method and the impact was determined to be immaterial on the consolidated financial statements. Accordingly, the new revenue standard has been applied prospectively in our consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods.

The Company has performed an analysis and identified its revenues and costs that are within the scope of the new guidance. The Company determined that its methods of recognizing revenues have not been significantly impacted by the new guidance.

The Company's primary revenue stream is related to the mining of digital currencies. The Company derives its revenue by solving "blocks" to be added to the blockchain and providing transaction verification services within the digital currency networks of cryptocurrencies, such as Bitcoin and Ethereum, commonly termed "cryptocurrency 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 as inventory at the lower of cost or net realizable value. Any gain or loss on sale would be recorded to cost of revenues. Costs of revenues includes equipment

depreciation, rent, and electricity costs. Net realizable value adjustments, to reduce the value of the Coins to their market value, is included in cost of revenue on the Company's consolidated statements of operations.

Due to a lack of authoritative and non-authoritative guidance, the Company had previously recorded the Coins as a security, where the Company would record revaluation gains and losses to cost of revenue. As of September 30, 2018, the Company reviewed certain non-authoritative guidance and changed its accounting policy to reflect that its Coins should be an Intangible Digital asset. The Company determined that this change in accounting policy had no effect on its previously filed financial statements.

The Company also recognizes revenue from its management agreements. The Company receives a fee from each management agreement based on the amount of Bitcoin mined and is reimbursed for any electricity costs incurred to run the Bitcoin mining machines it manages in its facility.

Stock-based compensation

The Company recognizes compensation expense for all equity-based payments in accordance with Accounting Standards Codification (“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 compensation committee of the board of directors of the Company. These awards are restricted as to the transfer of ownership and generally vest over the requisite service periods, typically over a 12 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 the Company’s Common 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 inputs 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 the Company’s common stock over the expected term of the option. Risk-free interest rates are calculated based on continuously compounded risk-free rates for the appropriate term.

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. The Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest.

The Company accounts for share-based payments granted to non-employees in accordance with ASC 505-50, “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 readily determinable. 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.

Impairment

Under the guidance of ASC 360, a long-lived asset (or asset group) should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Based on the significant decline in the price of Bitcoin during the year ended December 31, 2018, the Company performed a recoverability test, in which it measured the undiscounted cash flows of its cryptocurrency mining assets. This recoverability test indicated that its cryptocurrency mining assets might be impaired. The Company then performed the second step of the analysis, whereby it measured the fair value of the cryptocurrency mining assets. The Company used a weighted approach where it measured both the discounted cash flows expected from the cryptocurrency mining assets as well as determining the market value of the assets. The Company does not believe that the mining assets will provide value to the Company’s structure. Furthermore, from December 31, 2017 through December 31, 2018, the price of Bitcoin dropped by more than two-thirds. Due to the unpredictable volatility of Bitcoin’s price, the Company believes there are indications that the decrease in Bitcoin’s price could be other than temporary. Based on the aforementioned reasons, the Company has decided to fully impair the long-lived assets as of December 31, 2018.

Recent accounting pronouncements

Note 3 to our audited consolidated financial statements appearing elsewhere in this report includes Recent Accounting

Results of operations

Years ended December 31, 2018 and 2017

Revenues

Our revenues for the year ended December 31, 2018 decreased by \$1,104, or 35.2%, to \$2,030 as compared to \$3,134 for the year ended December 31, 2017. Our revenue is derived from cryptocurrency mining. The decrease in revenues is a result of decrease in the price of Bitcoin during 2018. Additionally, our mining machines in Sweden were dormant for the fourth quarter of 2018 in connection with the move back to the U.S.

Operating Expenses

Operating expenses for the year ended December 31, 2018 increased by \$1,211, or 4.9%, to \$25,953 as compared to \$24,742 for the year ended December 31, 2017. The increase in operating expenses was primarily due to an increase of \$2,689 in cost of sales from cryptocurrency mining operations resulting from additional costs to operate in Sweden, an impairment charge to the Company's cryptocurrency mining assets of \$6,345 and a charge of \$2,499 for the Sweden restructuring with no similar costs in 2017, offset by a decrease in general and administrative expenses of \$9,537 explained below, a \$482 decrease in sales and marketing and research and development costs related to the termination of the Company's cybersecurity business in the first quarter of 2018.

The decrease in general and administrative expenses of \$9,537, or 42.7%, to \$12,816 as compared to \$22,353 for the year ended December 31, 2017 was primarily due to a decrease in stock-based compensation of \$10,178 primarily as a result of a decrease in the Company stock price used to measure stock compensation compared to the prior year, and a decrease in legal and professional fees of \$520 primarily resulting from settlement of certain legal matters during 2018, offset by an increase in payroll and related expenses of \$472 primarily for the appointment of a Chief Financial Officer and Chief Operating Officer in 2018 and administrative costs to operate our Sweden facility of \$983 with no similar costs in 2017.

Other Income and Expense

For the year ended December 31, 2018, non-operating income and expenses consisted of a gain on extinguishment of debt of \$1,295, offset by interest expense of \$3, accretion of debt discount of \$905, a warrant modification expense of \$139, and a loss on disposal of investments and assets of \$174. During the comparable period ended December 31, 2017, non-operating expenses consisted of inducement expense of \$20,312, accretion of debt discount of \$5,627, interest expense of \$385, all related to the conversion of all our outstanding notes payable and a loss on sale of investments of \$2,871, offset by a gain on sales of property and equipment of \$370.

Liquidity and capital resources

Sources of Liquidity

We have historically financed our business through the sale of debt and equity interests. We have incurred significant operating losses since inception and continue to generate losses from operations and as of December 31, 2018 have an accumulated deficit of \$405,285. At December 31, 2018, our cash and cash equivalents were \$96 and our working capital deficit was \$2,079. As of December 31, 2018, we had notes payable outstanding with a face value of \$3,200.

Management's plans include overseeing the operation of approximately 5,750 cryptocurrency mining machines in Colorado and Ohio and continue to execute on an expansion model to secure low cost power and grow its cryptocurrency assets. As discussed in Note 1 to the audited consolidated financial statements, the Company experienced additional delays and costs due to the non-performance of a key vendor. The Company has relocated all its miners from Sweden to facilities in Colorado and Ohio. Based on current budget assumptions, the Company believes that it will be able to meet its operating expenses and obligations for one year from the date these consolidated financial statements are issued. The Company will need to raise additional funding to grow its operations and to pay current maturities of debt. There can be no assurance however that the Company will be able to raise additional capital when needed, or at terms deemed acceptable, if at all. Such factors raise substantial doubt about the Company's ability to sustain operations for at least one year from the issuance of these consolidated financial statements. Management's plans, including the operation of its existing cryptocurrency mining machines, the raising of additional capital and potentially curtailing its operations alleviate such substantial doubt. The accompanying consolidated financial statements do not include any adjustments related 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.

The price of Bitcoin is volatile, and fluctuations are expected. Declines in the price of Bitcoin has a negative impact in our operating results and liquidity and could harm the price of our Common Stock. Movements may be influenced by various factors, including, but not limited to, government regulation, security breaches experienced by service providers, as well as political and economic uncertainties around the world. Since we record revenue based on the price of earned Bitcoin and we may retain such Bitcoin as an asset or as payment for future expenses, the relative value of such revenues may fluctuate, as will the value of any Bitcoin we retain. The high and low exchange rate per Bitcoin for the year ending December 31, 2018, as reported by Blockchain.info, were approximately \$3 and \$17 respectively.

The Company's primary source of operating funds has been through debt and equity financing. On August 30, 2018, 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 \$35,000 of the Company's Common Stock that is registered with the SEC under a registration statement on a Form S-3. The amount of the Equity Purchase Agreement was amended to \$50,000 on December 3, 2018. During the year ended December 31, 2018, the Company issued 33,650,000 shares of its Common Stock in exchange for \$2,459. During the period January 1, 2019 through April 15, 2019, the Company issued 58,600,000 shares of its Common Stock in exchange for \$3,277. On April 16, 2019, the Company's registration statement on Form S-3 lost its effectiveness as the aggregate market value of the Company's Common Stock held by non-affiliates was below the regulatory threshold of \$75,000. Therefore the Company will not be able to use its Equity Purchase Agreement as a source of operating funds until such time as the Common Stock potentially issuable under the Equity Purchase Agreement is subject to an effective Registration Statement.

Sale of Preferred Stock

On April 12, 2019, the Company's Board of Directors approved the authorization of 200 shares of Series C Convertible Preferred Stock with a par value of \$0.001 and a stated value of \$10,000 per share ("Preferred Shares"). The holders of the Preferred Shares are not entitled to vote their shares or receive dividends. At any time prior to the one-year anniversary from the issuance date, the Company may redeem the Preferred Shares at 1.4 times the Stated Value, following which the Company may redeem the Preferred Shares at 1.2 times the Stated Value.

Each Preferred Share is convertible into shares of the Company's common stock in an amount equal to the greater of: (a) 200,000 shares of common stock or (b) the amount derived by dividing the Stated Value by the product of 0.7 times the market price of the Company's common stock, defined as the lowest trading price of the Company's common stock during the ten day period preceding the conversion date. The holder may not convert any Preferred Shares if the total amount of shares, together with holdings of its affiliates, following a conversion shall exceed 9.99% of the Company's common stock. The common shares issued upon conversion have been registered under the Company's registration statement on Form S-3. On April 12, 2019, the Company sold 190 Preferred Shares for \$2,000.

Sale of Common Stock

On April 12, 2019, the Company entered into a Purchase Agreement with an accredited investor whereby it sold 17,500,000 shares of its common stock for \$525 pursuant to the Company's registration statement on Form S-3.

	Years ended December 31,	
	2018	2017
Cash (used in) / provided by		
Operating activities	\$ (8,763)	\$ (2,377)
Investing activities	(6,507)	(3,065)
Financing activities	5,847	14,616
Net (decrease) increase in cash and cash equivalents	\$ (9,423)	\$ 9,174

Cash Flows

Operating activities

Net cash used in operating activities was \$8,763 for the year ended December 31, 2018 as compared to \$2,377 for the year ended December 31, 2017. Cash used in operating activities for the year ended December 31, 2018 primarily consisted of a net loss of \$23,849 partially offset by non-cash charges of \$15,961 primarily consisting of: stock-based compensation of \$6,402, an impairment charge of \$6,345 to the Company's intangible cryptocurrency mining assets, depreciation expense of \$3,291, amortization of debt discount of \$905, partially offset by a gain on extinguishment of debt of \$1,295, less a change in working capital excluding cash of \$875. Cash used in operating activities for the year ended December 31, 2017 primarily consisted of a net loss of \$50,433, partially offset by non-cash charges of \$46,546 primarily consisting of: inducement expense of \$20,312, stock-based compensation of \$16,574 and impairment/loss on sale of long-term investments of \$2,787, amortization of debt discount of \$5,627, depreciation and amortization expense of \$1,111, plus a decrease due to changes in working capital of \$1,510.

Investing activities

Net cash used in investing activities was \$6,507 for the year ended December 31, 2018 as compared to net cash used in investing activities of \$3,065 for the year ended December 31, 2017. Net cash used in investing activities for the year ended December 31, 2018 was primarily due to our purchases of property and equipment of \$6,994 partially offset by proceeds from the sale of property and equipment of \$427 and proceeds from the sale of our cybersecurity assets of \$60. During the year ended December 31, 2017, the Company used \$4,067 in the purchase of property and equipment, and realized \$26 in net proceeds from sales of various investments in the open market and \$976 from the sale of property and equipment.

Financing activities

During the year ended December 31, 2018, cash provided by financing activities totaled \$5,847, which includes \$5,200 from the net proceeds of notes payable, \$1,309 from the sale of Common Stock under our equity purchase agreement, \$80 from private placements of our Common Stock and \$907 from the exercise of stock purchase warrants offset by \$1,649 from the repayments of notes payable. During the year ended December 31, 2017, cash provided by financing activities totaled \$14,616, comprised of \$4,971 in net proceeds from convertible debt instruments, \$395 from the proceeds of exercise of warrants, \$100 from the proceeds from the sale of common stock warrants and \$9,150 from the proceeds of a private placement of Common Stock.

Off-balance sheet arrangements

As of December 31, 2018 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.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company is not exposed to market risk related to interest rates on foreign currencies.

Item 8. Financial Statements and Supplementary Data

See Financial Statements and Schedules attached hereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified under the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. As required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer (our principal executive) and Chief Financial Officer (our principal financial officer and principal accounting officer) carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in paragraph (e) of Rules 13a-15 and 15d-15 under the Exchange Act) were not effective as December 31, 2018 due to a material weakness in our internal control over financial reporting as described below.

Limitations on Internal Control over Financial Reporting

An internal control system over financial reporting has inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process used to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles in the United States, and that our receipts and expenditures are being made only in accordance with the authorization of our board of directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer (our principal executive) and Chief Financial Officer (our principal financial officer and principal accounting officer), we performed a complete documentation of the Company's significant processes and key controls, and conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this evaluation, management concluded that our internal control over financial reporting was not effective as of December 31, 2018 due to the material weaknesses described below.

A material weakness is defined within the Public Company Accounting Oversight Board's Auditing Standard No. 5 as a deficiency or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We determined that our internal control of financial reporting had the following material weaknesses:

- Due to the small size of the Company, the Company does not maintain sufficient segregation of duties to ensure the processing, review and authorization of all transactions including non-routine transactions.
- Our processes lacked timely and complete reviews and analysis of information used to prepare our financial statements and disclosures in accordance with accounting principles generally accepted in the United States of America.
- The Company failed to prevent and timely discover a misappropriation of assets by a key vendor of the Company.

The Company is evaluating these weaknesses to determine the appropriate remedy. Because disclosure controls and

procedures include those components of internal control over financial reporting that provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, management also determined that its disclosure controls and procedures were not effective as a result of the foregoing material weaknesses in its internal control over financial reporting. This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting as such report is not required for smaller reporting companies.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2018, there were no changes in internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

<u>Name</u>	<u>Age</u>	<u>Position</u>
H. Robert Holmes	74	Interim President and Chief Executive Officer, Chairman of the Board, Chairman of the Compensation and of the Nominating/Corporate Governance Committee, Audit Committee Member, Director
Michael Onghai	48	Chairman of the Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee Member, Independent Director
Robert B. Ladd	60	Director
Robert S. Lowrey	58	Chief Financial Officer, Treasurer and Secretary
Stephen Schaeffer	51	Chief Operating Officer

Directors are elected based on experience, qualifications and in accordance with the Company's by-laws to serve until the next annual stockholders meeting and until their successors are elected in their stead. Officers are appointed by the Board and hold office until their successors are chosen and qualified, until their death or until they resign or have been removed from office. All corporate officers serve at the discretion of the Board. There are no family relationships between any director or executive officer and any other director or executive officer of the Company.

H. Robert Holmes was elected as a director in May 2012 and was appointed Interim President and Chief Executive Officer on September 10, 2018. From 2008 to 2012, Mr. Holmes has served on the board of Dejour Energies Inc. (NYSE-MKT: DEJ, 2008–2013). Mr. Holmes was the founder and general partner of Gilford Partners Hedge Fund. From 1980 to 1992, Mr. Holmes was the Co-Founder, and President of Gilford Securities, Inc. Previously, Mr. Holmes served in various positions with Paine Webber and Merrill Lynch. Mr. Holmes has served on the Board of Trustees North Central College in Naperville, IL; Board of Trustees of Sacred Heart Schools, Chairman of Development Committee, in Chicago, IL; Board of Trustees of Crested Butte Academy where he was Chairman of Development Committee; and the Board of Trustees Mary Wood Country Day School, Rancho Mirage, CA. The Board believes that Mr. Holmes has the experience, qualifications, attributes and skills necessary to serve as a director because of his years of business experience and service as a director for many companies over his career.

Michael Onghai was appointed a director in May 2012. Mr. Onghai has been the CEO of LookSmart (OTC: LKST) since February 2013. He has been the founder and Chairman of AppAddictive, an advertising and social commerce platform since July 2011. Mr. Onghai is the President of Snowy August Management LLC, a special situations fund concentrating on the Asian market, spin-offs and event-driven situations. Mr. Onghai is the founder of Stock Sheet, Inc., and Daily Stocks, Inc. – the web's early providers of financial information and search engine related content for financial information. Mr. Onghai has founded several other internet technology companies for the last two decades. Mr. Onghai is an advisor to several internet incubators and is a panelist who advises FundersClub on which companies to accept for its pioneering venture capital platform. Mr. Onghai has earned his designation as a Chartered Financial Analyst (2006) and holds a B.S. in Electrical Engineering and Computer Science from the University of California, Los Angeles and graduated from the Executive Management Certificate Program in Value Investing (The Heilbrunn Center for Graham & Dodd Investing) Graduate School of Business at Columbia Business School. The Board believes that Mr. Onghai has the experience, qualifications, attributes and skills necessary to serve as a director and chairman of the Audit Committee because of his years of business experience and financial expertise.

Robert B. Ladd joined the Company in December 2010 as a Director. He was named Interim President and CEO in February 2011, and appointed President and CEO in January 2012, positions held continuously with the exception of November 2016 through August 2017, a period during which Mr. Ladd was President. He also served as our Interim CFO from November 2015 through February 2018. On September 10, 2018, Mr. Ladd took a leave of absence from his positions as President and Chief Executive Officer. Mr. Ladd is also the Managing Member of Laddcap Value Advisors, LLC, which serves as the investment manager for various private partnerships, including Laddcap Value Partners LP. Prior to forming his investment partnership in 2003, Mr. Ladd was a Managing Director at Neuberger Berman Group. Mr. Ladd is a former Director of InFocus Systems, Inc. (NASDAQ – INFS, 2007 to 2009), and served on the boards of Delcath Systems, Inc. (NASDAQ – DCTH, 2006–2012) and Pyxis Tankers (NASDAQ – PXS, 2016 – 2017). Mr. Ladd has earned his designation as a Chartered Financial Analyst (1986). Based on Mr. Ladd's familiarity with the Company in serving as our Chief Executive Officer since 2011 and his overall background and experience as an executive in the financial industry, the Nominating and Corporate Governance Committee of the Board concluded that Mr. Ladd has the requisite experience, qualifications, attributes and skill necessary to serve as a member of the Board.

Robert S. Lowrey was appointed as Chief Financial Officer, Treasurer and Secretary on March 1, 2018. Mr. Lowrey most recently served as a Director of Finance for Bioventus LLC, a privately held medical device company, from January 2013 through September 2017. Prior to Bioventus, Mr. Lowrey served as the Controller and Principal Accounting Officer for BioCryst Pharmaceuticals, Inc., a NASDAQ listed company, from January 2011 through January 2013. Mr. Lowrey has

previously served in various financial roles at Dex One, a NYSE listed company, and was employed by Ernst & Young, LLP for 11 years, where he served both public and private companies. Mr. Lowrey holds a B.A. degree in Business Administration from Grove City College and is a licensed CPA in North Carolina as well as a Chartered Global Management Accountant. Mr. Lowrey is also a member of the America Institute of Certified Public Accountants and the North Carolina Association of CPAs.

Stephen Schaeffer was appointed as Chief Operating Officer on July 11, 2018. Mr. Schaeffer most recently served as the Company's President of MGT Crypto-Capital Strategies since August 2017. For the five years prior to joining MGT, Mr. Schaeffer was self-employed building and operating large scale crypto mining centers.

Family Relationships

There are no family relationships among any of the Company's directors and executive officers.

Board Role in Risk Oversight

The Board's primary function is one of oversight. The Board as a whole works with the Company's management team to promote and cultivate a corporate environment that incorporates enterprise-wide risk management into strategy and operations. Management periodically reports to the Board about the identification, assessment and management of critical risks and management's risk mitigation strategies. Each committee of the Board is responsible for the evaluation of elements of risk management based on the committee's expertise and applicable regulatory requirements. In evaluating risk, the Board and its committees consider whether the Company's programs adequately identify material risks in a timely manner and implement appropriately responsive risk management strategies throughout the organization. The audit committee focuses on assessing and mitigating financial risk, including risk related to internal controls, and receives at least quarterly reports from management on identified risk areas. In setting compensation, the compensation committee strives to create incentives that encourage behavior consistent with the Company's business strategy, without encouraging undue risk-taking. The nominating committee considers areas of potential risk within corporate governance and compliance, such as management succession. Each of the committees reports regularly to the Board as a whole as to their findings with respect to the risks they are charged with assessing.

Code of Business Conduct and Ethics

On July 11, 2018, the Board revised the Code of Business Conduct and Ethics which applies to all directors and employees including the Company's principal executive officer, principal financial officer and principal accounting officer or persons performing similar functions. Prior to July 11, 2018, the Company's employees and directors were subject to the previous Code of Ethics adopted by the Board on June 25, 2012.

Copies of the Code of Business Conduct and Ethics can be obtained, without charge by writing to the Corporate Secretary at MGT Capital Investments, Inc., 512 S. Mangum Street, Suite 408, Durham, NC 27701, or through our corporate website at mgctci.com.

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and persons who own more than 10% of the Company's stock (collectively, "Reporting Persons") to file with the SEC initial reports of ownership and changes in ownership of the Company's Common Stock. Reporting Persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports they file. Other than as disclosed below and based solely on a review of the reports furnished to us, or written representations from reporting persons that all reportable transaction were reported, we believe that during the fiscal year ended December 31, 2018, our officers, directors and greater than ten percent stockholders timely filed all reports and did not miss any filings as required to file under Section 16(a).

Audit Committee and Audit Committee Financial Expert

On November 25, 2004, the Board established an Audit Committee to carry out its audit functions. At December 31, 2018, the membership of the Audit Committee was Michael Onghai and H. Robert Holmes.

The Board has determined that Michael Onghai, an independent director, is the Audit Committee financial expert, as defined in Regulation S-K promulgated under the Exchange Act, serving on its Audit Committee.

Item 11. Executive Compensation

Summary Compensation Table

The following table summarizes Fiscal Years 2018 and 2017 compensation for services in all capacities of the Company's named executive officers and other individuals:

Name	Principal Position	Year	Salary	Bonus	Stock awards ⁽¹⁾	All other compensation	Total compensation
H. Robert Holmes	Interim President and Chief Executive Officer ⁽²⁾	2018	\$ 112	\$ -	\$ 248	\$ -	\$ 360
Robert B. Ladd	President and Chief Executive Officer ⁽³⁾	2018	\$ 350	\$ -	\$ 1,116	\$ -	\$ 1,466
	Executive Officer ⁽³⁾	2017	\$ 240	\$ 240	\$ -	\$ -	\$ 480
Robert S. Lowrey	Chief Financial Officer ⁽⁴⁾	2018	\$ 200	\$ 10	\$ 1,665	\$ -	\$ 1,875
Stephen Schaeffer	Chief Operating Officer ⁽⁵⁾	2018	\$ 250	\$ 100	\$ 73	\$ -	\$ 423

(1) This column discloses the dollar amount of the aggregate grant date fair value of restricted stock granted in the year. The grant date fair value will vest and be expensed over a 24-month term.

(2) Mr. Holmes was appointed Interim President and Chief Executive Officer on September 10, 2018. Compensation for Mr. Holmes in 2018 included \$75 in Director fees and \$37 in salary.

(3) Mr. Ladd was appointed Interim Chief Financial Officer on December 8, 2015, serving in such capacity until February 2018, and reappointed Chief Executive Officer on August 16, 2017. Mr. Ladd took a leave of absence as President and Chief Executive Officer on September 10, 2018.

(4) Mr. Lowrey was appointed Chief Financial Officer on March 1, 2018.

(5) Mr. Schaeffer was appointed Chief Operating Officer on July 11, 2018.

Employment Agreements

Robert B. Ladd

On July 7, 2016, the Company entered into an employment agreement with Robert B. Ladd, to act as its President and Chief Executive Officer. The terms of his agreement were reviewed and approved by the Company's Nominations and Compensation Committee and ratified by stockholders on September 8, 2016. Under the terms of the agreement, Mr. Ladd served as President and Chief Executive Officer with a salary of \$240 per year and was 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 vested within 12 months from the execution of the agreement, another 1/3 at 18 months, and the remaining 1/3 at 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.

From November 18, 2016 through August 15, 2017, Mr. Ladd relinquished his duties as Chief Executive Officer, while remaining President.

On April 1, 2018, the Company entered into an Amended and Restated Executive Employment Agreement (the "Employment Agreement") with Mr. Ladd, which was executed on April 6, 2018. The Employment Agreement provides that Mr. Ladd has been reappointed as President and Chief Executive Officer of the Company for an initial term of two years. Mr. Ladd is entitled to receive an annualized base salary of \$360 and is also eligible for 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. Ladd and the Compensation Committee. In connection with the execution of the Employment Agreement, the Company issued to Mr. Ladd 600,000 shares of the Company's restricted Common Stock, pursuant to the Company's 2016 Stock Option Plan, vesting over a two-year period. On September 10, 2018, Mr. Ladd took an indefinite leave of absence as an executive and officer of the Company in order to focus on allegations levied against him in an SEC complaint filed on September 7, 2018.

Robert S. Lowrey

On March 8, 2018, the Company entered into an employment agreement with Mr. Lowrey, effective March 1, 2018. Mr. Lowrey's employment agreement provides that he has been appointed for an initial term of two years. Mr. Lowrey is entitled to receive an annualized base salary of \$240,000. Mr. Lowrey also received a one-time signing bonus of \$10,000. Mr. Lowrey is also eligible for 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. Lowrey and the Compensation Committee. In connection with the execution of his employment agreement, the Company issued to Mr. Lowrey 750,000 shares of the Company's restricted Common Stock, pursuant to the Company's 2016 Stock Option Plan, one-third of which vested on March 8, 2019, one-third of which shall vest on September 8, 2019, and one-third of which shall vest on March 8, 2020.

On July 11, 2018, the Company entered into the Second Amended and Restated Executive Employment Agreement with Stephen Schaeffer. The Agreement provides that Mr. Schaeffer has been appointed Chief Operating Officer of the Company. Mr. Schaeffer will continue to serve as President of Cryptocurrency Operations, the position for which he was originally hired pursuant to his original Executive Employment Agreement dated August 15, 2017. Mr. Schaeffer is entitled to receive an annualized base salary of \$250 and is also eligible for 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. Schaeffer and the Compensation Committee.

Outstanding Equity Awards at December 31, 2018

Outstanding Stock Awards at Fiscal Year-End for 2018

Name	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested (\$)
Robert B. Ladd	900,000	\$ 48	-	-
H. Robert Holmes	350,000	19	-	-
Robert Lowrey	1,000,000	53	-	-
Steven Schaeffer	700,000	37	-	-

Director Compensation

The following table sets forth the compensation of persons who served as a member of our Board of Directors during all or part of 2018, other than Robert B. Ladd, who is not compensated separately for Board service, and H. Robert Holmes whose compensations are discussed under “Executive Compensation” below.

Name	Fees Earned Or Paid in Cash	Stock Awards	All Other Compensation	Total
Michael Onghai	\$ 50	\$ 248	\$ -	\$ 298
Nolan Bushnell	\$ 21	\$ 248	\$ -	\$ 269

Directors are reimbursed for their out-of-pocket expenses incurred in connection with the performance of Board duties. On May 31, 2018, Mr. Bushnell resigned as a Director.

Independent Director Compensation

For fiscal year 2018, the Company changed its cash compensation policy for independent directors. Each independent director will receive annual compensation of \$50. The Chairman of the Board will receive an additional \$25.

Item 12. Security Ownership of Certain Beneficial Owners and Management And Related Stockholder Matters

Security Owner of Certain Beneficial Owners

The following table sets forth certain information regarding beneficial ownership and voting power of the Common Stock as of April 15, 2019, of:

- each person serving as a director, a nominee for director, or executive officer of the Company;
- all executive officers and directors of the Company as a group; and
- all persons who, to our knowledge, beneficially own more than five percent of the Common Stock.

“Beneficial ownership” here means direct or indirect voting or investment power over outstanding stock and stock which a person has the right to acquire now or within 60 days after April 15, 2019. See the accompanying footnotes to the tables below for more detailed explanations of the holdings. Except as noted, to our knowledge, the persons named in the tables beneficially own and have sole voting and investment power over all shares listed.

Percentage beneficially owned is based upon 195,770,183 shares of Common Stock issued and outstanding as of April 15, 2019.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percentage of Beneficial Ownership
<i>Current Directors and Officers:</i>		
Robert B. Ladd (2)	1,773,334	0.91%
Robert S. Lowrey (3)	1,000,000	0.51%
Steven Schaeffer (4)	440,000	0.22%
H. Robert Holmes	702,819	0.36%
Michael Onghai	586,000	0.30%
All directors and executive officers (5 persons)	4,502,153	2.30%

- (1) Unless otherwise noted, the addresses for the above persons are in care of the Company at 512 S. Mangum Street, Suite 408, Durham, NC 27701.
- (2) Includes 600,000 shares of restricted stock of which 200,000 shares vest on April 1, 2019; 200,000 shares vest on October 1, 2019; and 200,000 shares vest on April 1, 2020, subject to the terms of Mr. Ladd's employment agreement, as amended.
- (3) Includes 750,000 shares of restricted stock that vest in equal installments of which one-third vested on March 8, 2019, one-third will vest on September 8, 2019, and one-third will vest on March 8, 2020 and 250,000 shares of restricted stock that vest in equal installments of which one-third vested on January 31, 2019, one-third will vest on July 31, 2019 and one-third will vest on January 1, 2020, subject to the terms of Mr. Lowrey's employment agreement.
- (4) Includes 440,000 shares of restricted stock of which 90,000 shares vested on February 15, 2019 and 350,000 shares will vest on August 15, 2019, subject to Mr. Schaeffer's employment agreement.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below provides information on our equity compensation plans as of December 31, 2018:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1) (2)	6,000,000	\$ 0.71	5,202,586
Equity compensation plans not approved by security holders	—	—	—
Total	6,000,000	\$ 0.71	5,202,586

- (1) On December 31, 2015, the Company's stockholders approved an increase of the number of shares of Common Stock issuable under the Company's 2012 Stock Incentive Plan to 3,000,000 shares. As of December 31, 2018, the Company's Stock Incentive Plan expired.
- (2) On September 8, 2016, the Company's stockholders approved the MGT Capital Investments, Inc. 2016 Equity Incentive Plan. The Company received approval to issue 6,000,000 options and 2,000,000 restricted stock under the Plan to certain officers of the Company. The maximum number of shares of Common Stock that may be issued under the 2016 Plan shall initially be 18,000,000. As of December 31, 2018, the Company has issued 6,000,000 options and 4,150,000 shares under this plan.

Item 13. Certain Relationships and Related Transactions and Director Independence

Janice Dyson, wife of John McAfee, the Company's former Chief Cybersecurity Visionary, is the sole director of FTS and owns 33% of the outstanding common shares of FTS. On March 3, 2017, the Company purchased from FTS its 46% ownership interest Demonsaw for 2,000,000 shares of MGT Common Stock (approximate value of \$2,500), as described fully in Item 1. The Company impaired the investment during the year ended December 31, 2017.

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. On January 26, 2018, the Company terminated its agreement with FTS. During the years ended December 31, 2018 and 2017, the Company recorded consulting fees of \$137 and \$360, respectively, to FTS for such services. As of December 31, 2018, the Company owed \$0 to FTS.

In January 2018, our agreement with FTS was terminated.

Director Independence

Michael Onghai is considered independent under Section 803A of NYSE MKT rules.

Item 14. Principal Accountant Fees and Services

Effective January 5, 2017, RBSM LLP became our current independent auditor. The following is a summary of the fees billed by our independent auditors for professional services rendered for the fiscal years ended December 31, 2018 and 2017.

	Year Ended December 31,	
	2018	2017
Audit fees	\$ 197	\$ 195
Tax fees	–	–
Audit-related fees	–	–
Other fees	–	–
	<u>\$ 197</u>	<u>\$ 195</u>

Audit fees consist of fees billed for services rendered for the audit of our financial statements and review of our financial statements included in our quarterly reports on Form 10–Q.

Tax fees consist of fees billed for professional services related to the preparation of our U.S. federal and state income tax returns and tax advice.

Audit–related fees consists of fees reasonably related to the performance of the audit or review of the Company’s financial statements that are not reported as “Audit Fees.”

All other fees consist of fees for other miscellaneous items.

All services provided by the Company’s independent auditor were approved by the Company’s audit committee.

Pre–Approval Policy of Services Performed by Independent Registered Public Accounting Firm

The Audit Committee’s policy is to pre–approve all audit and non–audit related services, tax services and other services. Pre–approval is generally provided for up to one year, and any pre–approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Audit Committee has delegated the pre–approval authority to its chairperson when expedition of services is necessary. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre–approval and the fees for the services performed to date.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

Financial Statements

The consolidated financial statements of the Company for the fiscal years covered by this Annual Report are located on pages F-1 to F-37 of this Annual Report.

<u>Exhibit No.</u>	<u>Description</u>
3.1	<u>Restated Certificate of Incorporation of MGT Capital Investments, Inc., as amended.*</u>
3.2	<u>Amended and Restated Bylaws of MGT Capital Investments, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on January 30, 2014).</u>
4.1	<u>Certificate of Designation of 12% Series B Preferred Stock of MGT Capital Investments, Inc., filed with the Delaware Secretary of State on January 11, 2019 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on January 14, 2019).</u>
10.1	<u>Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on February 24, 2017).</u>
10.2	<u>Form of Series A Warrant (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on February 24, 2017).</u>
10.3	<u>Form of Series B Warrant (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on February 24, 2017).</u>
10.4	<u>Form of Series C Warrant (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on February 24, 2017).</u>
10.5	<u>Demonsaw LLC Membership Interest Purchase Agreement, dated as of March 3, 2017, by and between Future Tense Secure Systems Inc. and MGT Capital Investments, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on March 9, 2017).</u>
10.6	<u>Equity Purchase Agreement, dated as of March 10, 2017, by and between MGT Capital Investments, Inc. and L2 Capital, LLC (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the SEC on May 18, 2017).</u>
10.7	<u>Convertible Promissory Note, dated as of March 10, 2017, by MGT Capital Investments, Inc. in favor of L2 Capital, LLC (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the SEC on May 18, 2017).</u>
10.8	<u>Securities Purchase Agreement, dated as of March 10, 2017 by and between MGT Capital Investments, Inc. and L2 Capital, LLC (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the SEC on May 18, 2017).</u>
10.9	<u>Convertible Promissory Note, dated as of March 10, 2017, by MGT Capital Investments, Inc. in favor of L2 Capital, LLC (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q filed with the SEC on May 18, 2017).</u>
10.10	<u>Common Stock Purchase Warrant, dated as of March 10, 2017, by and between L2 Capital, LLC and MGT Capital Investments, Inc. (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q filed with the SEC on May 18, 2017).</u>
10.11	<u>Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 24, 2017).</u>

- 10.12 [Form of Secured Convertible Promissory Note \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on May 24, 2017\).](#)
- 10.13 [Form of Warrant to Purchase Common Stock \(incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on May 24, 2017\).](#)
- 10.14 [Security Agreement, dated as of May 18, 2017, by MGT Mining One, Inc., in favor of Iliad Research and Trading, L.P. \(incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the SEC on May 24, 2017\).](#)
- 10.15 [Employment agreement by and between the Company and Stephen Schaeffer dated August 15, 2017 \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed with the SEC on November 19, 2018\).](#)
- 10.16 [First amendment to the employment agreement by and between the Company and Stephen Schaeffer dated February 1, 2018 \(incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed with the SEC on November 19, 2018\).](#)
- 10.17 [Second amendment to the employment agreement by and between the Company and Stephen Schaeffer dated July 11, 2018 \(incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed with the SEC on November 19, 2018\).](#)
- 10.18 [Securities Purchase Agreement, dated as of August 18, 2017, by and among MGT Capital Investments, Inc., MGT Mining Two, Inc., and UAHC Ventures LLC \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on August 28, 2017\).](#)
- 10.19 [Form of the Secured Convertible Promissory Note \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on August 28, 2017\).](#)
- 10.20 [Form of the Warrant to Purchase Common Stock \(incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on August 28, 2017\).](#)
- 10.21 [Form of Management Agreement \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on October 16, 2017\).](#)
- 10.22 [Form of Acknowledgement and Acceptance Agreement \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on October 16, 2017\).](#)
- 10.23 [Form of Warrant to Purchase Common Stock \(incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on October 16, 2017\).](#)
- 10.24 [Settlement Agreement, dated as of December 8, 2017, by and among Iliad Research and Trading, L.P., MGT Capital Investments, Inc. and MGT Mining One, Inc. \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on December 14, 2017\).](#)
- 10.25 [Settlement Agreement, dated as of December 8, 2017, by and among UAHC Ventures, LLC, MGT Capital Investments, Inc. and MGT Mining Two, Inc. \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on December 14, 2017\).](#)
- 10.26 [Form of Securities Purchase Agreement \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on December 21, 2017\).](#)
- 10.27 [Form of Warrant to Purchase Shares of Common Stock \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on December 21, 2017\).](#)
- 10.28 [Executive Employment Agreement, by and between MGT Capital Investments, Inc. and Robert S. Lowrey, effective as of March 8, 2018 \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on March 9, 2018\).](#)
- 10.29 [Employment Agreement, by and between MGT Capital Investments, Inc. and Robert Ladd, dated as of April 1, 2018 \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 12, 2018\).](#)

- 10.30 [Securities Purchase Agreement, dated as of May 23, 2018, by and among MGT Capital Investments, Inc. and Gemini Special Opportunities Fund, LP and Black Mountain Equities, Inc. \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 25, 2018\).](#)
- 10.31 [Promissory Note in favor of Gemini Special Opportunities Fund, LP dated May 23, 2018 \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on May 25, 2018\).](#)
- 10.32 [Promissory Note in favor of Black Mountain Equities, Inc. dated May 23, 2018 \(incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on May 25, 2018\).](#)
- 10.33 [Note Purchase Agreement, dated as of June 1, 2018, by and between MGT Capital Investments, Inc. and Iliad Research and Trading, L.P. \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on June 7, 2018\).](#)
- 10.34 [Promissory Note, dated as of June 1, 2018 by MGT Capital Investments, Inc., in favor of Iliad Research and Trading, L.P. \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on June 7, 2018\).](#)
- 10.35 [Second Amendment to the Promissory Note, dated as of December 10, 2018, by and between MGT Capital Investments, Inc. and Iliad Research and Trading, L.P.*](#)
- 10.36 [Equity Purchase Agreement dated as of August 30, 2018, by and between MGT Capital Investments, Inc. and L2 Capital, LLC \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on August 30, 2018\).](#)
- 10.37 [Amendment to the Equity Purchase Agreement, dated as of November 30, 2018, by and between MGT Capital Investments, Inc. and L2 Capital, LLC.*](#)
- 10.38 [Registration Rights Agreement by and between MGT Capital Investments, Inc. and L2 Capital, LLC \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on August 30, 2018\).](#)
- 10.39 [Data Mining Facility Leasing Agreement, dated as of October 23, 2018, by and between MGT Capital Investments, Inc. and 3G Venture LLC \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on October 29, 2018\).](#)
- 10.40 [Form of Securities Purchase Agreement, dated as of January 11, 2019 \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 14, 2019\).](#)
- 10.41 [Form of Promissory Note, dated January 11, 2019 \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on January 14, 2019\).](#)
- 10.42 [Form of Rescission and Cancellation Agreement, dated January 22, 2019 \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on January 24, 2019\).](#)
- 21.1 [Subsidiaries*](#)
- 23.1 [Consent of independent registered public accountant.*](#)
- 31.1 [Certification pursuant to Section 302 of the Sarbanes–Oxley Act of 2002 of Principal Executive Officer*](#)
- 31.2 [Certification pursuant to Section 302 of the Sarbanes–Oxley Act of 2002 of Principal Financial and Accounting Officer*](#)
- 32 [Certification pursuant to Section 906 of the Sarbanes–Oxley Act of 2002 of Principal Executive Officer, Principal Financial and Accounting Officer*](#)
- 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*

* Filed herewith

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 16, 2019

MGT CAPITAL INVESTMENTS, INC

By: /s/ H. Robert Holmes

H. Robert Holmes
Interim President (Principal Executive Officer)

Pursuant to the requirements of the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ H. Robert Holmes</u> H. Robert Holmes	Interim President, Chief Executive Officer and Director (Principal Executive Officer)	April 16, 2019
<u>/s/ Robert B. Ladd</u> Robert B. Ladd	Director	April 16, 2019
<u>/s/ Michael Onghai</u> Michael Onghai	Director	April 16, 2019
<u>/s/ Robert S. Lowrey</u> Robert S. Lowrey	Chief Financial Officer (Principal Financial and Accounting Officer)	April 16, 2019

Report of Independent Registered Public Accounting Firm

The Stockholders and the Board of Directors of
MGT Capital Investments, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of MGT Capital Investments, Inc. and Subsidiaries (collectively, the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive loss, changes in stockholders’ (deficit) equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

The Company’s Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and will require additional capital to fund its current operating plan. This raises substantial doubt about the Company’s ability to continue as a going concern. Management’s plans regarding these matters are also described in Note 2. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RBSM LLP

We have served as the Company’s auditor since 2017.

New York, NY
April 16, 2019

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

	As of December 31,	
	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 96	\$ 9,519
Prepaid expenses and other current assets	193	894
Intangible digital assets	30	48
Total current assets	319	10,461
Non-current assets		
Property and equipment, net	-	3,116
Other assets	204	-
Total assets	\$ 523	\$ 13,577
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities		
Accounts payable	\$ 537	\$ 287
Accrued expenses	7	707
Other payables	3	710
Notes payable, net of discount	1,851	-
Total current liabilities	2,398	1,704
Commitments and Contingencies		
Stockholders' (Deficit) Equity		
Undesignated preferred stock, \$0.001 par value, 8,500,000 shares authorized at December 31, 2018 and 2017. No shares issued or outstanding at December 31, 2018 and 2017	-	-
Common stock, \$0.001 par value; 2,500,000,000 shares authorized; 111,079,683 and 58,963,009 shares issued and outstanding at December 31, 2018 and 2017, respectively.	111	59
Additional paid-in capital	403,299	390,736
Accumulated deficit	(405,285)	(378,900)
Total (deficit) equity attributable to MGT stockholders	(1,875)	11,895
Non-controlling interest	-	(22)
Total (deficit) equity	(1,875)	11,873
Total liabilities, stockholders' (deficit) equity, and non-controlling interest	\$ 523	\$ 13,577

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

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per-share amounts)

	For the Years Ended December 31,	
	2018	2017
Revenue	\$ 2,030	\$ 3,134
Operating expenses		
Cost of revenue	4,191	1,502
General and administrative	12,816	22,353
Restructuring charge	2,499	-
Impairment of property and equipment	6,345	-
Impairment of intangible assets	-	303
Sales and marketing	55	238
Research and development	47	346
Total operating expenses	25,953	24,742
Operating loss	(23,923)	(21,608)
Other non-operating income (expense)		
Interest expense	(3)	(385)
Accretion of debt discount	(905)	(5,627)
Warrant modification expense	(139)	-
Impairment/loss on sale of investments	(127)	(2,871)
(Loss) gain on sale of property and equipment	(47)	370
Inducement expense	-	(20,312)
Gain on extinguishment of debt	1,295	-
Total other non-operating income (expense)	74	(28,825)
Net loss	(23,849)	(50,433)
Deemed dividend	(2,514)	-
Net loss attributable to common stockholders	\$ (26,363)	\$ (50,433)
Other comprehensive loss		
Reclassification adjustment for comprehensive loss included in net loss	-	66
Comprehensive loss	\$ (26,363)	\$ (50,367)
Per-share data		
Basic and diluted loss per share	\$ (0.36)	\$ (1.34)
Weighted average number of common shares outstanding	73,056,223	37,744,600

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

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(in thousands, except share and per-share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total (Deficit) Equity Attributable to MGT Stockholders	Non- controlling interest	Total Stockholders' (Deficit) Equity
	Shares	Amount						
Balance at January 1, 2017	28,722,855	\$ 29	\$ 327,943	\$ (328,467)	\$ (66)	\$ (561)	\$ (22)	(583)
Stock-based compensation	4,050,000	4	3,276	-	-	3,280	-	3,280
Stock issued for acquisition	2,000,000	2	2,498	-	-	2,500	-	2,500
Stock issued for services	2,574,000	3	4,626	-	-	4,629	-	4,629
Stock issued in exchange of notes payable	10,191,466	10	8,670	-	-	8,680	-	8,680
Induced conversion of notes payable	-	-	20,312	-	-	20,312	-	20,312
Stock sold in connection with private placements	2,875,000	3	9,147	-	-	9,150	-	9,150
Beneficial conversion features on convertible notes	-	-	4,593	-	-	4,593	-	4,593
Stock issued in exchange of accounts payable	220,000	-	401	-	-	401	-	401
Sale of common stock warrants	-	-	100	-	-	100	-	100
Stock issued in connection with notes payable amendment	200,000	-	118	-	-	118	-	118
Exercise of warrants	7,693,588	8	387	-	-	395	-	395
Amortization of employee stock options	-	-	7,057	-	-	7,057	-	7,057
Modification of employee stock options	-	-	37	-	-	37	-	37
Stock and warrants issued in connection with Management Agreements	436,100	-	1,571	-	-	1,571	-	1,571
Net loss	-	-	-	(50,433)	-	(50,433)	-	(50,433)
Reclassification adjustment for loss included in net loss	-	-	-	-	66	66	-	66
Balance at January 1, 2018	58,963,009	59	390,736	(378,900)	-	11,895	(22)	11,873
Stock-based compensation	2,860,000	3	4,354	-	-	4,357	-	4,357
Forfeiture of unvested restricted stock	(550,000)	(1)	(232)	-	-	(233)	-	(233)
Forfeiture of vested restricted stock	(1,966,666)	(2)	2	-	-	-	-	-
Stock issued for services	2,387,273	2	2,270	-	-	2,272	-	2,272
Stock issued for prior year notes payable conversion	3,381,816	3	(3)	-	-	-	-	-
Sale of stock in connection with private placement	200,000	-	80	-	-	80	-	80
Sale of stock in connection with equity purchase agreement	33,650,000	34	2,425	-	-	2,459	-	2,459
Issuance of common stock for prior year sale	2,000,000	2	(2)	-	-	-	-	-
Exercise of warrants	10,094,251	11	896	-	-	907	-	907
Stock issued in disposition of cybersecurity assets	60,000	-	120	-	-	120	-	120
Deemed dividend	-	-	2,514	(2,514)	-	-	-	-
Warrant modification expense	-	-	139	-	-	139	-	139
Reclassification of non-controlling interest to accumulated deficit	-	-	-	(22)	-	(22)	22	-
Net loss	-	-	-	(23,849)	-	(23,849)	-	(23,849)
Balance at December 31, 2018	111,079,683	\$ 111	\$ 403,299	\$ (405,285)	\$ -	\$ (1,875)	\$ -	\$ (1,875)

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

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

	For the Years Ended December 31,	
	2018	2017
Cash Flows From Operating Activities		
Net loss	\$ (23,849)	\$ (50,433)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	3,291	946
Impairment of property and equipment	6,345	-
Amortization of intangible assets	-	165
Stock-based compensation expense	6,402	16,574
Stock issued for amendment of notes payable	-	118
Warrant modification expense	139	-
Loss on sale of investments - short term	-	84
Loss on sale of business unit	127	-
Impairment of long-term investments	-	2,787
Extinguishment of note payable	(1,295)	-
Accretion of debt discount	905	5,627
Impairment of intangible assets	-	303
Loss (gain) on sale of property and equipment	47	(370)
Inducement expense	-	20,312
Change in operating assets and liabilities		
Prepaid expenses and other current assets	514	(581)
Intangible digital assets	18	(38)
Other assets	(204)	-
Accounts payable	210	622
Accrued expenses	(1,413)	1,507
Net cash used in operating activities	<u>(8,763)</u>	<u>(2,377)</u>
Cash Flows From Investing Activities		
Proceeds from sale of cybersecurity assets	60	-
Proceeds from sale of investments	-	26
Purchase of property and equipment	(6,994)	(4,067)
Proceeds from sale of property and equipment	427	976
Net cash used in investing activities	<u>(6,507)</u>	<u>(3,065)</u>
Cash Flows From Financing Activities		
Proceeds from issuance of convertible notes payable and warrants	-	4,971
Proceeds from private placements of common stock	80	9,150
Proceeds from sale of common stock warrants	-	100
Proceeds from sale of stock under equity purchase agreement	1,309	-
Proceeds from the issuance of notes payable, net of original issue discount	5,200	-
Repayment of notes payable	(1,649)	-
Proceeds from exercise of warrants	907	395
Net cash provided by financing activities	<u>5,847</u>	<u>14,616</u>
Net change in cash and cash equivalents	(9,423)	9,174
Cash and cash equivalents, beginning of year	<u>9,519</u>	<u>345</u>
Cash and cash equivalents, end of year	<u>\$ 96</u>	<u>\$ 9,519</u>

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

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

	For the Years Ended December 31,	
	2018	2017
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 14	\$ 48
Cash paid for income tax	\$ -	\$ -
Non-cash investing and financing activities		
Conversion of convertible debt and accrued interest	\$ -	\$ 8,680
Issuance of L2 commitment note	\$ -	\$ 160
Deemed dividend on trigger of down round provision	\$ 2,514	\$ -
Reclassification adjustment upon sale of available for sale investment in net loss	\$ -	\$ 66
Beneficial conversion feature on convertible debt and warrants issued concurrent with debt	\$ -	\$ 4,593
Shares issued in settlement of accounts payable	\$ -	\$ 401
Reclassification of deferred offering costs	\$ 160	\$ -
Reclassification of NCI to accumulated deficit	\$ 22	\$ -
Repayment of notes payable through issuance of shares under equity purchase agreement	\$ 1,310	\$ -

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

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

Note 1. Organization and Basis of Presentation

Organization

MGT Capital Investments, Inc. (“MGT Capital”) is a Delaware corporation, incorporated in 2000. MGT Capital was originally incorporated in Utah in 1977. “MGT” or the “Company” was formerly comprised of the parent company and its wholly-owned subsidiaries MGT Cybersecurity, Inc., Medicsight, Inc., MGT Sports, Inc., MGT Studios, Inc. (“MGT Studios”), MGT Interactive, LLC, MGT Gaming, Inc., MGT Mining One, Inc., MGT Mining Two, Inc., and MGT Sweden AB. MGT Studios also owned a controlling minority interest in the subsidiary M2P Americas, Inc. During the first quarter of 2019, the Company filed certificates of dissolution for all of its wholly-owned subsidiaries except MGT Sweden AB.

MGT’s corporate office is located in Durham, North Carolina.

On March 23, 2018, the Company’s stockholders approved an increase in the Company’s authorized common stock from 75,000,000 shares to 125,000,000 shares. On March 23, 2018, the Company filed an amendment to its Certificate of Incorporation with the state of Delaware to reflect this change. On February 27, 2019, the Company’s stockholders approved an increase in the Company’s authorized common shares from 125,000,000 to 2,500,000,000. On February 27, 2019, the Company filed an amendment to its Certificate of Incorporation with the state of Delaware to reflect this change.

On March 23, 2018, the Company’s stockholders approved a 1-for-2 reverse split of the Company’s common stock, to be effected only if needed for the Company’s application to uplist its common stock to a national exchange. As of April 15, 2019, the Company had not amended its Certificate of Incorporation to reflect this reverse split and such adjustments are not reflected within these consolidated financial statements.

On June 13, 2018, the Company filed a universal shelf registration statement covering up to \$150 million of various MGT securities, including common stock, preferred stock, debt securities, rights, warrants, and units, that the Company may sell from time to time. On August 10, 2018, this registration statement on Form S-3 was declared effective by the Securities and Exchange Commission. Through April 15, 2019, the Company has sold \$6,036 million of securities under this registration statement.

Cryptocurrency mining

In September 2016, MGT commenced its Bitcoin mining operations in the Wenatchee Valley area of central Washington. Throughout 2017, the Company expanded its mining capacity with the purchase of additional Bitcoin mining machines and by entering into hosting and power agreements with Washington facilities owners. The Company also entered into management agreements with third party investors whereby the investors purchased the mining hardware, and the Company receives both a fee to manage the mining operations plus one-half of the net operating profit.

Towards the end of 2017, the Company determined that there was inadequate electric power in Washington to support the Company’s growth, and the Company moved swiftly to find a new facility to conduct its mining operations. By the end of 2017, the Company made the decision to move its principal mining operations to northern Sweden, a geographic location with historically low ambient temperatures and available inexpensive electricity. The Company entered into a hosting agreement (the “Hosting Agreement”) with Beacon Leasing LLC (“Beacon”), pursuant to which Beacon agreed to deliver a turn-key solution in northern Sweden with up to 15 megawatts of electricity capacity, which included a facility with power, cooling, and hosting services for a fixed price of \$810 per month. The facility in Sweden is owned by the city of Älvsbyn and leased by a subsidiary of Beacon. Beacon committed to provide a fully functional facility by the end of March 2018. The Hosting Agreement required the Company to pay \$1,620 to Beacon, representing the first and last month of service. During the first quarter of 2018, the Company took delivery of an additional 2,000 Bitcoin mining machines in Sweden and moved 4,300 machines (including 2,100 investor-owned machines) from Washington to Sweden.

Beacon failed to deliver the fully built out facility and necessary power supply levels required by MGT by the end of March 2018. Through the first quarter of 2018 and into the second quarter, MGT personnel made visits to Sweden and assisted Beacon with efforts to get the facility up and running. The Company also advanced additional funds to Beacon to maximize operational capacity as quickly as possible. During April 2018, the Company became involved in the design and setup of the Sweden facility due to concern that Beacon may have overstated their construction abilities and financial capacity.

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

Note 1. Organization and Basis of Presentation, continued

Cryptocurrency mining, continued

On May 16, 2018, the Company was informed that none of the amounts due from Beacon to the electric utility serving the Älvsbyn facility were paid and that the utility would begin shutting down the electricity to the Älvsbyn facility. On the same day, the Company notified Beacon that it was in breach of the Hosting Agreement. In order to avoid a shutdown of the facility and a suspension of mining operations, the Company paid \$368 directly to the electric utility, as a good faith deposit. During the three months ended September 30, 2018, the Company paid an additional aggregate of \$947 to the utility provider for power consumed.

Subsequent to May 16, 2018, the Company intensified its efforts to determine the extent of Beacon's non-performance under the Hosting Agreement. Management made several more trips to Sweden to supervise the completion of the facility as well as investigate Beacon's accounting records. The Company determined that Beacon also was faced with unpaid invoices from various material and service providers to the facility.

Beginning in late May 2018, the Company took steps to become the direct operator of the Swedish facility to gain control of the situation, protect its assets, and maximize operational capacity as quickly as possible. These actions included paying the outstanding amounts owed by Beacon in order to maintain the vendor relationships needed to complete the facility and forming MGT Sweden AB in anticipation of assuming the building lease and the power agreements.

During the three months ended June 30, 2018, the Company recorded restructuring expense of \$2,499, which included the write-off of the unamortized balance of the initial deposit paid to Beacon in the amount of \$1,350 and \$1,149, for additional costs paid by the Company to service providers and vendors engaged to complete the facility. These costs consisted of unpaid obligations for services provided prior to the second quarter of 2018, including:

Costs to bring electricity provider current and set up additional transformers	\$	893
Satisfaction of payables for materials, repairs and supplies		206
Satisfaction of payables for payroll and consulting fees		50
TOTAL	\$	<u>1,149</u>

The cost of services provided after the Company took over full direct operational control of the facility are included in cost of revenue and general and administrative expenses in the Company's consolidated statements of operations and comprehensive loss.

Continuing issues arising from poor engineering and demands from the electric utility forced the Company to devote a significant amount of time and effort to the operations in Sweden. Further, the Company determined that the financial investment to fully assume the position of Beacon was excessive. Simultaneously, based on an analysis of available facilities in the United States, the Company concluded that the United States provided hosting opportunities for the Company. On September 24, 2018, the combination of these factors led to the Company deciding to forgo any further monetary investment in Sweden. The Company has relocated all of the miners in Sweden to facilities in Colorado and Ohio.

As of December 31, 2018, MGT owned and operated approximately 500 miners located in a leased facility in Quincy, Washington. Prior to the mining assets' relocation to the United States, the Company conducted a physical observation concluding that there are approximately 5,750 operating machines in Sweden. In connection with the relocation to the U.S., approximately 3,000 were shipped to Colorado and 2,750 were shipped to Ohio. Of the 5,750 machines shipped, 3,800 of these machines are owned by the Company, while the remaining machines are investor owned. All miners owned or managed by MGT are S9 Antminers sold by Bitmain Technologies LTD. In addition to the S9 Antminers, the Company owns 50 custom designed GPU-based Ethereum mining rigs. During the year ended December 31, 2018, the Company mined 245 Bitcoin for total revenue of \$2,010. In addition, the miners the Company operate pursuant to the management agreements mined 184 Bitcoin during the same period.

Because the price of Bitcoin has steadily decreased during 2018 and throughout the first quarter of 2019, the Company decided it is not economically responsible to commence mining operations in Colorado or Ohio. Until the price of Bitcoin rises, the Company does not plan to commence mining with these machines.

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

Note 1. Organization and Basis of Presentation, continued

Legacy business – cybersecurity

On January 26, 2018, the Company announced the end of its business relationship with cybersecurity pioneer John McAfee. Since August 2017, Mr. McAfee had served as Chief Cybersecurity Visionary of the Company, guiding the development of the Company's cybersecurity business, including Sentinel, an enterprise class network intrusion detector, released in October 2017. The Company also owned the intellectual property associated with developing and marketing a mobile phone with extensive privacy and anti-hacking features.

On March 19, 2018, the Company announced it had ended its cybersecurity operations by selling the Sentinel product line to a new entity formed by the unit's management team and stopping development of the privacy phone. The Sentinel assets were sold for consideration of \$60 in cash and a \$1,000 promissory note, convertible into a 20% equity interest of the buyer.

Basis of presentation

The accompanying consolidated financial statements for the years ended December 31, 2018 and 2017 have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and applicable rules and regulations of the United States Securities and Exchange Commission ("SEC").

Note 2. Going Concern and Management's Plans

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of December 31, 2018, the Company had incurred significant operating losses since inception and continues to generate losses from operations. As of December 31, 2018, the Company had an accumulated deficit of \$405,285. As of December 31, 2018, MGT's cash and cash equivalents were \$96.

Management's plans include overseeing the operation of approximately 5,750 cryptocurrency mining machines in Colorado and Ohio and continue to execute on an expansion model to secure low cost power and grow its cryptocurrency assets. As discussed in Note 1, the Company experienced additional delays and costs due to the non-performance of a key vendor. The Company has moved all of its miners from Sweden to facilities in Colorado and Ohio. Because the machines were being moved in the latter months of 2018, the Company's revenue will be significantly less than historical results. Based on current budget assumptions, the Company believes that it will be able to meet its operating expenses and obligations for one year from the date these consolidated financial statements are issued. The Company will need to raise additional funding to grow its operations and to pay current maturities of debt. There can be no assurance however that the Company will be able to raise additional capital when needed, or at terms deemed acceptable, if at all. Such factors raise substantial doubt about the Company's ability to sustain operations for at least one year from the issuance of these consolidated financial statements. Management's plans, including the operation of its existing cryptocurrency mining machines, the raising of additional capital and potentially curtailing its operations alleviate such substantial doubt. The accompanying consolidated financial statements do not include any adjustments related 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.

Note 3. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of MGT and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. Non-controlling interest represents the non-controlling 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. During the first quarter of 2019, the Company dissolved all of its wholly owned subsidiaries excluding MGT Sweden AB. In addition, the non-controlling equity interest in M2P Americas, Inc., including the minority investors' share of the net operating results and other components of equity relating to the non-controlling interest was also dissolved.

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

Note 3. Summary of Significant Accounting Policies, continued

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.

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 the disclosure of contingent assets and liabilities as of the date of the financial statements, and also affect the amounts of revenues and expenses reported for each period. Actual results could differ from those which result from using such estimates. Management utilizes various other estimates, including but not limited to determining the estimated lives of long-lived assets, determining the potential impairment of intangibles and other long-lived assets, the fair value of warrants issued, the fair value of stock options, the fair value of conversion features, the fair value of the deemed dividend, the recognition of revenue, the valuation allowance for deferred tax assets and other legal claims and contingencies. The results of any changes in accounting estimates are reflected in the financial statements in the period in which the changes become evident. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the period that they are determined to be necessary.

Beneficial conversion feature of convertible notes payable

The Company accounts for convertible notes payable in accordance with guidelines established by the Financial Accounting Standards Board (“FASB”) 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 accretion of debt discount on the Company’s consolidated statement of operations and comprehensive loss.

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

Note 3. Summary of Significant Accounting Policies, continued

Revenue recognition

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) which was subsequently amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2017-13. These ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance includes a five-step framework that requires an entity to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when the entity satisfies a performance obligation. In July 2015, the FASB deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. A full retrospective or modified retrospective approach was required upon adoption. The Company has adopted ASU No. 2014-09 effective January 1, 2018.

The Company has elected to apply the modified retrospective method and the impact was determined to be immaterial on the consolidated financial statements. Accordingly, the new revenue standard has been applied prospectively in its consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods.

The Company has performed an analysis and identified its revenues and costs that are within the scope of the new guidance. The Company determined that its methods of recognizing revenues have not been significantly impacted by the new guidance.

The Company’s primary revenue stream is related to the mining of intangible digital assets. The Company derives its revenue by solving “blocks” to be added to the blockchain and providing transaction verification services within the digital currency networks of cryptocurrencies, such as Bitcoin and Ethereum, commonly termed “cryptocurrency 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 as inventory at the lower of cost or net realizable value. Any gain or loss on sale would be recorded to cost of revenues. Costs of revenues includes equipment depreciation, rent, and electricity costs. Net realizable value adjustments, to reduce the value of the Coins to their market value, is included in cost of revenue on the Company’s consolidated statements of operations.

Due to a lack of authoritative and non-authoritative guidance, the Company had previously recorded the Coins as a security, where the Company would record revaluation gains and losses to cost of revenue. As of September 30, 2018, the Company reviewed certain non-authoritative guidance and changed its accounting policy to reflect that its Coins should be inventory. The Company determined that this change in accounting policy had no effect on its previously filed financial statements.

The Company also recognizes revenue from its Management Agreements (as defined in Note 12). The Company receives a fee from each Management Agreement based on the amount of Bitcoin mined and is reimbursed for any electricity costs incurred to run the Bitcoin mining machines it manages in its facility.

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Note 3. Summary of Significant Accounting Policies, continued

Income taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification (“ASC”) 740, “Income Taxes”. ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and established for all the entities a minimum threshold for financial statement recognition of the benefit of tax positions, and requires certain expanded disclosures. The provision for income taxes is based upon income or loss after adjustment for those permanent items that are not considered in the determination of taxable income. Deferred income taxes represent the tax effects of differences between the financial reporting and tax basis of the Company’s assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance when it is more likely than not that some portion or all the deferred tax assets will not be realized. Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In management’s opinion, adequate provisions for income taxes have been made. If actual taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary.

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%. In accordance with the SEC Staff Accounting Bulletin No. 118, the Company has finalized its accounting for the effects of the Tax Act and it has not had a material effect on the Company’s results of operations. Future adjustments made to the provisional effects will be reported as a component of income tax expense in the reporting period in which any such adjustments are determined. Based on the new tax law that lowers corporate tax rates, the Company revalued its deferred tax assets. Future tax benefits are expected to be lower, with the corresponding one-time charge being recorded as a component of income tax expense, if applicable.

The Company was previously delinquent in the filing of its 2015 and 2016 US Federal and state tax returns. On August 10, 2018, the Company filed its delinquent returns and is now in good standing in all income tax jurisdictions.

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
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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 potential shares are anti-dilutive due to the Company's net loss.

Accordingly, the computation of diluted loss per share for the year ended December 31, 2018 excludes 3,455,000 unvested restricted shares, 6,000,000 shares issuable under stock options, 67,252,747 shares issuable upon the conversion of convertible debt, and 5,477,975 shares issuable under warrants. The computation of diluted loss per share for the year ended December 31, 2017 excludes 2,000,000 shares issuable to the investors of the December 2017 private placement, 3,381,816 shares issuable to UAHC Ventures, LLC a Nevada limited liability company ("UAHC") due to the conversion of the UAHC note payable, 3,850,000 unvested restricted shares, 6,000,000 shares issuable under stock options, and 13,720,742 shares issuable under warrants.

Stock-based compensation

The Company recognizes compensation expenses 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 compensation committee of the board of directors of the Company. These awards are restricted as to the transfer of ownership and generally vest over the requisite service periods, typically over a 12 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 the Company's common 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 inputs 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 the Company's common stock over the expected term of the option. Risk-free interest rates are calculated based on continuously compounded risk-free rates for the appropriate term.

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. The Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest.

The Company accounts for share-based payments granted to non-employees in accordance with ASC 505-50, "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 readily determinable. 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.

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Note 3. Summary of Significant Accounting Policies, continued

Cash and cash equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less when acquired to be cash equivalents. The Company maintains its cash and cash equivalents at financial institutions whereby the combined account balances exceed Federal Deposit Insurance Corporation (“FDIC”) insurance coverage by approximately \$9,263 as of December 31, 2017. The Company has \$96 as the combined account balance as of December 31, 2018. Therefore, since the FDIC’s insurance coverage is for combined account balances that exceed \$250, there is no concentration of credit risk as of December 31, 2018.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment charges. Depreciation is calculated using the straight-line method on the various asset classes over their estimated useful lives, which range from two to five years. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition. Depreciation expense relating to the Company’s cryptocurrency mining machines is included in cost of revenue.

Equity-linked instruments

The Company accounts for equity-linked instruments with certain anti-dilution provisions in accordance with ASC 815 and ASC 260. Under this guidance, the Company excludes instruments with certain down round features when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the Company’s own stock. As a result, financial instruments (or embedded conversion features) with down round features are not required to be classified as derivative liabilities. The Company recognizes the value of a down round feature only when it is triggered and the exercise or conversion price has been adjusted downward. For equity-classified freestanding financial instruments, such as warrants, the Company treats the value of the effect of the down round, when triggered, as a deemed dividend and a reduction of income available to common stockholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, the Company recognizes the value of the down round as a beneficial conversion discount to be amortized to earnings.

Any incentive-based compensation received by the Optionee from the Company hereunder or otherwise shall be subject to recovery by the Company in the circumstances and manner provided in any Incentive-based Compensation Recovery that may be adopted or implemented by the Company and in effect from time to time on or after the date hereof, and Optionee shall effectuate any such recovery at such time and in such manner as the Company may specify.

Research and development

Research and development expenses are charged to operations as incurred. During the years ended December 31, 2018 and 2017, respectively, the Company expensed \$47 and \$346 in research and development costs.

Gain (Loss) on Modification/Extinguishment of Debt

In accordance with ASC 470, a modification or an exchange of debt instruments that adds a substantive conversion option or eliminates a conversion option that was substantive at the date of the modification or exchange is considered a substantive change and must be measured by determining the extinguishment of the debt. The Company recognized a gain on the extinguishment of debt of approximately \$1,295 in conjunction with amending a note purchase agreement on December 10, 2018. In addition to the changes in the payment terms of the note, the debt holder agreed to change the convertibility terms of the Note from a non-convertible note to a convertible note. The debt holder can elect to be paid in cash (within three trading days of notification) or shares of the Company’s common stock.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever facts or circumstances either internally or externally may suggest that the carrying value of an asset may not be recoverable. Should there be an indication of impairment, we test for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of the asset to the

carrying amount of the asset or asset group. Any excess of the carrying value of the asset or asset group over its estimated fair value is recognized as an impairment loss. The Company fully impaired the mining assets by expensing \$6,345 as of December 31, 2018.

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Note 3. Summary of Significant Accounting Policies, continued

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.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance is effective for public entities, certain not-for-profit entities, and certain employee benefit plans for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, ASU 2018-07 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company is evaluating the impact of adopting this pronouncement.

In July 2018, the FASB issued ASU 2018-10 Leases (Topic 842), Codification Improvements and ASU 2018-11 Leases (Topic 842), Targeted Improvements, to provide additional guidance for the adoption of Topic 842. ASU 2018-10 clarifies certain provisions and correct unintended applications of the guidance such as the application of implicit rate, lessee reassessment of lease classification, and certain transition adjustments that should be recognized to earnings rather than to stockholders' (deficit) equity. ASU 2018-11 provides an alternative transition method and practical expedient for separating contract components for the adoption of Topic 842. In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842) which requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases with terms greater than 12 months. ASU 2018-11, ASU 2018-10, and ASU 2016-02 (collectively, "the new lease standards") are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect the new lease standards will have on its Consolidated Financial Statements; however, the Company anticipates recognizing assets and liabilities arising from any leases that meet the requirements under the new lease standards on the adoption date and including qualitative and quantitative disclosures in the Company's Notes to the Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement ("ASC 820") , Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). ASU 2018-13 is intended to improve the effectiveness of fair value measurement disclosures. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adopting this pronouncement.

In August 2018, the FASB issued ASU 2018-15, Intangible – Goodwill and Other – Internal-Use Software ("ASU 2018-15"), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adopting this pronouncement.

Management's evaluation of subsequent events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the review, other than what is described in Note 15 – Subsequent Events, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

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Note 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	As of December 31,	
	2018	2017
Prepaid expenses	\$ 193	\$ 734
Deferred offering costs	-	160
Total prepaid expenses and other current assets	\$ 193	\$ 894

Note 5. Sale of Cybersecurity Assets

On March 16, 2018, the Company sold its Sentinel product line to a new entity formed by the unit's management team for consideration of \$60 and a \$1,000 promissory note, convertible into a 20% equity interest of the buyer. Due to the early stage nature of the buyer's business, the Company believes the collection of the promissory note is doubtful and therefore has determined the fair value to be zero. The Company recorded a loss on sale as follows:

Cash proceeds	\$ 60
Less:	
Assets sold	(27)
Separation payments to former management	(40)
Common stock issued to former management, at fair value	(120)
Loss on sale of cybersecurity assets	\$ (127)

Note 6. Property and Equipment

Property and equipment consisted of the following:

	As of	
	December 31, 2018	December 31, 2017
Computer hardware and software	\$ 17	\$ 10
Crypto-currency mining machines	-	3,685
Property and equipment, gross	17	3,695
Less: Accumulated depreciation	(17)	(579)
Property and equipment, net	\$ -	\$ 3,116

The Company recorded depreciation expense of \$3,291 and \$946 for the years ended December 31, 2018 and 2017, respectively.

On February 9, 2018, the Company sold Bitcoin machines with an aggregate book value of \$474 for gross proceeds of \$427 and recorded a loss on the sale of \$47.

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Note 6. Property and Equipment, continued

Under the guidance of ASC 360, a long-lived asset (or asset group) should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Based on the significant decline in the price of Bitcoin during the nine months ended September 30, 2018, the Company performed a recoverability test, in which it measured the undiscounted cash flows of its cryptocurrency mining assets. This recoverability test indicated that its cryptocurrency mining assets might be impaired. The Company then performed the second step of the analysis, whereby it measured the fair value of the cryptocurrency mining assets. The Company used a weighted approach where it measured both the discounted cash flows expected from the cryptocurrency mining assets as well as determining the market value of the assets. The Company determined that as of September 30, 2018, that it should record an impairment charge of \$3,668 to its cryptocurrency mining assets. Based on the continual decline in Bitcoin during the fourth quarter of 2018, coupled with the unpredictable volatility of Bitcoin's price, the Company believes that there are indications that the decrease in Bitcoin's price is other than temporary.

Based on the aforementioned reasons, the Company determined to fully impair the remaining carrying value of its cryptocurrency mining assets as of December 31, 2018 with a fourth quarter impairment charge of \$2,677. The total impairment charge recognized during the year ended December 31, 2018 was \$6,345.

Note 7. Notes Payable

10% convertible promissory notes

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

On August 14 and September 6, 2017, the holder of the notes converted the aggregate principal balance \$100 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 year ended December 31, 2017.

During the year ended December 31, 2017, the Company incurred \$100 as accretion of debt discount on these notes.

Iliad Note

On May 18, 2017, the Company issued 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, bearing interest at 10% per annum, with an original issuance discount of \$225, reimbursed legal and accounting expenses of \$5, and a warrant to purchase 1,231,819 shares of common stock of the Company at an exercise price of \$1.05 per share. These warrants expire five years from the date of issuance.

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 Iliad Note in the amounts of \$230, \$202 and \$923, respectively. The debt discounts were accreted using the effective interest method over the term of the Iliad Note, 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.

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.

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Note 7. Notes Payable, continued

Iliad Note, continued

On December 7, 2017, the Company entered into a settlement agreement with Iliad (the “Iliad Settlement Agreement”). Under the Iliad Settlement Agreement, the Company induced Iliad to accept 547,660 additional shares of the Company’s common stock in connection with the conversion of the full balance of the Iliad Note outstanding. As part of the Iliad Settlement Agreement, the Company also increased the shares issuable to Iliad under its warrant. Accordingly, on December 7, 2017, Iliad converted the Iliad Note and related accrued interest of \$75 into a total of 1,909,863 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 \$1,348 as accretion of debt discount, and (b) recorded the fair value of the additional shares issued to Iliad and the additional value of the warrants in the amount of \$7,517 as inducement expense.

During the year ended December 31, 2017, the Company incurred \$1,355 (accretion of \$7 and \$1,348 in connection with the conversion of the Iliad Note) as accretion of debt discount on this note.

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 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%.

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 also issued to the holders of the First Notes warrants to purchase an aggregate of 400,000 shares of the Company’s common stock at an exercise price of \$0.96 per share. These warrants expire seven years from the date of issuance.

The Company recorded the Commitment Note as a deferred offering cost as the Company had not received equity proceeds from the Equity Purchase Agreement during 2017. 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 April 15, 2017, no derivative liability was recognized.

Upon receipt of proceeds from the Equity Purchase Agreement during 2018, the Company has reclassified \$160 from deferred offering costs to additional paid-in capital.

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.

The Company recorded an initial debt discount of \$287, representing (a) an original issue discount of \$108 and (b) relative fair value of warrants issued to the note holders of \$179. The debt discounts were amortized using the effective interest method.

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Note 7. Notes Payable, continued

March 2017 securities purchase agreement

On March 10, 2017, the Company and L2 Capital entered into a securities purchase agreement, which was subsequently amended on March 15, 2017 pursuant to which the Company issued two 10% 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 was due 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.

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 an 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 would 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 was 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 is equal to 65% multiplied by the market price. Pursuant to the L2 Collateralized Note, L2 Capital promised to pay the Company the principal amount of \$500 (consisting of \$393 in cash, legal fees of \$7 and an original issue 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 instrument's 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 would 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 Common Stock Purchase Warrant on a cashless basis unless the underlying shares of common stock have been registered with the SEC prior to the exercise.

The Company recorded an initial debt discount related to L2 Collateralized Note of \$287, representing (a) an original issue discount of \$108 and (b) relative fair value of warrants issued to the note holders of \$179. The debt discounts were amortized using the effective interest method.

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 related to the Second Note of \$500, representing (a) an original issue discount of \$108 and (b) a beneficial conversion feature of \$392. The debt discounts were amortized using the effective interest method.

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Note 7. Notes Payable, continued

March 2017 securities purchase agreement, continued

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 Commitment Note, First Note, and Second Note outstanding. Accordingly, on September 8, 2017, L2 Capital converted all principal under the Commitment Note, First Note, and Second Note 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 2,157,407 shares issued to L2 Capital in the amount of \$5,739 as inducement expense.

During the year ended December 31, 2017, the Company recorded accretion of debt discount of \$165 (accretion of \$78 and \$709 in connection with the conversion of the Note) on the Notes.

May 2017 Notes

On May 1, 2017, the Company issued notes payable to two accredited investors in the aggregate amount of \$330 (the "May 2017 Notes") bearing interest at 10% per annum. The Company also issued to the holders of the May 2017 Notes warrants to purchase an aggregate of 360,000 shares of the Company's common stock at an exercise price of \$0.50 per share. These warrants expire five years from the date of issuance.

The May 2017 Notes were 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.

At any time the May 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 variable conversion price as defined in the agreement.

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 was 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 year ended December 31, 2017, the Company recorded accretion of debt discount of \$165 (accretion of \$55 and \$110 in connection with the conversion of the May 2017 Note) on the May 2017 Notes.

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Note 7. Notes Payable, continued

August 2017 Notes

On August 9, 2017, the Company issued notes payable to two accredited investors in the aggregate amount of \$330 (the “August 2017 Notes”), bearing interest at 10% per annum, with an aggregate original issuance discount of \$35. The Company also issued to the holders of the August 2017 Notes warrants to purchase an aggregate of 360,000 shares of the Company’s common stock at an exercise price of \$1.05 per share. These warrants expire five years from the date of issuance.

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.

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. The Company recorded the intrinsic value of the beneficial conversion feature as the effective conversion price of the August 2017 Notes were less than the fair value of the Company’s common stock on the date of issuance. The debt discounts were accreted using the effective interest method over the term of the August 2017 Notes.

On December 8, 2017, the Company induced the holders of the August 2017 Notes to accept 7,600 additional shares of the Company’s common stock in connection with the conversion of the full balance of the August 2017 Notes.

Accordingly, on December 8, 2017, the August 2017 Notes and related accrued interest of \$11 were converted into a total of 462,000 shares of the Company’s common stock. On the date of conversion, the Company (a) recorded the remaining discount on the notes in the amount of \$285 as accretion of debt discount, and (b) recorded the fair value of the additional shares issued to the holders of the August 2017 Notes in the amount of \$21 as inducement expense.

During the year ended December 31, 2017, the Company recorded amortization of debt discount of \$330 (accretion of \$45 and \$285 in connection with the conversion of the August 2017 Note) on the August 2017 Notes.

UAHC Note

On August 18, 2017, the Company issued to UAHC Ventures, LLC, a Nevada limited liability company (“UAHC”), a secured convertible note (the “UAHC Note”) in the original principal amount of \$2,410, bearing interest at 10% per annum, 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 at an exercise price of \$1.05 per share. These warrants expire five years from the date of issuance.

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 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 Company recorded the intrinsic value of the beneficial conversion feature as the effective conversion price of the UAHC Note was less than the fair value of the Company’s common stock on the date of issuance. The debt discounts were accreted using the effective interest method over the term of the UAHC Note.

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Note 7. Notes Payable, continued

UAHC Note, continued

On December 7, 2017, the Company and UAHC entered into a Settlement Agreement (the “UAHC Settlement Agreement”). In accordance with the UAHC Settlement Agreement, the Company induced UAHC to accept 1,016,806 additional shares of the Company’s common stock in connection with the conversion of the full balance of the UAHC Note outstanding. On December 29, 2017, the Company and UAHC entered into a clarification and amendment agreement to clarify that, upon the reservation of the conversion shares with the Company’s transfer agent, the UAHC Note would be deemed converted in full. As part of the UAHC Settlement Agreement, the Company also increased the shares issuable to UAHC under its warrant.

Accordingly, on December 7, 2017, UAHC converted the UAHC Note and accrued interest of \$73 into a total of 3,381,816 shares of the Company’s common stock. On the date of conversion, the Company (a) recorded the remaining discount on the note of \$2,408 as accretion of debt discount, and (b) recorded the fair value of the additional shares issued to UAHC and the additional value of the warrant in the amount of \$6,989 as inducement expense. At the date of the inducement, UAHC requested that the shares not yet be issued due to ownership limitations. The conversion meets all of the requirements to be classified as an equity instrument. Accordingly, the conversion was recorded as additional paid-in capital. The shares were issued to UAHC during the three months ended March 31, 2018.

During the year ended December 31, 2017, the Company recorded amortization of debt discount of \$2,410 (accretion of \$2 and \$2,408 in connection with the conversion of the UAHC Note) on the UAHC Note.

September 2017 Note

On September 12, 2017, the Company issued a note payable to an accredited investor in the amount of \$480 (the “September 2017 Note”), bearing interest at 10% per annum, with an original issue discount of \$80, and a warrant to purchase 1,000,000 shares of the Company’s common stock at an exercise price of \$2 per share. The warrant expires three years from the date of issuance. The principal and all accrued and unpaid interest on the outstanding balance would have been due on September 12, 2019.

Under the initial terms, 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 would be adjusted for any future issuances of equity that contain a lower per-share exercise price.

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 Company recorded the intrinsic value of the beneficial conversion feature as the effective conversion price of the September 2017 Note was less than the fair value of the Company’s common stock on the date of issuance. The debt discount was accreted using the effective interest method over the term of the September 2017 Note.

On December 8, 2017, the Company induced the holder of the September 2017 Note to accept 16,864 additional shares of the Company’s common stock in connection with the conversion of the full balance of the September 2017 Note. Accordingly, on December 8, 2017, the September 2017 Note and related accrued interest of \$11 were converted into a total of 672,000 shares of the Company’s common stock. On the date of the conversion, the Company (a) recorded the remaining discount on the note of \$478 as accretion of debt discount, and (b) recorded the fair value of the additional shares issued to the holder of September 2017 Note in the amount of \$46 as inducement expense.

During the year ended December 31, 2017, the Company recorded amortization of debt discount of \$480 (accretion of \$2 and \$478 in connection with the conversion of the September 2017 Note) on the September 2017 Note.

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Note 7. Notes Payable, continued

May 2018 Notes

On May 23, 2018, the Company entered into a securities purchase agreement with two accredited investors, pursuant to which the Company issued \$840 in unsecured promissory notes for aggregate consideration of \$700 (the "May 2018 Notes"). The outstanding balance of the May 2018 Notes is to be made in nine equal monthly installments beginning July 23, 2018. The May 2018 Notes were originally scheduled to mature on March 23, 2019. Subject to the terms and conditions set forth in the May 2018 Notes, the Company may prepay all or any portion of the outstanding balance at any time without pre-payment penalty. Upon the occurrence of an event of default, the outstanding balance of the May 2018 Notes shall immediately increase to 120% of the outstanding balance immediately prior to the event of default and become immediately due and payable. The Company did not make their monthly installment payment in December 2018. However, the Company entered into an amendment with one of the accredited investors to the May 2018 Notes on January 7, 2019 where the Lender has allowed the Company to forego their December 2018 payment and begin making payments on February 23, 2019. As a result, the Company is not in default as of December 31, 2018. On March 1, 2019, the other accredited investor waived the cross default provision that is in conjunction with the first accredited investor, which allowed the Company to not default as of December 31, 2018.

June 2018 Note

On June 1, 2018, the Company entered into a note purchase agreement with an accredited investor, pursuant to which the Company issued an unsecured promissory note in the amount of \$3,600 (the "June 2018 Note") for consideration of \$3,000. The outstanding balance of the June 2018 Note is to be made in nine equal monthly installments beginning August 1, 2018. The June 2018 Note was originally scheduled to mature on April 1, 2019. Subject to the terms and conditions set forth in the June 2018 Note, the Company may prepay all or any portion of the outstanding balance at any time without pre-payment penalty. Upon the occurrence of an event of default, the outstanding balance of the June 2018 Note shall immediately increase to 120% of the outstanding balance immediately prior to the event of default and become immediately due and payable.

August 2018 Note

On August 31, 2018, the Company entered into a note purchase agreement with an accredited investor, pursuant to which the Company issued an unsecured promissory note in the amount of \$1,062 (the "August 2018 Note") for consideration of \$1,000. The outstanding balance of the August 2018 Note had a maturity date of February 28, 2019 and was paid in full in December 2018. The August 2018 Note bore interest at a rate of 8% per annum and subject to the terms and conditions set forth in the August 2018 Note. The Company was able to prepay all or any portion of the outstanding balance at any time without pre-payment penalty.

December 2018 Note

On December 6, 2018, the Company entered into a note purchase agreement with an accredited investor, pursuant to which the Company issued an unsecured promissory note in the amount of \$598 (the "December 2018 Note") for consideration of \$500. The outstanding balance of the December 2018 Note had a maturity date of May 6, 2019 and was paid in full in March 2019. The December 2018 Note bore interest at a rate of 8% per annum and subject to the terms and conditions set forth in the December 2018 Note, the Company may prepay all or any portion of the outstanding balance at any time without pre-payment penalty.

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Note 7. Notes Payable, continued

Notes Payable Summary

Notes payable consisted of the following:

	As of December 31, 2018		
	Principal	Discount	Net
May 2018 Notes	\$ 400	\$ (25)	\$ 375
June 2018 Note	2,448	(1,237)	1,211
December 2018 Note	351	(86)	265
Total notes payable	\$ 3,199	\$ (1,348)	\$ 1,851

As of December 31, 2017, the Company had no notes payable outstanding.

During the years ended December 31, 2018 and 2017, the Company recorded amortization of debt discount of \$905 and \$5,627, respectively.

Modification of Notes Payable

On October 24, 2018, the Company entered into an amendment to its June 2018 Note to (a) forego the installment payment due on November 1, 2018; (b) extend the maturity date of the note to May 1, 2019; and (c) increase the principal amount on the note by \$48.

On November 9, 2018, the Company entered into an amendment of one of its May 2018 Notes to (a) forego the installment payments due on November 23, 2018, December 23, 2018, and January 23, 2019; and (b) extend the maturity date of the note to June 23, 2019. In exchange for the amendment, the Company paid the holder of the note \$11.

On December 10, 2018, the Company entered into an amendment to its June 2018 Note to (a) forego the installment payment due on December 1, 2018; (b) extend the maturity date of the note to July 1, 2019; and (c) increase the principal amount on the note by \$245.

In addition to the changes in the payment terms of the June 2018 Note described above, the holder has agreed to change the convertibility terms of the June 2018 Note from a non-convertible note to a convertible note. The holder may elect to be paid in cash (within three trading days of notification) or shares of the Company's common stock. If the holder elects to be paid in shares, the Company may choose to pay such redemption amount in either cash or shares at its election. Because the December 2018 amendment was considered a substantive change, the Company must treat the modification as an extinguishment of debt and determine the gain or loss on the exchange of instruments. Based on the analysis performed, the Company determined that there was a gain on extinguishment of debt of \$1,295.

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Note 8. Common Stock and Warrant Issuances

Issuance 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 total 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 a purchase price of \$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.

On May 18, 2017, the Company issued 200,000 shares of its common stock in connection with an amendment to the Iliad Note valued at \$118.

During August and September, 2017, the Company issued 220,000 shares of its common stock in satisfaction of accounts payable of \$401.

On October 12, 2017 and November 30, 2017, the Company issued 347,400 shares and 88,700 shares, respectively, of its common stock in connection with the Management Agreements, as discussed in Note 12.

During the year ended December 31, 2017, the Company received \$395 from the exercise of warrants to purchase 665,000 shares of common stock.

During the year ended December 31, 2017, the Company issued 7,028,588 shares of its common stock from the cashless exercise of warrants to purchase 3,012,186 shares of common stock. Due to provisions in one of the Company's warrants that were exercised, it was possible for a cashless exercise to yield more shares than under a standard cash exercise.

On January 17, 2018, the Company received \$281 from the exercise of warrants to purchase 375,000 shares of common stock.

On March 15, 2018, the Company received \$80 from the issuance of 200,000 shares of common stock to an investor.

On April 30, 2018, the Company received \$313 from the exercise of warrants to purchase 625,000 shares of common stock.

On May 2, 2018, the Company received \$313 from the exercise of warrants to purchase 625,000 shares of common stock.

During the year ended December 31, 2018, the Company issued an aggregate of 8,469,251 shares of common stock in exchange for the cashless exercise of warrants to purchase 3,954,530 shares of common stock.

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Note 8. Common Stock and Warrant Issuances, continued

Issuance of common stock, continued

During the year ended December 31, 2018, the Company issued 2,387,273 shares of its common stock to consultants in exchange for services. These services were valued using the value of the shares issued of \$2,272. During the year ended December 31, 2017, the Company issued 2,574,000 shares of its common stock to consultants in exchange for services. These services were valued using the value of the shares issued of \$4,629.

On December 7, 2017, a holder of one of the Company's convertible notes payable converted their note but requested that the Company not issue the shares due to ownership limitation provisions. On February 6, 2018 and March 26, 2018, the ownership limitations were satisfied and the Company issued 3,381,816 shares of its common stock to this former noteholder.

On December 15, 2017, the Company sold 2,000,000 shares of its common stock in a private placement, but the owners of the shares requested that these shares not be issued due to ownership limitations. On June 20, 2018, the Company issued 750,000 of these shares. On July 13, 2018 and July 20, 2018, the Company issued the remaining shares not issued under the December private placement.

Equity Purchase Agreement

On August 30, 2018, the Company and L2 Capital, LLC ("L2 Capital"), a Kansas limited liability company, entered into an equity purchase agreement (the "August Equity Purchase Agreement"), pursuant to which the Company may issue and sell to L2 Capital from time to time up to \$35,000 of the Company's common stock that is registered with the SEC under a registration statement on a Form S-3. Pursuant to the August Equity Purchase Agreement, the Company may require L2 Capital to purchase shares of common stock that is equal to the lesser of \$500 and 200% of the average trading volume of the common stock in the ten prior trading days, 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 volume weighted average trading price of the common stock during the five prior trading days multiplied by 93.5%.

On November 30, 2018, the Company and L2 Capital entered into an amendment (the "EPA Amendment") to the August Equity Purchase Agreement. Under the August Equity Purchase Agreement, the Company has the right, but no obligation, to sell from time to time at its sole discretion to L2 Capital shares of the Company's common up to \$35,000. The EPA Amendment amends the aggregate value of the Common Stock that can be sold to L2 from \$35,000 to \$50,000. Subject to the terms of the EPA and Amendment, the Company may by notice (a "Put Notice") delivered to L2 Capital require L2 Capital to purchase a number of shares (the "Put Shares") of the Common Stock that is equal to the lesser of \$500 and 200% of the average trading volume of the Common Stock in the ten trading days immediately preceding the date of such Put Notice. The Amendment and EPA provide that the Purchase Price for such Put Shares will be the lowest traded price on the Principal Market for any Trading Day during the five trading days either following or beginning on the date on which L2 Capital receives delivery of the Put Shares into its brokerage account, which period is referred to as the Valuation Period, multiplied by 95.0%.

During the year ended December 31, 2018, the Company issued 33,650,000 shares of its common stock in exchange for \$2,760. Of that amount, \$1,312 was applied directly as payment against the August 2018 Note and the December 2018 Note.

During the year ended December 31, 2018, the Company charged \$301 against the Equity Purchase Agreement related to deferred financing costs from its previous equity purchase agreement, which was terminated concurrent with the commencement of the Equity Purchase Agreement.

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Note 8. Common Stock and Warrant Issuances, continued

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. On December 8, 2017, in connection with the Iliad Settlement Agreement (see Note 9), the Company increased the number of shares issuable under this warrant to 1,724,547 shares and decreased the exercise price to \$0.75 per share. The Company and Iliad also capped the number of shares issuable under a cashless exercise to 5,173,640 shares. On December 14, 2017, Iliad exercised 1,348,186 warrants on a cashless basis and received 5,173,640 shares of common stock. Iliad subsequently forfeited the remaining 376,361 warrant shares as the remaining warrants were no longer able to be exercised.

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 \$0.50 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.

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 December 7, 2017, the exercise price of these warrants was decreased to \$0.75 per share due to down round provisions in the warrant and accordingly the Company issued additional 144,000 warrants.

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 warrants have an exercise price of \$1.05 per share and expire five years from the date of issuance. On December 7, 2017, in connection with the UAHC Settlement Agreement (see Note 7), the Company increased the number of shares issuable under this warrant to 1,206,667 shares and decreased the exercise price to \$0.75 per share. The Company and UAHC also capped the number of shares issuable under a cashless exercise to 3,620,001 shares.

On September 1, 2017, in accordance with the terms of the warrant (see Note 7) 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. As described in Note 7, the fair value of the additional warrant shares were recorded as a discount on the Second Note.

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 of the Company's common stock.

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Note 8. Common Stock and Warrant Issuances, continued

Warrants

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.

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.

On January 17, 2018, the Company received \$281 from the exercise of warrants to purchase 375,000 shares of common stock.

On April 30, 2018, the Company received \$313 from the exercise of warrants to purchase 625,000 shares of common stock.

On May 2, 2018, the Company received \$313 from the exercise of warrants to purchase 625,000 shares of common stock.

During the year ended December 31, 2018, the Company issued an aggregate of 8,469,251 shares of common stock in exchange for the cashless exercise of warrants to purchase 3,954,530 shares of common stock.

The following table summarizes information about shares issuable under warrants outstanding during the year ended December 31, 2018:

	Warrant shares outstanding	Weighted average exercise price	Weighted average remaining life	Intrinsic value
Outstanding at January 1, 2018	13,720,742	\$ 1.49		
Issued	-			
Additional warrants issued for trigger of anti-dilution protection	1,000,000	\$ 0.40		
Exercised	(5,579,530)	\$ 0.91		
Expired or cancelled	(3,663,237)	\$ 0.56		
Outstanding at December 31, 2018	<u>5,477,975</u>	<u>\$ 1.01</u>	<u>1.37</u>	<u>\$ -</u>
Exercisable at December 31, 2018	<u>5,477,975</u>	<u>\$ 1.01</u>	<u>1.37</u>	<u>\$ -</u>

During the year ended December 31, 2018, the Company changed the exercise terms of certain of its warrants to allow for and induce a cashless exercise. During the year ended December 31, 2018, the Company recorded \$139 in warrant modification expense due to the modifications.

Deemed dividend

On March 15, 2018, an anti-dilution protection feature in certain of the Company's warrants was triggered, causing a decrease in the exercise price of those warrants from \$4.50 to \$0.40. In accordance with ASC 260-10-25, the Company has recorded a deemed dividend equal to the change in fair value of the warrants due to the decrease in exercise price in the amount of \$2,514.

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Note 9. Stock-Based Compensation

Issuance of restricted common stock – directors, officers and employees

During the year ended December 31, 2017, the Company issued an aggregate of 4,150,000 shares of restricted common stock to certain employees and directors. The Company valued each award on its grant date and is expensing the grant date fair value of the 16-24 month vesting period.

On January 15, 2018, the Company granted 10,000 shares of restricted common stock to an employee of the Company. The Company valued the award on its grant date and is expensing the grant date fair value over the 12 month vesting period.

On March 1, 2018, the Company granted 750,000 shares of restricted common stock to Robert Lowrey in connection with his employment agreement to serve as the Company's Chief Financial Officer. The Company valued the award on its grant date and is expensing the grant date fair value over the 24 month vesting period.

On April 6, 2018, the Company granted 900,000 shares of restricted common stock to certain of its officers and directors in connection with the commencement of operations in Sweden. The Company valued the awards on their grant date and is expensing the grant date fair value over the 12 month vesting period.

On April 6, 2018, the Company granted 600,000 shares of restricted common stock to Robert Ladd in connection with his employment agreement to serve as the Company's Chief Executive Officer. The Company valued the award on its grant date and is expensing the grant date fair value over the 24 month vesting period.

On May 31, 2018, Nolan Bushnell resigned as a Director of the Company. In connection with his resignation, Mr. Bushnell forfeited 550,000 shares of restricted common stock.

On July 10, 2018, the Company granted 100,000 shares of restricted common stock to Stephen Schaeffer in connection with incentive compensation from his original employment agreement as President of Cryptocurrency Operations. A deployment benchmark was met, making Mr. Schaeffer eligible for the shares issuance. The Company valued the award on its grant date and is expensing the grant date fair value immediately as there is no vesting period.

On August 1, 2018, the Company granted 250,000 shares of restricted common stock to Robert Lowrey in connection with his employment as Chief Financial Officer. The Company valued the award on its grant date and is expensing the grant date fair value over the 17 month vesting period.

On September 17, 2018, the Company granted 100,000 shares of restricted common stock to a former employee in connection with the termination of their position and separation agreement. The Company valued the award on its grant date and is expensing the grant date fair value immediately as there is no vesting period.

On September 30, 2018, the Company granted 50,000 shares of restricted common stock to an employee of the Company. The Company valued the award on its grant date and is expensing the grant date fair value over the 18 month vesting period.

On December 31, 2018, the Company determined that certain of its executives and directors had not met their performance goals and required them to forfeit their restricted shares. The Company received and canceled 1,966,666 restricted shares.

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Note 9. Stock-Based Compensation, continued

Issuance of restricted common stock – directors, officers and employees, continued

The Company's activity in restricted common stock was as follows for the year ended December 31, 2018:

	Number of shares	Weighted average grant date fair value
Non-vested at January 1, 2018	3,850,000	\$ 1.42
Granted	2,760,000	\$ 1.33
Vested	(2,705,000)	\$ 1.41
Forfeited	(550,000)	\$ 1.06
Non-vested at December 31, 2018	<u>3,355,000</u>	<u>\$ 1.43</u>

For the years ended December 31, 2018 and 2017, the Company has recorded \$4,357 and \$3,280, in employee and director stock-based compensation expense, which is a component of general and administrative expenses in the consolidated statement of operations and comprehensive loss.

As of December 31, 2018, unamortized stock-based compensation costs related to restricted share arrangements was \$2,466, and will be recognized over a weighted average period of 0.80 years.

Stock options

The following is a summary of the Company's stock option activity for the year ended December 31, 2018:

	Options	Weighted average exercise price	Weighted average Grant date fair value	Weighted average remaining life	Intrinsic value
Outstanding – January 1, 2018	6,000,000	\$ 0.71	\$ 1.29	4.62	
Granted	–				
Exercised	–				
Forfeited/Cancelled	–				
Outstanding – December 31, 2018	<u>6,000,000</u>	<u>\$ 0.71</u>	<u>\$ 1.29</u>	<u>3.62</u>	<u>\$ –</u>
Exercisable – December 31, 2018	<u>6,000,000</u>	<u>\$ 0.71</u>	<u>\$ 1.29</u>	<u>3.62</u>	<u>\$ –</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 year ended December 31, 2018 and 2017, the Company has recorded \$0 and \$7,094, respectively, in stock option related stock-based compensation expense, which is a component of general and administrative expenses in the consolidated statement of operations and comprehensive loss.

As of December 31, 2018, there were no unrecognized compensation costs, as all outstanding stock options are fully vested.

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Note 10. Non-Controlling Interest

At December 31, 2018, the Company's non-controlling interest was as follows:

January 1, 2017	\$	(22)
Non-controlling share of net loss		-
January 1, 2018	\$	(22)
Reclassification of non-controlling interest to accumulated deficit		22
December 31, 2018	\$	-

Note 11. Income Taxes

Significant components of deferred tax assets were as follows:

	As of December 31,	
	2018	2017
U.S. federal tax loss carry-forward	\$ 12,705	\$ 10,174
U.S. State tax loss carry-forward	1,052	766
U.S. federal capital loss carry-forward	-	-
Equity based compensation	7,764	3,117
Fixed assets, intangible assets and goodwill	2,224	496
Long-term investments	969	870
Total deferred tax assets	24,714	15,423
Less: valuation allowance	(24,714)	(15,423)
Net deferred tax asset	\$ —	\$ —

As of December 31, 2018, the Company had the following tax attributes:

	Amount	Begins to expire
U.S. federal net operating loss carry-forwards	\$ 60,502	Fiscal 2023
U.S. State net operating loss carry-forwards	44,382	Fiscal 2031

As it is not more likely than not that the resulting deferred tax benefits will be realized, a full valuation allowance has been recognized for such deferred tax assets. For the year ended December 31, 2018, the valuation allowance increased by \$9,291. Federal and state laws impose substantial restrictions on the utilization of tax attributes in the event of an "ownership change," as defined in Section 382 of the Internal Revenue Code. As of December 31, 2018, the Company performed a high level review of its changes in ownership and determined that a change of control event likely occurred under Section 382 of the Internal Revenue Code and the Company's net operating loss carryforwards are likely to be limited.

The Company has recorded the necessary provisional adjustments in its consolidated financial statements in accordance with its current understanding of the Tax Act and guidance currently available as of this filing and recorded a provisional reduction of \$10,743 to its gross deferred tax assets in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional reduction was fully offset by an equal reduction in the Company's valuation allowance given the Company's historical net losses, resulting in no net income tax expense being recorded.

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

Note 11. Income Taxes, continued

The provision for/ (benefit from) income tax differs from the amount computed by applying the statutory federal income tax rate to income before the provision for/(benefit from) income taxes. The sources and tax effects of the differences are as follows:

	For the Years Ended December 31,	
	2018	2017
Expected Federal Tax	(21.0)%	(34.0)%
State Tax (Net of Federal Benefit)	(2.4)	(5.5)
Accretion of notes payable discount	0.9	4.4
Inducement expense	-	15.9
Stock-based compensation	-	10.5
Other permanent differences	-	0.2
True up of prior year deferred tax assets	(3.2)	1.3
Change in federal and state tax rates	-	18.4
Note Extinguishment	(1.3)	-
Change in valuation allowance	27.0	(11.2)
Effective rate of income tax	-%	-%

The Company files income tax returns in the U.S. federal jurisdiction, New York State, North Carolina and New Jersey jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2013.

The Company was previously delinquent in the filing of its U.S. federal and state income tax returns for the years ended December 31, 2016 and 2015. The Company filed these returns on August 10, 2018.

Note 12. Commitments and Contingencies

Operating commitments

On October 23, 2018, the Company entered into a hosting agreement with a hosting facility in Colorado through November 1, 2010. The Company is also negotiation a formal management agreement with a mining operation in Ohio. The Company has shipped its mining machines to those locations.

Operating leases

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 was \$6 for the first 12 -month period and \$7 each month thereafter until expiration of the lease. A security deposit of \$13 was required upon execution of the sublease. Prior to the sublease, the Company paid \$4 per month of office rent.

Lease rental expense totaled \$77 and \$110 during the years ended December 31, 2018 and 2017, respectively.

Total future minimum payments required under the sublease agreement are as follows:

Years ended December 31,	Amount
2019	\$ 85
2020	7
Total	\$ 92

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

Note 12. Commitments and Contingencies, continued

Management agreements

On October 12, 2017, MGT entered into two management agreements with two accredited investors, Deep South Mining LLC and BDLM, LLC. On November 21, 2017, the Company entered into a third management agreement with another accredited investor, Buckhead Crypto, LLC (“Buckhead Crypto”) (all three accredited investors together are “Users”, each agreement a “Management Agreement”, and all three agreements together are “Management Agreements”). Each of the Users agreed on substantially similar terms to purchase an aggregate of 2,376 Bitmain Antminer S9 mining computers (the “Bitcoin Hardware”) for a total of \$3,650 to mine Bitcoin with the Company acting as the exclusive manager for each of the Users. In addition, the Users have agreed to pay to the Company, in advance, the first three months of expected electricity costs of the Bitcoin mining operations in the sum of \$691, which is included in Other Payables on the Company’s consolidated balance sheet as of December 31, 2017. Initial electricity cost for the first three months following delivery of the Bitcoin Hardware shall be reimbursed to the Users within the first three months of operation. Each Management Agreement is in effect for 24 months from the date that the Bitcoin Hardware begins mining operations, and may be terminated by mutual written agreement.

Pursuant to the Management Agreements, the Company shall provide for installation, hosting, maintenance and repair and provide ancillary services necessary to operate the Bitcoin Hardware. In accordance with each of the Management Agreements, each of the Users will gain a portion of the Bitcoin mined called the user distribution portion (“User Distribution Portion”). The User Distribution Portion is 50% of the amount of Bitcoin mined net of the operating fee (10% of the total Bitcoin mined) and the electricity cost.

Furthermore, upon execution of the Management Agreements, as an incentive to the Users, the Company issued to the Users an aggregate of 436,100 shares of the Company’s common stock and a Series F warrant to purchase 436,100 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 Users. The Company issued the shares of common stock and issued all three Series F warrants for the benefits of the three Users on the respective dates of the execution of the Management Agreements.

On February 28, 2018, the Company and Buckhead Crypto terminated their Management Agreement. The Company purchased the Bitcoin mining machines for \$767 and refunded prepaid electricity paid by Buckhead Crypto of \$133.

On February 13, 2018, the Company entered into a new management agreement with a third party with terms similar to the other Management Agreements. The third party agreed to purchase 200 Bitmain Antminer S9 mining computers for a total of \$428 to mine Bitcoin with the Company acting as the exclusive manager. This management agreement is in effect for 24 months from the date that the Bitcoin Hardware begins mining operations, and may be terminated by mutual written agreement.

As of December 31, 2018 and December 31, 2017, the Company owed \$0 and \$0, respectively, to the Users as the User Distribution Portion under the Management Agreements.

Collaborative Ventures

On August 14, 2018, the Company entered into a collaborative venture with a third party cryptocurrency miner to develop a fully contained crypto currency mining pod (the “POD5 Agreement”). Pursuant to the POD5 Agreement, the Company will assist with the design and development of the pods. The Company will retain naming rights to the pods and receive royalty payments from the third party in exchange for providing capital as well as engineering and design expertise. As an inducement to enter into the POD5 Agreement, the Company paid \$25 to the third party and issued the third party 200,000 shares of the Company’s common stock, the value of which is included in general and administrative expenses. As of April 16, 2019, no further development has occurred under this agreement.

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

Note 12. Commitments and Contingencies, continued

Legal

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 “2016 Securities Class 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 amended complaint, which the plaintiffs opposed. The Court heard oral argument on the motion to dismiss on February 7, 2018. On February 27, 2018, the Court issued a Memorandum and Order dismissing the 2016 Securities Class Action in its entirety, with prejudice. The time for plaintiffs to file a notice of appeal expired on March 30, 2018.

Separately, on September 15, 2016, the Company received a subpoena from the SEC and in December 2017, the Company’s former Chief Executive Officer and President received a subpoena from the SEC. The Company has cooperated fully with the SEC 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.

On January 24, 2017, the Company was served with a summons and complaint filed by plaintiff shareholder Atul Ojha in New York state court against certain officers and directors of the Company, and naming the Company as a nominal defendant. The lawsuit is styled as a derivative action (the “Ojha Derivative Action”) and was originally filed (but not served on any defendant) on October 15, 2016. The Ojha 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 Ojha 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 Ojha Derivative Action executed a stipulated stay of proceedings pending resolution of the 2016 Securities Class Action. Shortly after issuance of the February 27, 2018, ruling dismissing the 2016 Securities Class Action, the parties to the Ojha Derivative Action agreed to extend the stay indefinitely, with the plaintiff having the option to vacate the stay on thirty days’ notice. Should the plaintiff seek to vacate the stay, the Company will address and defend the Ojha Derivative Action.

On September 7, 2018, the SEC commenced a legal action in the United States District Court for the Southern District of New York (the “SEC Action”) which asserts civil charges against multiple individuals and entities who are alleged to have violated the securities laws by engaging in pump-and-dump schemes in connection with certain microcap stocks and three unidentified companies. The Company is one of the three unidentified companies but is not named as a defendant. However, the SEC named as defendants Robert Ladd, the Company’s former Chief Executive Officer and President, as well as certain individuals alleged to have participated in the schemes while they were stockholders in the Company, among others. The SEC filed an amended complaint in the SEC Action on March 8, 2019. The Company, through its counsel, is monitoring the progress of the SEC Action.

In September 2018 and October 2018, various shareholders of the Company filed putative class action lawsuits against the Company, its former Chief Executive Officer and certain of its individual officers and shareholders, alleging violations of federal securities laws and seeking damages (the “2018 Securities Class Actions”). The 2018 Securities Class Action followed and referenced the allegations made against the Company’s former Chief Executive Officer and others in the SEC Action. The first putative class action lawsuit was filed on September 28, 2018, in the United States District Court for the District of New Jersey, and alleges that the named defendants engaged in a pump-and-dump scheme to artificially inflate the price of the Company’s stock and that, as a result, defendants’ statements about the Company’s business and prospects were materially false and misleading and/or lacked a reasonable basis at relevant times. The second putative class action was filed on October 9, 2018, in the United States District Court for the Southern District of New York and makes similar allegations. The Company intends to defend against the 2018 Securities Class Actions vigorously.

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 12. Commitments and Contingencies, continued

Legal, continued

In November 2018, the Company's board received a shareholder demand letter dated November 6, 2018, from shareholders Nicholas Fulton and Kelsey Thacker (the "Fulton Demand"). The Fulton Demand referenced the SEC Action and the allegations therein, and demanded that the board take action to investigate, address and remedy the allegations raised in the SEC Action. The Company's counsel has communicated with counsel for the shareholders, advising them concerning the existence and status of the 2018 Securities Class Actions, the Ojha Derivative Action, and the Thomas Derivative Action (defined below). Shareholders' counsel has indicated a general willingness to defer further action until resolution of the 2018 Securities Class Actions, and counsel continue to communicate concerning the details.

On December 12, 2018, a shareholder derivative action was filed by shareholder Bob Thomas against the Company and certain of its current and former directors, officers and shareholders in New York state court, alleging breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste and seeking declaratory relief and damages (the "Thomas Derivative Action"). The underlying allegations in the Thomas Derivative Action largely repeat the allegations of wrongdoing in the 2018 Securities Class Actions. Based on recent communications between the Company's counsel and plaintiff's counsel in the Thomas Derivative Action, plaintiff intends to seek consolidation of this case with the Ojha Derivative Action, and then to stay the consolidated derivative action pending resolution of the 2018 Securities Class Actions. The Company-related defendants' time to respond to the Thomas Derivative Action has been extended until thirty days after the Court rules on plaintiff's motion.

With respect to the Thomas Derivative action plaintiffs' counsel have indicated that they intend to move for an order consolidating the Thomas Derivative action with the shareholder derivative action captioned Ojha v. Ladd, et al., Index No. 65647/2016 (New York Supreme Court, Westchester County) and staying the consolidated action pending resolution of the pending parallel class actions captioned Klinabera v. MGT Capital Investments, et al.. No. 2:18-cv-14380 (United States District Court, District of New Jersey), and Guver v. MGT Capital Investments, Inc., et al.. No. 1:18-cv-09228 (United States District Court, Southern District of New York). Plaintiffs' counsel in the Thomas Derivative action have also extended the Company's time to respond to the complaint until 30 days after the Court rules on that motion.

The Company believes that the claims in the actions filed against the Company are without merit and intends to vigorously defend against these actions.

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

Note 12. Commitments and Contingencies, continued

Employment agreements

On March 8, 2018, the Company entered into an employment with Robert Lowrey, effective March 1, 2018. Mr. Lowrey's employment agreement provides that he has been appointed for an initial term of two years. Mr. Lowrey is entitled to receive an annualized base salary of \$240. Mr. Lowrey will also receive a one-time signing bonus of \$10. Mr. Lowrey is also eligible for 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. Lowrey and the Compensation Committee. In connection with the execution of his employment agreement, the Company issued to Mr. Lowrey 750,000 shares of the Company's restricted common stock, pursuant to the Company's 2016 Stock Option Plan vesting over a two year period.

On April 1, 2018, the Company entered into an Amended and Restated Executive Employment Agreement (the "Employment Agreement") with Robert Ladd, which was executed on April 6, 2018. The Employment Agreement provides that Mr. Ladd has been reappointed for an initial term of two years. Mr. Ladd is entitled to receive an annualized base salary of \$360 and is also eligible for 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. Ladd and the Compensation Committee. In connection with the execution of the Employment Agreement, the Company issued to Mr. Ladd 600,000 shares of the Company's restricted common stock, pursuant to the Company's 2016 Stock Option Plan, vesting over a two year period. On September 10, 2018, Mr. Ladd took an indefinite leave of absence from the Company in order to focus on allegations levied against him in an SEC complaint filed on September 7, 2018.

On July 11, 2018, the Company entered into an Amended and Restated Executive Employment Agreement with Stephen Schaeffer. The agreement provides that Mr. Schaeffer has been appointed Chief Operating Officer of the Company. Mr. Schaeffer will continue to serve as President of Cryptocurrency Operations, the position for which he was originally hired for a term of two years in an Executive Employment Agreement dated August 15, 2017. Mr. Schaeffer is entitled to receive an annualized base salary of \$250 and is also eligible for 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. Schaeffer and the Compensation Committee.

Note 13. Related Party Transactions

Janice Dyson, wife of John McAfee, the Company's former Chief Cybersecurity Visionary, is the sole director of Future Tense Secure Systems, Inc. ("FTS") and owns 33% of the outstanding common shares of FTS. On March 3, 2017, the Company purchased from FTS its 46% ownership interest Demonsaw for 2,000,000 shares of MGT common stock. The Company recorded the purchase using the fair value of the common shares provided of \$2,500 and immediately impaired the equity method investment during the three months ended March 31, 2017.

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. On January 26, 2018, the Company terminated its agreement with FTS. During the year ended December 31, 2018 and 2017, the Company recorded consulting fees of \$137 and \$360, respectively, to FTS for such services. As of December 31, 2018, the Company owed \$0 to FTS.

MGT CAPITAL INVESTMENTS, INC. AND SUBSIDIARIES
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(In thousands, except share and per-share amounts)

Note 14. Employee Benefit Plans

The Company maintains defined contribution benefit plans under Section 401(k) of the Internal Revenue Code covering substantially all qualified employees of the Company (the “401(k) Plan”). Under the 401(k) Plan, the Company may make discretionary contributions of up to 100% of employee contributions. During the year ended December 31, 2018 and 2017, the Company made contributions to the 401(k) Plan of \$18 and \$10, respectively.

Note 15. Subsequent Events

The Company has evaluated the impacts of subsequent events through April 16, 2019, and has determined that no such events occurred that were required to be reflected in the consolidated financial statements, except as described within the above notes and described below.

Modification of Notes Payable

On January 7, 2019, the Company entered into an amendment to its May 2018 Notes to (a) forego the installment payments due on December 23, 2018 and January 23, 2019; (b) extend the maturity date of the note to May 23, 2019; (c) pay the Lender an extension fee in the amount of \$21 and (d) give the Company the option of paying each installment payment in shares of common stock at a price equal to 80% of the lowest volume weighted average price for the previous 10 trading days.

On January 28, 2019, the Company entered into an amendment to its June 2018 Note to (a) forego the installment payment due on January 1, 2019, February 1, 2019, and March 1, 2019; (b) extend the maturity date of the note to October 1, 2019; and (c) to increase the principal amount on the note by \$527.

Shares issued to consultants

Subsequent to December 31, 2018 through April 16, 2019, the Company issued 190,500 shares of its common stock to consultants in exchange for services.

Equity Purchase Agreement

Subsequent to December 31, 2018, through April 16, 2019, the Company issued 67,000,000 shares of its common stock under the Equity Purchase Agreement in exchange for \$3,277.

Sale of Preferred Stock

On April 12, 2019, the Company’s Board of Directors approved the authorization of 200 shares of Series C Convertible Preferred Stock with a par value of \$0.001 and a stated value of \$10,000 per share (“Preferred Shares”). The holders of the Preferred Shares are not entitled to vote their shares or receive dividends. At any time prior to the one-year anniversary from the issuance date, the Company may redeem the Preferred Shares at 1.4 times the Stated Value, following which the Company may redeem the Preferred Shares at 1.2 times the Stated Value.

Each Preferred Share is convertible into shares of the Company’s common stock in an amount equal to the greater of: (a) 200,000 shares of common stock or (b) the amount derived by dividing the Stated Value by the product of 0.7 times the market price of the Company’s common stock, defined as the lowest trading price of the Company’s common stock during the ten day period preceding the conversion date. The holder may not convert any Preferred Shares if the total amount of shares, together with holdings of its affiliates, following a conversion shall exceed 9.99% of the Company’s common stock. The common shares issued upon conversion have been registered under the Company’s registration statement on Form S-3. On April 12, 2019, the Company sold 190 Preferred Shares for \$2,000.

Sale of Common Stock

On April 12, 2019, the Company entered into a Purchase Agreement with an accredited investor whereby it sold 17,500,000 shares of its common stock for \$525 pursuant to the Company’s registration statement on Form S-3.

Settlement Agreement

On March 22, 2019, the Company entered into a settlement agreement to terminate its Data Center Hosting Agreement

in Washington. The Company conveyed its ownership of its mining assets located in the hosting facility for full satisfaction of \$77k in outstanding hosting service fees.

RESTATED ARTICLES OF INCORPORATION
OF
MGT CAPITAL INVESTMENTS, INC.

The following Restated Articles of Incorporation supersede the previous Articles of Incorporation and shall be the current Articles of Incorporation of the corporation:

ARTICLE I

Name

The name of this corporation shall be MGT Capital Investments, Inc. (the "Corporation").

ARTICLE II

Registered Agent and Office

The Corporation's Registered Agent in this state shall be Corporation Services Company. The location and address of the Corporation's registered office in this state shall be 251 Little Falls Drive, Wilmington, Delaware 19808.

ARTICLE III

Purpose

The purpose for which the Corporation is organized is to engage in any lawful act of activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

Authorized Capital

The Board of Directors of the Corporation has the authority to establish more than one class or series of shares and to set the relative rights and preferences of any such different class or series. The total authorized number of shares of the Corporation is 2,510,000,000 shares, divided into 2,500,000,000 shares of common stock, par value \$0.001 per share ("Common Stock") and 10,000,000 shares of preferred stock, par value \$0.001 per share ("Preferred Stock"), as more fully described below:

- (a) Common Stock. Each holder of record of Common Stock shall have the right to one vote for each share of Common Stock registered in the holder's name on the books of the corporation on all matters submitted to a vote of stockholders except as the right to exercise such vote may be limited by the provisions of this Restated Articles of Incorporation or of any class or series of Preferred Stock established hereunder. The holders of Common Stock shall be entitled to such dividends as may be declared by the Board of Directors from time to time, provided that required dividends, if any, on Preferred Stock have been paid or provided for. In the event of the liquidation, dissolution, or winding up, whether voluntary or involuntary, of the corporation, the assets and funds of the corporation available for distribution to stockholders, and remaining after the payment to holders of Preferred Stock of the amounts, if any, to which they are entitled, shall be divided and paid to the holders of Common Stock according to their respective shares.
-

(b) Preferred Stock. The shares of Preferred Stock may be divided and issued from time to time in one or more classes and/or series within any class or classes as may be determined by the Board of Directors of the corporation, each such class or series to be distinctly designated and to consist of the number of shares determined by the Board of Directors. The Board of Directors of the corporation is hereby expressly vested with authority to adopt resolutions with respect to any unissued and/or treasury shares of Preferred Stock to issue the shares, to fix the number of shares constituting any class or series, and to provide for the voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions, if any, of Preferred Stock, and each class or series thereof, in each case without approval of the stockholders. The authority of the Board of Directors with respect to each class or series of Preferred Stock shall include, without limiting the generality of the foregoing, the determination of the following:

- (1) The number of shares constituting that class or series and the distinctive designation of that class or series;
- (2) The dividend rate on the shares of that class or series, whether dividends shall be cumulative, and, if so, from which date or dates;
- (3) Whether that class or series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights;
- (4) Whether that class or series shall have conversion privileges (including rights to convert such class or series into the capital stock of the corporation or any other entity) and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events at the Board of Directors shall determine;
- (5) Whether or not shares of that class or series shall be redeemable, and if so, the terms and conditions of such redemption (including any sinking fund provisions), the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions;
- (6) The rights of the shares of that class or series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation; and
- (7) Any other relative rights, preferences and limitations of that class or series as may be permitted or required by law.

The number of shares, voting powers, designations, preferences and relative, participating, optional or other special rights, qualifications, limitations or restrictions, if any, of any class or series of Preferred Stock which may be designated by the Board of Directors may differ from those of any and all other class or series at any time outstanding. As such, the Corporation has authorized the issuance of 1,380,362 shares of Preferred Stock, par value \$0.01 per share, and designated such shares of Preferred Stock as Series A Preferred Stock.

(c) Increase in Authorized Preferred Stock. Except as otherwise provided by law or in a resolution or resolutions establishing any particular class or series of Preferred Stock, the aggregate number of authorized shares of Preferred Stock may be increased by an amendment to these Restated Articles of Incorporation approved solely by the holders of Common Stock and of any class or series of Preferred Stock which is entitled pursuant to its voting rights designated by the Board of Directors to vote thereon, if at all, voting together as a class.

ARTICLE V

The name and mailing address of the sole incorporator are: Dawn Sprauve, Salans Hertzfeld Heilbronn Christy & Viener, 620 Fifth Avenue, New York, New York 10020.

ARTICLE VI

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is authorized to adopt, amend or repeal the By-Laws of the Corporation.

ARTICLE VII

Election of directors of the Corporation need not be by ballot unless the By-Laws so require.

ARTICLE VIII

Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

ARTICLE IX

To the fullest extent that the General Corporation Law of the State of Delaware as it exists on the date hereof or as it may hereafter be amended permits the limitation or elimination of the liability of directors, no director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. No amendment to this Certificate of Incorporation, directly or indirectly by merger, consolidation or otherwise, having the effect of amending or repealing any of the provisions of this ARTICLE NINTH shall apply to, or have any effect on the liability or alleged liability of, any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal, unless such amendment shall have the effect of further limiting or eliminating such liability.

ARTICLE X

The Corporation reserves the right to amend, alter or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by statute, and all rights of stockholders herein are subject to this reservation.

ARTICLE XI

The Corporation shall not be subject to the provisions of Section 203 of Title 8 of the Delaware Code regarding business combinations with interested stockholders.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF the Corporation has caused this Restated Articles of Incorporation to be signed by the undersigned, Robert Ladd, an authorized officer, and the undersigned has executed this certificate and affirms the foregoing as true and under penalty of perjury this 23rd day of March, 2018.

MGT CAPITAL INVESTMENTS, INC.

By: /s/ Robert Ladd

Robert Ladd

Chief Executive Officer and President



AMENDMENT #2 TO PROMISSORY NOTE

This Amendment #2 to Promissory Note (this “**Amendment**”) is entered into as of December 10, 2018, by and between Iliad Research and Trading, L.P., a Utah limited partnership (“**Lender**”), and MGT Capital Investments, Inc., a Delaware corporation (“**Borrower**”). Capitalized terms used in this Amendment without definition shall have the meanings given to them in the Note (as defined below).

A. Borrower previously issued to Lender a Promissory Note dated June 1, 2018 in the principal amount of \$3,600,000.00 (the “**Note**”).

B. Pursuant to that certain Amendment to Promissory Note dated October 24, 2018 (“**Amendment #1**,” and together with this Amendment, the “**Amendments**”), Borrower and Lender amended the Note to extend the maturity date of the Note and allow the Borrower to skip the Installment Payment that was due and payable on November 1, 2018.

C. Borrower has requested that Lender again extend the maturity date of the Note (the “**Extension**”) and, further, that Lender not require Borrower to make its Installment Payment due under the Note on December 1, 2018 (the “**Skipped Payment**”).

D. Lender has agreed, subject to the terms, amendments, conditions and understandings expressed in this Amendment, to grant the Extension and permit the Skipped Payment.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Recitals. Each of the parties hereto acknowledges and agrees that the recitals set forth above in this Amendment are true and accurate and are hereby incorporated into and made a part of this Amendment.

2. Extension. The maturity date for the Note is hereby extended until July 1, 2019.

3. Skipped Payment. Lender hereby consents and agrees that Borrower shall not be required to make the Installment Payment due and payable on December 1, 2018; provided, that Borrower acknowledges it is obligated to make a partial Installment Payment for January 2019 as set forth in Section 5 below and the next full \$400,000.00 Installment Payment for the month of February 2019 and all Installment Payments thereafter on their respective due dates. For the avoidance of doubt, the final Installment Payment on July 1, 2019 will equal the total Outstanding Balance on that date.

4. Redemption Notices; Conversion With respect to each Installment Payment due under the Note, Lender will submit to Borrower a redemption notice (each, a “**Redemption Notice**”) specifying the amount Lender has elected to cause Borrower to redeem and specifying whether Lender has elected to receive such amount in cash or shares of Borrower’s common stock (“**Conversion Shares**”). If Lender elects to be paid in cash, Borrower must pay Lender such amount in cash within three (3) trading days of Lender’s delivery of the applicable Redemption Notice to Borrower. If Lender elects to be paid in Conversion Shares, Borrower may choose to pay such redemption amount in either cash or Conversion Shares at its election. Redemptions during the month of January 2019 will be limited as set forth in Section 5 below. Thereafter, the total amount being redeemed in any given calendar month must not exceed \$400,000.00. If Lender and Borrower both elect for a redemption amount to be paid via Conversion Shares: (i) the number of Conversion Shares required to be delivered will be calculated pursuant to the following formula: (the applicable redemption amount) / (70% * the lowest intra-day trade price of Borrower’s common stock in the preceding twenty (20) trading days); and (ii) such Conversion Shares must be delivered to Lender’s broker within three (3) trading days of Borrower’s receipt of the applicable Redemption Notice. If Borrower fails to timely deliver Conversion Shares, an Event of Default will be deemed to have occurred under the Note.

5. January Installment Payment Beginning of January 2, 2019 and ending on January 31, 2019, Borrower will pay Lender \$50,000.00 per calendar week (including partial weeks) for a total of \$250,000.00 in lieu of making a full \$400,000.00 Installment Payment.

6. Waiver of Cross Default. Lender waives any right to call an Event of Default under the Note as a result of any default by Borrower under its promissory notes issued to Gemini Special Opportunities Fund, LP and Black Mountain Equities, Inc. on May 23, 2018.

7. Extension Fee. In consideration of Lender’s grant of the Extension and the Skipped Payment, its fees incurred in preparing this Amendment and other accommodations set forth herein, Borrower agrees to pay to Lender an extension fee in the amount of \$244,800.00 (the “**Extension Fee**”). The Extension Fee is hereby added to the Outstanding Balance of the Note as of the date of this Amendment. Lender and Borrower further agree that the Extension Fee is deemed to be fully earned as of the date hereof, is nonrefundable under any circumstance, and that the Extension Fee tacks back to the date of the Note for Rule 144 purposes. Borrower represents and warrants that as of the date hereof the Outstanding Balance of the Note, following the application of the Extension Fee, is \$2,692,800.00.

8. Ownership Limitation. Notwithstanding anything to the contrary contained in this Amendment, the Note or the other Transaction Documents, if at any time Lender shall or would be issued shares of Borrower’s common stock (“**Common Stock**”) under any of the Transaction Documents, but such issuance would cause Lender (together with its affiliates) to beneficially own a number of shares exceeding 4.99% of the number of shares of Common Stock outstanding on such date (including for such purpose the shares of Common Stock issuable upon such issuance) (the “**Maximum Percentage**”), then Borrower must not issue to Lender shares of Common Stock which would exceed the Maximum Percentage. For purposes of this section, beneficial ownership of Common Stock will be determined pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended. Notwithstanding the forgoing, the term “4.99%” above shall be replaced with “9.99%” at such time as the Market Capitalization (as defined below) is less than \$10,000,000.00. Notwithstanding any other provision contained herein, if the term “4.99%” is replaced with “9.99%” pursuant to the preceding sentence, such increase to “9.99%” shall remain at 9.99% until increased, decreased or waived by Lender as set forth below. By written notice to Borrower, Lender may increase, decrease or waive the Maximum Percentage as to itself but any such waiver will not be effective until the 61st day after delivery thereof. The foregoing 61-day notice requirement is enforceable, unconditional and non-waivable and shall apply to all affiliates and assigns of Lender. For purposes hereof, the term “**Market Capitalization**” means a number equal to (a) the average volume-weighted average price of the Common Stock for the immediately preceding fifteen (15) trading days, multiplied by (b) the aggregate number of outstanding shares of Common Stock as reported on Borrower’s most recently filed Form 10-Q or Form 10-K.

8. Representations and Warranties. In order to induce Lender to enter into this Amendment, Borrower, for itself, and for its affiliates, successors and assigns, hereby acknowledges, represents, warrants and agrees as follows:

(a) Borrower has full power and authority to enter into this Amendment and to incur and perform all obligations and covenants contained herein, all of which have been duly authorized by all proper and necessary action. No consent, approval, filing or registration with or notice to any governmental authority is required as a condition to the validity of this Amendment or the performance of any of the obligations of Borrower hereunder.

(b) There is no fact known to Borrower or which should be known to Borrower which Borrower has not disclosed to Lender on or prior to the date of this Amendment which would or could materially and adversely affect the understanding of Lender expressed in this Amendment or any representation, warranty, or recital contained in this Amendment.

(c) Except as expressly set forth in this Amendment, Borrower acknowledges and agrees that neither the execution and delivery of this Amendment nor any of the terms, provisions, covenants, or agreements contained in this Amendment shall in any manner release, impair, lessen, modify, waive, or otherwise affect the liability and obligations of Borrower under the terms of the Transaction Documents.

(d) Borrower has no defenses, affirmative or otherwise, rights of setoff, rights of recoupment, claims, counterclaims, actions or causes of action of any kind or nature whatsoever against Lender, directly or indirectly, arising out of, based upon, or in any manner connected with, the transactions contemplated hereby, whether known or unknown, which occurred, existed, was taken, permitted, or begun prior to the execution of this Amendment and occurred, existed, was taken, permitted or begun in accordance with, pursuant to, or by virtue of any of the terms or conditions of the Transaction Documents. To the extent any such defenses, affirmative or otherwise, rights of setoff, rights of recoupment, claims, counterclaims, actions or causes of action exist or existed, such defenses, rights, claims, counterclaims, actions and causes of action are hereby waived, discharged and released. Borrower hereby acknowledges and agrees that the execution of this Amendment by Lender shall not constitute an acknowledgment of or admission by Lender of the existence of any claims or of liability for any matter or precedent upon which any claim or liability may be asserted.

(e) Borrower represents and warrants that as of the date hereof no Events of Default or other material breaches exist under the Transaction Documents or have occurred prior to the date hereof.

9. Certain Acknowledgments. Each of the parties acknowledges and agrees that no property or cash consideration of any kind whatsoever has been or shall be given by Lender to Borrower in connection with the Extension or the Skipped Payment or any other amendment to the Note granted herein.

10. Other Terms Unchanged. The Note, as amended by the Amendments, remains and continues in full force and effect, constitutes legal, valid, and binding obligations of each of the parties, and is in all respects agreed to, ratified, and confirmed. Any reference to the Note after the date of this Amendment is deemed to be a reference to the Note as amended by the Amendments. If there is a conflict between the terms of this Amendment and the Note or Amendment #1, the terms of this Amendment shall control. No forbearance or waiver may be implied by this Amendment. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment to, any right, power, or remedy of Lender under the Note, as in effect prior to the date hereof. For the avoidance of doubt, this Amendment shall be subject to the governing law, venue, and Arbitration Provisions, as set forth in the Note.

11. No Reliance. Borrower acknowledges and agrees that neither Lender nor any of its officers, directors, members, managers, equity holders, representatives or agents has made any representations or warranties to Borrower or any of its agents, representatives, officers, directors, or employees except as expressly set forth in this Amendment and the Transaction Documents and, in making its decision to enter into the transactions contemplated by this Amendment, Borrower is not relying on any representation, warranty, covenant or promise of Lender or its officers, directors, members, managers, equity holders, agents or representatives other than as set forth in this Amendment.

12. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument. The parties hereto confirm that any electronic copy of another party's executed counterpart of this Amendment (or such party's signature page thereof) will be deemed to be an executed original thereof.

13. Further Assurances. Each party shall do and perform or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Amendment and the consummation of the transactions contemplated hereby.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth above.

LENDER:

Iliad Research and Trading, L.P.

By: Iliad Management, LLC, its General Partner

By: Fife Trading, Inc., Manager

By: /s/ John M. Fife

John M. Fife, President

BORROWER:

MGT Capital Investments, Inc.

By: /s/ Robert Lowrey

Printed Name: Robert Lowrey

Title: Treasurer and Chief Financial Officer

[Signature Page to Amendment #2 to Promissory Note]

AMENDMENT TO EQUITY PURCHASE AGREEMENT

This AMENDMENT TO EQUITY PURCHASE AGREEMENT (this “Amendment”), dated November __, 2018 by and between MGT Capital Investments, Inc., a Delaware corporation (the “Company”), and L2 Capital, LLC, a Kansas limited liability company (the “Investor”).

WHEREAS, the Company and the Investor are parties to that certain Equity Purchase Agreement, dated August 30, 2018 (the “Equity Purchase Agreement”); and,

WHEREAS, notwithstanding the provision of Section 10.15 of the Equity Purchase Agreement, the Company and the Investor desire to amend the Equity Purchase Agreement as set forth below:

NOW, THEREFORE, in consideration of the foregoing and the mutual promises of the parties, and other good and valuable consideration, the undersigned agree as follows:

1. The Equity Purchase Agreement shall be amended as follows:
 - a. In Article I, entitled, “Certain Definitions,” the Defined Terms set forth in Section 1.2 of “Market Price,” “Maximum Commitment Amount,” and “Purchase Price” shall each be replaced and restated in its entirety by:
 - i. “Market Price” shall mean the lowest traded price on the Principal Market for any Trading Day during the Valuation Period, as reported by Bloomberg Finance L.P. or other reputable source.
 - ii. “Maximum Commitment Amount” shall mean Fifty Million Dollars (\$50,000,000.00).
 - iii. “Purchase Price” shall mean 95.0% of the Market Price on such date on which the Purchase Price is calculated in accordance with the terms and conditions of this Agreement.
 - b. The reference to “Thirty-Five Million Dollars (\$35,000,000) in the Recitals to the Equity Purchase Agreement shall be replaced with “Fifty Million Dollars (\$50,000,000).”
2. Except as herein provided, the terms of the Equity Purchase Agreement shall remain in full force and effect and the undersigned hereby ratify and affirm the terms of the Equity Purchase Agreement as modified by this Amendment.
3. Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Equity Purchase Agreement.
4. This Amendment shall be governed by and construed in accordance with the laws of the State of Kansas. The parties hereto agree that the terms set forth in Sections 10.1, 10.2 and 10.3 of the Equity Purchase Agreement shall be applicable to this Amendment and are hereby incorporated herein.
5. The parties acknowledge and agree that the recitals set forth above are true and correct and are hereby incorporated in and made a part of this Amendment.
6. This Amendment may be executed in counterparts (including by facsimile or pdf signature pages or other means of electronic transmission) each of which shall be deemed an original but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

MGT CAPITAL INVESTMENTS, INC

By: /s/ Robert Lowrey

Name: Robert Lowrey

Title: Treasurer and Chief Financial Officer

L2 CAPITAL, LLC

By: /s/ Adam Long

Name: Adam Long

Title: Managing Partner

SUBSIDIARIES OF MGT CAPITAL INVESTMENTS, INC.

Name of subsidiary	Jurisdiction of organization
MGT Sweden AB	Sweden

Consent of Independent Registered Public Accounting Firm

The Board of Directors
MGT Capital Investments, Inc.

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-217663) of MGT Capital Investments, Inc., of our report dated April 16, 2019, relating to the consolidated financial statements of MGT Capital Investments, Inc., as of December 31, 2018 and 2017, and for each of the two years in the period ended December 31, 2018, appearing in the Annual Report on Form 10-K of MGT Capital Investments, Inc. for the year ended December 31, 2018. Our report on the consolidated financial statements includes an explanatory paragraph expressing substantial doubt regarding MGT Capital Investments, Inc.'s ability to continue as a going concern.

/s/ RBSM LLP

New York, NY
April 16, 2019

CERTIFICATION PURSUANT TO SARBANES–OXLEY ACT OF 2002

I, H. Robert Holmes, certify that:

1. I have reviewed this annual report on Form 10–K of MGT Capital Investments, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 16, 2019

By: /s/ H. Robert Holmes

H. Robert Holmes
Interim President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO SARBANES–OXLEY ACT OF 2002

I, Robert S. Lowrey, certify that:

1. I have reviewed this annual report on Form 10–K of MGT Capital Investments, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

April 16, 2019

By: /s/ Robert S. Lowrey

Robert S. Lowrey
Chief Financial Officer
(Principal Financial and Accounting Officer)
