

Viggle Inc.  
Form 10-Q  
November 13, 2015

---

---

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

Form 10-Q

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

For the quarterly period ended September 30, 2015

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 No. 00-13803

Viggle Inc.  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

33-0637631  
(I.R.S. Employer Identification Number)

902 Broadway, 11th Floor, New York, NY 10010  
(Address of Principal Executive Offices and Zip Code)

Registrant's Telephone Number, Including Area Code: (212) 231-0092

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.001 per share

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

Edgar Filing: Viggle Inc. - Form 10-Q

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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on December 31, 2014, based on the closing price of such stock on the NASDAQ stock market on such date, was \$21,226,323.

As of November 10, 2015, there were 25,141,030 shares of the registrant’s common stock outstanding.

Documents Incorporated by Reference: None

---

---

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements	<u>2</u>
	Consolidated Balance Sheets as of September 30, 2015 (Unaudited) and June 30, 2015	<u>3</u>
	Consolidated Statements of Operations for the Three Months Ended September 30, 2015 and 2014 (Unaudited)	<u>4</u>
	Consolidated Statements of Stockholders' Equity as of September 30, 2015 (Unaudited)	<u>5</u>
	Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2015 and 2014 (Unaudited)	<u>6</u>
	Notes to Consolidated Financial Statements (Unaudited)	<u>7</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>25</u>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	<u>36</u>
Item 4.	Controls and Procedures	<u>37</u>

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	<u>39</u>
Item 1.A.	Risk Factors	<u>40</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>50</u>
Item 3.	Defaults Upon Senior Securities	<u>50</u>
Item 4.	Mine Safety Disclosures	<u>50</u>
Item 5.	Other Information	<u>50</u>
Item 6.	Exhibits	<u>51</u>

## PART I

### CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q (this "Quarterly Report") contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "believe," "expect," "will," "anticipate," "intend," "estimate," "project," "assume" or other similar expressions, although not all forward-looking statements contain these identifying words. All statements in this Quarterly Report regarding our future strategy, future operations, projected financial position, estimated future revenue, projected costs, future prospects, and results that might be obtained by pursuing management's current plans and objectives are forward-looking statements. You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Important risks that might cause our actual results to differ materially from the results contemplated by the forward-looking statements are contained in "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 1A. Risk Factors" of this Quarterly Report and in our subsequent filings with the Securities and Exchange Commission ("SEC"). Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this Quarterly Report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our stockholders.

As used in this report:

• "Viggle" refers to Viggle Inc., a Delaware corporation (also herein referred to as "the Company")

• "App" refers to the free Viggle application (also herein referred to as the "Viggle App")

• "We", "us" and "our" refer to Viggle and its subsidiaries, individually, or in any combination

• "SFX" refers to SFX Entertainment Inc., a company affiliated with Robert F.X. Sillerman, the Company's Executive Chairman, Chief Executive Officer, and a Director (hereinafter, "Mr. Sillerman")

• "SIC" refers to Sillerman Investment Company, LLC, a company affiliated with Mr. Sillerman

• "SIC II" refers to Sillerman Investment Company II, LLC, a company affiliated with Mr. Sillerman

• "SIC III" refers to Sillerman Investment Company III, LLC, a company affiliated with Mr. Sillerman

• "SIC IV" refers to Sillerman Investment Company IV, LLC, a company affiliated with Mr. Sillerman

All dollar amounts in this report, except per share amounts, unless indicated otherwise, are in thousands.

### ITEM 1. FINANCIAL STATEMENTS



Viggle Inc.  
CONSOLIDATED BALANCE SHEETS  
(amounts in thousands, except share data)  
(Unaudited)

	September 30, 2015	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$1,521	\$4,217
Accounts receivable (net of allowance for doubtful accounts of \$95 at September 30, 2015 and June 30, 2015)	3,387	4,119
Prepaid expenses	2,455	633
Other receivables	700	661
Total current assets	8,063	9,630
Restricted cash	695	695
Property & equipment, net	2,305	2,448
Intangible assets, net	22,672	21,313
Goodwill	38,455	35,833
Other assets	1,781	310
Total assets	\$73,971	\$70,229
Liabilities, convertible redeemable preferred stock and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$15,365	\$9,497
Reward points payable	8,744	9,029
Contingent consideration liability	3,064	4,792
Common stock warrant liability	10	10
Deferred revenue	578	593
Current portion of loan payable	—	1,575
Total current liabilities	27,761	25,496
Loans payable, less current portion	26,141	22,516
Deferred revenue	3,729	3,854
Other long-term liabilities	2,186	2,216
Total liabilities	59,817	54,082
Series A Convertible Redeemable Preferred Stock, \$1,000 stated value, authorized 100,000 shares, issued and outstanding -0- shares as of September 30, 2015 and June 30, 2015	—	—
Series C Convertible Redeemable Preferred Stock, \$1,000 stated value, authorized 100,000 shares, issued and outstanding of 10,000 shares as of September 30, 2015 and June 30, 2015	12,047	11,815
Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock, \$1,000 stated value, authorized 50,000 shares, issued and outstanding -0- shares as of September 30, 2015 and June 30, 2015	—	—
Common stock, \$0.001 par value: authorized 300,000,000 shares, issued and outstanding 25,060,277 and 23,383,125 shares as of September 30, 2015 and June 30, 2015, respectively	25	23
Additional paid-in-capital	390,271	383,585
Treasury stock, 215,164 shares at September 30, 2015 and June 30, 2015	(11,916)	(11,916)

Edgar Filing: Viggle Inc. - Form 10-Q

Accumulated deficit	(380,604	)(367,360 )
Non-controlling interest	4,331	—
Total stockholders' equity	2,107	4,332
Total liabilities, convertible redeemable preferred stock and stockholders' equity	\$73,971	\$70,229

See accompanying notes to consolidated financial statements

3

---

Viggle Inc.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(amounts in thousands, except share and per share data)  
(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	
Revenues	\$5,052	\$6,476	
Cost of watchpoints and engagement points	(2,022)	(1,164)	)
Selling, general and administrative expenses	(15,566)	(22,771)	)
Operating loss	(12,536)	(17,459)	)
Other (expense) income:			
Other income, net	—	5	
Interest expense, net	(854)	(127)	)
Total other expense	(854)	(122)	)
Net loss before provision for income taxes	(13,390)	(17,581)	)
Income tax expense	(22)	(22)	)
Net loss	(13,412)	(17,603)	)
Accretion of Convertible Redeemable Preferred Stock	74	—	
Undeclared Series C Convertible Redeemable Preferred Stock Dividend	(307)	—	)
Less: Net loss attributable to non-controlling interest	168	—	
Net loss attributable to Viggle Inc. common stockholders	\$(13,477)	\$(17,603)	)
Net loss per share attributable to Viggle Inc. common stockholders - basic and diluted	\$(0.57)	\$(1.12)	)
Weighted average common shares outstanding - basic and diluted	23,828,683	15,741,055	

See accompanying notes to consolidated financial statements



Viggle Inc.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in thousands)

	Common Stock	Class B Preferred Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Non-controlling Interest	Total
Balance July 1, 2015	\$23	\$—	\$383,585	\$(11,916)	\$(367,360 )	\$ —	\$4,332
Net loss					(13,412 )		(13,412 )
Net loss attributable to non-controlling interest					168	(168 )	—
Common shares issued for DraftDay acquisition	2		1,755			1,024	2,781
Common shares and warrants of DraftDay issued for management service contracts						3,475	3,475
Accretion of Series C Convertible Redeemable Preferred Stock			74				74
Undeclared Series C Preferred Stock Dividend			(307 )				(307 )
Restricted stock - share based compensation			4,991				4,991
Employee stock options - share based compensation			173				173
Balance September 30, 2015 (unaudited)	\$25	\$—	\$390,271	\$(11,916)	\$(380,604 )	\$ 4,331	\$2,107

See accompanying notes to consolidated financial statements

Viggle Inc.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(amounts in thousands)  
(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	
Operating activities:			
Net loss	\$(13,412	)\$(17,603	)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Restricted stock - share based compensation	4,991	5,680	
Employee stock options - share based compensation	173	1,882	
Decrease in fair value of common stock warrants	—	(5	)
Depreciation and amortization	1,196	1,800	
Accretion of note discount	50	—	
Interest income on notes receivable from shareholders and officer	—	(1	)
Changes in operating assets and liabilities:			
Accounts receivable, net	732	486	
Other receivables	106	(170	)
Prepaid expenses	(58	) (98	)
Other assets	—	5,006	
Deferred revenue	(140	) (466	)
Accounts payable and accrued expenses	3,082	3,778	
Reward points liability	(285	) 310	
Other liabilities	(30	) 29	
Other	92	—	
Net cash (used in) provided by operating activities	(3,503	) 628	
Investing activities:			
Acquisitions, net of cash acquired	535	—	
Purchase of property and equipment	—	(112	)
Capitalized software costs	—	(131	)
Net cash provided by (used in) investing activities	535	(243	)
Financing activities:			
Proceeds from loans	5,000	—	
Repayments on loans	(3,000	) —	
Payments related to contingent consideration	(1,728	) —	
Purchase of common shares from former officer	—	(270	)
Net cash provided by (used in) financing activities	272	(270	)
Net (decrease) increase in cash	(2,696	) 115	
Cash at beginning of period	4,217	7	
Cash at end of period	\$1,521	\$122	
Supplemental cash flow Information:			
Cash paid during the period for interest	\$—	\$104	

Edgar Filing: Viggle Inc. - Form 10-Q

Non-Cash investing activities:

Landlord lease incentive build-out allowance	\$—	\$449
Common stock and warrants issued for DraftDay acquisition	\$1,757	\$—
Common stock and warrants issued for management service contracts	\$3,475	\$—

See accompanying notes to consolidated financial statements

6

---

Viggle Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except share and per share data)

(Unaudited)

### 1. Basis of Presentation and Consolidation

On May 31, 2012, the Company changed its name from Function(x) Inc. to Viggle Inc. It now conducts business under the name Viggle Inc.

The consolidated financial statements include the accounts of Viggle Inc., its wholly-owned subsidiaries, and DraftDay Gaming Group, Inc.. The Company has nine wholly-owned subsidiaries, Function(x) Inc., Project Oda, Inc., Sports Hero Inc., Loyalize Inc., Viggle Media Inc., VX Acquisition Corp., Viggle Merger Sub II Inc., Wetpaint.com, Inc., and Choose Digital Inc., each a Delaware corporation. These consolidated financial statements also include the accounts of DraftDay Gaming Group, Inc., a Delaware corporation. Viggle Inc. owns approximately 49% of the issued and outstanding common stock of DraftDay Gaming Group, Inc., and also appoints a majority of the members of its Board of Directors. All intercompany transactions and balances have been eliminated.

### Going Concern

These financial statements have been prepared on a going concern basis which assumes the Company's ability to continue to realize its assets and discharge its liabilities in the normal course of business. The Company is unlikely to generate significant revenue or earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its stockholders, the ability of the Company to obtain necessary equity or debt financing to continue development of its business and to generate revenue. Management intends to raise additional funds through equity and/or debt offerings until sustainable revenues are developed. There is no assurance such equity and/or debt offerings will be successful and therefore there is substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

### 2. Line of Business

#### The Company's Line of Business

Viggle is a mobile and web-based entertainment marketing platform that uses incentives to make content consumption and discovery more rewarding for media companies, brands and consumers. Viggle helps guide consumers towards various forms of media consumption with television enhancement, music discovery, entertainment content publishing and distributed viewing reminders. Viggle helps consumers decide what to watch and when, broadens the viewing experience with real time games and additional content, and rewards viewers for being loyal to their favorite shows throughout a season, allowing them to earn points. For brands, Viggle provides advertising clients with targeted interactive ads to amplify their TV messaging to verified audiences. For media companies, Viggle delivers promotional benefits by driving viewers to specific shows, engaging them in a richer content experience, and increasing awareness of promoted shows through web, mobile and social channels.

The Company's content website, wetpaint.com, extends its promotional capabilities by reaching potential viewers before a TV show is broadcast and by allowing viewers to continue the conversation with additional show coverage after the broadcast date. The Company also has technology that helps consumers search for media and set reminders to

watch their favorite TV shows and movies wherever they are offered. In addition, the Company recently launched its music service, which allows consumers to check-in to songs on Viggle and also earn points. As a media company, Viggle seeks to attract a significant and growing audience in order to sell advertising. The Company believes that making entertainment more rewarding and engaging for consumers will drive them to use Viggle.

U.S. consumers can become Viggle users through a free App that works on multiple types of mobile phones and tablets and is distributed through the Apple App Store and the Google Play Store. After a consumer downloads the App, he or she must create an account. Viggle then allows consumers to play along with TV shows, share comments through social media, answer trivia questions or polls, chat with friends, play games, or discover more about the show, all while watching TV. Users can also use the App to discover new music. The App can listen to a song and identify it and allow users to build playlists and purchase the music. All of this activity earns users points they can redeem for real rewards.

7

---

The Viggle user experience is simple. While watching TV or listening to music, a user taps the “check-in” button, which activates the device’s microphone. Viggle collects an audio sample of the content the user can hear and uses technology to convert that sample into a digital fingerprint. Within seconds, that digital fingerprint is matched against applicable databases.

Through wetpaint.com, the Company reports original news stories and publishes information content covering top television shows, music, celebrities, entertainment news and fashion. Wetpaint publishes more than 70 new articles, videos and galleries each day. The Company generates revenues through wetpaint.com by displaying advertisements to wetpaint.com users as they view its content.

The Company's wholly owned subsidiary, DraftDay Gaming Group, made a recent investment in the DraftDay.com platform. Through DraftDay.com, users can draft a fantasy sports team within a salary cap, follow game action and reap rewards. DraftDay.com will continue to offer high-quality entertainment to consumers as well as to businesses desiring turnkey solutions to new revenue streams. See Note 4, Acquisitions, for further details on this acquisition.

The Company has purchased and will continue to source rewards from vendors that it will issue to users upon the redemption of their points. The Company has not generated sufficient revenue to date to cover the cost of rewards and its other costs of doing business, and there is no guarantee that it will be able to generate sufficient revenue in the future to continue to purchase rewards from vendors or continue its business.

### 3. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending June 30, 2016.

#### Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid securities purchased with original maturities of 90 days or less to be cash equivalents. Cash equivalents are stated at cost which approximates market value and primarily consists of money market funds that are readily convertible into cash. Restricted cash comprises amounts held in deposit that were required as collateral under leases of office space.

#### Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts. The Company's allowance for doubtful accounts is based upon historical loss patterns, the number of days that the billings are past due and an evaluation of the potential risk associated with delinquent accounts. The Company also considers any changes to the financial condition of its customers and any other external market factors that could impact the collectability of its receivables in the determination of its allowance for doubtful accounts. The Company's allowance for doubtful accounts as of September 30, 2015 and June 30, 2015 was \$95.

#### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The Company maintains cash and cash equivalents with domestic financial institutions of high credit quality. The Company performs periodic evaluations of the relative credit standing of all of such institutions.

The Company performs ongoing credit evaluations of customers to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience with the customer, evaluation of their credit history, and review of the invoicing terms of the contract. The Company generally does not require collateral. The Company maintains reserves for potential credit losses on customer accounts when deemed necessary. Actual credit losses during the three months ended September 30, 2015 and September 30, 2014 were not significant.

#### Fair Value of Financial Instruments

8

---

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount of loans payable approximates fair value as current borrowing rates for the same, or similar issues, are the same as those that were given to the Company at the issuance of these loans.

#### Property and Equipment

Property and equipment (consisting primarily of computers, software, furniture and fixtures, and leasehold improvements) is recorded at historical cost and is depreciated using the straight-line method over their estimated useful lives. The useful life and depreciation method are reviewed periodically to ensure they are consistent with the anticipated pattern of future economic benefits. Expenditures for maintenance and repairs are charged to operations as incurred, while betterments are capitalized. Gains and losses on disposals are included in the results of operations. The estimated useful lives of the Company's property and equipment is as follows: computer equipment and software: 3 years; furniture and fixtures: 4 years; and leasehold improvements: the lesser of the lease term or life of the asset.

#### Goodwill and Certain Other Long-Lived Assets

As required by ASC 350, Goodwill and Other Intangible Assets, the Company tests goodwill for impairment during the fourth quarter of its fiscal year. Goodwill is not amortized, but instead tested for impairment at the reporting unit level at least annually and more frequently upon occurrence of certain events. The Company has one reporting unit. The annual goodwill impairment test is a two step process. First, the Company determines if the carrying value of its reporting unit exceeds fair value, which would indicate that goodwill may be impaired. If the Company then determines that goodwill may be impaired, it compares the implied fair value of the goodwill to its carry amount to determine if there is an impairment loss.

There were no impairments of goodwill during the three months ended September 30, 2015 as the fair value of the reporting unit exceeded its carrying amount.

The Company accounts for the impairment of long-lived assets other than goodwill in accordance with ASC 360, "Property, Plant, and Equipment", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal.

At June 30, 2015, the Company determined that certain intangible assets related to the acquisition of Choose Digital (see Note 4, Acquisitions for further detail regarding the Choose Digital acquisition) were impaired. Due to a shift in the Company's business operations and utilization of its resources, during the fourth quarter of fiscal 2015, the Company determined that intangible assets related to customer relationships and trade name no longer had value. Therefore, such assets were written off as of June 30, 2015. The total amount of the write off was \$2,086. There were no additional impairments of long-lived assets during the three months ended September 30, 2015.

#### Capitalized Software

The Company records amortization of acquired software on a straight-line basis over the estimated useful life of the software.



In addition, the Company records and capitalizes internally generated computer software and, appropriately, certain internal costs have been capitalized in the amounts of \$5,006 as of September 30, 2015 and June 30, 2015, in accordance with ASC 350-40 "Internal-use Software". At the time software is placed into service, the Company records amortization on a straight-line basis over the estimated useful life of the software.

#### Deferred Rent

The Company is party to a lease for office space for its corporate office, and as part of the agreement the landlord provided a rent abatement for the first 10 months of the lease. In 2014, the Company entered into two lease agreements for its satellite offices which provided for tenant improvement work sponsored by the landlords. The abatement and landlord sponsored improvements have been accounted for as a reduction of rental expense over the life of the lease. The Company accounts for rental expense on a straight line basis over the entire term of the lease. Deferred rent is equal to the cumulative timing difference between actual rent payments and recognized rental expense.

## Revenue Recognition

The Company recognizes revenue when: (1) persuasive evidence exists of an arrangement with the customer reflecting the terms and conditions under which products or services will be provided; (2) delivery has occurred or services have been provided; (3) the fee is fixed or determinable; and (4) collection is reasonably assured. For all revenue transactions, the Company considers a signed agreement, a binding insertion order or other similar documentation to be persuasive evidence of an arrangement.

**Advertising Revenue:** the Company generates advertising revenue primarily from display and video advertising, which is typically sold on a cost-per-thousand impressions, or CPM basis, and completed engagements on a cost per engagement, or CPE basis. Advertising campaigns typically range from 1 to 12 months, and advertisers generally pay the Company based on a minimum of delivered impressions or the satisfaction of other criteria, such as click-throughs.

**Deferred Revenue:** deferred revenue consists principally of both prepaid but unrecognized revenue and advertising fees received or billed in advance of the delivery or completion of the delivery of services. Deferred revenue is recognized as revenue when the services are provided and all other revenue recognition criteria have been met.

**Barter Revenue:** barter transactions represent the exchange of advertising or programming for advertising, merchandise or services. Barter transactions which exchange advertising for advertising are accounted for in accordance with EITF Issue No. 99-17 "Accounting for Advertising Barter Transactions" (ASC Topic 605-20-25). Such transactions are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counter party in the barter transactions. Barter transactions which exchange advertising or programming for merchandise or services are recorded at the monetary value of the revenue expected to be realized from the ultimate disposition of merchandise or services.

The Company recognized barter revenue and barter expense in the amount of \$2,609 and \$3,010 for the three months ended September 30, 2015 and September 30, 2014, respectively.

## Watchpoints and Engagement Points

The Company issues points to its users as an incentive to utilize the App and its features, and to consume content provided on wetpaint.com. Users can redeem these points for rewards. The Company records the cost of these points based on the weighted average cost of redemptions during the period. Points earned but not redeemed are classified as a liability.

Users earn points for various activities within the Company's App and the wetpaint.com site. The Company reports points earned for checking into shows and points earned for engaging in advertiser sponsored content as a separate line in its Statements of Operations ("Cost of watchpoints and engagement points"). All other points earned by users are reflected as a marketing expense in selling, general and administrative expense.

## Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Compensation - Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service

period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants issued. Stock-based awards issued to date are comprised of both restricted stock awards (RSUs) and employee stock options.

#### Marketing

Marketing costs are expensed as incurred. Marketing expense for the Company for the three months ended September 30, 2015 and September 30, 2014 was \$3,321 and \$4,116, respectively, including barter expense.

#### Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, Income Taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance

is recorded when it is unlikely that the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. These estimates include, among others, fair value of financial assets and liabilities, net realizable values on long-lived assets, certain accrued expense accounts, and estimates related to stock-based compensation. Actual results could differ from those estimates.

#### Recently Issued Accounting Pronouncements

In September 2015, the FASB issued Accounting Standard Update No. 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). This standard requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination, during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in the ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017 (July 1, 2017 for the Company). The Company does not believe that the adoption of ASU 2015-16 will have a material impact on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 (July 1, 2018 for the Company). Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company has not yet selected a transition method nor has it determined the impact of adoption on its consolidated financial statements.

#### 4. Acquisitions

##### Acquisition of Choose Digital

On June 24, 2014, the Company acquired Choose Digital Inc. ("Choose Digital"), a Miami, Florida based, digital marketplace platform that allows companies to incorporate digital content into existing rewards and loyalty programs in support of marketing and sales initiatives.

In connection with the Company's acquisition of Choose Digital, the Company was required to make a contingent payment, which was due within five business days after June 24, 2015, of \$4,792. Such amount was accrued in the accompanying Consolidated Balance Sheets as of June 30, 2015. On July 31, 2015, the Company entered into a Forbearance Agreement with AmossyKlein Family Holdings, LLP ("AmossyKlein"), as representative of the former shareholders of Choose Digital Inc. (the "Stockholders"). The Forbearance Agreement provides that the Company will make monthly installment payments to the Stockholders, beginning on July 31, 2015 and ending on January 29, 2016. Specifically, the Company agreed to pay \$668 on July 31, 2015; \$532 on August 31, 2015; \$528 on September 30, 2015; \$524 on October 31, 2015; \$521 on November 30, 2015; \$517 on December 31, 2015; and \$1,754 on January 29, 2016. The scheduled payments include \$252 of interest. The Company agreed to deliver an affidavit

of confession of judgment to be held in escrow by AmosyKlein's counsel in the event the Company does not make such installment payments. The balance of the contingent payment at September 30, 2015 was \$3,064.

#### Acquisition of DraftDay.com

On September 8, 2015, the Company and its newly created subsidiary DraftDay Gaming Group, Inc. ("DDGG") entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with MGT Capital Investments, Inc. ("MGT Capital") and MGT Sports, Inc. ("MGT Sports"), pursuant to which the Company acquired all of the assets of the DraftDay.com business (the "DraftDay Business") from MGT Capital and MGT Sports. In exchange for the acquisition of the DraftDay Business, the Company paid MGT Sports the following: (a) 1,269,342 shares of the Company's Common Stock, par value \$0.001 per share ("Common Stock"), (b) a promissory note in the amount of \$234 due September 29, 2015, (c) a promissory note in the amount of \$1,875 due March 8, 2016, and (d) 2,550,000 shares of common stock of DDGG. In addition, in exchange for providing certain transitional services, DDGG will issue to MGT Sports a warrant to purchase 1,500,000 shares of DDGG common stock at an exercise price of \$0.40 per share.

In addition, in exchange for the release of various liens and encumbrances, the Company also agreed to issue to third parties: (a) 84,633 shares of its Common Stock, (b) a promissory note in the amount of \$16 due September 29, 2015 and (c) a promissory note in the amount of \$125 due March 8, 2016, and DDGG issued: (i) 150,000 shares of its common stock and (ii) a warrant to purchase 350,000 shares of DDGG common stock at \$0.40 per share.

Accordingly, the Company issued a total of 1,353,975 shares of Common Stock in connection with the acquisition of the DraftDay Business.

The Company contributed the assets of the DraftDay Business to DDGG, such that the Company now owns a total of 11,250,000 shares of DDGG common stock.

The Asset Purchase Agreement contains customary representations, warranties and covenants of MGT Capital and MGT Sports. In addition, on September 8, 2015, DDGG entered into an agreement with Sportech Racing, LLC ("Sportech") pursuant to which Sportech agreed to provide certain management services to DDGG in exchange for 9,000,000 shares of DDGG common stock.

As a result of the transactions described above, the Company owns a total of 11,250,000 shares of DDGG common stock, Sportech Inc., an affiliate of Sportech, owns 9,000,000 shares of DDGG common stock, MGT Sports owns 2,550,000 shares of DDGG common stock and an additional third party owns 150,000 shares of DDGG common stock. On September 8, 2015, the various stockholders of DDGG entered into a Stockholders Agreement (the "Stockholders Agreement"). The Stockholders Agreement provides that all stockholders will vote their shares of DDGG common stock for a Board comprised of three members, two of which will be designated by the Company and one of which will be designated by Sportech. As such, the operations of the DraftDay business will be consolidated with the Company's operations from the acquisition date of September 8, 2015 (see Note 9, Stockholders' Equity, for a discussion on non-controlling interest related to the portion of the DraftDay Business that the Company does not own). Mr. Sillerman will serve as the Chairman of DDGG. The Stockholders Agreement also provides customary rights of first refusal for the various stockholders, as well as customary co-sale, drag along and preemptive rights.

In the aggregate, as a result of the transactions described herein, the Company issued promissory notes in the principal amount of \$250 due and paid on September 29, 2015 and in the aggregate principal amount of \$2,000 due March 8, 2016 (such amount is included in Accounts payable and accrued expenses in the accompanying Consolidated Balance Sheets). All such notes bear interest at a rate of 5% per annum.

This acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Under the acquisition method, the consideration transferred is measured at the acquisition

closing date. The assets of the DraftDay Business have been measured based on various preliminary estimates using assumptions that the Company's management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield different results. The Company has performed a preliminary allocation of the purchase price to the underlying net assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date, with any excess of the purchase price allocated to goodwill. The Company has not completed the analysis of certain acquired assets and assumed liabilities, including, but not limited to, other identifiable intangible assets such as customer lists and technology. However, the Company is continuing its review of these items during the measurement period, and further changes to the preliminary allocation will be recognized as the valuations are finalized. Such valuations are being conducted by a third party valuation expert using Level 3 inputs as described in ASC 820, Fair Value Measurements and Disclosures, that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

12

---

The operations of this acquisition are not material, and thus, pro forma disclosure are not presented. Goodwill related to the acquisition is expected to be deductible for income tax purposes.

## 5. Property and Equipment

Property and Equipment consists of the following:

	September 30, 2015	June 30, 2015
Leasehold Improvements	\$2,893	\$2,893
Furniture and Fixtures	588	588
Computer Equipment	468	458
Software	164	163
Total	4,113	4,102
Accumulated Depreciation and Amortization	(1,808	)(1,654
Property and Equipment, net	\$2,305	\$2,448

Depreciation and amortization charged to selling, general and administrative expenses for the three months ended September 30, 2015 and 2014 amounted to \$159 and \$176, respectively.

## 6. Intangible Assets and Goodwill

Description	Amortization Period	September 30, 2015			June 30, 2015		
		Amount	Accumulated Amortization	Carrying Value	Amount	Accumulated Amortization	Carrying Value
Wetpaint technology	84 months	\$10,600	\$(2,713 )	\$7,887	\$10,600	\$(2,336 )	\$8,264
Wetpaint trademarks	360 months	5,800	(345 )	5,455	5,800	(296 )	5,504
Wetpaint customer relationships	60 months	2,000	(717 )	1,283	2,000	(617 )	1,383
Wetpaint non-compete agreements	36 months	609	(364 )	245	609	(313 )	296
Choose Digital licenses	60 months	1,740	(442 )	1,298	1,740	(355 )	1,385
Choose Digital software	60 months	550	(140 )	410	550	(112 )	438
Dijit technology	84 months	1,820	(433 )	1,387	1,820	(368 )	1,452
DraftDay technology	84 months	2,396	(10 )	2,386	—	—	—
Internally generated capitalized software	36 months	5,006	(3,000 )	2,006	5,006	(2,733 )	2,273
Other	various	326	(11 )	315	326	(8 )	318
Total		\$30,847	\$(8,175 )	\$22,672	\$28,451	\$(7,138 )	\$21,313

Amortization of intangible assets included in selling, general and administrative expenses for the three months ended September 30, 2015 and 2014 amounted to \$1,037 and \$1,624, respectively. Future annual amortization expense expected is as follows:





Years ending June 30,

2016	\$3,435
2017	\$4,437
2018	\$3,404
2019	\$2,941
2020	\$2,309

Goodwill consists of the following:

Description	Amount
Balance at June 30, 2015	\$35,833
DraftDay preliminary purchase price allocation	2,622
Balance at September 30, 2015	\$38,455

#### 7. Loans Payable

Facility Name	Maturity Date	Total Facility Amount	Outstanding Balances	
			September 30, 2015	June 30, 2015
Line of Credit Promissory Note (the "Note")	10/24/17	20,000	19,566	19,516
Unsecured Demand Loans (the "Loans")	On Demand	—	—	1,575
Line of Credit Grid Note (the "Grid Note")	12/31/16	10,000	6,575	3,000
Total Loans Payable			\$26,141	\$24,091

#### Line of Credit Promissory Note

On October 24, 2014, the Company and SIC III, a company affiliated with Mr. Sillerman entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") pursuant to which SIC III agreed to purchase certain securities issued by the Company for a total of \$30,000. Pursuant to the Securities Purchase Agreement, the Company issued a Line of Credit Promissory Note (the "Note"), which provides for a \$20,000 line of credit to the Company (see Note 9, Stockholders' Equity, for a discussion of the remaining \$10,000 of the Securities Purchase Agreement). The Company also agreed to issue to SIC III warrants to purchase 1,000,000 shares of the Company's common stock. The Company issued warrants to purchase 50,000 shares of the Company's common stock for every \$1,000 advanced under the Note. The warrants will be issued in proportion to the amounts the Company draws under the Note. The exercise price of the warrants will be 10% above the closing price of the Company's shares on the date prior to the issuance of the warrants. Exercise of the warrants was subject to approval of the Company's stockholders, which occurred on January 13, 2015.

The Note provides a right for the Company to request advances under the Note from time to time. The Note bears interest at a rate of 12% per annum, payable in cash on a quarterly basis. The Note matures on October 24, 2017. On October 24, 2014, SIC III made an initial advance under the Note in the principal amount of \$4,500. On December 15, 2014, SIC III made an additional advance in the principal amount of \$15,500 pursuant to the terms of the Note (the proceeds of which were used to repay amounts outstanding under the DB Line, as discussed above). As of September 30, 2015, the total outstanding principal amount of the Note was \$20,000. The Note provides for a 3% discount, such

that the amount advanced by SIC III was 3% less than the associated principal amount of the advances. Therefore, the net amount actually outstanding under the Note at September 30, 2015, was \$19,566, which includes accretion of the discount of \$166 (the 3% discount of \$600 is being accreted to the principal balance over the life of the Note). From and after the occurrence and during the continuance of any event of default under the Note, the interest rate is automatically increased to 17% per annum.

14

---

In connection with the first drawdown of \$4,500 under the Note, the Company issued SIC III warrants to purchase 225,000 shares of the Company's common stock. These warrants have an exercise price of \$3.51, representing a price equal to 10% above the closing price of the Company's common stock on the day prior to issuance. In connection with the additional drawdown of \$15,500 under the Note, the Company issued SIC III warrants to purchase 775,000 shares of the Company's common stock. These warrants have an exercise price of \$3.63, representing a price equal to 10% above the closing price of the Company's common stock on the day prior to issuance. The Warrants are exercisable for a period of five years from issuance. Stock compensation expense related to the issuances of warrants to SIC III was \$2,049 during the year ended June 30, 2015.

The Note is not convertible into equity securities of the Company.

The Note also contains certain covenants and restrictions, including, among others, that, for so long as the Note is outstanding, the Company will not, without the consent of the holder of the Note, (i) make any loan or advance in excess of \$500 to any officer, director, employee of affiliate of the Company (except advances and similar expenditures : (a) under the terms of employee stock or option plans approved by the Board of Directors, (b) in the ordinary course of business, consistent with past practice or (c) to its subsidiaries), (ii) incur any indebtedness that exceeds \$1,000 in the aggregate other than indebtedness outstanding under the Note, (iii) guaranty any indebtedness of any unaffiliated third party, (iv) change the principal business of the Company or exit the Company's current business, provided that the foregoing is subject to the Board's compliance with its fiduciary duties, (v) sell, assign, or license material technology or intellectual property of the Company except (a) in the ordinary course of business, consistent with past practice, (b) sales and assignments thereof in any 12 month period that do not have a fair market value in excess of \$500 or (c) in connection with a change of control transaction, (vi) enter into any corporate strategic relationship involving the payment, contribution or assignment by the Company of its assets that have a fair market value in excess of \$1,000 or (vii) liquidate or dissolve the Company or wind up the business of the Company, except in connection with changes of control or merger, acquisition or similar transactions or as approved by the Company's Board in compliance with their fiduciary duties.

Interest expense on the Note was \$613 for the three months ended September 30, 2015.

#### Unsecured Demand Loans

During the year ended June 30, 2015, Mr. Sillerman made the following demand loans (the "Loans") to the Company:

Date	Amount
12/19/2014	\$2,000
1/14/2015	2,000
1/30/2015	2,000
2/13/2015	750
2/26/2015	1,000
3/2/2015	1,000
3/16/2015	3,000
4/20/2015	1,000
5/5/2015	500
5/14/2015	325
Total	\$13,575

Each of the Loans bear interest at the rate of 12% per annum. Principal and interest due under the Loans shall be due and payable upon demand. The principal amount of the Loans may be prepaid at any time and from time to time, in whole or in part, without premium or penalty. The Company used the proceeds from the Loans to fund working capital requirements and for general corporate purposes.

As discussed in Note 9, Stockholders' Equity, on March 16, 2015, SIC III purchased 7,000 shares of Series C Convertible Preferred Stock pursuant to the Securities Purchase Agreement, for a purchase price of \$7,000. The Company used the \$7,000 proceeds from the sale of 7,000 shares of Series C Convertible Stock to repay \$7,000 in principal amount of the Loans. In addition, the Company used \$798 of the proceeds of the Loan on March 16, 2015 to pay all accrued and unpaid interest on the Loans. On June 1, 2015, the Company repaid an additional \$5,000 in principal amount of the Loans. On July 1, 2015, the Company repaid the

remaining \$1,575 in principal amount of the Loans. Accordingly, after the transactions described herein, the total outstanding principal amount of the Loans at September 30, 2015 and June 30, 2015 was \$0 and \$1,575, respectively.

Interest expense on the Loans was \$1 for the three months ended September 30, 2015.

#### Line of Credit Grid Note

On June 11, 2015, the Company and Sillerman Investment Company IV, LLC ("SIC IV") entered into a Line of Credit Grid Note (the "Grid Note"). The Grid Note provides a right for the Company to request advances under the Grid Note from time to time in an aggregate amount of up to \$10,000. The Grid Note bears interest at a rate of 12% per annum, payable in cash on the maturity of the Grid Note. From and after the occurrence and during the continuance of any event of default under the Grid Note, the interest rate is automatically increased to 14% per annum.

The Grid Note is not convertible into equity securities of the Company.

In order for the Company to make requests for advances under the Grid Note, the Company must have an interest coverage ratio equal to or greater than 1, unless SIC IV waives this requirement. The interest coverage ratio is calculated by dividing: (a) the Company's net income for the measurement period, plus the Company's interest expense for the measurement period, plus the Company's tax expense for the measurement period, by (b) the Company's interest expense for the measurement period, plus the amount of interest expense that would be payable on the amount of the requested draw for the twelve months following the request for the advance. The measurement period is the twelve months ended as of the last day of the last completed fiscal quarter prior to the request for the advance. The Company currently does not have an interest coverage ratio equal to or greater than 1, so advances would require the SIC IV to waive this requirement. In addition, in order to make requests for advances under the Grid Note, there can be no event of default under the Note at the time of the request for an advance, including that there has been no material adverse change in the business plan or prospects of the Company in the reasonable opinion of SIC IV.

The Company made requests for advances under the Grid Note, and SIC IV made advances to the Company as follows:

Date	Amount
6/11/2015	\$1,000
6/24/2015	2,000
7/31/2015	1,000
8/31/2015	2,000
9/15/2015	1,000
9/29/2015	1,000
Total	\$8,000

On July 1, 2015, the Company repaid \$1,425 of the Grid Note. Therefore, the outstanding balance of the Grid Note at September 30, 2015 was \$6,575. See Note 14, Subsequent Events, for details of borrowings on the Grid Note subsequent to September 30, 2015.

The Grid Note matures on the first to occur of: (a) 12/31/2016 or (b) upon a "Change of Control Transaction." A "Change of Control Transaction" includes (i) a sale of all or substantially all of the assets of the Company or (ii) the issuance by the Company of common stock that results in any "person" or "group" becoming the "beneficial owner" of a majority of the aggregate ordinary voting power represented by the Company's issued and outstanding common stock (other than as a result of, or in connection with, any merger, acquisition, consolidation or other business combination in which the

Company is the surviving entity following the consummation thereof), excluding transactions with affiliates of the Company.

If an event of default occurs under the Grid Note, SIC IV has the right to require the Company to repay all or any portion of the Grid Note. An event of default is deemed to have occurred on: (i) the non-payment of any of the amounts due under the Grid Note within five (5) Business Days after the date such payment is due and payable; (ii) dissolution or liquidation, as applicable, of the Company; (iii) various bankruptcy or insolvency events shall have occurred, (iv) the inaccuracy in any material respect of any warranty, representation, statement, report or certificate the Company makes to Lender under the Note hereto; (v) the Company contests, disputes or challenges in any manner, whether in a judicial proceeding or otherwise, the validity or enforceability of any

material provision in the Grid Note; or (vi) a material adverse change in the business plan or prospects of the Company in the reasonable opinion of SIC IV.

Interest expense on the Grid Note for the three months ended September 30, 2015 was \$96.

#### Related Approvals

Because each of the transactions (other than the DB Line) referred to in the foregoing sections involved Mr. Sillerman, or an affiliate of his, the transactions were subject to certain rules regarding "affiliate" transactions. As such, each was approved by a Special Committee of the Board of Directors and a majority of the independent members of the Board of Directors of the Company.

#### 8. Commitments and Contingencies

##### Litigation

On May 4, 2015, the Company was served with a lawsuit initiated by Andy Mule, on behalf of himself and others similarly situated, in the Supreme Court of the State of New York. The lawsuit, which names the Company and each of our directors as defendants, claims a breach of fiduciary duty relating to a proposal by Mr. Sillerman to acquire a portion of Wetpaint from the Company. The lawsuit seeks to enjoin the transaction as well as unspecified damages. The Company believes that the lawsuit is without merit.

The Company is subject to litigation and other claims that arise in the ordinary course of business. While the ultimate result of our outstanding legal matters cannot presently be determined, the Company does not expect that the ultimate disposition will have a material adverse effect on its results of operations or financial condition. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. As such, there can be no assurance that the final outcome will not have a material adverse effect on the Company's financial condition and results of operations.

#### 9. Stockholders' Equity

##### Common Stock

As of September 30, 2015 and June 30, 2015, there were 300,000,000 shares of authorized common stock, and 25,060,277 and 23,383,125 shares of common stock issued and outstanding, respectively. Except as otherwise provided by Delaware law, the holders of the Company's common stock are entitled to one vote per share on all matters to be voted upon by the stockholders.

##### Preferred Stock

The Company has authorized three series of preferred stock, including classes of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. At this time, there is no Series A or Series B preferred stock outstanding. Only Series C Preferred Stock is outstanding, as described below.

##### Series A Convertible Redeemable Preferred Stock

Prior to September 16, 2013, the Company had authorized a class of series A preferred shares, but none of those shares were issued or outstanding. On September 16, 2013, the Company eliminated the prior class of series A preferred shares and created a new class of Series A Convertible Redeemable Preferred Stock (the "Series A Convertible Redeemable Preferred Stock"). The Company authorized the issuance of up to 100,000 shares of the Series



A Convertible Redeemable Preferred Stock. The designation, powers, preferences and rights of the shares of Series A Convertible Redeemable Preferred Stock and the qualifications, limitations and restrictions thereof are summarized as follows:

The shares of Series A Convertible Redeemable Preferred Stock have an initial stated value of 1,000 per share (the "Stated Value").

The shares of Series A Convertible Redeemable Preferred Stock are entitled to receive quarterly cumulative dividends at a rate equal to 7% per annum of the Stated Value whenever funds are legally available and when and as declared by the Company's board of directors. If the Company declares a dividend or the distribution of its assets, the holders of Series A Convertible Redeemable Preferred Stock shall be entitled to participate in the distribution to the same extent as if they had converted each share of Series A Convertible Redeemable Preferred Stock held into Company common stock.

Each share of Series A Convertible Redeemable Preferred Stock is convertible, at the option of the holders, into shares of Company common stock at a conversion price of \$1.15.

The Company may redeem any or all of the outstanding Series A Convertible Redeemable Preferred Stock at any time at the then current Stated Value, subject to a redemption premium of (i) 8% if redeemed prior to the one year anniversary of the initial issuance date; (ii) 6% if redeemed on or after the one year anniversary of the initial issuance date and prior to the two year anniversary of the initial issuance date; (iii) 4% if redeemed on or after the two year anniversary of the initial issuance date and prior to the three year anniversary of the initial issuance date; (iv) 2% if redeemed on or after the three year anniversary of the initial issuance date and prior to the 42 months anniversary of the initial issuance date; and (v) 0% if redeemed on or after the 42 months anniversary of the initial issuance date. However, no premium shall be due on the use of up to 33% of proceeds of a public offering of common shares at a price of \$1.00 or more per share.

The Company is required to redeem the Series A Convertible Redeemable Preferred Stock on the fifth anniversary of its issuance.

Upon a change of control of the Company, the holders of Series A Convertible Redeemable Preferred Stock shall be entitled to a change of control premium of (i) 8% if redeemed prior to the one year anniversary of the initial issuance date; (ii) 6% if redeemed on or after the one year anniversary of the initial issuance date and prior to the two year anniversary of the initial issuance date; (iii) 4% if redeemed on or after the two year anniversary of the initial issuance date and prior to the three year anniversary of the initial issuance date; (iv) 2% if redeemed on or after the three year anniversary of the initial issuance date and prior to the 42 months anniversary of the initial issuance date; and (v) 0% if redeemed on or after the 42 months anniversary of the initial issuance date.

The shares of Series A Convertible Redeemable Preferred Stock are senior in liquidation preference to the shares of Company common stock.

The shares of Series A Convertible Redeemable Preferred Stock shall have no voting rights except as required by law. The consent of the holders of 51% of the outstanding shares of Series A Convertible Redeemable Preferred Stock shall be necessary for the Company to: (i) create or issue any Company capital stock (or any securities convertible into any Company capital stock) having rights, preferences or privileges senior to or on parity with the Series A Convertible Redeemable Preferred Stock; or (ii) amend the Series A Convertible Redeemable Preferred Stock.

#### Series B Convertible Preferred Stock

On September 16, 2013, the Company created 50,000 shares of Series B Convertible Preferred Stock (the "Series B Convertible Preferred Stock"). The designation, powers, preferences and rights of the shares of Series B Convertible Preferred Stock and the qualifications, limitations and restrictions thereof are summarized as follows:

The shares of Series B Convertible Preferred Stock have an initial stated value of \$1,000 per share.

The shares of Series B Convertible Preferred Stock are convertible, at the option of the holders, into shares of Company common stock at a conversion price of \$1.15. The shares of Series B Convertible Preferred Stock may only be converted from and after the earlier of either of: (x) the first trading day immediately following (i) the closing sale price of the Company's common stock being equal to or greater than \$1.67 per share (as adjusted for stock dividends, stock splits, stock combinations and other similar transactions occurring with respect to the Company's common stock from and after the initial issuance date) for a period of five consecutive trading days following the initial issuance date and (ii) the average daily trading volume of the Company's common stock (as reported on Bloomberg) on the principal securities exchange or trading market where the Company's common stock is listed or traded during the measuring period equaling or exceeding 25,000 shares of Company's common stock per trading day (the conditions set forth in the immediately preceding clauses (i) and (ii) are referred to herein as the "Trading Price Conditions") or (y) immediately prior to the consummation of a "fundamental transaction", regardless of whether the Trading Price Conditions have been satisfied prior to such time. A "fundamental transaction" is defined as (i) a sale of all or substantially all of the assets of the Company, (ii) a sale of at least 90% of the shares of capital stock of the Company or (iii) a merger, consolidation or other business combination as a result of which the holders of capital stock of the Company prior to such merger, consolidation or other business combination (as the case may be) hold in the aggregate less than 50% of the Voting Stock of the surviving entity immediately following the consummation of such merger, consolidation or other business combination (as the case may be), in each case of clauses (i), (ii) and (iii), the

Board has determined that the aggregate implied value of the Company's capital stock in such transaction is equal to or greater than 125,000.

18

---

¶The shares of Series B Convertible Preferred Stock are not redeemable by either the Company or the holders thereof.

•The shares of Series B Convertible Preferred Stock are on parity in dividends and liquidation preference with the shares of Company common stock, which shall be payable only if then convertible into common stock.

¶The shares of Series B Convertible Preferred Stock shall have no voting rights except as required by law.

•The consent of the holders of 51% of the outstanding shares of Series B Convertible Preferred Stock shall be necessary for the Company to alter, amend or change any of the terms of the Series B Convertible Preferred Stock.

At September 30, 2015 and June 30, 2015, there were no shares of Series A Convertible Redeemable Preferred Stock and Series B Convertible Preferred Stock outstanding.

#### Series C Convertible Redeemable Preferred Stock

On October 24, 2014, the Company created a new class of Series C Convertible Redeemable Preferred Stock (the “Series C Convertible Redeemable Preferred Stock”). The Company authorized the issuance of up to 100,000 shares of the Series C Convertible Redeemable Preferred Stock. The rights, preferences, privileges and restrictions of the shares of Series C Convertible Preferred Stock and the qualifications, limitations and restrictions thereof are summarized as follows:

¶The shares of Series C Convertible Redeemable Preferred Stock have a stated value of \$1,000 per share.

Each holder of a share of Series C Convertible Redeemable Preferred Stock shall be entitled to receive dividends (“Dividends”) on such share equal to twelve percent (12%) per annum (the “Dividend Rate”) of the Stated Value before any Dividends shall be declared, set apart for or paid upon any junior stock or parity stock. Dividends on a share of Series C Convertible Redeemable Preferred Stock shall accrue daily at the Dividend Rate, commence accruing on the issuance date thereof, compound annually, be computed on the basis of a 360-day year consisting of twelve 30-day months and be convertible into common stock in connection with the conversion of such share of Series C Convertible Redeemable Preferred Stock.

Each share of Series C Convertible Redeemable Preferred Stock is convertible, at the option of the holders, on the basis of its stated value and accrued, but unpaid dividends, into shares of Company common stock at a conversion price of \$4.00 per common share.

•The Company may redeem any or all of the outstanding Series C Convertible Redeemable Preferred Stock at any time at the then current Stated Value plus accrued Dividends thereon plus a redemption premium equal to the Stated Value multiplied by 6%. However, no premium shall be due on the use of up to 33% of proceeds of a public offering of common shares at a price of \$5.00 or more per share.

¶The Company is required to redeem each Series C Convertible Redeemable Preferred Stock on the tenth business day immediately following the fifth anniversary of its issuance. However, the Company shall have no obligation to mandatorily redeem any shares of Series C Convertible Redeemable Preferred Stock at any time that (x) the Company does not have surplus under Section 154 of the Delaware General Corporation Law (the “DGCL”) or funds legally available to redeem all shares of Series C Convertible Redeemable Preferred Stock, (y) the Company's capital is impaired under Section 160 of the DGCL or (z) the redemption of any shares of Series C Convertible Redeemable Preferred Stock would result in an impairment of the Company's capital under Section 160 of the DGCL; provided, that if the Company is prohibited from redeeming the shares due to those limitations, the Company will redeem the

Shares as soon as possible after such restrictions are no longer applicable.

Upon a change of control of the Company, each holder of Series C Convertible Redeemable Preferred Stock shall be entitled to require the Company to redeem from such holder all of such holder's shares of Series C Convertible Redeemable Preferred Stock so long as such holder requests such redemption in writing at least one business day prior to the consummation of such change of control. The redemption amount per share equals the Stated Value thereof plus accrued Dividends plus a change of control premium equal to the stated value multiplied 6%.

The shares of Series C Convertible Redeemable Preferred Stock are senior in liquidation preference to all shares of capital stock of the Company unless otherwise consented to by a majority of the holders of shares of Series C Convertible Redeemable Preferred Stock.

19

---

•The shares of Series C Convertible Redeemable Preferred Stock shall have no voting rights except as required by law.

•The consent of the holders of a majority of the shares of Series C Convertible Redeemable Preferred Stock is necessary for the Company to amend the Series C certificate of designation.

The Series C Convertible Redeemable Preferred Stock is not classified as a component of stockholders' equity in the accompanying consolidated balance sheets. Likewise, the undeclared dividends related to Series C Convertible Redeemable Preferred Stock have been recored as an addition within the Series C Convertible Preferred Stock account in the amount of \$307 for the three months ended September 30, 2015.

#### Securities Purchase Agreement

Pursuant to the Securities Purchase Agreement discussed in Note 7, Loans Payable, SIC III acquired a total of 10,000 Shares of Series C Convertible Redeemable Preferred Stock for \$10,000. The Company also agreed to issue to SIC III warrants to purchase a total of 500,000 shares of the Company's common stock. The Company issued warrants to purchase 50,000 shares of the Company's common stock for every \$1,000 of purchase price paid for the shares. The exercise price of the warrants was 10% above the closing price of the Company's shares on the date prior to the issuance of the warrants. Exercise of the warrants was subject to approval of the Company's stockholders, which occurred on January 13, 2015.

On November 25, 2014, SIC III purchased 3,000 shares of Series C Convertible Redeemable Preferred Stock for \$3,000. The shares of Series C Convertible Redeemable Preferred Stock were recorded in the accompanying consolidated balance sheet at its fair value as of the date of the purchase of November 25, 2014. In addition, in accordance with the Securities Purchase Agreement, the Company also issued SIC III warrants to purchase 150,000 shares of the Company's common stock at an exercise price of \$2.98, which was 10% above the closing price of the Company's shares on the date prior to issuance.

On March 16, 2015, SIC III purchased 7,000 additional shares of Series C Convertible Redeemable Preferred Stock for \$7,000. The shares of Series C Convertible Redeemable Preferred Stock were recorded in the accompanying consolidated balance sheet at its fair value as of the date of the purchase of March 16, 2015. In addition, in accordance with the Securities Purchase Agreement, the Company also issued SIC III warrants to purchase 350,000 shares of the Company's common stock at an exercise price of \$1.78, which was 10% above the closing price of the Company's shares on the date prior to issuance.

In connection with the Securities Purchase Agreement, the Company recorded total stock compensation expense based on the fair value of the Series C Convertible Redeemable Preferred Stock and warrants of \$2,091 during the year ended June 30, 2015.

#### Non-controlling Interest

As discussed in Note 4, Acquisitions, on September 8, 2015, the Company acquired the assets of the DraftDay Business and its operations have been consolidated with the Company's operations as of that date. The Company has recorded non-controlling interest in its Consolidated Balance Sheets and Consolidated Statements of Operations for the portion of the DraftDay Business that the Company does not own.

#### 10. Share-Based Payments

## Equity Incentive Plan

The 2011 Executive Incentive Plan (the "Plan") of the Company was approved on February 21, 2011 by the written consent of the holder of a majority of the Company's outstanding common stock. The Plan provides the Company the ability to grant to any officer, director, employee, consultant or other person who provides services to the Company or any related entity, options, stock appreciation rights, restricted stock awards, dividend equivalents and other stock-based awards and performance awards, provided that only employees are entitled to receive incentive stock options in accordance with IRS guidelines. The Company reserved 6,250,000 shares of common stock for delivery under the Plan. Pursuant to the Executive Incentive Plan and the employment agreements, between February 15, 2011 and September 30, 2015, the Compensation Committee of the Company's Board of Directors authorized the grants of restricted stock and stock options described below.

## Restricted Stock

20

---

The per share fair value of RSUs granted with service conditions was determined on the date of grant using the fair market value of the shares on that date and is recognized as an expense over the requisite service period.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at July 1, 2015	466,257	\$41.00
Granted	271,427	1.63
Vested	(323,177	) 1.70
Forfeited and canceled	(115,947	) 2.05
Nonvested at September 30, 2015	298,560	\$62.17

Compensation expense related to restricted stock was \$4,991 and \$5,508 for the three months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, there was \$7,980 in total unrecognized share-based compensation costs related to restricted stock.

### Stock Options

The following table summarizes the Company's stock option activity for three months ended September 30, 2015:

	Number of Options	Weighted average exercise price
Outstanding at June 30, 2015	1,181,818	\$11.19
Granted	—	—
Exercised	—	—
Forfeited and canceled	(148,896	) 7.02
Outstanding at September 30, 2015	1,032,922	\$11.78
Exercisable at September 30, 2015	763,565	\$14.27

The Company is accounting for these options at fair market value of the options on the date of grant, with the value being recognized over the requisite service period. The fair value of each option award is estimated using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of comparable companies' stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. Options generally have an expiration of 10 years and vest over a period of 3 or 4 years. There were no options granted during the three months ended September 30, 2015. The fair value of the options granted during the three months ended September 30, 2014 were estimated based on the following weighted average assumptions:

	Three Months Ended September 30, 2014	
Expected volatility	80	%
Risk-free interest rate	2.10	%
Expected dividend yield	—	
Expected life (in years)	6.50	
Estimated fair value per option granted	\$3.18	

Compensation expense related to stock options of \$173 and \$1,882 is included in the accompanying Consolidated Statements of Operations in selling, general and administrative expenses for the three months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, there was approximately \$710 of total unrecognized



stock-based compensation cost which will generally be recognized over a four year period.

11. Income Taxes

21

---

For the three months ended September 30, 2015 and 2014, the Company did not record an income tax benefit because it has incurred taxable losses and has no history of generating taxable income and therefore the Company cannot presently anticipate the realization of a tax benefit on its Net Operating Loss carryforward. At September 30, 2015 the Company has a Net Operating Loss carryforward of approximately \$169,190, which will begin to expire in 2030. The Company has established a full valuation allowance against its deferred tax assets as of September 30, 2015 and June 30, 2015. The deferred tax liability, net is included in other long term liabilities in the accompanying consolidated balance sheets. Income tax expense for the three months ended September 30, 2015 and 2014 was \$22 and \$22, respectively.

The Company has evaluated its income tax positions and has determined that it does not have any uncertain tax positions. The Company will recognize interest and penalties related to any uncertain tax positions through its income tax expense.

The Company may in the future become subject to federal, state and local income taxation though it has not been since its inception. The Company is not presently subject to any income tax audit in any taxing jurisdiction.

## 12. Related Party Transactions

### Shared Services Agreements

In an effort to economize on costs and be efficient in its use of resources, the Company entered into a shared services agreement with Circle Entertainment Inc. ("Circle") as of February 15, 2011, pursuant to which it shares costs for legal and administrative services in support of Mitchell J. Nelson, its then-General Counsel and General Counsel to Circle. The shared services agreement provides, in general, for sharing of the applicable support provided by either company to Mr. Nelson in connection with his capacity as General Counsel. The Company is responsible for advancing the salary to legal and administrative personnel supporting Mr. Nelson for both companies and will be reimbursed by Circle for such salary and benefits (but not for any bonus, option or restricted share grant made by either company, which will be the responsibility of the company making such bonus, option or restricted share grant). The agreement provides for the Chief Executive Officer or President of each Company to meet periodically to assess whether the services have been satisfactorily performed and to discuss whether the allocation has been fair. The Audit Committee of each company's Board of Directors will then review and, if appropriate, approve the allocations made and whether payments need to be adjusted or reimbursed, depending on the circumstances. Because this transaction is subject to certain rules regarding "affiliate" transactions, the Audit Committee and a majority of the independent members of the Company's Board of Directors have approved the shared services agreement. This is deemed to be an affiliate transaction because Mr. Sillerman is the former Chairman, a Board member, and a greater than 10% stockholder of Circle and Mr. Nelson is Executive Vice President and General Counsel of Circle. For the three months ended September 30, 2015 and 2014, the Company billed Circle \$7 and \$7, respectively. Such billings primarily relate to support consisting of legal and administrative services. These services are to be reviewed and, if appropriate, approved by Circle's Audit Committee and the Company's Audit Committee. The balance due from Circle as of September 30, 2015 and June 30, 2015 was \$118 and \$113, respectively. The Company is in the process of terminating the shared services agreement with Circle.

The Company also entered into a shared services agreement with SFX, pursuant to which it shares costs for services provided by several of the Company's and/or SFX's employees. Such employees will continue to be paid by their current employers, and SFX will reimburse the Company directly for its portion of such salary and benefits and Company will reimburse SFX directly for its portion of such salary and benefits (but not for any bonus, option or restricted share grant made by either company, which will be the responsibility of the company making such bonus, option or restricted share grant). The Audit Committee of each company's Board of Directors reviews and, if appropriate, approves the allocations made and whether payments need to be adjusted or reimbursed, depending on the circumstances. The Company entered into an amendment (the "Amendment") to the shared services agreement on

January 22, 2015, pursuant to which the Company may provide additional services to SFX, and SFX may provide certain services to the Company. In particular, the shared services agreement provides that, in addition to services already provided, certain employees of the Company may provide human resources, content and programming, and facilities services to SFX, subject to reimbursement based on salary and benefits for the employees providing the services, plus 20% for miscellaneous overhead, based on a reasonable estimate of time spent. In addition, the Amendment provides that SFX may provide certain tax services to the Company, subject to reimbursement based on salary and benefits for the employees providing the services, plus 20% for miscellaneous overhead, based on a reasonable estimate of time spent.

For the three months ended September 30, 2015 and 2014, the Company billed SFX \$199 and \$168, net of amounts billed by SFX to the Company, respectively. The net balance due from SFX, including amounts related to the Sales Agency Agreement, discussed below, as of September 30, 2015 and June 30, 2015 was \$199 and \$146, respectively.

Sales Agency Agreement

On January 22, 2015, the Company entered into a sales agency agreement (the “Sales Agreement”) with SFX-94 LLC (“SFX-94”), a subsidiary of SFX, pursuant to which the Company appoints SFX-94 as its exclusive sales agent for the sale of advertising and sponsorships. Pursuant to the Sales Agreement, the Company consented to SFX-94’s hiring of 25 members of the Company’s sales team, and SFX-94 agreed that it will sell advertising and sponsorships on behalf of the Company during the term of the Sales Agreement. SFX-94 also agreed that it will maintain adequate staffing levels, generally consistent with staffing levels currently maintained by the Company, for the Company’s sale of advertising and sponsorships. The Company will pay SFX-94 a 25% commission on sales made by SFX-94. For barter transactions, the Company will reimburse SFX-94 for any out of pocket and direct costs incurred by SFX-94 with respect to such barter sales (rather than the commission set forth above), and third party ad networks will be excluded from the Sales Agreement. For the three months ended September 30, 2015, the Company was billed \$96 in connection with the Sales Agreement. On September 22, 2015, the parties agreed to terminate the Sales Agreement, and the Company subsequently hired 8 members of the SFX sales team as of that date.

#### License Agreement

On March 10, 2014, the Company entered into an audio recognition and related loyalty program software license and services agreement with SFX. Pursuant to the terms of the license agreement, SFX paid the Company \$5,000 to license its audio recognition software and related loyalty platform for a term of 10 years. The amount was deferred and is being amortized over the ten year period. For the three months ended September 30, 2015 and 2014, the Company recognized \$125 and \$125, respectively, of revenue related to this agreement.

#### Lines of Credit

See Note 7, Loans Payable, for a description of certain loans which have been provided by related parties. In addition, see Note 14, Subsequent Events, for additional discussion of certain related party transactions.

#### Related Approvals

Because the above transactions were subject to certain rules regarding “affiliate” transactions, the Company's Audit Committee and a majority of the independent members of the Company's Board of Directors approved each of these transactions.

#### 13. Fair Value Measurement

The Company values its assets and liabilities using the methods of fair value as described in ASC 820, Fair Value Measurements and Disclosures. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels of fair value hierarchy are described below:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers counter-party credit risk in its assessment of fair value. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions based on the best information available. The Company has certain liabilities that are required to be recorded at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States, as described below.

The Company issued 21,364 warrants in connection with the May 10, 2012 PIPE. Each warrant has a sale price of \$440 and is exercisable into 1 share of common stock at a price of \$640 over a term of three years. Further, the exercise price of the warrants is subject to "down round" protection, whereby any issuance of shares at a price below the current price resets the exercise price equal to a the price of newly issued shares (the "Warrants"). In connection with the PIPE Exchanges on September 16, 2013, the exercise price of the Warrants was reset to \$92. The fair value of such warrants has been determined utilizing the Binomial Lattice Model in accordance with ASC 820-10, Fair Value Measurements. The fair value of the warrants when issued was \$5,281. On September 16, 2013, 6,818 warrants were exchanged in connection with the PIPE Exchanges. The remaining 14,545 warrants

were marked to market as of September 30, 2015 and September 30, 2014 to a fair value of \$10 and \$10. The Company recorded gains of \$0 and \$5 to other income, net in the Consolidated Statements of Operations for the three months ended September 30, 2015 and 2014, respectively. The fair value of the warrant is classified as a current liability on the Consolidated Balance Sheet as of September 30, 2015, due to the Company's intention to retire a significant portion of these warrants in its next round of financing. The Company's warrants were classified as a Level 3 input within the fair value hierarchy because they were valued using unobservable inputs and management's judgment due to the absence of quoted market prices and inherent lack of liquidity.

The Company estimated the fair value of contingent consideration for the acquisition of Choose Digital to be \$4,792 as of June 30, 2015. The fair value of the contingent consideration was classified as Level 3 within the fair value hierarchy because it was valued using unobservable inputs and management's judgment. See Note 4, Acquisitions, for details related to payments made on the contingent consideration during the three months ended September 30, 2015.

The following table presents a reconciliation of items measured at fair value on a recurring basis using unobservable inputs (level 3):

	(in thousands)
Balance at June 30, 2015	\$ 4,802
Additions to Level 3	—
Unrealized (gains) losses for the period included in other income (expense), net	—
Payments	(1,728 )
Balance at September 30, 2015	\$ 3,074

#### 14. Subsequent Events

##### Line of Credit Draws

As discussed in Note 7, Loans Payable, on June 11, 2015, SIC IV agreed to provide a Line of Credit Grid Note to the Company of up to \$10,000 (the "Grid Note"). On October 14, 2015 and October 30, 2015, the Company borrowed additional amounts of \$500 and \$600, respectively, under the Grid Note. As of the filing of this Form 10-Q, the balance of the Grid Note is \$7,675.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with the historical unaudited consolidated financial statements and notes thereto included elsewhere in this Quarterly Report, and in the Company's Annual Report on Form 10-K filed on September 21, 2015. Our historical results of operations reflected in our consolidated financial statements are not necessarily indicative of our future results of operations.

Viggle Inc. was incorporated in Delaware in July 1994, and was formerly known as Function (x) Inc, Function (X) Inc. and Gateway Industries, Inc.

#### Our Vision

Viggle makes entertainment more rewarding.

#### Our Strategy

Viggle is a mobile and web-based entertainment marketing platform that uses incentives to make content consumption and discovery more rewarding for media companies, brands and consumers. Viggle helps guide consumers towards various forms of media consumption with television enhancement, music discovery, entertainment content publishing and distributed viewing reminders. Viggle helps consumers decide what to watch and when, broadens the viewing experience with real time games and additional content, and rewards viewers for being loyal to their favorite shows throughout a season, allowing them to earn points. For brands, Viggle provides advertising clients with targeted interactive ads to amplify their TV messaging to verified audiences. For media companies, Viggle delivers promotional benefits by driving viewers to specific shows, engaging them in a richer content experience, and increasing awareness of promoted shows through web, mobile and social channels.

Our content website, [wetpaint.com](http://wetpaint.com), extends our promotional capabilities by reaching potential viewers before a TV show is broadcast and by allowing viewers to continue the conversation with additional show coverage after the broadcast date. We also have technology that helps consumers search for media and set reminders to watch their favorite TV shows and movies wherever they are offered. In addition, we recently launched our music service, which allows consumers to check-in to songs on Viggle and also earn points. As a media company, we seek to attract a significant and growing audience in order to sell advertising. We believe that making entertainment more rewarding and engaging for consumers will drive them to use Viggle.

In addition, we recently acquired an interest in DraftDay Gaming Group, Inc. DraftDay Gaming Group is the market leading business-to-business operator of daily fantasy sports in the United States and Canada. DraftDay supplies a full white-label solution that allows businesses to participate in the fast growing skill-based game market.

As discussed more fully in under "Special Committee" below, our Board of Directors has formed a Special Committee of independent directors to explore strategic alternatives to enhance value, and that these alternatives could include, among others, possible joint ventures, strategic partnerships, marketing alliances, sale of the Company, or other possible transactions. This Special Committee has been formed and is in the process of considering various alternatives.

#### Overview of Our Service

U.S. consumers can become Viggle users through a free App that works on multiple types of mobile phones and tablets and is distributed through the Apple App Store and the Google Play Store. After a consumer downloads the App, he or she must create an account. Viggle then allows consumers to play along with TV shows, share comments through social media, answer trivia questions or polls, discover more about the show, all while watching TV. Users can also use the App to discover new music. The App can listen to a song and identify it and allow users to build playlists and purchase the music. All of this activity earns users points they can redeem for real rewards.

Through Wetpaint, we report original news stories and publish information content covering top television shows, music, celebrities, entertainment news and fashion. Wetpaint publishes more than 70 new articles, videos and galleries each day. We generate revenues through Wetpaint by displaying advertisements to Wetpaint users as they view Wetpaint's content.

The Viggle user experience is simple. While watching TV or listening to music, a user taps the “check-in” button, which activates the device’s microphone. Viggle collects an audio sample of the content the user can hear and uses technology to convert that



sample into a digital fingerprint. Within seconds, that digital fingerprint is matched against a database of reference fingerprints that are collected from approximately 175 English and Spanish television channels within the United States and over 20 million songs. We are able to verify TV check-ins across broadcast, cable, online, satellite, time-shifted and on-demand content as well as most songs cataloged on Apple's iTunes music library. The ability to verify check-ins is critical because users are rewarded with points for each check-in and engagement (defined as an advertisement view, song match, web video view, poll, video quiz, game or slide show). Users can redeem the points within the rewards catalog for items that have a monetary value such as unique deals and offers, products, sweepstakes, charitable donations, select retail gift cards and Viggle-branded and other merchandise. Once a user has "checked-in" to content, the App provides a set of optional games, tools, and information to enhance the consumer experience.

Viggle points can be earned through six different activities within the App: WatchPoints (1 point for every minute a user is checked-in on Viggle TV), Bonus Points (added points for connecting with promoted content), Live Engagement Points (points earned for playing MyGuy, Viggle Live or other games), Streaks and Quests (added points for connecting with a series of shows or songs), Music Match Points (points earned for matching a song on Viggle), and Advertising Points (advertising revenue we share with our customers in the form of points). Viggle points can also be earned by engaging in entertainment content on Wetpaint's websites.

From the launch of the Viggle App on January 25, 2012, and through Sept 30, 2015, 10,013,203 users have registered for Viggle, of which we have deactivated 224,677 for a total of 9,788,526 net registered users. As of Sept 30, 2015, our members have checked-in to 508,332,814 TV programs and 191,819,864 songs and spent an average of 58 minutes and 11 seconds of active time within the Viggle App per session. Over 1.3 million users have tagged a song in the Viggle App.

Our rewards catalog consists of a variety of deals, sweepstakes, products, digital entertainment, Viggle merchandise (such as t-shirts) and select retail gift cards. Users may redeem points for song downloads from over 7 million titles, including, for example, Billy Joel's "The Longest Time" for 3,500 points. Users may also redeem points to participate in sweepstakes for a chance to win brand name merchandise or trips, redeem 18,800 points for a \$5 Best Buy gift card, or redeem 37,000 points for a Viggle t-shirt. From time to time, we may change the rewards offered and the number of points required to earn any given reward. As of June 30, 2015, users have earned over 129 billion points (monthly earned burned report), including 12.4 billion points through Viggle's new music service. As of June 30, 2015, users have redeemed approximately 71 billion points (earned burned report) for a total of approximately 5.6 million rewards, for an average of 12,667 points per reward redemption (points divided by # of rewards). The total retail value of rewards redeemed through June 30, 2015 is approximately \$28.6 million.

It is not possible for a user to earn points on the Viggle App without registering. In order to avoid double-counting and limit instances of fraud, the App is limited to five accounts per device (so as to allow for use by family members sharing a device), users are limited to a maximum of 6,000 points per day, users may receive points for matching to a song only once, users are limited to receive points for up to 20 music matches per day, and users are not able to share or combine points with different users or devices. While it is possible for users to establish multiple accounts which could overstate our actual number of registered active users and permit those fraudulent users to attempt to evade our rules in an effort to accumulate excess points by checking-in to TV shows at the same time on different devices, we monitor for such activity and, when discovered, take corrective action according to our published terms and conditions.

Wetpaint operates media properties that attracted approximately 7.4 million unique monthly users in June 2015 and have a combined social reach of approximately 9.7 million Facebook "likes" and followers on Twitter. For Wetpaint, we define a monthly unique user as any visitor who has accessed Wetpaint through its websites or mobile websites in the month of measurement, as measured by Google Analytics.

We define Total Reach as the total amount of registered users for Viggle and average unique monthly users of the Wetpaint media properties during a month. We define Active Reach as the amount of monthly active users for the Viggle App and the average cumulative number of times people have “liked” a Wetpaint page on Facebook, plus the average cumulative number of times people have “followed” a Wetpaint account on Twitter during a month. For the three months ended June 30, 2015, the average Total Reach and Active Reach were approximately 18.6 million and 9.6 million respectively.

#### Technology

The first version of the Viggle App was approved by Apple and launched to the public in the Apple iTunes App Store on January 25, 2012. It has been updated periodically. The approved version of the App works on Apple iOS devices such as the iPhone, iPad and iPod Touch. On June 27, 2012, we released a version of the App for use on Android smartphones and tablets. On July 15, 2014, we released a version of the App for use on devices running Windows Phone 8 and Windows 8. The most recent versions of the App include the ability to match music as well as TV, have improved navigation and visual design, and rely on Gracenote for audio content recognition.

There is no guarantee as to how effectively the technology will perform. We continuously test and update the App with a goal of improving overall performance and usability. In order to ensure the best user experience, Viggle requires a device operating system of iOS 7.1 or later for Apple devices or Android 4.0 or later for Android devices. It may become necessary to change the minimum required operating systems in the future.

We will consider adding or removing versions of the App for mobile operating systems based on demand and other business factors. Distribution of the product will occur via regular online marketplaces for content and applications used by such mobile operating systems, and will include the Apple App Store for iOS devices, the Google Play Store for devices using the Android operating system, and the Windows Store for Windows Phone 8 and Windows 8 devices.

The back-end technology for our App has been designed to accommodate the significant numbers of simultaneous data requests required to support prime time television audiences. This back-end technology has the capacity to support simultaneous traffic peaks around major television and music events such as the Super Bowl. We use third-party cloud computing services from Amazon Web Services and Microsoft Azure to help us scale our capacity as efficiently as possible.

The Wetpaint Entertainment website was launched in 2010 with the goal of providing a unique voice to the coverage of entertainment and celebrities. In order to build and develop an audience for Wetpaint's proprietary content, Wetpaint has developed an audience development engine, which is called the Social Publishing Platform. The Social Publishing Platform is designed to generate fans on Wetpaint's pages on Facebook and other social media outlets. Wetpaint content is then displayed in the fans' feeds on Facebook and other social media sites, which can then drive traffic to Wetpaint's websites. The Social Publishing Platform contains a test and measurement system that delivers real-time audience insights, and provides optimized distribution by audience.

We protect our technology through seeking intellectual property protection. We currently have eleven active U.S. patents and we have more than ten additional pending non-provisional patent applications. We register certain domain names, trademarks and service marks in the United States and in certain locations outside the United States. Circumstances outside of our control could pose a threat to our intellectual property rights. Effective intellectual property protection may not be available in the United States or other countries in which we provide our solution. In addition, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Any impairment of our intellectual property rights could harm our business, our ability to compete and harm our operating results.

## Revenue

We began generating revenues in early calendar year 2012. Advertising is displayed in the Viggle App and on the wetpaint.com websites. We generate advertising revenue on all of our applications and websites, including Viggle and wetpaint.com, in two primary ways. First, we sell advertising directly to brand advertisers and television networks and to advertising agencies that represent brand advertisers and television networks. Second, we also generate revenue through our relationships with third party mobile advertising networks, including AdColony, Tremor and YuMe. These third party mobile advertising networks have relationships with advertisers to publish their advertisements on various publisher websites and mobile applications, including ours. Our focus is on brand marketers that are most relevant to our target demographic of consumers between the ages of 18 and 49, and are active in television, digital and retail marketing. We generate revenue from standard mobile media advertising sales and affiliate programs:

- when our users click and view advertisements in our App or on our Wetpaint websites;

• when a TV network or brand pays to have a particular show promoted either for a one-time airing or throughout a season;

• when our users complete an engagement appearing in our App that is created by an advertising agency, our brand partners or our team; and

• through affiliate or bounty commissions to third parties if our users purchase items or subscribe to services after clicking from our App to other apps or websites.

With the exception of one-time sponsorships with advertisers (which are charged a separate and specific fee), all advertising is serviced via a third-party advertising server for billing and verification purposes. Revenues are generated by measuring delivered impressions on a cost per thousand (CPM) basis and completed engagements on a cost per engagement (CPE) basis. Our sales team contracts with brand advertisers to deliver a specific number of impressions and/or engagements for a specific price per thousand impressions and/or per completed engagement. The third-party ad server then serves the ads and/or engagements within

the App during the course of using the Viggle App or visiting content on wetpaint.com's websites. As impressions and engagements are delivered and completed, we bill brand partners or advertising agencies on a monthly basis for the media delivered at our contracted rates.

In addition to generating revenue from standard mobile media advertising and affiliate programs, from time to time we may also generate revenue from licensing our proprietary audio recognition software and related loyalty platform. On March 10, 2014, we entered into a software license and services agreement with SFX, the first license agreement that we have entered into for our audio recognition software and related loyalty program. Pursuant to the terms of the license agreement, SFX paid us \$5,000 to license our audio recognition software and related loyalty platform for a term of ten years.

#### Watchpoints and Engagement Points

The Company issues points to its users as an incentive to utilize the Viggle App and its features. Users can redeem these points for rewards. The Company records the cost of these points based on the weighted average cost of redemptions during the period. Points earned, but not redeemed, are classified as a liability.

The Company reports points earned for checking-in to shows and points earned for engaging in advertiser sponsored content as a separate line in its Consolidated Statements of Operations ("Cost of watchpoints and engagement points"). All other points earned by users are reflected as a marketing expense in Selling, general and administrative expense.

#### Target Consumers

While most people watch television, we are targeting male and female consumers between the ages of 18 and 49. This target audience was selected due to the amount of TV they consume on a weekly basis, as well as the likelihood that they will have smartphones and other wireless devices such as tablets and laptops with them while viewing television. To build our user base, we will target this audience using traditional media techniques such as direct response, banner and mobile advertising, public relations, search engine optimization and search engine marketing across online, social media, broadcast and print media outlets.

When a user signs up for and downloads our App, we collect the user's email, zip code, television provider and date of birth. The email enables us to verify the user and reduces the chance of fraud. The zip code allows us to present a relevant list of cable and satellite providers to the user to deliver the correct channel listing data. Knowing the television provider in turn helps us to increase the rate of success for television show matching. We encourage users to provide additional information such as their physical mailing address. Knowing a user's birthday allows us to verify that the user is at least 13 years old. The physical mailing address is required for the delivery of physical goods selected by a user in the App rewards catalog. This information also helps us better target relevant advertising to the user. We manage this information in adherence with standard privacy policies and regulations.

We generate content for wetpaint.com that appeals largely to women between the ages of 18 and 49. Our coverage of TV shows and celebrities strives to attract repeat visitors to the website that want to read about the latest entertainment news. We use our audience development engine, which is called the Social Publishing Platform, to capture and distribute to Facebook fans, so that our content will appear in Facebook feeds, and generate traffic to our websites.

#### Competitive Position

The market for digital and social media applications is intensely competitive and subject to rapid change. New competitors may be able to launch new businesses at relatively low cost. Many consumers maintain simultaneous

relationships with multiple digital brands and products and can easily shift consumption from one provider to another. Additionally, the “Social TV” category is nascent and has yet to attract the attention of mainstream consumers and marketers. Many of our competitors are larger, more established and better funded and have a history of successful operations. Although we launched the first version of our App in January 2012, there can be no assurance of how successful the product will be or how effectively the technology will perform.

While there are a variety of companies currently in the market that offer either manual check-in or audio verification, we believe our App differs significantly because we offer users real, as opposed to virtual, rewards such as unique deals and offers, electronics, sweepstakes, charitable donations, select retail gift cards, digital media and Viggle-branded merchandise, and we drive our customers to engage and interact with TV shows for longer periods of time. We offer a comprehensive range of features and functionality, such as automatic check-ins using audio verification, in-app digital advertising engagements (such as games or videos, real-time polls and quizzes) and full social media integration that reward our users for being more loyal to their TV shows and provides our users with, we believe, more enjoyment at the same time. Such integration makes it easy for users to share what they are doing within the App with their social network and to follow show-specific commentary on Twitter and Facebook. We

also offer users a listing of current and upcoming shows for which they can set reminders, learn more information and indicate their support of the show by “liking” it.

Other companies in the “Social TV” market focus on the simple ability of a user to communicate their television viewing activity to others in the user’s social media circles. Instead of real rewards, these companies offer their users virtual points, leader board status, digital badges or stickers. We believe that our target market will be motivated by the ability to earn real rewards on a frequent basis and to interact in real time via show-specific polls, quizzes, videos and games.

### The Mobile Marketing Industry

The media industry has become increasingly fragmented, with more choices than ever and with new models of media consumption. According to eMarketer, in August 2013, 63% of media consumed by users was not television, with mobile representing 20% of consumption.

According to data from Experian Marketing Services, U.S. consumers are now spending more than 58 minutes a day on their smartphones for a variety of activities including talking, texting, social networking, emailing, visiting websites and playing games. The emergence and growth of mobile devices has led to the “always connected consumer”, and advertisers continue to search for ways to engage with this audience. Advertisers are spending considerable sums of money to target the mobile user. For example, according to eMarketer, while television advertising is expected to continue to grow, from \$60 billion in 2011 to \$70 billion in 2017, its share of the advertising market is expected to decrease to 40% over that time. On the other hand, according to eMarketer, mobile advertising is expected to expand from \$1.6 billion in 2011 to \$31 billion in 2017, and its share of the advertising market is also expected to increase from 1% to 12% over that time.

The ways in which consumers are using their smartphones and tablets have changed in recent years with the growth in usage of apps, self-contained software programs specifically made for mobile devices. According to Flurry Analytics, the average number of apps used on a daily basis continues to grow, measuring 7.9 in the fourth quarter of 2012 compared to 7.2 in the fourth quarter of 2010. The emergence of the app marketplace has created a unique opportunity and challenge for developers and advertisers to monetize the usage by consumers.

The challenge presented with mobile advertising is that users can find the mobile advertising experience interruptive. While click-through banner ads are popular on web browsers, there is a higher degree of consumer engagement with watching an ad or interacting with an ad, and smart phone users expect more for their behavior.

According to a Forrester Consulting study published June 2014, 67% of smartphone users agreed that if they have to see ads while using an app, they would want to be offered a reward, such as premium content or virtual currency, in exchange for watching or interacting with the ad. Rewards programs influence consumer behavior and drive recurring revenue in other industries, including the consumer retail, hospitality and financial services industries. In 2013, according to Colloquy, the average household participated in 20 reward or loyalty programs.

### DraftDay.com

On September 8, 2015, the Company and its subsidiary DraftDay Gaming Group, Inc. (“DDGG”) entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with MGT Capital Investments, Inc. (“MGT Capital”) and MGT Sports, Inc. (“MGT Sports”), pursuant to which the Company acquired all of the assets of the DraftDay.com business (the “DraftDay Business”) from MGT Capital and MGT Sports. The DraftDay Business operates a daily fantasy sports website at DraftDay.com. The DraftDay.com Business is focused on the business-to-business market allowing consumer brands entry into the fantasy sports market with turnkey solutions. The DraftDay Business has paid out

more than \$30 million in prize winnings since its inception. The Company is continuing to develop its business plans for the DraftDay Business in connection with the Special Committee's continuing review of strategic alternatives, as noted below.

DraftDay Gaming Group is the market leading business-to-business operator of daily fantasy sports in the United States and Canada. DraftDay supplies a full white-label solution that allows businesses to participate in the fast growing skill-based game market. By using DraftDay's white label solution, a business can offer a fantasy sports product to its customers without incurring the ongoing technology costs and other capital expenditures. By focusing on offering white label solutions to businesses, DraftDay's strategy is to build a network of players through the established databases of DraftDay's participating clients. DraftDay believes that this strategy will minimize costs of user acquisition. In addition, the aggregated network of users across DraftDay's clients' databases creates larger prize pools to generate higher player engagement and retention. DraftDay continues to develop its business plan by focusing on the regulated market of casinos as well as the entertainment and sports industries.



DraftDay's business is subject to an evolving legislative and regulatory landscape. Some states either use a more restrictive test of whether a game is one of skill or have specific laws outlawing pay-to-play fantasy sports. Therefore, DraftDay does not operate in Arizona, Iowa, Louisiana, Montana, Nevada, Vermont or Washington. In addition, on November 10, 2015, the Attorney General of New York issued a letter to FanDuel and DraftKings, two of the largest competitors in the fantasy sports industry, stating that it believes that their activities constitute illegal gambling under the laws of the State of New York and instructing them to cease their offerings to New York residents. As a result, we have ceased our fantasy sports offerings to New York residents, pending further developments on the matter.

#### Special Committee

In the Company's Quarterly Report on Form 10-Q filed on May 11, 2015, the Company reported that its Board of Directors intended to form a Special Committee of independent directors to explore strategic alternatives to enhance value, and that these alternatives could include, among others, possible joint ventures, strategic partnerships, marketing alliances, sale of the Company, or other possible transactions. This Special Committee has been formed and is in the process of considering various alternatives.

#### Going Concern

Our Consolidated Financial Statements as of June 30, 2015, and the auditor's report on those financial statements, include a disclosure paragraph regarding the uncertainty of our ability to remain a going concern, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company is unlikely to pay dividends or generate significant revenue or earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its stockholders and the ability of the Company to obtain necessary equity or debt financing to continue development of its business and to increase revenue. Management intends to raise additional funds through equity and/or debt offerings until sustainable revenues are developed. There is no assurance such equity and/or debt offerings will be successful or that development of the business will be successful, and therefore there is substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

## Results of Operations

Results for the three months ended September 30, 2015 and 2014 (amounts in thousands)

	Three Months Ended September 30,		
	2015	2014	Variance
Revenues	\$5,052	\$6,476	\$(1,424)
Cost of watchpoints and engagement points	(2,022)	(1,164)	(858)
Selling, general and administrative expenses	(15,566)	(22,771)	7,205
Operating loss	(12,536)	(17,459)	4,923
Other income (expense):			
Other income, net	—	5	(5)
Interest expense, net	(854)	(127)	(727)
Total other expense	(854)	(122)	(732)
Net loss before provision for income taxes	(13,390)	(17,581)	4,191
Income tax expense	(22)	(22)	—
Net loss	\$(13,412)	\$(17,603)	\$4,191

Consolidated Operating Results for the Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014 (amounts in thousands)

## Revenues

Revenue in the three months ended September 30, 2015 was \$5,052, a decrease of \$1,424 from the three months ended September 30, 2014. The decrease was primarily from decreased third party advertising on the Viggle App and barter revenue.

## Cost of Watchpoints and Engagement Points

Cost of watchpoints and engagement points for the three months ended September 30, 2015 was \$2,022, an increase of \$858 from the three months ended September 30, 2014. Such costs relate to the cost of Viggle reward points earned by users of the App for checking into shows and engaging with advertising content. The increase is primarily due to users earning more reward points during the quarter.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$15,566 for the three months ended September 30, 2015, a decrease of \$7,205 from the three months ended September 30, 2014. The decrease was driven by decreases in stock based compensation of \$2,398, personnel costs of \$2,321, marketing costs of \$909 and technology related costs of \$708.

## Interest Expense, Net

Interest expense, net was \$854 for the three months ended September 30, 2015, an increase of \$727 from the three months ended September 30, 2014. The increase was due to higher levels of debt during the three months ended September 30, 2015.

## Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, Income Taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions

31

---

where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements. At September 30, 2015 and June 30, 2015, the Company provided a full valuation allowance on its deferred tax assets and thus recognized no tax benefit. For the three months ended September 30, 2015, the Company recorded an income tax provision of \$22 to reflect tax amortization of the Company's goodwill.

#### Non-GAAP Adjusted Rewards Costs and Adjusted EBITDA

We provide a non-GAAP measure for adjusted rewards costs as an alternative view of our cost of providing rewards to its users. The Company reports rewards costs in its Consolidated Statement of Operations in both Cost of Watchpoints and Engagement Points and in selling, general and administrative expenses. Management believes that a useful financial measure for investors is to provide to them the amount of cash we have actually paid to provide rewards to its users. Therefore, we adjust Cost of Watchpoints and Engagement Points as reported, which represents the cost of points earned by users during the period, to the cost of actual rewards redeemed by users during the period. Selling, general and administrative expenses as reported are likewise adjusted as certain point costs are classified as marketing. We also present Adjusted EBITDA. Adjusted EBITDA is a non-GAAP measure that represents operating loss (as reported) plus depreciation and amortization, stock based compensation, certain one-time selling, general and administrative costs, and adjustment to rewards costs. The information on adjusted rewards costs and Adjusted EBITDA should be considered in addition to, but not in lieu of operating income prepared in accordance with generally accepted accounting principles in the United States (GAAP). Management believes these non-GAAP measures enhance investors' understanding our financial performance. Since adjusted reward costs and Adjusted EBITDA are not measures determined in accordance with GAAP, they have no standardized meaning prescribed by GAAP and, therefore, may not be comparable to the calculation of similar measures of other companies. A reconciliation between GAAP financial measures and non-GAAP financial measures is as follows.

Reconciliation of rewards cost to adjusted rewards cost and selling, general and administrative expenses to adjusted selling, general and administrative expenses (amounts in thousands)

	Three months ended September 30, 2015	Three months ended September 30, 2014
Cost of watchpoints and engagement points as reported	\$(2,022)	\$(1,164)
Adjustment to cost of watchpoints and engagement points	(256)	)281
Adjusted cost of watchpoints and engagement points	(2,278)	)(883)
Selling, general and administrative expenses as reported	(15,566)	)(22,771)
Adjustment to selling, general and administrative expenses	(29)	)31
Adjusted selling, general and administrative expenses	\$(15,595)	)(22,740)

Reconciliation of operating loss to Adjusted EBITDA (amounts in thousands)

	Three months ended September 30, 2015	Three months ended September 30, 2014
Operating loss as reported	\$(12,536)	)(17,459)
Add:		
Stock compensation costs	5,164	7,562
Adjustment to cost of watchpoints and engagement points	(256)	)281
Adjustment to selling, general and administrative expenses	(29)	)31

Edgar Filing: Viggle Inc. - Form 10-Q

Depreciation and amortization costs	1,196	1,800
Adjusted EBITDA *	\$(6,461	\$(7,785 )

\* Adjusted EBITDA is a non-GAAP measure, but shown above it represents operating loss plus depreciation and amortization, stock based compensation, certain one-time selling, general and administrative costs, and adjustment to rewards costs

Liquidity and Capital Resources (amounts in thousands)

32

---

## Cash

At September 30, 2015 and June 30, 2015, we had cash balances of \$1,521 and \$4,217, respectively.

## Available Line of Credit

As of September 30, 2015, the Company had approximately \$3,400 available under its lines of credit.

## The Company's 12-Month Plan for its Business (amounts in thousands)

Our capital requirements to fund our business plan are variable based on a few key factors: the number of users, the amount of points earned per user, the amount of points redeemed for rewards, and our cost to purchase, acquire, and/or trade for rewards. These factors combine to determine our rewards cost for the next 12 months. Rewards costs are expected to be the largest variable cost to our business for the foreseeable future and, therefore, controlling these costs will have the greatest impact on our liquidity and capital resources. We anticipate the ability to lower rewards cost through the introduction of specific brand offers, additional sweepstakes, and digital rewards into our rewards catalog, but there is no guarantee we will lower our rewards costs in the next 12 months. As we increase users of the Viggle App, we expect to generate increased revenue from the sale of digital media within our App and expect these sales to be a source of liquidity within the next 12 months. However, there is no guarantee that revenues will exceed rewards or other costs in the next 12 months or ever. We have the ability to control rewards cost through the restriction of new user acquisition, the limitation of point earning opportunities within the App, and the re-pricing of points in terms of how many are needed to redeem for purchased rewards within the App. In respect to our operating costs, employee salaries, cost of marketing expenditures, leases of office space, and research & development costs constitute the majority of our monthly operating expenses. With the exception of leased office space, our operating costs are expected to increase as we add users in order to sell more advertising, to create new features and functionality on the platform, to acquire new rewards, to market the Viggle App, and to build, develop and market a Viggle Digital Media Store over the next 12 months. The overall level of expenses will be reflective of management's view of the current opportunities for the Viggle App within the marketplace. We utilize significant computing resources to run our mobile platform and purchase certain server hardware; however, we lease the majority of needed computing hardware, bandwidth, and co-location facilities. Accordingly, we can limit the cost of these servers to be in line with user growth. We plan to carefully manage our growth and related costs to ensure we have sufficient capital resources to meet the goals of our business plan for the next 12 months.

We have projected the plan for our business for the next 12 months, which is subject to change resulting from both internal and external circumstances. Our 12-month plan has not been reviewed for consistency with US GAAP, and has been prepared on a modified accrual basis. Our 12-month plan is based on assumptions and is subject to risks and uncertainties. Our 12-month plan represents our estimates and assumptions only as of the date of this filing on form 10-Q, and our actual future results may be materially different from what we set forth below.

There is no assurance that the plan set forth herein will be successful. If implemented, actual results may vary significantly from the plan described in this filing on future forms 10-Q. We do not warrant or guarantee the foregoing. Our June 30, 2015 financial statements contain a going concern emphasis in our audit opinion.

Our current plan will require capital of approximately \$16,700 over the next 12-month period to cover the fixed expenses and capital needs of our company, including employee payroll, marketing expenditures, server capacity, research and development, office space and capital expenditures. As of the date of this filing on form 10-Q, we have approximately \$3,400 available under our existing lines of credit. In order to meet our capital requirements for the next 12 months, we anticipate that we will need approximately \$11,800 in new capital (in excess of the cash currently

held by us of approximately \$1,500 and the \$3,400 available as noted above). We believe revenue will continue to improve over the next 12 months as we sell more advertising within the App and on our websites. Additionally, we believe that as our user base grows, we will be able to introduce specific brand offers, additional sweepstakes, and digital rewards into our rewards catalog, which will help reduce cash required to fund rewards. As our App becomes more popular, we plan to increase the number of points needed to redeem certain rewards, which in turn should reduce the cash required to fund rewards. During Fiscal 2015, we increased our revenue and added new rewards to the catalog which required less cash to purchase than some of our previous rewards. This enabled us to reduce our cash outlay for rewards. As we continue to add new items to our rewards catalog, we will focus on how those items are priced in points with the goal of reducing our cash outlay for rewards. Although the increase in revenue and the addition of lower cost rewards suggest that we should be able to reduce our cash funding requirements over the next 12 months, there is no guarantee that we will be successful. Our ability to sell increasing amounts of advertising is dependent on the amount of registered active users and the activity of those users within the App. It may be challenging to grow revenue as our company faces many competitors seeking to gather revenue

in the same manner. Advertising budgets can shift rapidly and the benefits previously seen by advertisers could shift away from mobile platforms to something new. We may not be able to deliver enough users to our advertisers to grow revenue. The level of engagement activity currently seen within the App may slow and the potential revenue per user would fall accordingly. In addition, growing our user base makes us more attractive to advertisers, but will also increase our total rewards cost as new users earn points within the App. We will need to increase our revenue per user above the average cash cost per user in order to achieve profitability. There is no guarantee that we will be able to do so. Our ability to purchase rewards for greater discounts as we buy more may not be sustainable and we may reach a floor on the level of discounting. We have no plan to materially adjust the overall points pricing within our rewards catalog; however, we may find a wholesale re-pricing necessary to reduce the cash needed to fund our rewards program. Adjusting the points needed to redeem a reward may decrease our funding requirements, but may have the counter-balancing effect of discouraging user acceptance and satisfaction.

The actual amount of funds required for the next 12 months may vary depending upon the number of users, the rewards offered, the marketing and related expenses, the development costs for the launch of new features and product enhancements, and the speed with which prospective users enroll in the App. In the event that the required cash is not funded from revenue, we will need to raise additional capital through either debt or equity financing. Alternatively, we would need to revise our business plan to reduce our spending rate and delay certain projects that are part of our business plan based on the amount of capital available until additional capital is raised.

Cash Flows for the three months ended September 30, 2015 (amounts in thousands)

	Three Months Ended September 30,	
	2015	2014
Net cash (used in) provided by operating activities	\$(3,503	)\$628
Net cash provided by (used in) investing activities	\$535	\$(243 )
Net cash provided by (used in) financing activities	\$272	\$(270 )

#### Operating Activities

In the three months ended September 30, 2015, net cash used in operating activities was \$3,503, including our net loss of \$13,412, non cash, stock based compensation charges of \$5,164, and depreciation and amortization of \$1,196. In addition, net cash inflows from changes in operating assets and liabilities was \$1,771, primarily due to an increase in accounts payable of \$3,082.

In the three months ended September 30, 2014, net cash provided by operating activities was \$628, including our net loss of \$17,603, non cash, stock based compensation charges of \$7,562 and depreciation and amortization of \$1,800. In addition, net cash inflows from changes in operating assets and liabilities was \$8,875, primarily as a result from increases in other assets of \$5,000 and accounts payable and accrued expenses of \$3,778.

#### Investing Activities

Cash provided by investing activities in the three months ended September 30, 2015 was \$535 consisting of cash acquired, net of cash paid for the acquisition of DraftDay.

Cash used in investing activities in the three months ended September 30, 2014 was \$243 consisting of capitalized portion of App development costs and investments in computer related equipment.



Financing Activities

Cash provided by financing activities in the three months ended September 30, 2015 of \$272 consisted of net borrowings on the Company's lines of credit.

Cash used in financing activities in the three months ended September 30, 2014 of \$270 consisted of purchases of common shares from a former executive of the Company.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material impact on the Company.

#### Commitments and Contingencies

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are not required to provide the information required by this item.

#### Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, watchpoints and engagement points, stock-based compensation, the valuation of goodwill and intangible assets, internal-use software, and income taxes have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

During the three months ended September 30, 2015, there have been no significant changes related to our critical accounting policies and estimates as disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

#### Recently Issued Accounting Pronouncements

In September 2015, the FASB issued Accounting Standard Update No. 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). This standard requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination, during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in the ASU 2015-16 require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017 (July 1, 2017 for the Company). The Company does not believe that the adoption of ASU 2015-16 will have a material impact on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific

revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 (July 1, 2018 for the Company). Early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company has not yet selected a transition method nor has it determined the impact of adoption on its consolidated financial statements.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we are not required to provide the information required by this item.

36

---

## ITEM 4 CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities & Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Accounting Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

On September 30, 2015, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting Officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Principal Accounting Officer concluded that our disclosure controls and procedures were effective.

### Changes in Internal Control over Financial Reporting

There was no change in internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the three months ended September 30, 2015 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II

38

---

ITEM 1. LEGAL PROCEEDINGS

On May 4, 2015, the Company was served with a lawsuit initiated by Andy Mule, on behalf of himself and others similarly situated, in the Supreme Court of the State of New York. The lawsuit, which names the Company and each of our directors as defendants, claims a breach of fiduciary duty relating to a proposal by Mr. Sillerman to acquire a portion of Wetpaint from the Company. The lawsuit seeks to enjoin the transaction as well as unspecified damages. The Company believes that the lawsuit is without merit.

The Company is subject to litigation and other claims that arise in the ordinary course of business. While the ultimate result of our outstanding legal matters cannot presently be determined, the Company does not expect that the ultimate disposition will have a material adverse effect on its results of operations or financial condition. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. As such, there can be no assurance that the final outcome will not have a material adverse effect on the Company's financial condition and results of operations.

## ITEM 1A. RISK FACTORS

Various portions of this report contain forward-looking statements that involve risks and uncertainties. Actual results, performance or achievements could differ materially from those anticipated in these forward-looking statements as a result of certain risk factors, including those set forth below and elsewhere in this report (amounts in thousands, except share data).

Our board of directors has formed a special committee of independent directors to explore strategic alternatives to enhance value. However, there can be no assurances that any transaction will occur, or if such a transaction does occur, the value of that transaction to our company or our stockholders.

Our board of directors has formed a special committee of independent directors to explore strategic alternatives to enhance value. These alternatives could include, among others, possible joint ventures, strategic partnerships, marketing alliances, sale of our company, sale of all or some of our assets or other possible transactions. However, there can be no assurance that any such strategic transaction will occur. In addition, if such a transaction occurs, there can be no assurances as to the value of any such transaction to our company or our stockholders.

Our historic stock price has been volatile and the future market price for our common stock is likely to continue to be volatile.

The public market for our common stock has historically been volatile. Any future market price for our shares is likely to continue to be volatile. This price volatility may make it more difficult for you to sell shares when you want at prices you find attractive. The stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of specific companies. Broad market factors and the investing public's negative perception of our business may reduce our stock price, regardless of our operating performance. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, these factors may make it more difficult or impossible for you to sell shares of our common stock for a positive return on your investment.

We have a history of losses, expect future losses and cannot assure you that we will achieve profitability.

We have incurred significant net losses and negative cash flow from operations since our inception. We incurred net losses of \$13,412 and \$17,603 for the three months ended September 30, 2015 and September 30, 2014, respectively. We have an accumulated deficit of approximately \$380,604 as of September 30, 2015 and \$367,360 as of June 30, 2015. Although our revenue has grown significantly since inception, we have not achieved profitability and cannot be certain that we will be able to sustain our current revenue growth rate or realize sufficient revenue to achieve profitability. Our ability to continue as a going concern is dependent upon raising capital from financing transactions, increasing revenue throughout the year and keeping operating expenses below our revenue levels in order to achieve positive cash flows, none of which can be assured. If we achieve profitability, we may not be able to sustain it.

Our independent registered public accounting firm's report contains an explanatory paragraph that expresses substantial doubt about our ability to continue as a going concern.

The report of our independent registered public accounting firm contained in our annual report on Form 10-K for the fiscal year ended June 30, 2015 contained an explanatory paragraph expressing substantial doubt about our ability to remain a going concern because we have suffered recurring losses from operations and, at June 30, 2015, had a working capital deficiency. We are unlikely to pay dividends or generate significant earnings in the immediate or



foreseeable future. The continuation of our Company as a going concern is dependent upon the continued financial support from our largest stockholders and the ability of our Company to obtain necessary equity and debt financing to continue development of our business and to generate revenue. Management intends to raise additional funds through equity and debt offerings until sustainable revenues are developed. No assurance can be given that such equity and debt offerings will be successful or that development of our business will continue successfully.

Exercise of stock options and warrants and conversion of preferred stock will dilute your percentage of ownership and could cause our stock price to fall.

As of September 30, 2015, we have outstanding stock options and warrants to purchase 2,991,297 shares of common stock and unvested restricted stock units for 298,560 shares of common stock. Exercise of any of these options or warrants, or conversion of any of the shares of preferred stock, would result in our issuing a significant number of additional shares of common stock. Additionally, we have 2,780,131 shares available for issuance under the 2011 Executive Incentive Plan. In the future, we may

40

---

further increase the number of shares available for issuance under that plan. In addition, we currently have 10,000 shares of Series C Convertible Preferred Stock outstanding, which are convertible into 2,500,000 shares of common stock. We may also grant additional stock options, warrants and convertible securities. The exercise, conversion or exchange of stock options, warrants or convertible securities will dilute the percentage ownership of our other stockholders. Sales of a substantial number of shares of our common stock could cause the price of our common stock to fall and could impair our ability to raise capital by selling additional securities.

If we fail to comply with the listing requirements of NASDAQ, we may be subject to delisting. As a result, our stock price may decline. If our shares of common stock were no longer listed on NASDAQ, the liquidity of our securities likely would be impaired.

Our common stock currently trades on the NASDAQ Capital Market under the symbol VGGL. If we fail to comply with NASDAQ's listing criteria, our stock may be delisted. NASDAQ's listing criteria require, among other things, that we maintain a share price of at least \$1 per share. Failure to comply with these criteria could potentially impair the liquidity of our securities not only in the number of shares that could be bought and sold at a given price, which may be depressed by the relative illiquidity, but also through delays in the timing of transactions. As a result, an investor may find it more difficult to dispose of shares of our common stock. We believe that current and prospective investors would view an investment in our common stock more favorably if it continues to be listed on NASDAQ. Any failure at any time to meet the continuing NASDAQ listing requirements could have an adverse impact on the value of and trading activity in our common stock.

If we are unable to successfully develop and market our products or features or our products or features do not perform as expected, our business and financial condition will be adversely affected.

With the release of any new product or any new features to an existing product, we are subject to the risks generally associated with new product or feature introductions and applications, including lack of market acceptance, delays in development and implementation, and failure of new products or features to perform as expected. In order to introduce and market new or enhanced products or features successfully with minimal disruption in customer purchasing patterns and user experiences, we must manage the transition from existing products in the market. There can be no assurance that we will successfully develop and market, on a timely basis, products, product enhancements or features that respond to technological advances by others, that our new products will adequately address the changing needs of the market or that we will successfully manage product transitions. Further, failure to generate sufficient cash from operations or financing activities to develop or obtain improved products and technologies could have a material adverse effect on our results of operations and financial condition.

In addition, our technology is under continual development. While certain aspects of the product may currently be functioning on a basic level, we must perform more testing to ensure that the different components work together effectively and the audio sampling and matching technology being developed by us is accurate, performs well and integrates with metadata and points systems. Although the product has been launched for use on Apple iOS and Android devices, there is no assurance that the product will generate sufficient income from brand and network advertisers, which could have a material adverse effect on our results of operations and financial condition.

We distribute our products on Apple's iOS and Google's Android platforms, and if we are unable to maintain a good relationship with each of Apple and Google or if the Apple App Store or the Google Play Store were unavailable for any prolonged period of time, our business will suffer.

We distribute our products on Apple's iOS and Google's Android platforms. We believe that we have maintained a good relationship with both Apple and Google, but any deterioration in our relationship with either Apple or Google would materially harm our business and likely cause our stock price to decline. We are subject to each of Apple's and

Google's standard terms and conditions for application developers, which govern the promotion, distribution and operation of applications on their respective storefronts. Each of Apple and Google has broad discretion to change its standard terms and conditions. In addition, these standard terms and conditions can be vague and subject to changing interpretations by Apple or Google. Any change to these standard terms and conditions, or in Apple's or Google's interpretation of these standard terms and conditions, could materially harm our business, and we may not receive any advance warning of such change. In addition, each of Apple and Google have the right to prohibit a developer from distributing its applications on its storefront if the developer violates its standard terms and conditions. In the event that either Apple or Google ever determines that we are in violation of its standard terms and conditions, including by a new interpretation, and prohibits us from distributing our applications on its storefront, it would materially harm our business and likely cause our stock price to significantly decline. We also rely on the continued function of the Apple App Store and the Google Play Store, as we distribute our products exclusively through these two digital storefronts. There have been occasions in the past when these digital storefronts were unavailable for short periods of time. In the event that either the Apple App Store or the Google Play Store is unavailable for a prolonged period of time, it would have a material adverse effect on our revenues and operating results.

We may seek to raise additional funds, finance acquisitions or develop strategic relationships by issuing capital stock that would dilute your ownership.

We have financed our operations, and we expect to continue to finance our operations and acquisitions and to develop strategic relationships, by issuing equity or convertible debt securities, which could significantly reduce the percentage ownership of our existing stockholders. Furthermore, any newly issued securities could have rights, preferences and privileges senior to those of our existing common stock. Moreover, any issuances by us of equity securities may be at or below the prevailing market price of our common stock and in any event may have a dilutive impact on your ownership interest, which could cause the market price of our common stock to decline. We may also raise additional funds through the incurrence of debt or the issuance or sale of other securities or instruments senior to our common stock. The holders of any debt securities or instruments we may issue would likely have rights superior to the rights of our common stockholders.

Since a significant amount of our voting securities are controlled by our current insiders and their affiliates, you and our other non-management stockholders may not be able to affect the outcome in matters requiring stockholder approval.

As of November 10, 2015, approximately 8,700,00 shares of our common stock, not including warrants, options, preferred stock or rights to acquire common stock, are owned by Mr. Sillerman and current affiliates and insiders representing control of approximately 35.0% of the total voting power. This includes 8,230,623 shares of our common stock held by an entity controlled by Mr. Sillerman. In addition, an entity controlled by Mr. Sillerman holds 10,000 shares of our Series C Convertible Preferred Stock, which are convertible into 2,500,000 shares of our common stock. In addition, Mr. Sillerman, entities controlled by him, and our other executive officers and directors hold options and warrants to purchase approximately 2,400,000 shares of our common stock. If all of these options and warrants were exercised, and the Series C Convertible Stock were converted into common stock, Mr. Sillerman and our executive officers and directors would hold nearly a majority of our total voting power. As a result, Mr. Sillerman and current affiliates and insiders essentially have the ability to elect all of our directors and to approve any action requiring stockholder action, with the vote of only a very small number of other stockholders. It is possible that the interests of Mr. Sillerman could conflict in certain circumstances with those of other stockholders. Such concentrated ownership may also make it difficult for our stockholders to receive a premium for their shares of common stock in the event we merge with a third party or enter into other transactions that require stockholder approval. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

We rely on key members of management, and the loss of their services could adversely affect our success and development.

Our success depends on the expertise and continued service of Mr. Sillerman and certain other key executives and technical personnel. These individuals are a significant factor in our growth and ability to meet our business objectives. In particular, our success is highly dependent upon the efforts of our executive officers and our directors, particularly Mr. Sillerman. It may be difficult to find a sufficiently qualified individual to replace Mr. Sillerman or other key executives in the event of death, disability or resignation, resulting in our being unable to satisfactorily execute our business. The loss of one or more of our executive officers and directors could slow the growth of our business, or it may cease to operate at all, which may result in the total loss of an investor's investment.

Compensation may be paid to our executive officers, directors and employees regardless of our profitability, which may limit our ability to finance our business and adversely affect our business.

Mr. Sillerman and other executive officers are receiving compensation, and other current and future employees of our company may be entitled to receive compensation, payments and reimbursements regardless of whether we operate at a profit or a loss. Any compensation received by Mr. Sillerman or any other senior executive in the future will be determined from time to time by our Board of Directors or our Compensation Committee. Such obligations may negatively affect our cash flow and our ability to finance our business, which could cause our business to fail.

Some of our executive officers and directors may have conflicts of interest in business opportunities that may be disadvantageous to us.

Mr. Sillerman and Mitchell J. Nelson, our Executive Vice President, Secretary and a director, are each engaged in other business endeavors, including Circle Entertainment Inc. ("Circle"), in which Mr. Nelson is an executive officer. Mr. Sillerman is also the Chairman of SFX, a company in the live entertainment business. Under Mr. Sillerman's employment agreement, he is obligated to devote his working time to our affairs, but may continue to perform his responsibilities as an executive officer of SFX and as a director of Circle, and may be involved in other outside non-competitive businesses. Mr. Sillerman has agreed to present to us any business opportunities related to or appropriate for our business. Pursuant to Mr. Nelson's employment agreement, he is

obligated to devote such time and attention to the affairs of our company as is necessary for him to perform his duties as Executive Vice President. He is also entitled to perform similar functions for Circle and performs general legal duties for SFX pursuant to the shared services agreements described in Note 12 to the financial statements included in this Form 10-Q. In addition, one of our directors, Michael Meyer, is a member of the board of directors and chair of the audit committee of Circle. Although Circle, SFX and our company have generally different business plans, interests and programs, it is conceivable there may be a conflict of interest in determining where a potential opportunity should be brought. Conflicts of interest are prohibited as a matter of corporate policy, except under guidelines approved by the Board of Directors, as set forth in our Code of Business Conduct and Ethics. Our Code of Business Conduct and Ethics also sets forth the procedures to follow in the event that a potential conflict of interest arises. In addition, not having the full time and attention of the executive officers could cause our business results to suffer.

We entered into a Sales Agency Agreement with SFX pursuant to which SFX exclusively represented us in the sale of advertising and sponsorships. The Sales Agency Agreement has been terminated, and we have hired nine members of the SFX sales team. However, it will take time for this new sales team to generate sales of advertising and sponsorships, and our sales could suffer as a result.

We entered into a Sales Agency Agreement pursuant to which SFX exclusively represented us in the sale of advertising and sponsorships. As part of the Sales Agency Agreement, we consented to SFX's hiring of 25 members of our sales team, and during the term of the agreement, we had no sales force. The Sales Agency Agreement has now been terminated, and as part of the termination, we have hired nine members of the SFX sales team. However, it will take time for this new sales team to shift its focus entirely to us, and it will take time for this new sales team to generate sales of advertising and sponsorships. As a result, our revenues could suffer.

Our business and growth may suffer if we are unable to attract and retain key officers or employees.

Our ability to expand operations to accommodate our anticipated growth will depend on our ability to attract and retain qualified media, management, finance, marketing, sales and technical personnel. However, competition for these types of employees is intense due to the limited number of qualified professionals. Our ability to meet our business development objectives will depend in part on our ability to recruit, train and retain top quality people with advanced skills who understand our technology and business. No assurance can be given that we will be successful in this regard. If we are unable to engage and retain the necessary personnel, our business may be materially and adversely affected.

We are uncertain of our ability to manage our growth.

Our ability to grow our business is dependent upon a number of factors, including our ability to hire, train and assimilate management and other employees, the adequacy of our financial resources, our ability to identify and efficiently provide such new products and services as our customers may require in the future, and our ability to adapt our own systems to accommodate expanded operations.

Because of pressures from competitors with more resources, we may fail to implement our business strategy profitably.

The digital and mobile technology business is highly fragmented, extremely competitive, and subject to rapid change. The market for customers is intensely competitive and such competition is expected to continue to increase. We believe that our ability to compete depends upon many factors within and beyond our control, including the timing and market acceptance of new solutions and enhancements to existing businesses developed by us and our competitors. We are an entertainment company that utilizes digital media and Smartphone technology. If we are

successful, larger and more established entertainment companies, with significantly greater resources, may try to enter the market with similar technologies, and may be in better competitive positions than we are. Many consumers maintain simultaneous relationships with multiple digital brands and products and can easily shift consumption from one provider to another. Our principal competitors are in segments such as:

- Applications promoting social TV experiences and discussions; and
- White label providers of social media and media-specific applications.

Additionally, new competitors may be able to launch new businesses at relatively low cost. Either existing or new competitors may develop new technologies, and our existing and potential advertisers may shift their advertising expenditures to these new technologies. We cannot be sure that we will be able to successfully execute our business in the face of such competition.

We may be unable to compete with larger or more established companies in two industries.

We face a large and growing number of competitors in the digital and mobile technology and entertainment industries. If we successfully combine digital and mobile technology with entertainment, we will have competitors from both the digital and mobile technology and entertainment industries. Many of these competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition, and more established relationships in these industries than do we. As a result, certain of these competitors may be in better positions to compete with us for customers and audiences. Further, our current and/or future competitors in the digital and mobile technology industry may develop or license technology that is similar to the Viggle App. We cannot be sure that we will be able to compete successfully with existing or new competitors.

Although it cannot use the technology licensed to it by us to compete with our current business, SFX may have the ability to compete with us in future lines of business.

Although our license agreement with SFX does not permit SFX to use our technology in a manner or for applications that we believe would be competitive with our current or proposed operations and businesses, the license agreement does provide SFX with the ability to use our technology within a relatively broad range, which could result in SFX using our technology to compete with us in other businesses we may elect to pursue in the future.

Failure to successfully combine and integrate the businesses of Wetpaint, Dijit, Choose Digital or DraftDay in the expected time frame may adversely affect our future results.

The success of our acquisitions of Choose Digital, Wetpaint, Dijit, Choose Digital and DraftDay will depend, in part, on our ability to realize the anticipated benefits from combining the businesses of Choose Digital, Wetpaint, Dijit and DraftDay with our existing business. To realize these anticipated benefits, the businesses of Choose Digital, Wetpaint, Dijit and DraftDay must be successfully integrated and combined. If users of each of the Choose Digital, Wetpaint, Dijit, DraftDay and Viggle services do not prove to have an affinity to the new complementary services they are introduced to, results of the combination could be worse than anticipated. Our management may face significant challenges in consolidating Choose Digital's, Wetpaint's, Dijit's and DraftDay's functions with ours, integrating the technologies, organizations, procedures, policies and operations, as well as addressing the different business cultures at the two companies, and retaining key personnel. If Choose Digital, Wetpaint, Dijit and DraftDay are not successfully integrated, the anticipated benefits of our acquisitions of Choose Digital, Wetpaint, Dijit and DraftDay may not be realized fully or at all or may take longer to realize than expected. The integration may also be complex and time consuming, and require substantial resources and effort. The integration process and other disruptions resulting from our acquisitions of Choose Digital, Wetpaint, Dijit and Choose Digital may also disrupt each company's ongoing businesses and/or adversely affect their relationships with employees, users, and others with whom they have business or other dealings.

We will still incur significant transaction and merger-related expenses in connection with our acquisition of Choose Digital.

In connection with our acquisition of Choose Digital, we were required to make a contingent payment, which was due within five business days after June 24, 2015, of \$4,792. On July 31, 2015, we entered into a Forbearance Agreement with AmossyKlein Family Holdings, LLLP ("AmossyKlein"), as representative of the former shareholders of Choose Digital Inc. (the "Stockholders"). The Forbearance Agreement provides that we will make monthly installment payments to the Stockholders, beginning on July 31, 2015 and ending on January 29, 2016. Specifically, the Company agreed to pay \$668,445.26 on July 31, 2015; \$532,422.66 on August 31, 2015; \$527,678.14 on September 30, 2015; \$523,979.51 on October 31, 2015; \$520,956.90 on November 30, 2015; \$517,134.99 on December 31, 2015; and



\$1,754,128.10 on January 29, 2016. The Company agreed to deliver an affidavit of confession of judgment to be held in escrow by AmossyKlein's counsel in the event the Company does not make such installment payments. If we fail to make one of these payments, AmossyKlein could seek to immediately enforce a judgment against us.

If we do not continue to develop and offer compelling content, products and services and attract new consumers or maintain the engagement of our existing consumers, our advertising revenues could be adversely affected. In order to attract consumers and maintain or increase engagement on Viggle, Choose Digital, Wetpaint and Dijit properties, we believe we must offer compelling content, products and services. Acquiring, developing and offering new content, products and services, as well as new functionality, features and enhanced performance of our existing content, products and services, may require significant investment and time to develop. In addition, consumer tastes are difficult to predict and subject to rapid change. If we are unable to develop online content, products and services that are attractive and relevant to Viggle, Choose Digital, Wetpaint and Dijit users, we may not be able to maintain or increase our existing users' engagement on or attract new consumers to Viggle, Choose Digital, Wetpaint and Dijit properties and as a result our search rankings, traffic and usage metrics, and advertising revenues may be adversely affected.

Our licensing agreement with SFX may adversely affect our ability to generate revenues in the future. On March 10, 2014, we entered into a software license and services agreement with SFX, a company affiliated with Mr. Sillerman, pursuant to which we licensed our audio recognition software and related loyalty program to SFX. SFX may use the software for its own internal business purposes and may sublicense the software to its affiliates or to its co-promoters. The agreement provides that during the term of the agreement we may not license the software to any third party that directly competes with SFX in the promotion of dance music. Therefore, the agreement will prevent us from entering into, and generating licensing revenues from, any third parties that compete with SFX in the promotion of dance music. The agreement also provides that SFX will receive 50% of our net revenues from the license of the software to any third party. Accordingly, any future revenues that we receive from licensing the technology to third parties will be reduced.

Wetpaint relies on social media posts to drive traffic to its websites. Changes in rules, algorithms, and display formats of social media sites could result in a reduction in such traffic.

Wetpaint relies on posts on various social media platforms, including Facebook and Twitter, to drive users to its websites. In the event that Facebook or Twitter changes their respective terms and conditions to prevent such activity by Wetpaint, Wetpaint's user numbers could decrease. Further, these platforms change their algorithms and application programming interfaces, or API's, in the ordinary course of business, often without notice or explanation to publishers. Changes to these algorithms and API's may reduce the effectiveness of Wetpaint's publishing capabilities, and result in temporary or permanent reductions to the net numbers of fans and followers added each month, as well as the rate at which Wetpaint content is displayed to users and clicked upon. In such cases, traffic to Wetpaint websites could be adversely affected.

Wetpaint relies upon traffic from search engines such as Google to bring an influx of website visitors each month. Search engine traffic is dynamic in nature, and is subject to an ever-changing mix of user-entered keywords, competitive offerings, and algorithmic fluctuations by the search engines themselves.

Search engines such as Google represent a significant source of Wetpaint traffic, and the originating source for many users who become Wetpaint fans and followers on the social networks. The ranking of Wetpaint content in the various search engines is always changing, and relates to algorithmic assessments by the search engines compared to offerings that compete with Wetpaint. The popular keywords for which Wetpaint ranks highly could subside in their popularity, or Wetpaint may fail to maintain the rankings that it has had for such keywords. In addition, as new keywords become popular, Wetpaint content may fail to rank highly for those keywords.

If Wetpaint does not maintain talent, access, and reputation among sources for news stories, we would lose access to stories and our traffic and revenues could suffer.

Wetpaint is reliant upon an editorial organization and freelance talent that secures proprietary access to stories that interest our audience. Our ability to identify and create content that interests the audience is dependent on maintaining and growing our access to talent and sources. If we lose key editorial talent, or our reputation is not maintained, we could lose our ability to create the content that garners audience interests, and traffic and our revenues could be adversely affected.

If our products do not achieve market acceptance, we may not have sufficient financial resources to fund our operations or further development.

While we believe that a viable market exists for our products, there is no assurance that our technology will prove to be an attractive alternative to conventional or competitive products in the markets that we have identified. In the event that a viable market for our products cannot be created for our business or our products do not achieve market

acceptance, we may need to commit greater resources than are currently available to develop a commercially viable and competitive product. There can be no assurance that we would have sufficient financial resources to fund such development or that such development would be successful. Further, our business requires the use of capital resources to purchase rewards for our rewards program, as discussed more fully in the section entitled “The Company's 12-Month Plan for its Business.” In addition, as we grow our number of monthly active users, our rewards costs and capital requirements will increase. We will need to increase our revenue per monthly active user in order to cover our rewards costs and to become profitable; there is no guarantee that we will be able to do so. Additionally, there is no guarantee that we will have sufficient resources to fund our rewards program, which will have a material adverse effect on our business and operations. In addition, if our products do not generate sufficient revenues, or we are unable to raise additional capital, we may be unable to fund our operations. Our ability to raise additional funds will depend on financial, economic and other factors, many of which are beyond our control. There can be no assurance that, when required, sufficient funds will be available to us on satisfactory terms.

45

---

Our business will suffer if our network systems fail or become unavailable.

A reduction in the performance, reliability and availability of our network infrastructure would harm our ability to distribute our products to our users, as well as our reputation and ability to attract and retain users and content providers. Our systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, Internet breakdown, earthquake and similar events. Our systems could also be subject to viruses, break-ins, sabotage, acts of terrorism, acts of vandalism, hacking, cyber-terrorism and similar misconduct. We might not carry adequate business interruption insurance to compensate us for losses that may occur from a system outage. Any system error or failure that causes interruption in availability of products, or an increase in response time, could result in a loss of potential customers or content providers, which could have a material adverse effect on our business, financial condition and results of operations. If we suffer sustained or repeated interruptions, our products and services could be less attractive to our users and our business would be materially harmed.

If we fail to detect fraud, including click fraud, other invalid clicks on ads, or improper engagements, we could lose the confidence of our current and potential advertiser clients, incur additional costs, or both, which would cause our business to suffer.

We are exposed to the risk of fraudulent and other invalid clicks or conversions that advertisers may perceive as undesirable or that may cost us additional money for points given in connection with such activity. While our terms and conditions limit one account per person and we have specific controls in place to avoid fraud, such as limiting the number of accounts allowed per device and the number of points per day, there is no assurance that our controls will be effective. As a result, estimates of our registered users, monthly active users or other statistical information may be inflated as there may be some instances of double-counting users. We are aware that some people will attempt to evade our rules in an effort to accumulate excess points through a multitude of methods including, but not limited to, establishing multiple accounts, mimicking app activity through “scripting,” and using multiple devices simultaneously. We monitor our users to determine if any are attempting to do so and consider this fraudulent activity a violation of our published terms and conditions. We invalidate users whom we believe to violate these terms and conditions and continually make efforts to improve our systems to detect fraud and improve our defenses. Through September 30, 2015, we have invalidated 224,677 accounts for suspicious activity of a total of 10,013,203 registered accounts. Invalid clicks could result from inadvertent clicks or click fraud, where a mobile device user intentionally clicks on ads for reasons other than to access the underlying content of the ads. If fraudulent or other malicious activity is perpetrated by others, and we are unable to detect and prevent it, the affected advertisers may experience or perceive a reduced return on their investment. High levels of invalid click activity could lead to dissatisfaction with our advertising services, refusals to pay, refund demands or withdrawal of future business. If fraudulent or other malicious activity occurs, and we are unable to detect and prevent it, we could also experience increased costs relating to awarding points as a result of these activities. Any of these occurrences could damage our brand and lead to a loss of advertisers and revenue and increased costs.

We may be unable to protect our intellectual property rights from third-party claims and litigation, which could be expensive, divert management's attention, and harm our business.

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others. We seek patent protection for those inventions and technologies for which we believe such protection is suitable and is likely to provide a competitive advantage to us. Because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our products that may block our use of our intellectual property or may be used in third-party products that compete with our products and processes. In the event a competitor or other party successfully challenges our products, processes, patents or licenses, or claims that we have infringed upon their intellectual property, we could

incur substantial litigation costs defending against such claims, be required to pay royalties, license fees or other damages or be barred from using the intellectual property at issue, any of which could have a material adverse effect on our business, operating results and financial condition.

We also rely substantially on trade secrets, proprietary technology, nondisclosure and other contractual agreements, and technical measures to protect our technology, application, design, and manufacturing know-how, and work actively to foster continuing technological innovation to maintain and protect our competitive position. We cannot assure you that steps taken by us to protect our intellectual property and other contractual agreements for our business will be adequate, that our competitors will not independently develop or patent substantially equivalent or superior technologies or be able to design around patents that we may receive, or that our intellectual property will not be misappropriated.

In addition, we use open source software in our services and will continue to use open source software in the future. From time to time, we may be subject to claims brought against companies that incorporate open source software into their products or services, claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that

were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. These claims could also result in litigation, require us to purchase a costly license, or require us to devote additional research and development resources to changing our products or services, any of which would have a negative effect on our business and results of operations.

The SEC opened a formal order of investigation relating to a matter regarding certain dealings in our securities by an unaffiliated third party. In addition, we have also received an informal request from the SEC for the voluntary production of documents and information concerning certain aspects of our business and technology. Although we have provided documents in response to the SEC's request, there is no assurance that the SEC will not take any action against us.

The SEC opened a formal order of investigation relating to a matter regarding certain dealings in our securities by an unaffiliated third party. We have also received an informal request from the staff of the SEC, dated June 11, 2012, for the voluntary production of documents and information concerning certain aspects of our business and technology. We initially provided documents in response to such request on July 2, 2012, and we have provided supplements and documents for additional questions, as requested. We intend to cooperate with the SEC regarding this matter and any other requests we may receive. However, there is no assurance that the SEC will not take any action against us. A determination by the SEC to take action against us could be costly and time consuming, could divert the efforts and attention of our directors, officers and employees from the operation of our business and could result in sanctions against us, any or all of which could have a material adverse effect on our business and operating results.

Changes to federal, state or international laws or regulations applicable to our business could adversely affect our business.

Our business is subject to a variety of federal, state and international laws and regulations, including those with respect to privacy, advertising generally, consumer protection, content regulation, intellectual property, defamation, child protection, advertising to and collecting information from children, taxation, employment classification and billing. These laws and regulations, and the interpretation or application of these laws and regulations, could change. In addition, new laws or regulations affecting our business could be enacted. These laws and regulations are frequently costly to comply with and may divert a significant portion of management's attention. If we fail to comply with these applicable laws or regulations, we could be subject to significant liabilities which could adversely affect our business.

There are many federal, state and international laws that may affect our business, including measures to regulate consumer privacy, the use of copyrighted material, the collection of certain data, network neutrality, patent protection, cyber security, child protection, subpoena and warrant processes, taxes and tax reporting (including issuing IRS 1099 forms to our users), gift cards, employee classification, employee health care, and others. If we fail to comply with these applicable laws or regulations we could be subject to significant liabilities which could adversely affect our business.

In addition, most states have enacted legislation governing the breach of data security in which sensitive consumer information is released or accessed. If we fail to comply with these applicable laws or regulations we could be subject to significant liabilities which could adversely affect our business.

Many of our potential partners are subject to industry specific laws, regulations or licensing requirements, including in the following industries: pharmaceuticals, online gaming, alcohol, adult content, tobacco, firearms, insurance, securities brokerage, real estate, sweepstakes, free trial offers, automatic renewal services and legal services. If any of our advertising partners fail to comply with any of these licensing requirements or other applicable laws or regulations, or if such laws and regulations or licensing requirements become more stringent or are otherwise

expanded, our business could be adversely affected. Furthermore, these laws may also limit the way we advertise our products and services or cause us to incur compliance costs, which could affect our revenues and could further adversely impact our business.

There are a number of significant matters under review and discussion with respect to government regulations which may affect the business we intend to enter and/or harm our customers, and thereby adversely affect our business, financial condition and results of operations.

Our business has substantial indebtedness

We currently have, and will likely continue to have, a substantial amount of indebtedness. Our indebtedness could, among other things, make it more difficult for us to satisfy our debt obligations, require us to use a large portion of our cash flow from operations to repay and service our debt or otherwise create liquidity problems, limit our flexibility to adjust to market conditions, place us at a competitive disadvantage and expose us to interest rate fluctuations. As of September 30, 2015, we had total debt outstanding of approximately \$26,000. We expect to obtain the money to pay our expenses and pay the principal and interest on our indebtedness from cash flow from our operations and potentially from other debt or equity offerings. Accordingly, our ability to meet our obligations depends on our future performance and capital raising activities, which will be affected by financial, business, economic

and other factors, many of which are beyond our control. If our cash flow and capital resources prove inadequate to allow us to pay the principal and interest on our debt and meet our other obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations, restructure or refinance our debt, which we may be unable to do on acceptable terms, and forgo attractive business opportunities. In addition, the terms of our existing or future debt agreements may restrict us from pursuing any of these alternatives.

Our earnings are subject to substantial quarterly and annual fluctuations and to market downturns.

Our revenues and earnings may fluctuate significantly in the future. General economic or other political conditions may cause a downturn in the market for our products or services. Despite the recent improvements in market conditions, a future downturn in the market for our products or services could adversely affect our operating results and increase the risk of substantial quarterly and annual fluctuations in our earnings. Our future operating results may be affected by many factors, including, but not limited to: our ability to retain existing or secure anticipated advertisers and publishers; our ability to develop, introduce and market new products and services on a timely basis; changes in the mix of products developed, produced and sold; and disputes with our advertisers and publishers. These factors affecting our future earnings are difficult to forecast and could harm our quarterly and/or annual operating results.

Public company compliance may make it more difficult to attract and retain officers and directors.

The Sarbanes-Oxley Act and new rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, we expect these new rules and regulations to increase our compliance costs in fiscal 2016 and beyond and to make certain activities more time consuming and costly. As a public company, we also expect that these new rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance in the future and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers.

If we fail to establish and maintain an effective system of internal control, we may not be able to report our financial results accurately and timely or to prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.

Effective internal control is necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely affect our public disclosures regarding our business, prospects, financial condition or results of operations.

We made an investment in DraftDay Gaming Group, Inc., which operates a daily fantasy sports website. Companies with daily fantasy sports offerings operate in an unclear and evolving regulatory environment. If a regulator, state attorney general or US Attorney takes the position that DraftDay's business operates in violation of applicable laws, or if laws are changed, it could force DraftDay to cease operating in certain states or to change its business models in ways that could materially and negatively impact its business. Current regulations require that DraftDay operate in a manner that may result in financial risk.

At a U.S. federal level, Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA) prohibits online gambling practices, but exempts fantasy sports, as long as they operate within certain parameters. The UIGEA specifically



exempts fantasy sports games, educational games, or any online contest that "has an outcome that reflects the relative knowledge of the participants, or their skill at physical reaction or physical manipulation (but not chance), and, in the case of a fantasy or simulation sports game, has an outcome that is determined predominantly by accumulated statistical results of sporting events, including any non-participant's individual performances in such sporting events..." However, all prizing must be determined and announced in advance of the competition and cannot be influenced by the fees or number of participants. This creates financial risk because we must determine prizes for games in advance, and if we do not have enough paying players in a game to cover the amount of the prize for the game, we could experience significant losses.

Even if DraftDay operates in compliance with UIGEA, individual states can take more restrictive positions. In most U.S. states, fantasy sports currently is generally considered a game of skill and therefore not considered gambling. However, some states either use a more restrictive test of whether a game is one of skill or have specific laws outlawing pay-to-play fantasy sports. Therefore, DraftDay does not operate in Arizona, Iowa, Louisiana, Montana, Nevada, Vermont or Washington. In addition, on

48

---

November 10, 2015, the Attorney General of New York issued a letter to FanDuel and DraftKings, two of the largest competitors in the fantasy sports industry, stating that it believes that their activities constitute illegal gambling under the laws of the State of New York and instructing them to cease their offerings to New York residents. As a result, we have ceased our fantasy sports offerings to New York residents, pending further developments on the matter. The legislative and regulatory environment for daily fantasy sports is evolving. The fantasy sports market has been subject to a significant amount of publicity and scrutiny in recent months. A number of states have recently undertaken reviews of the fantasy sports market to determine whether to regulate the market. Either the U.S. government or additional states could potentially pass laws or interpret their current laws in ways in a manner that would cause DraftDay to cease operating in those states, or to change the manner in which it operates. Any such change could materially and adversely affect DraftDay's business.

DraftDay competes against well-established competitors in the fantasy sports industry. If DraftDay's products do not achieve market acceptance, it may be unable to generate revenues, may experience significant losses, and may require additional capital to continue operations.

DraftDay competes with FanDuel and DraftKings, two established companies in the fantasy sports industry, as well as other competitors. Those competitors have already achieved a higher degree of market acceptance and have a large amount of resources to continue to expand their brands and competitive positions. Competing directly with these more established companies would require significant capital resources. In order to compete, DraftDay intends to establish marketing and white label relationships with various third parties. However, there can be no assurance that this strategy will be successful, that DraftDay will be able to establish any such white label or marketing relationships or, even if it does, that such relationships will be successful in competing against other competitors in the industry.

We own a significant but minority interest in DraftDay. DraftDay has a management services agreement with Sportech Racing, LLC pursuant to which Sportech provides management services to DraftDay. Having management services provided by a third party could create conflicts of interest and could cause DraftDay's management to be less focused on the development of DraftDay's business.

DraftDay entered into a management services agreement with Sportech Racing, LLC. Under the agreement, Sportech is to manage the day-to-day operations of the company. The chief executive officer of DraftDay, Richard Roberts, is an employee of Sportech. Not having the full time and attention of the chief executive officer or other individuals providing services to DraftDay could cause DraftDay's business results to suffer. In addition, certain other of our employees will need to attend to the needs of DraftDay, which could divert their time and attention as well.

ITEM 2. Unregistered Sale of Equity and Use of Proceeds

The Company did not have any plan or program to purchase any equity securities during the quarter.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

50

---

## ITEM 6. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES

## Exhibits

The documents set forth below are filed herewith.

Exhibit Number	Description
3.1	Certificate of Incorporation (1)
3.2	By-Laws (2)
4.3	Form of Warrant (3)
10.1	Function(x) 2011 Executive Incentive Plan. (4)
10.2	Employment Agreement, dated February 16, 2011, between Function(x) Inc. and Robert F.X. Sillerman (5)
10.3	Shared Services and Reimbursement Agreement, dated February 15, 2011, between Circle Entertainment Inc. and Function(x) Inc. (6)
10.4	Promissory Note, dated February 8, 2011, between Robert F.X. Sillerman and Function(x) Inc. (7)
10.5	Asset Purchase Agreement, dated September 29, 2011, among Mobile Messaging Solutions (MMS), Inc., Watchpoints, Inc. and Function(x) Inc. (8)
10.6	Form of Unit Subscription Agreement for the Registrant's private placement in August of 2012 (9)
10.7	MMS Registration Rights Agreement (10)
10.8	Line of Credit Agreement dated December 23, 2011 between Function(x) Inc. and TIPPT Media Inc. (11)
10.9	Stockholders Agreement dated December 23, 2011 among Function(x) Inc., TIPPT Media Inc. and the other stockholders named therein. (12)
10.10	Loyalize Asset Purchase Agreement dated December 31, 2011 among Function(x) Inc., FN(x) I Holding Corporation and Trusted Opinion Inc. (13)
10.11	Amended and Restated Promotional Services Agreement, dated as of December 21, 2011, by and among TIPPT Media Inc., The 100 Mile Group, LLC and Jesse Itzler (14)
10.12	Form of Line of Credit Grid Promissory Note (15)
10.13	Form of Unit Subscription Agreement with respect to the registrant's private placement in May of 2012 (16)
10.14	Form of Warrant issued in the registrant's private placement in May of 2012 (17)
10.15	Limited Recourse Promissory Note issued by Tippt LLC in favor of the registrant, dated as of May 14, 2012 (18)
10.16	Amended and Restated Promissory Note issued by Tippt Media Inc. in favor of the registrant, dated as of May 14, 2012 (19)
10.17	Amended and Restated Stockholders Agreement, by and among Tippt Media, Inc., the registrant and the other stockholders of Tippt Media, Inc. (20)
10.18	Form of Line of Credit Grid Promissory Note dated as of June 29, 2012, issued by the registrant in favor of Sillerman Investment Company LLC (21)
10.19	Employment Agreement between Function(x) Inc. and John Small, dated as of August 16, 2011 (22)
10.20	Consulting Agreement between Viggle Inc. and Benjamin Chen, dated as of September 12, 2011 (23)
10.21	Employment Agreement, dated May 11, 2011 between Function(x) Inc. and Gregory Consiglio, as amended (24)



- 10.22 Amended and Restated Line of Credit Agreement, dated October 25, 2012, between Viggle Inc. and Sillerman Investment Company LLC (25)
- 10.23 Agreement and Plan of Merger, dated as of November 16, 2012 (26)
- 10.24 Amended and Restated Line of Credit Grid Promissory Note, dated as of December 3, 2012, between Viggle Inc. and Sillerman Investment Company LLC (27)
- 10.25 Amended and Restated Line of Credit Grid Promissory Note, dated as of December 12, 2012, between Viggle Inc. and Sillerman Investment Company LLC (28)
- 10.26 Amended and Restated Line of Credit Grid Promissory Note, dated as of January 4, 2012, between Viggle Inc. and Sillerman Investment Company LLC (29)
- 10.27 Line of Credit Grid Promissory Note, dated as of February 11, 2013, between Viggle Inc. and Sillerman Investment Company II, LLC (30)
- 10.28 Term Loan Agreement, dated as of March 11, 2013, between Viggle Inc. and Deutsche Bank Trust Company Americas (31)
- 10.29 Guarantee Warrant (32)
- 10.30 \$25,000,000 Line of Credit Note, dated as of March 11, 2013, between Viggle Inc. and Sillerman Investment Company II LLC (33)
- 10.31 Exchange Agreement, dated as of March 11, 2013, between Viggle Inc. and Sillerman Investment Company LLC (34)
- 10.32 8% Note, dated as of March 11, 2013, between Viggle Inc. and Sillerman Investment Company LLC (35)
- 10.33 Security Agreement for the \$25,000,000 Line of Credit Note, dated as of March 11, 2013 (36)
- 10.34 Security Agreement for the 8% Note, dated as of March 11, 2013 (37)
- 10.35 Subordination Agreement dated as of March 11, 2013 (38)
- 10.36 Rescission Agreement dated as of September 16, 2013(39)
- 10.37 Waiver, dated as of September 16, 2013 (39)
- 10.38 Certificate of Elimination (39)
- 10.39 Certificate of Designations of the Series A Convertible Preferred Stock (39)
- 10.40 Certificate of Designations of the Series B Convertible Preferred Stock (39)
- 10.41 Exchange Agreement, dated as of September 16, 2013 (39)
- 10.42 Warrant (39)
- 10.43 PIPE Exchange Agreement (39)
- 10.44 Form of Subordination Agreement (40)
- 10.45 Form of Exchange Agreement for LOC Investors (41)
- 10.46 Form of Commitment Letter under New \$25,000,000 Line of Credit (42)
- 10.47 Agreement and Plan of Merger, dated as of December 16, 2013, by and among Viggle Inc., Viggle Merger Sub Inc., wetpaint.com, Inc., certain stockholders of wetpaint.com, Inc. (solely with respect to Articles 1, 5 and 6 and Subsection 11.1) and the Shareholder Representative Services LLC (solely in its capacity as the Stockholders' Agent) (43)
- 10.48 Promissory Note, dated as of December 11, 2013, issued by Viggle Inc. to Sillerman Investment Company II LLC (44)
- 10.49 Second Amendment, dated as of December 13, 2013, by and between Viggle Inc. and Deutsche Bank Trust Company Americas, and its successors and assigns (45)

- 10.50 Amended and Restated Viggle Inc. 2011 Executive Incentive Plan (46)
- 10.51 Revolving Loan Agreement (47)
- 10.52 Stockholders Agreement, dated as of January 29, 2014, by and among the registrant, Nancy Lee, as representative and former stockholders of Dijit Media, Inc. (48)
- 10.53 Amended Form of Warrant for May 2012 PIPE Transaction (49)
- 10.54 Third Amendment, dated as of February 13, 2014, by and between Viggle Inc. and Deutsche Bank Trust Company Americas, and its successors and assigns (50)
- 10.55 Form of Certificate of Amendment to Articles of Incorporation (51)
- 10.56 Fourth Amendment, dated as of March 11, 2014, by and between Viggle Inc. and Deutsche Bank Trust Company Americas, and its successors and assigns (52)
- 10.57 Pledge and Security Agreement, dated as of March 11, 2014, by and between Viggle Inc. and Deutsche Bank Trust Company Americas, and its successors and assigns (53)
- 10.58 Software License and Services Agreement, dated as of March 10, 2014, by and between Viggle Inc. and SFX Entertainment, Inc. (54)
- 10.59 Amendment to Articles of Incorporation of Viggle Inc. (55)
- 10.60 Amendment to the Employment Agreement of Robert F.X. Sillerman (56)
- 10.61 Form of Amendment to the Employment Agreements of Gregory Consiglio, John Small and Kevin Arrix (57)
- 10.62 Form of Exchange Agreement with Holders of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock (58)
- 10.63 Agreement and Plan of Merger, dated as of June 24, 2014, by and among Viggle Inc., Viggle Merger Sub III Inc., Choose Digital Inc., certain stockholders of Choose Digital Inc., and (solely with respect to Articles 1, 5 and 6 and Subsection 10.1) Amossyklein Family Holdings, LLLP (solely in its capacity as the Stockholders' Agent) (59)
- 14.1 Code of Business Conduct and Ethics (60)
- 21.1 List of Subsidiaries
- 23.1 Consent of Independent Registered Public Accounting Firm
- 31.1 Certification of Principal Executive Officer
- 31.2 Certification of Principal Accounting Officer
- 32.1 Section 1350 Certification of Principal Executive Officer
- 32.2 Section 1350 Certification of Principal Accounting Officer
- (1 ) Incorporated by reference to Exhibit D to the registrant's Proxy Statement on Schedule 14D filed on August 16, 1994. Amendments thereto are incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 16, 2011 and to the Registrant's Current Report on Form 8-K filed on June 7, 2012
- (2 ) Incorporated by reference to the registrant's Exhibit E to Proxy Statement on Schedule 14A filed on August 16, 1994
- (3 ) Incorporated by reference to the registrant's registration statement on Form S-1 filed on May 25, 2011
- (4 ) Incorporated by reference to the registrant's Current Report on Form 8-K filed on February 22, 2011
- (5 ) Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on February 16, 2011
- (6 ) Incorporated by reference to Exhibit 10.7 to the registrant's registration statement on Form S-1/A filed on October 7, 2011

Edgar Filing: Viggle Inc. - Form 10-Q

- (7 ) Incorporated by reference to Exhibit 10.8 to the registrant's registration statement on Form S-1/A filed on October 7, 2011
- (8 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 3, 2011
- (9 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 26, 2011
- (10 ) Incorporated by reference to Exhibit 10.13 to the registrant's Registration Statement on Form S-1/A filed on November 23, 2011
- (11 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 29, 2011.
- (12 ) Incorporated by reference to Exhibit 10.2 to the registrant's Current report on Form 8-K filed on December 29, 2011.
- (13 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on January 4, 2012
- (14 ) Incorporated by reference to Exhibit 10.18 to the registrant's registration statement on Form S-1/A filed on April 5, 2012
- (15 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on April 9, 2012
- (16 ) Incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
- (17 ) Incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
- (18 ) Incorporated by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
- (19 ) Incorporated by reference to Exhibit 10.4 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
- (20 ) Incorporated by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
- (21 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on July 6, 2012
- (22 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 14, 2012
- (23 ) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on September 14, 2012
- (24 ) Incorporated by reference to Exhibit 13.2 to the registrant's Quarterly Report on Form 10-Q filed on May 12, 2011. An amendment to the agreement is incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on November 5, 2012
- (25 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on November 5, 2012
- (26 ) Incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on November 19, 2012
- (27 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 7, 2012
- (28 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 17, 2012
- (29 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on January 11, 2013
- (30 ) Incorporated by reference to Exhibit 10.35 to the registrant's Quarterly Report on Form 10-Q filed February 14, 2013



Edgar Filing: Viggle Inc. - Form 10-Q

- (31 ) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on March 15, 2013
- (32 ) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on March 15, 2013
- (33 ) Incorporated by reference to Exhibit 10.3 of the registrant's Current Report on Form 8-K filed on March 15, 2013
- (34 ) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K/A filed on March 19, 2013

54

---

Edgar Filing: Viggle Inc. - Form 10-Q

- (35 ) Incorporated by reference to Exhibit 10.5 of the registrant's Current Report on Form 8-K filed on March 15, 2013
- (36 ) Incorporated by reference to Exhibit 10.6 of the registrant's Current Report on Form 8-K filed on March 15, 2013
- (37 ) Incorporated by reference to Exhibit 10.7 of the registrant's Current Report on Form 8-K filed on March 15, 2013
- (38 ) Incorporated by reference to Exhibit 10.8 of the registrant's Current Report on Form 8-K filed on March 15, 2013
- (39 ) Incorporated by reference to the Exhibits 10.36, 10.37, 10.38, 10.39, 10.40, 10.41, 10.42 and 10.43 of the registrant's Annual Report on Form 10-K filed on September 17, 2013
- (40 ) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on December 2, 2013
- (41 ) Incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed on December 2, 2013
- (42 ) Incorporated by reference to Exhibit 10.3 of the registrant's Current Report on Form 8-K filed on December 2, 2013
- (43 ) Incorporated by reference to Exhibit 2.1 of the registrant's Current Report on Form 8-K filed on December 16, 2013
- (44 ) Incorporated by reference to Exhibit 2.2 of the registrant's Current Report on Form 8-K filed on December 16, 2013
- (45 ) Incorporated by reference to Exhibit 2.3 of the registrant's Current Report on Form 8-K filed on December 16, 2013
- (46 ) Incorporated by reference to the registrant's Preliminary Information Statement on Schedule 14C filed on January 10, 2014
- (47 ) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on February 6, 2014
- (48 ) Incorporated by reference to Exhibit 1.1 to the Schedule 13D/A filed on February 10, 2014
- (49 ) Incorporated by reference to Exhibit 10.1 of the registrant's Quarterly Report on Form 10-Q filed on February 10, 2014
- (50 ) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on February 20, 2014
- (51 ) Incorporated by reference to Exhibit 3.1 of the registrant's Current Report on Form 8-K filed on March 10, 2014
- (52 ) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on March 14, 2014
- (53 ) Incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed on March 14, 2014
- (54 ) Incorporated by reference to Exhibit 10.3 of the registrant's Current Report on Form 8-K filed on March 14, 2014
- (55 ) Incorporated by reference to Exhibit 3.1 of the registrant's Current Report on Form 8-K filed on March 18, 2014
- (56 ) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on March 18, 2014
- (57 ) Incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed on March 18, 2014
- (58 ) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on March 24, 2014
- (59 ) Incorporated by reference to Exhibit 2.1 of the registrant's Current Report on Form 8-K filed on June 25, 2014

(60 ) Incorporated by reference to Exhibit 14.1 to the registrant's Information Statement on Form S-1/A filed on October 7, 2011

55

---

SIGNATURES

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

VIGGLE INC.

November 13, 2015

By: /s/ ROBERT F.X. SILLERMAN  
Robert F.X. Sillerman  
Chief Executive Officer  
(Principal Executive Officer)

November 13, 2015

By: /s/ OLGA BASHKATOVA  
Olga Bashkatova  
Principal Accounting Officer