

Viggle Inc.
Form 10-Q
February 04, 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 December 31, 2014

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

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 ☒

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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 ☒

As of January 30, 2015, there were 16,556,881 shares of the registrant's common stock outstanding.

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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

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)

	December 31, 2014 (Unaudited)	June 30, 2014 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$127	\$7
Accounts receivable (net of allowance for doubtful accounts of \$95 at December 31, 2014 and June 30, 2014)	3,498	3,962
Prepaid expenses	1,121	949
Other receivables	357	80
Restricted cash	—	5,000
Total current assets	5,103	9,998
Restricted cash	695	700
Property & equipment, net	2,774	2,613
Intangible assets, net	26,102	28,810
Goodwill	37,162	36,627
Other assets	309	351
Total assets	\$72,145	\$79,099
Liabilities, convertible redeemable preferred stock and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$10,571	\$7,810
Reward points payable	6,986	4,927
Contingent consideration liability	4,792	4,792
Common stock warrant liability	10	15
Deferred revenue	626	911
Current portion of loan payable	2,000	15,000
Total current liabilities	24,985	33,455
Loan payable, less current portion	19,416	—
Deferred revenue	4,104	4,354
Other long-term liabilities	2,520	1,488
Total liabilities	51,025	39,297
Series A Convertible Redeemable Preferred Stock, \$1,000 stated value, authorized 100,000 shares, issued and outstanding -0- shares as of December 31, 2014 and June 30, 2014	—	—
Series C Convertible Redeemable Preferred Stock, \$1,000 stated value, authorized 100,000 shares, issued and outstanding of 3,000 and -0- shares as of December 31, 2014 and June 30, 2014, respectively	3,752	—
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 December 31, 2014 and June 30, 2014	—	—
Common stock, \$0.001 par value: authorized 300,000,000 shares, issued and outstanding 16,416,513 and 15,743,541 shares as of December 31, 2014 and June 30, 2014, respectively	16	16
Additional paid-in-capital	357,832	340,163

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Treasury stock, 215,164 and 211,414 shares at December 31, 2014 and June 30, 2014, respectively	(11,826)(11,556)
Accumulated deficit	(328,654	)(288,821)
Total stockholders' equity	17,368	39,802	
Total liabilities, convertible redeemable preferred stock and stockholders' equity	\$72,145	\$79,099	

See accompanying notes to consolidated financial statements

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Viggle Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013
Revenues	\$7,185	\$5,032	\$13,660	\$9,371
Cost of watchpoints and engagement points	(3,027)	)(82	)(4,190	)(2,657)
Selling, general and administrative expenses	(25,999)	)(17,569	)(48,770	)(42,906)
Operating loss	(21,841	)(12,619	)(39,300	)(36,192)
Other (expense) income:				
Other income, net	—	807	5	892
Interest expense, net	(353	)(1,572	)(480	)(2,341)
Total other expense	(353	)(765	)(475	)(1,449)
Net loss before provision for income taxes	(22,194	)(13,384	)(39,775	)(37,641)
Income tax expense	(36	)(22	)(58	)(46)
Net loss	\$(22,230	\$(13,406	\$(39,833	\$(37,687)
Accretion of Convertible Redeemable Preferred Stock	\$16	\$176	\$16	\$176
Net loss attributable to common stockholders	\$(22,214	\$(13,230	\$(39,817	\$(37,511)
Net loss per common share attributable to common stockholders - basic and diluted	\$(1.39	\$(13.08	\$(2.51	\$(35.40)
Weighted average common shares outstanding - basic and diluted	16,042,627	1,025,021	15,891,841	1,064,732

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	Total
Balance June 30, 2014	\$16	\$—	\$340,163	\$(11,556)	\$(288,821)	\$39,802
Net loss					(39,833)	(39,833)
Purchase of common shares from former officer				(270)		(270)
Accretion of Series C Convertible Redeemable Preferred Stock			16			16
Share based compensation related to warrants issued in connection with Securities Purchase Agreement			2,304			2,304
Restricted stock - share based compensation			12,551			12,551
Employee stock options - share based compensation			2,798			2,798
Balance December 31, 2014 (unaudited)	\$16	\$—	\$357,832	\$(11,826)	\$(328,654)	\$17,368

See accompanying notes to consolidated financial statements

Viggle Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(Unaudited)

	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013	
Operating activities:			
Net loss	\$(39,833	) \$(37,687)
Adjustments to reconcile net loss to net cash used in operating activities:			
Restricted stock - share based compensation	12,551	9,614	
Employee stock options - share based compensation	2,798	3,751	
Share based compensation in connection with Securities Purchase Agreement	3,072	—	
Stock compensation in connection with line of credit borrowing	—	3,810	
Compensation charge in connection with issuance of preferred stock in exchange for \$20M 8% Note, common shares and warrants	—	6,259	
Interest expense related to November 25, 2013 PIPE Exchange	—	1,231	
Decrease in fair value of convertible debt embedded derivative	—	(16)
Decrease in fair value of common stock warrants	(5	)(267)
Accretion of Note discount	16	—	
Depreciation and amortization	3,283	2,064	
Interest income on notes receivable from shareholders and officer	—	(69)
Changes in operating assets and liabilities:			
Accounts receivable, net	464	(1,797)
Other receivables	(277	) 112	
Prepaid expenses	(172	)(47)
Restricted cash	5,005	—	
Other assets	42	(96)
Deferred revenue	(535	)(237)
Accounts payable and accrued expenses	2,763	(1,115)
Reward points liability	2,059	(401)
Other liabilities	63	22	
Net cash used in operating activities	(8,706	)(14,869)
Investing activities:			
Cash paid for acquisitions, net of cash acquired	—	(647)
Purchase of property and equipment	(113	)(178)
Capitalized software costs	(191	)(435)
Net cash used in investing activities	(304	)(1,260)
Financing activities:			
Proceeds from loans	21,400	16,000	
Repayments on loans	(15,000) —	
Sale of Class C Convertible Redeemable Preferred Stock	3,000	—	
Purchase of common shares from former officer	(270	)(98)
Net cash provided by financing activities	9,130	15,902	
Net increase (decrease) in cash	120	(227)

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Cash at beginning of period	7	1,359
Cash at end of period	\$127	\$1,132
Supplemental cash flow Information:		
Cash paid during the period for interest	\$201	\$124
Non-Cash investing activities:		
Landlord lease incentive build-out allowance	\$449	\$—
See accompanying notes to consolidated financial statements		

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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., and its wholly-owned subsidiaries. The Company has 9 wholly-owned subsidiaries, Function(x) Inc., Project Oda, Inc., Sports Hero Inc., Loyalize Inc., Viggle Media Inc., VX Acquisition Corp., Nextguide Inc., Wetpaint.com, Inc., and Choose Digital Inc., each a Delaware corporation. All intercompany transactions and balances have been eliminated.

On March 19, 2014, the Company effectuated a 1-for-80 reverse stock split (the "1-for-80 Reverse Split"). Under the terms of the 1-for-80 Reverse Split, each share of common stock, issued and outstanding as of such effective date, was automatically reclassified and changed into one-eightieth of one share of common stock, without any action by the stockholder. Fractional shares were cashed out. All share and per share amounts have been restated to reflect the 1-for-80 Reverse Split.

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 or that development of the business will be successful. 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.

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 100 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 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 8.03 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 six months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the year ending June 30, 2015.

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 December 31, 2014 and June 30, 2014 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 six months ended December 31, 2014 and December 31, 2013 were not significant.

Fair Value of Financial Instruments

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 year ended June 30, 2014 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.

There were no impairments of long-lived assets during the six months ended December 31, 2014.

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 \$5,435 and \$5,244 as of December 31, 2014 and June 30, 2014, respectively, 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 for the three and six months ended December 31, 2014 of \$3,642 and \$6,652, respectively. The Company recognized barter revenue and barter expense for the three and six months ended December 31, 2013 of \$649 and \$2,033, 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 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.

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 and six months ended December 31, 2014 was \$5,191 and \$9,306, respectively, and for the three and six months ended December 31, 2013 was \$1,911 and \$3,710, 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

On August 27, 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements - Going Concern ("ASU 2-14-15"). The standard provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if "conditions or events raise substantial doubt about the entity's ability to continue as a going concern." The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter (July 1, 2016 for the Company), with early adoption permitted. The Company has not yet determined what the impact of adoption will have 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, 2016 (July 1, 2017 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 Dijit

On January 29, 2014, the Company acquired Dijit Media, a San Francisco based maker of technology that helps consumers search for, find, and set reminders for their favorite TV shows and movies wherever and whenever they are offered. The operations of this acquisition are not material, and thus, pro forma disclosures are not presented. Goodwill related to the acquisition will be non-deductible for income tax purposes.

Acquisition of Wetpaint

On December 16, 2013, the Company and Viggle Merger Sub Inc., a Delaware corporation and wholly-owned subsidiary of Viggle ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Wetpaint.com, Inc., a Delaware corporation ("Wetpaint"), certain stockholders of Wetpaint and Shareholder

Representative Services LLC, a Colorado limited liability company (solely in its capacity as the Stockholders' Agent) ("the Acquisition"). On December 16, 2013, Merger Sub merged with and into Wetpaint, with Wetpaint continuing as the surviving corporation and the Company's wholly-owned subsidiary. The Acquisition is intended to qualify as a tax-free reorganization under Section 368(a) of the Code.

Wetpaint is a Seattle, Washington-based Internet company, founded in 2005, that publishes the website Wetpaint.com, focused on entertainment news, and develops a proprietary technology platform, the Social Distribution System, that is used to provide analytics for its own website as well as other online publishers.

In connection with the Acquisition, all outstanding shares of Wetpaint capital stock were converted into the right to receive an aggregate amount of cash and shares of Viggle common stock (the "Stock Consideration") payable as described below. At the completion of the Acquisition, (i) \$1,634 in cash (subject to certain adjustments for payment of certain transaction expenses by Viggle and bonus and premium payments to certain Wetpaint employees and stockholders), \$22,923 in shares of Viggle common stock (subject to certain adjustments) and \$3,860 in restricted stock units were delivered to the holders of Wetpaint Capital Stock

in accordance with the allocation set forth in the Merger Agreement, and (ii) \$4,771 in shares of Viggle common stock (the "Escrow Shares") were delivered to an escrow agent to satisfy potential indemnification claims. All Escrow Shares have been distributed to the former shareholders of Wetpaint. In addition, in February of 2014, Viggle paid an aggregate amount of approximately \$3,367 in cash (subject to certain adjustments for changes in Wetpaint's net working capital, payment of certain transaction expenses by Viggle and bonus and premium payments to certain Wetpaint employees and stockholders) to the holders of Wetpaint capital stock in accordance with the allocation set forth in the acquisition agreement. The values of shares of Viggle common stock and restricted stock units noted above were based on the average closing market price of the Company's common stock during the 10 days prior to completion of the Acquisition, in accordance with the Acquisition Agreement.

Pursuant to the terms of the Acquisition Agreement, if the Company completed a recapitalization on or before December 31, 2015, the stock consideration paid in the Acquisition shall be adjusted. In connection with anti-dilution provisions, on April 30, 2014, the Company issued approximately 700,000 shares of common stock and approximately 98,000 restricted stock units to the former shareholders of Wetpaint.

The 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 Wetpaint have been measured at their estimated fair values.

A summary of the fair value of consideration transferred for the Acquisition and the fair value of the assets and liabilities at the date of acquisition is as follows (amounts in thousands):

Consideration transferred:

Shares of Viggle common stock and restricted stock units based on closing market price at issuance	\$ 31,554
Cash paid to sellers	1,619
Contingent consideration	6,100
Total consideration transferred	39,273

Final allocation:

Goodwill	23,788
Intangible assets	19,009
Other assets	1,659
Total liabilities, including acquired accrued expenses	(5,183)
	\$ 39,273

The results of operations of Wetpaint were combined with the Company's consolidated results from the date of acquisition of December 16, 2013. Such results, including revenue and net loss, are not material to the consolidated results of operations. The amortization period of intangible assets acquired is as follows: technology-7 years, trademarks-30 years, customer relationships-5 years, and non-compete agreements-3 years. See Note 6, Intangible Assets and Goodwill for further detail related to the intangible assets acquired. The goodwill recorded in connection with this acquisition reflects the strategic fit and revenue and earnings growth potential of this business. Goodwill related to the acquisition is expected to be non-deductible for income tax purposes.

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. With the acquisition, the Choose Digital platform will power digital

media rewards for the Viggle platform, including music, audio books, TV and movies, enabling Viggle members to get free entertainment content just for enjoying their favorite TV shows and music.

In connection with the acquisition, all outstanding shares of Choose Digital capital stock, along with certain promissory notes payable by Choose Digital, were converted into the right to receive in the aggregate (A) approximately 1,963,309 shares of Viggle common stock (the “Stock Consideration”), (B) approximately 205,761 restricted stock units, plus (C) a contingent payment, to be made within five business days after the first anniversary of the closing date, in an aggregate amount up to \$4,792, depending on the trading price of Viggle common stock at that time.

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 Choose Digital 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 contracts 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.

A preliminary summary of the fair value of consideration transferred for this acquisition and the estimated fair value of the assets and liabilities at the date of acquisition is as follows (amounts in thousands):

Consideration transferred:

Shares of Viggle common stock and restricted stock units based on closing market price prior to the Acquisition	\$ 8,893
Sellers expenses paid at closing	782
Contingent consideration	4,792
Total consideration transferred	14,467

Preliminary allocation:

Goodwill	7,929
Intangible assets	5,797
Other assets	1,615
Total liabilities, including acquired accrued expenses	(874)
	\$ 14,467

The results of operations of Choose Digital were combined with the Company's consolidated results from the date of acquisition of June 24, 2014. Such results, including revenue and net loss, are not material to the consolidated results of operations. The amortization period of intangible assets acquired is estimated to be approximately 7 years. See Note 6, Intangible Assets and Goodwill for further details on intangible assets acquired. The goodwill recorded in connection with this acquisition reflects the strategic fit and revenue and earnings growth potential of this business. Goodwill related to the acquisition is expected to be non-deductible for income tax purposes.

Pro Forma Financial Results

The following unaudited pro forma condensed consolidated financial results of operations for the three and six months ended December 31, 2013 are presented as if the Wetpaint and Choose Digital acquisitions had been completed at the beginning of fiscal year 2014:

	Three months ended December 31, 2013	Six months ended December 31, 2013	
Revenues	\$6,651	\$12,785	
Operating loss	(14,608)	(39,556))
Net loss	(15,407)	(41,042))
Net loss per common share - basic and diluted	\$(4.48)	\$(11.64))

These pro forma condensed consolidated financial results have not been adjusted to reflect the impact of synergies and integration costs that would result from integration of these acquisitions.

5. Property and Equipment

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Property and Equipment consists of the following:

	December 31, 2014	June 30, 2014
Leasehold Improvements	\$2,893	\$2,460
Furniture and Fixtures	592	592
Computer Equipment	568	726
Software	170	168
Total	4,223	3,946
Accumulated Depreciation and Amortization	(1,449)	(1,333)
Property and Equipment, net	\$2,774	\$2,613

Depreciation and amortization charged to selling, general and administrative expenses for the six months ended December 31, 2014 and 2013 amounted to \$384 and \$308, respectively.

6. Intangible Assets and Goodwill

Description	Amortization Period	December 31, 2014			June 30, 2014		
		Amount	Accumulated Amortization	Carrying Value	Amount	Accumulated Amortization	Carrying Value
Wetpaint technology	84 months	\$10,600	\$(1,577)	\$9,023	\$10,600	\$(820)	\$9,780
Wetpaint trademarks	360 months	5,800	(200)	5,600	5,800	(103)	5,697
Wetpaint customer relationships	60 months	2,000	(417)	1,583	2,000	(217)	1,783
Wetpaint non-compete agreements	36 months	609	(211)	398	609	(110)	499
Watchpoints technology	36 months	—	—	—	4,209	(3,859)	350
Loyalize software	36 months	—	—	—	2,350	(2,350)	—
Dijit technology	84 months	1,820	(238)	1,582	1,820	(108)	1,712
Choose Digital intangible assets	84 months	5,797	(428)	5,369	5,797	(14)	5,783
Internally generated capitalized software	36 months	5,435	(3,211)	2,224	5,244	(2,364)	2,880
Other	various	326	(3)	323	333	(7)	326
Total		\$32,387	\$(6,285)	\$26,102	\$38,762	\$(9,952)	\$28,810

Amortization of intangible assets included in selling, general and administrative expenses for the six months ended December 31, 2014 and 2013 amounted to \$2,899 and \$1,756, respectively. Future annual amortization expense expected is as follows:

Years ending June 30,

2015	\$2,598
2016	4,729
2017	3,291
2018	3,198
2019	2,981

Goodwill consists of the following:

Description	December 31, 2014	June 30, 2014
Loyalize	\$2,953	\$2,953
Wetpaint	23,788	23,723
Dijit	2,492	1,945
Choose Digital	7,929	8,006
Total	\$37,162	\$36,627

7. Loans Payable

Facility Name	Maturity Date	Total Facility Amount	Outstanding Balances	
			December 31, 2014	June 30, 2014
Term Loan Agreement ("DB Line")	Retired	\$15,000	\$—	\$15,000
Line of Credit Promissory Note (the "Note")	10/24/17	\$20,000	\$19,416	\$—
Unsecured Demand Loan (the "Loan")	On Demand	\$2,000	\$2,000	\$—

Term Loan Agreement

On March 11, 2013, Viggle Inc. (the "Company") entered into a Term Loan Agreement (the "DB Line") with Deutsche Bank Trust Company Americas ("Deutsche Bank"), under which Deutsche Bank agreed to loan the Company up to \$10,000. The Company may, from time to time, request advances (the "Advances") from the DB Line in amounts of no less than \$1,000.

On December 13, 2013, the Company entered into an amendment (the "Amendment") to the DB Line. Pursuant to the Amendment, the line of credit was increased to \$30,000, and the maturity date was extended from December 16, 2013 to April 30, 2014.

The interest rate on the outstanding balance was lowered as a result of the Amendment. Previously, the interest rate on the outstanding balance was, at the Company's election, a per annum rate equal to the LIBOR Rate plus 4.00% or (ii) the Prime Rate plus 1.75%. Pursuant to the Amendment, the interest rate on the outstanding balance was lowered to a per annum rate, at the Company's option, of the LIBOR Rate plus 2.50%, or the Prime Rate plus 0.25%. Interest is payable monthly in arrears.

The Company may make prepayments, in whole or in part, under the DB Line at any time, as long as all accrued and unpaid interest thereon is paid through the prepayment date.

On December 13, 2013, the Company made a draw under the DB Line of \$16,951, bringing the total draws to \$26,951. The proceeds of this draw were used to repay amounts outstanding under the Amended and Restated \$25,000 Line of Credit, discussed below. On December 19, 2013, the Company drew the remaining amount available under the DB Line of \$3,049. The Company used the proceeds from the final draw on the DB Line to fund working capital requirements and for general corporate purposes.

On February 13, 2014, the Company entered into a further amendment (the "February Amendment") to the DB Line. Pursuant to the February Amendment, the maturity date of the DB Line was extended to December 31, 2014, and the mandatory prepayment provision was amended to provide that only the first \$10,000 in net cash proceeds from an equity offering shall be required to be used to prepay amounts outstanding under the DB Line.

On March 11, 2014, the Company entered into a further amendment (the "March Amendment") to the DB Line. Pursuant to the March Amendment, the line of credit was increased from \$30,000 to \$35,000, providing the Company with an additional \$5,000 for working capital purposes. Concurrent with the March Amendment, on March 11, 2014, the Company entered into a Pledge and Security Agreement with Deutsche Bank pursuant to which it agreed to provide Deutsche Bank a security interest in \$5,000 in cash, as well as a pledge to secure the prompt and timely payment of all obligations under the DB Line. The \$5,000 was released by Deutsche Bank and utilized for the Company's working capital needs during the quarter.

On April 30, 2014, the Company repaid \$10,000 of the DB Line in accordance with the February Amendment discussed above. On June 13, 2014, the Company repaid an additional \$10,000 of the DB Line. Each repayment reduced the amount available on the DB Line.

On December 15, 2014, the Company repaid the remaining \$15,000 outstanding under the DB Line from the proceeds of the Line of Credit Promissory Note (see description below). After this repayment, the DB Line was retired.

The DB Line did not contain any financial covenants.

Repayment of the DB Line was guaranteed by Mr. Sillerman. In consideration for the guarantee, Mr. Sillerman's designee, SIC II, received a warrant for 125,000 shares of common stock of Viggle, which may be exercised at any time within 60 months of the issuance date at \$80.00 a share, (subject to adjustment in the event of stock splits and combination, reclassification, merger or consolidation)(the "Guarantee Warrant"). The Guarantee Warrant contains a piggyback registration right with respect to the underlying common shares which may be issued if it is exercised. The Guarantee Warrant was issued in a transaction exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(a)(2) thereunder and Rule 506 of Regulation D promulgated thereunder. The Company recorded compensation expense during the year ended June 30, 2013 of \$5,559 related to the Guarantee Warrant issued to SIC II, as Mr. Sillerman's designee.

The Company used the proceeds from the DB Line to fund working capital requirements and for general corporate purposes.

Interest expense on the DB Line for the three and six months ended December 31, 2014 was \$83 and \$185, respectively.

Line of Credit Promissory Note

On October 24, 2014, the Company and Sillerman Investment Company III, LLC, a company affiliated with Mr. Sillerman ("SIC III") 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. The Company also agreed to issue to SIC III warrants to purchase 1,000,000 shares of the Company's common stock. The Company will issue 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 December 31, 2014, 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 December 31, 2014, was \$19,416, which includes accretion of the discount of \$16 (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.

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 three months ended December 31, 2014.

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 or 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 \$191 for the three months ended December 31, 2014.

Unsecured Demand Loan

On December 19, 2014, Mr. Sillerman made an unsecured demand loan (the "Loan") to the Company totaling \$2,000, bearing interest at the rate of 12% per annum. Principal and interest due under the Loan shall be due and payable upon demand. The principal amount of the Loan 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 Loan to fund working capital requirements and for general corporate purposes.

Interest expense on the Loan was \$9 for the three months ended December 31, 2014. See Note 14, Subsequent Events, related to an additional advance on the Loan subsequent to December 31, 2014.

8. Commitments and Contingencies

On August 17, 2012, the Company was served with a patent infringement lawsuit filed on August 13, 2012 by Blue Spike, LLC ("Blue Spike") in the United States District Court for the Eastern District of Texas, Tyler Division (Civil Action No. 6:12-CV-526). The lawsuit claims patent infringement under U.S. Patent numbers 7,346,472, 7,660,700, 7,949,494, and 8,214,715 in connection with the Company's audio recognition technology. Blue Spike has commenced suits against numerous other companies involving the same patent family.

The Company denies that it is infringing any valid, enforceable claims of the asserted patents and intends to vigorously defend itself against the lawsuit. The Company filed its answer on October 3, 2012.

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 December 31, 2014 and June 30, 2014, there were 300,000,000 shares of authorized common stock, and 16,416,513 and 15,743,541 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.

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.

¶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.

As of December 31, 2014 and June 30, 2014, there were no shares of Series A Convertible Redeemable Preferred Stock or 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.

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.

Pursuant to the Securities Purchase Agreement discussed in Note 7, Loans Payable, SIC III will acquire 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 500,000 shares of the Company's common stock. The Company will issue 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 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.

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. 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 \$1,023 during the three and six months ended December 31, 2014.

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 3,750,000 shares of common stock for delivery under the Plan. Pursuant to the Executive Incentive Plan and the employment agreements, between February 15, 2011 and December 31, 2014, the Compensation Committee of the Company's Board of Directors authorized the grants of restricted stock and stock options described below.

Restricted Stock

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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, 2014	396,370	\$95.57
Granted	1,432,860	3.43
Vested	(409,790	) 8.23
Forfeited and canceled	(40,630	) 2.05
Nonvested at December 31, 2014	1,378,810	\$43.15

Compensation expense related to restricted stock was \$6,871 and \$12,551 for the three and six months ended December 31, 2014, respectively. As of December 31, 2014, there was \$25,012 in total unrecognized share-based compensation costs related to restricted stock.

Stock Options

The following table summarizes the Company's stock option activity for six months ended December 31, 2014:

	Number of Options	Weighted average exercise price
Outstanding at June 30, 2014	989,066	\$30.09
Granted	306,250	3.57
Exercised	—	—
Forfeited and canceled	(111,019	) 21.11
Outstanding at December 31, 2014	1,184,297	24.07
Exercisable at December 31, 2014	427,592	\$47.66

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. The fair value of the options granted during the six months ended December 31, 2014 and 2013 were estimated based on the following weighted average assumptions:

	Six Months Ended December 31,		
	2014	2013	
Expected volatility	80	% 80	%
Risk-free interest rate	2.04	% 1.70	%
Expected dividend yield	—	—	
Expected life (in years)	6.50	6.03	
Estimated fair value per option granted	\$2.54	\$38.40	

Compensation expense related to stock options of \$916 and \$2,798 is included in the accompanying Consolidated Statements of Operations in selling, general and administrative expenses for the three and six months ended December

31, 2014, respectively. As of December 31, 2014, there was approximately \$4,968 of total unrecognized stock-based compensation cost which will generally be recognized over a four year period.

11. Income Taxes

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For the three and six months ended December 31, 2014 and 2013, 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 December 31, 2014, the Company has a Net Operating Loss carryforward of approximately \$109,000, which will begin to expire in 2030. The Company has established a full valuation allowance against its deferred tax assets as of December 31, 2014 and June 30, 2014. The deferred tax liability, net is included in other long term liabilities in the accompanying consolidated balance sheets. Income tax expense for the three and six months ended December 31, 2014 was \$36 and \$58, 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 and six months ended December 31, 2014, the Company billed Circle \$7 and \$14, 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 December 31, 2014 and June 30, 2014 was \$100 and \$86, respectively.

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 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 Company's Audit Committee and a majority of the independent members of the Company's Board of Directors have approved this shared services agreement. For the three and six months ended December 31, 2014, the Company billed SFX \$204 and \$372, net of amounts billed by SFX to the Company, respectively. The balance due from SFX as of December 31, 2014 and June 30, 2014 was \$257 and \$0, respectively. See Note 14, Subsequent Events, for discussion of an amendment that was made to the shared services agreement with SFX subsequent to December 31, 2014.

Loans Payable and Stockholders' Equity Transactions

See Note 7, Loans Payable, and Note 9, Stockholders' Equity for a description of certain loans and equity transactions with related parties. In addition, see Note 14, Subsequent Events, for additional discussion of certain related party transactions.

Advertising Revenue

During the three months ended December 31, 2014, the Company provided certain advertising and related services to SFX and its subsidiaries. The total amount of net revenue was \$487 and such amount was due from SFX at December 31, 2014.

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 December 31, 2014 and June 30, 2014 to a fair value of \$10 and \$15. The Company recorded gains of \$5 and \$68 to other income, net in the Consolidated Statements of Operations for the six months ended December 31, 2014 and 2013, respectively. The fair value of the warrant is classified as a current liability on the Consolidated Balance Sheet as of December 31, 2014, 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 December 31, 2014 and June 30, 2014, the fair value of total contingent consideration for acquisitions was estimated to be \$4,792. 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.

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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, 2014	\$4,807
Additions to Level 3	—
Unrealized (gains) losses for the period included in other income (expense), net	(5)
Extinguishments	—
Balance at December 31, 2014	\$4,802

14. Subsequent Events

Unsecured Demand Loan

On January 14, 2015 and January 30, 2015, Mr. Sillerman made unsecured demand loans (the “New Loans”) to the Company totaling \$2,000 and \$2,000, respectively, bearing interest at the rate of 12% per annum. As discussed in Note 7, Loans Payable, Mr. Sillerman had previously made an unsecured demand loan to the Company of \$2,000 on December 19, 2014 (together with the New Loans, the “Loans”). Therefore, the outstanding principal amount of the Loans is \$6,000.

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 consents to SFX-94’s hiring of 25 members of the Company’s sales team, and SFX-94 agrees that it will sell advertising and sponsorships on behalf of the Company during the term of the Sales Agreement. SFX-94 also agrees 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.

The Sales Agreement will have a three-year term, and can be terminated by the Company on 90 days’ notice.

Shared Services Agreement

As discussed in Note 12, Related Party Transactions, the Company and SFX are parties to a shared services agreement (the “Shared Services Agreement”), pursuant to which the Company provided certain services to SFX and was reimbursed for such costs by 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. 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.

Executive Employment Agreements

On January 22, 2015, Greg Consiglio, the Company’s President and Chief Operating Officer, entered into an agreement with SFX to serve as its President and Chief Operating Officer. Mr. Consiglio will remain President and Chief Operating Officer of the Company. In connection therewith, Mr. Consiglio’s employment agreement with the Company has been amended to provide that he will be able to serve in both such roles. The agreement provides that Mr. Consiglio will devote his full-time best efforts and business time and attention to the Company, subject to his also fulfilling his responsibilities as President and Chief Operating Officer of SFX. The terms of the sharing of Mr. Consiglio's full time will be subject to monitoring by the respective Boards of Directors or a committee of

disinterested members of the respective Boards of Directors. Mr. Consiglio also agreed that he will report conflicts of interest and corporate opportunities to the Boards of both the Company and SFX.

The amendment to Mr. Consiglio's employment agreement further provides that, in lieu of payment of a \$250 guaranteed amount currently contemplated in his employment agreement, Mr. Consiglio will receive a grant of 200,000 restricted shares of Company common stock, half of which shall vest on the date of grant and the other half of which shall vest on May 5, 2015, subject to his still being employed by the Company and providing services to the Company on that date.

On January 22, 2015, Kevin Arrix, the Company's Chief Revenue Officer, entered into an agreement with SFX to serve as its Executive Vice President, Global Brand Partnerships. In connection therewith, his employment agreement with the Company has been amended to provide that he will be able to serve in both such roles. In connection therewith, Mr. Arrix's employment agreement with the Company has been amended to provide that he will be able to serve in both such roles. The agreement provides that Mr. Arrix will devote his full-time best efforts and business time and attention to the Company, subject to his also fulfilling his responsibilities to SFX. The terms of the sharing of Mr. Arrix's full time will be subject to monitoring by the respective Boards

of Directors or a committee of disinterested members of the respective Boards of Directors. Mr. Arrix also agrees that he will report conflicts of interest and corporate opportunities to the Boards of both the Company and SFX.

Additionally, the amendment to Mr. Arrix's employment agreement provides that, in lieu of payment of a \$250 guaranteed amount currently contemplated in his employment agreement, he will receive a grant of 100,000 restricted shares of Company common stock, half of which shall vest immediately and the other half of which shall vest on May 15, 2015.

Special Committee Action

Because the transactions described above were between the Company and SFX, the Company formed a special committee of independent directors to review the proposed transactions. The special committee reviewed and unanimously approved entering into the Sales Agreement, the amendment to the Shared Services Agreement, the amendments to the employment agreements of Mr. Consiglio and Mr. Arrix, and the actions taken in connection therewith.

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 29, 2014. 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, 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.

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 100 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 December 31, 2014, 8,193,287 users have registered for Viggle, of which we have deactivated 216,467 for a total of 7,976,820 registered users. As of December 31, 2014, our members have checked-in to 451,944,633 TV programs and more than 105,000,000 songs and spent an average of 63 minutes and 31 seconds of active time within the Viggle App per session. Over 715,114 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 2,000 points for a 10% discount with certain retailers, 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 December 31, 2014, users have earned over 95 billion points, including 3.4 billion points through Viggle's new music service. As of December 31, 2014 users have redeemed over 49 billion points for a total of approximately 4.1 million rewards, for an average of 12,035 points per reward redemption. The total retail value of rewards redeemed through December 31, 2014 is approximately \$22.0 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 16.1 million unique monthly users in December 2014 and have a combined social reach of approximately 9.7 million Facebook “likes” and follows 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 December 31, 2014, the average Total Reach and Active Reach were approximately 26.0 million and 10.5 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. 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 insure the best user experience, Viggle requires a device operating system of iOS 5.0 or later for Apple devices or Android 2.3.3 or later for Android devices. It may become necessary to change the minimum required operating systems in the future.

We will consider adding versions for other mainstream mobile operating systems such as Windows Phone and Blackberry 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 or the Android marketplace for devices using the Android operating system.

The back-end technology for our App has been designed to accommodate the significant numbers of simultaneous check-ins required to support prime time television audiences. This back-end technology has the capacity to support simultaneous check-ins around major television and music events such as the Super Bowl. In addition to maintaining dedicated facilities, we are using third-party cloud computing services from Amazon Web Services to help us scale our audio recognition 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.

The technology supporting our unique feature of digital fingerprinting and our matching technology used in the Viggle App is subject to a currently unissued but pending patent.

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 December 2012 study conducted by Forrester Consulting on behalf of Tapjoy, a mobile advertising and publishing platform, 59% of smartphone users agreed that if they have to see ads while using an app, they would prefer to be offered a reward 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.

Recent Developments

Acquisition of Choose Digital

On June 24, 2014, we 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. With the acquisition, the Choose Digital platform will power digital media rewards for the Viggle platform, including music, audio books, TV and movies, enabling Viggle members to get free entertainment content just for enjoying their favorite TV shows and music.

In connection with the Merger, all outstanding shares of Choose Digital capital stock, along with certain promissory notes payable by Choose Digital, were converted into the right to receive in the aggregate (A) approximately 1,963,309 shares of Viggle common stock (the “Stock Consideration”), (B) approximately 205,761 restricted stock units, plus (C) a contingent payment, to be made within five business days after the first anniversary of the closing date, in an aggregate amount up to \$4,792, depending on the trading price of Viggle common stock at that time.

Going Concern

Our Consolidated Financial Statements as of December 31, 2014 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.

Results of Operations

Results for the three and six months ended December 31, 2014 and 2013 (amounts in thousands)

	Three Months Ended December 31,			Six Months Ended December 31,		
	2014	2013	Variance	2014	2013	Variance
Revenues	\$7,185	\$5,032	\$2,153	\$13,660	\$9,371	\$4,289
Cost of watchpoints and engagement points	(3,027)	(82)	(2,945)	(4,190)	(2,657)	(1,533)
Selling, general and administrative expenses	(25,999)	(17,569)	(8,430)	(48,770)	(42,906)	(5,864)
Operating loss	(21,841)	(12,619)	(9,222)	(39,300)	(36,192)	(3,108)
Other income (expense):						
Other income, net	—	807	(807)	5	892	(887)
Interest expense, net	(353)	(1,572)	1,219	(480)		