

Viggle Inc.  
Form 10-Q  
November 12, 2014

---

---

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

Form 10-Q

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

For the quarterly period ended September 30, 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

Edgar Filing: Viggle Inc. - Form 10-Q

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 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 November 7, 2014, there were 16,107,807 shares of the registrant's common stock outstanding.

---

---

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements	<u>2</u>
	Consolidated Balance Sheets as of September 30, 2014 (Unaudited) and June 30, 2014	<u>3</u>
	Consolidated Statements of Operations for the Three Months Ended September 30, 2014 and 2013 (Unaudited)	<u>4</u>
	Consolidated Statements of Stockholders' Equity as of September 30, 2014 (Unaudited) and Fiscal Year Ended June 30, 2014	<u>5</u>
	Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2014 and 2013 (Unaudited)	<u>6</u>
	Notes to Consolidated Financial Statements (Unaudited)	<u>7</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>23</u>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	<u>33</u>
Item 4.	Controls and Procedures	<u>34</u>

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	<u>35</u>
Item 1.A.	Risk Factors	<u>34</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>42</u>
Item 3.	Defaults Upon Senior Securities	<u>42</u>
Item 4.	Mine Safety Disclosures	<u>42</u>
Item 5.	Other Information	<u>42</u>
Item 6.	Exhibits	<u>43</u>

## PART I

### CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

As used in this report:

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

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

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

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

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

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

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

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)

	September 30, 2014 (Unaudited)	June 30, 2014 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$122	\$7
Accounts receivable (net of allowance for doubtful accounts of \$95 at September 30, 2014 and June 30, 2014)	3,476	3,962
Prepaid expenses	1,047	949
Other receivables	250	80
Restricted cash	—	5,000
Total current assets	4,895	9,998
Restricted cash	694	700
Property & equipment, net	2,981	2,613
Intangible assets, net	27,316	28,810
Goodwill	36,647	36,627
Other assets	351	351
Total assets	\$72,884	\$79,099
Liabilities, convertible redeemable preferred stock and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$11,588	\$7,810
Reward points payable	5,237	4,927
Contingent consideration liability	4,792	4,792
Common stock warrant liability	10	15
Deferred revenue	562	911
Current portion of loan payable	15,000	15,000
Total current liabilities	37,189	33,455
Deferred revenue	4,237	4,354
Other long-term liabilities	1,967	1,488
Total liabilities	43,393	39,297
Series A Convertible Redeemable Preferred Stock, \$1,000 stated value, authorized 100,000 shares, issued and outstanding -0- shares as of September 30, 2014 and June 30, 2014	—	—
Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock, \$1,000 stated value, authorized 50,000 shares, issued and outstanding -0- shares as of September 30, 2014 and June 30, 2014	—	—
Common stock, \$0.001 par value: authorized 300,000,000 shares, issued and outstanding 15,739,791 and 15,743,541 shares as of September 30, 2014 and June 30, 2014, respectively	16	16
Additional paid-in-capital	347,725	340,163
Treasury stock, 215,164 and 211,414 shares at September 30, 2014 and June 30, 2014, respectively	(11,826)	(11,556)
Accumulated deficit	(306,424)	(288,821)
Total stockholders' equity	29,491	39,802

Total liabilities and stockholders' equity	\$72,884	\$79,099
--	----------	----------

See accompanying notes to consolidated financial statements

3

---

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	
Revenues	\$6,476	\$4,338	
Cost of watchpoints and engagement points	(1,164	)(2,579	)
Selling, general and administrative expenses	(22,771	)(25,334	)
Operating loss	(17,459	)(23,575	)
Other (expense) income:			
Other income, net	5	84	
Interest expense, net	(127	)(768	)
Total other (expense) income	(122	)(684	)
Net loss before provision for income taxes	(17,581	)(24,259	)
Income tax expense	\$(22	)\$ (22	)
Net loss	\$(17,603	)\$ (24,281	)
Net loss per common share - basic and diluted	\$(1.12	)\$ (21.90	)
Weighted average common shares outstanding - basic and diluted	15,741,055	1,108,769	

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					(17,603 )	(17,603 )
Purchase of common shares from former officer				(270 )		(270 )
Interest income on note receivable from shareholders			(1 )			(1 )
Restricted stock - share based compensation			5,680			5,680
Employee stock options - share based compensation			1,882			1,882
Balance September 30, 2014 (unaudited)	\$16	\$—	\$347,725	\$(11,826 )	\$(306,424 )	\$29,491

See accompanying notes to consolidated financial statements

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013		
Operating activities:				
Net loss	\$(17,603	)\$(24,281	)	
Adjustments to reconcile net loss to net cash used in operating activities:				
Restricted stock - share based compensation	5,680	4,763		
Employee stock options - share based compensation	1,882	1,904		
Stock compensation in connection with line of credit borrowing	—	2,870		
Compensation charge in connection with issuance of preferred stock in exchange for \$20M 8% Note, common shares and warrants	—	6,259		
Decrease in fair value of convertible debt embedded derivative	—	(16	)	
Decrease in fair value of common stock warrants	(5	)	(68	)
Depreciation and amortization	1,800	962		
Interest income on notes receivable from shareholders and officer	(1	)	(35	)
Changes in operating assets and liabilities:				
Accounts receivable, net	486	563		
Other receivables	(170	)	(93	)
Prepaid expenses	(98	)	36	
Other assets	5,006	1		
Deferred revenue	(466	)	(237	)
Accounts payable and accrued expenses	3,778	217		
Reward points liability	310	901		
Other liabilities	29	12		
Net cash provided by (used in) operating activities	628	(6,242	)	
Investing activities:				
Cash paid for acquisitions, net of cash acquired				
Purchase of property and equipment	(112	)	(90	)
Capitalized software costs	(131	)	(235	)
Net cash used in investing activities	(243	)	(325	)
Financing activities:				
Proceeds from loans	—	7,000		
Purchase of common shares from former officer	(270	)	—	
Net cash (used in) provided by financing activities	(270	)	7,000	
Net increase in cash	115	433		
Cash at beginning of period	7	1,359		
Cash at end of period	\$122	\$1,792		
Supplemental cash flow Information:				
Cash paid during the period for interest	\$104	\$108		

Non-Cash investing activities:

Landlord lease incentive build-out allowance	\$449
--	-------

See accompanying notes to consolidated financial statements

6

---

Viggle Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

### 1. Basis of Presentation and Consolidation

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

The consolidated financial statements include the accounts of Viggle Inc., 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., Viggle Merger Sub II 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 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 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 September 30, 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 three months ended September 30, 2014 and September 30, 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 three months ended September 30, 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 \$5,375 and \$5,244 as of September 30, 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 in the amount of \$3,010 and \$1,385 for the three months ended September 30, 2014 and September 30, 2013, respectively.

#### Watchpoints and Engagement Points

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

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

#### Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Compensation - Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants issued. Stock-based awards issued to date are comprised of both restricted stock awards (RSUs) and employee stock options.

#### Marketing

Marketing costs are expensed as incurred. Marketing expense for the Company for the three months ended September 30, 2014 and September 30, 2013 was \$4,116 and \$1,958, 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 is expected to 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. There are no known indemnificati

on claims, and the escrow was established to cover claims in the event that any indemnification claims arise or are discovered. The shares will be held in escrow for a period of twelve months after closing to satisfy any indemnification claims that might arise during that twelve month period, and if no claims arise, these shares will be 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 preliminary 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	23,724
Intangible assets	19,009
Other assets	1,723
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	8,006
Intangible assets	5,797
Other assets	1,278
Total liabilities, including acquired accrued expenses	(614 )
	\$ 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 months ended September 30, 2013 are presented as if the Wetpaint and Choose Digital acquisitions had been completed at the beginning of fiscal year 2013:

	Three months ended September 30, 2013	
Revenues	\$ 5,023	
Operating loss	(26,217	)
Net loss	(26,841	)



Net loss per common share - basic and diluted \$ (7.43 )

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

13

---

Property and Equipment consists of the following:

	September 30, 2014	June 30, 2014
Leasehold Improvements	\$2,893	\$2,460
Furniture and Fixtures	592	592
Computer Equipment	638	726
Software	226	168
Total	4,349	3,946
Accumulated Depreciation and Amortization	(1,368)	(1,333)
Property and Equipment, net	\$2,981	\$2,613

Depreciation and amortization charged to selling, general and administrative expenses for the three months ended September 30, 2014 and 2013 amounted to \$176 and \$152, respectively.

#### 6. Intangible Assets and Goodwill

Description	Amortization Period	September 30, 2014			June 30, 2014		
		Amount	Accumulated Amortization	Carrying Value	Amount	Accumulated Amortization	Carrying Value
Wetpaint technology	84 months	\$10,600	\$(1,199)	\$9,401	\$10,600	\$(820)	\$9,780
Wetpaint trademarks	360 months	5,800	(151)	5,649	5,800	(103)	5,697
Wetpaint customer relationships	60 months	2,000	(317)	1,683	2,000	(217)	1,783
Wetpaint non-compete agreements	36 months	609	(161)	448	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	(173)	1,647	1,820	(108)	1,712
Choose Digital intangible assets	84 months	5,797	(221)	5,576	5,797	(14)	5,783
Internally generated capitalized software	36 months	5,375	(2,787)	2,588	5,244	(2,364)	2,880
Other	various	326	(2)	324	333	(7)	326
Total		\$32,327	\$(5,011)	\$27,316	\$38,762	\$(9,952)	\$28,810

Amortization of intangible assets included in selling, general and administrative expenses for the three months ended September 30, 2014 and 2013 amounted to \$1,624 and \$810, respectively. Future annual amortization expense expected is as follows:

Years ending June 30,

2015	\$3,894
2016	4,810
2017	3,240
2018	3,198
2019	2,981

Goodwill consists of the following:

Description	September 30, 2014	June 30, 2014
Loyalize	\$2,953	\$2,953
Wetpaint	23,743	23,723
Dijit	1,945	1,945
Choose Digital	8,006	8,006
Total	\$36,647	\$36,627

#### 7. Loans Payable

Facility Name	Maturity Date	Total Facility Amount	Outstanding Balances	
			September 30, 2014	June 30, 2014
Term Loan Agreement ("DB Line")	12/31/14	\$15,000	\$15,000	\$15,000

#### Debt Restructuring

On December 13, 2013 and September 16, 2013, the Company, Deutsche Bank Trust Company Americas, SIC and SIC II entered into a series of transactions to restructure certain of the Company's outstanding debt and equity securities. The impact on each loan is described below, where appropriate.

#### 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

15

---

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.

The DB Line does not contain any financial covenants.

Repayment of the loan was guaranteed by Mr. Sillerman. In consideration for the guarantee, Mr. Sillerman's designee, SIC II, which was the lender under the Amended and Restated \$25,000 Line of Credit described below, 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.

As of September 30, 2014, the Company had drawn \$15,000 on the DB Line. Interest expense on the DB Line for the three months ended September 30, 2014 and 2013 was \$102 and \$107, respectively.

See Note 14, Subsequent Events, for a discussion of a new debt agreement and amendment to the DB Line.

## 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

16

---

As of September 30, 2014 and June 30, 2014, there were 300,000,000 shares of authorized common stock, and 15,739,791 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

17

---



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 September 30, 2014 and June 30, 2014, there were no shares of Series A Convertible Redeemable Preferred Stock or Series B Convertible Preferred Stock outstanding. See Note 14, Subsequent Events, for a discussion of an additional class of preferred stock.

## 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 September 30, 2014, the Compensation Committee of the Company's Board of Directors authorized the grants of restricted stock and stock options described below.

Restricted Stock

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.

18

---

	Shares	Weighted Average Grant Date Fair Value
Nonvested at July 1, 2013	396,370	\$95.57
Granted	1,442,860	3.70
Vested	(7,887)	)2,366.27
Forfeited and canceled	—	—
Nonvested at September 30, 2013	1,831,343	\$13.41

Compensation expense related to restricted stock was \$5,508 and \$4,763 for the three months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, there was \$32,410 in total unrecognized share-based compensation costs related to restricted stock.

### Stock Options

The following table summarizes the Company's stock option activity for three months ended September 30, 2014:

	Number of Options	Weighted average exercise price
Outstanding at June 30, 2014	989,066	\$30.09
Granted	200,000	4.46
Exercised	—	—
Forfeited and canceled	(12,508)	)83.01
Outstanding at September 30, 2014	1,176,558	25.17
Exercisable at September 30, 2014	334,959	\$60.80

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 three months ended September 30, 2014 and 2013 were estimated based on the following weighted average assumptions:

	Three Months Ended September 30,		
	2014	2013	
Expected volatility	80	% 80	%
Risk-free interest rate	2.10	% 1.77	%
Expected dividend yield	—	—	
Expected life (in years)	6.50	6.20	
Estimated fair value per option granted	\$3.18	\$36.00	

Compensation expense related to stock options of \$1,882 and \$1,904 is included in the accompanying Consolidated Statements of Operations in selling, general and administrative expenses for the three months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, there was approximately \$6,230 of total unrecognized stock-based compensation cost which will generally be recognized over a four year period.

11. Income Taxes

For the three months ended September 30, 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 September 30, 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 September 30, 2014 and June 30, 2014. The deferred tax liability, net is included

19

---

in other long term liabilities in the accompanying consolidated balance sheets. Income tax expense for the three months ended September 30, 2014 and 2013 was \$22 and \$22, respectively.

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

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

## 12. Related Party Transactions

### Shared Services Agreements

In an effort to economize on costs and be efficient in its use of resources, the Company entered into a shared services agreement with Circle Entertainment Inc. ("Circle") as of February 15, 2011, pursuant to which it shares costs for legal and administrative services in support of Mitchell J. Nelson, its then-General Counsel and General Counsel to Circle. The shared services agreement provides, in general, for sharing of the applicable support provided by either company to Mr. Nelson in connection with his capacity as General Counsel. The Company is responsible for advancing the salary to legal and administrative personnel supporting Mr. Nelson for both companies and will be reimbursed by Circle for such salary and benefits (but not for any bonus, option or restricted share grant made by either company, which will be the responsibility of the company making such bonus, option or restricted share grant). The agreement provides for the Chief Executive Officer or President of each Company to meet periodically to assess whether the services have been satisfactorily performed and to discuss whether the allocation has been fair. The Audit Committee of each company's Board of Directors will then review and, if appropriate, approve the allocations made and whether payments need to be adjusted or reimbursed, depending on the circumstances. Because this transaction is subject to certain rules regarding "affiliate" transactions, the Audit Committee and a majority of the independent members of the Company's Board of Directors have approved the shared services agreement. This is deemed to be an affiliate transaction because Mr. Sillerman is the former Chairman, a Board member, and a greater than 10% stockholder of Circle and Mr. Nelson is Executive Vice President and General Counsel of Circle. For the three months ended September 30, 2014 and 2013, the Company billed Circle \$7 and \$47, respectively. Such billings primarily relate to support consisting of legal and administrative services. These services are to be reviewed and, if appropriate, approved by Circle's Audit Committee and the Company's Audit Committee. The balance due from Circle as of September 30, 2014 and June 30, 2014 was \$93 and \$86, respectively.

The Company also entered into a shared services agreement with SFX Entertainment Inc. ("SFX"), a company affiliated with Mr. Sillerman, pursuant to which it shares costs for legal and administrative services in support of Mr. Nelson, and several other of the Company's and/or SFX's employees. The shared services agreement provides, in general, for sharing generally based on the services provided by Mr. Nelson and such other employees. Mr. Nelson and such other 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 months ended September 30, 2014 and 2013, the Company billed SFX \$168 and \$131, net of amounts billed by SFX to the Company,

respectively. The balance due from SFX as of September 30, 2014 and June 30, 2014 was \$157 and \$0, respectively.

Certain Company accounting personnel may provide personal accounting services to Mr. Sillerman. To the extent that such services are rendered, Mr. Sillerman shall reimburse the Company. The reimbursement for any such services shall be reviewed by the Company's Audit Committee. For the three months ended September 30, 2014 and 2013, the Company billed Mr. Sillerman \$0 and \$8, respectively. The balance due from Mr. Sillerman as of September 30, 2014 and June 30, 2014 was \$0 and \$6, respectively.

#### Lines of Credit

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

#### 13. Fair Value Measurement

20

---

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

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

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

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

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

The Company issued 21,364 warrants in connection with the May 10, 2012 PIPE. Each warrant has a sale price of \$440 and is exercisable into 1 share of common stock at a price of \$640 over a term of three years. Further, the exercise price of the warrants is subject to "down round" protection, whereby any issuance of shares at a price below the current price resets the exercise price equal to a the price of newly issued shares (the "Warrants"). In connection with the PIPE Exchanges on September 16, 2013, the exercise price of the Warrants was reset to \$92. The fair value of such warrants has been determined utilizing the Binomial Lattice Model in accordance with ASC 820-10, Fair Value Measurements. The fair value of the warrants when issued was \$5,281. On September 16, 2013, 6,818 warrants were exchanged in connection with the PIPE Exchanges. The remaining 14,545 warrants were marked to market as of September 30, 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 three months ended September 30, 2014 and 2013, respectively. The fair value of the warrant is classified as a current liability on the Consolidated Balance Sheet as of September 30, 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 September 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.

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 September 30, 2014	\$4,802	

14. Subsequent Events

On October 24, 2014, the Company and 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. In addition, SIC III agreed to purchase 10,000 shares (the “Shares”) of a new class of Series C Convertible Preferred Stock for a total of \$10,000. The Company also agreed to issue to SIC III warrants to purchase 1,500,000 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 advanced under the Note or every \$1,000 of purchase price paid for the Shares. The warrants will be issued in proportion to the amounts the Company draws under the Note and amounts 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 will be subject to approval of the Company’s stockholders.

#### Line of Credit Note

On October 24, 2014, the Company issued SIC III the Note. The Note provides a right for the Company to request advances under the Note from time to time. On October 24, 2014, SIC III made an initial advance under the Note of \$4,500. The Note provides that the Company may request additional advances of up to \$15,500, provided that additional advances bringing the total of advances to amount in excess of \$5,000 may be made only after December 15, 2014 and to pay off amounts outstanding under the DB Line (see Note 7, Loans Payable for a complete discussion of the DB Line). The Note bears interest at a rate of 12% per annum, payable in cash on a quarterly basis. In addition, the Note provides for a 3% discount, such that the amount advanced by SIC III will be 3% less than the associated principal amount of the advance. From and after the occurrence and during the continuance of any event of default under the Note, the interest rate is automatically increased to seventeen percent (17%) per annum.

In connection with the first drawdown of \$4,500 under the Note, the Company issued to 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. The Warrants are exercisable for a period of five years from issuance. The Company has not determined the stock compensation expense related to the issuance of warrants to SIC III, however such amount will be recorded during the Company's second fiscal quarter.

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

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

#### Series C Convertible Preferred Stock

The Company created a new class of Series C Convertible Preferred Stock (the "Series C Convertible Preferred Stock") by filing a Certificate of Designations of the Series C Convertible Preferred Stock of the Company (the "Series C Certificate of Designation") with the Secretary of State of the State of Delaware. The Company authorized the issuance of up to 100,000 shares of the Series C Convertible 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 contained in the Series C Certificate of Designation and are summarized as follows:

•The shares of Series C Convertible Preferred Stock have a stated value of \$1,000 per share (the "Stated Value").

Each holder of a share of Series C Convertible 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 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 Preferred Stock.

Each share of Series C Convertible 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 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 Preferred Stock on the tenth (10th) 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 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 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 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 Preferred Stock shall be entitled to require the Company to redeem from such holder all of such Holder's shares of Series C Convertible Preferred Stock so long as such holder requests such redemption in writing at least one (1) 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 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 Preferred Stock.

The shares of Series C Convertible 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 Preferred Stock is necessary for the Company to amend the Series C Certificate of Designation.

Pursuant to the Securities Purchase Agreement, SIC III will acquire 10,000 Shares of Series C Convertible Preferred Stock for \$10,000. The purchase of such Shares is subject to certain conditions, including (a) the accuracy of the Company's representation and warranties set forth in the Securities Purchase Agreement, (b) the delivery of various closing certificates, and (c) approval by the Company's shareholders of the exercise of the warrants issuable pursuant to the Securities Purchase Agreement.

#### Amendment to Term Loan Agreement

As discussed in Note 7, Loans Payable, the Company is party to a Term Loan Agreement with Deutsche Bank (the "DB Line"). The DB Line provides that the Company will use the proceeds of any debt or equity capital raises to prepay amounts outstanding under the DB Line. In connection with the transactions contemplated by the Securities Purchase Agreement, the Company entered into an amendment (the "Amendment") with Deutsche Bank pursuant to which the prepayment provision was removed, allowing the Company to issue the Shares and request advances under the Note without having to prepay those amounts to Deutsche Bank. Deutsche Bank and SIC III entered into a

Subordination Agreement (the “Subordination Agreement”) pursuant to which the repayment of amounts under the Note is subordinated to repayment of amounts under the DB Line.

#### Special Committee Action

Because the transactions described in the foregoing sections were between the Company and Robert F.X. Sillerman or an affiliate of Robert F.X. Sillerman, who is the Executive Chairman and Chief Executive Officer of the Company, the Company formed a special committee of independent directors to review the proposed transactions. Such special committee reviewed and unanimously approved such transactions. The Committee engaged an independent financial advisor in connection with its determination.

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

23

---

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 at least 190 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 September 30, 2014, 7,253,743 users have registered for Viggle, of which we have deactivated 213,316 for a total of 7,040,427 registered users. As of September 30, 2014, our members have checked-in to 428,497,868 TV programs and more than 75,000,000 songs and spent an average of 63 minutes and 46 seconds of active time within the Viggle App per session. Over 519,577 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 September 30, 2014, users have earned over 80 billion points, including 1.6 billion points through Viggle's new music service. As of September 30, 2014 users have redeemed over 44 billion points for a total of approximately 3.5 million rewards, for an average of 12,687 points per reward redemption. The total retail value of rewards redeemed through September 30, 2014 is approximately \$20.3 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 18.7 million unique monthly users in September 2014 and have a combined social reach of approximately 9.4 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 unique monthly users of the Wetpaint media properties. We define Total Active Reach as the amount of monthly active users for the Viggle App and the cumulative number of times people have "liked" a Wetpaint page on Facebook, plus the cumulative number of times people have "followed" a Wetpaint account on Twitter. Our Total Reach and Total Active Reach for September 2014 were approximately 26.2 million and 10.3 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 maintain a dedicated sales team which sells 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, a company affiliated with Mr. Sillerman, 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

26

---

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 September 30, 2014, and the auditor's report on those financial statements, include a disclosure paragraph regarding the uncertainty of our ability to remain a going concern, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company is unlikely to pay dividends or generate significant revenue or earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its stockholders and the ability of the Company to obtain necessary equity or debt financing to continue development of its business and to increase revenue. Management intends to raise additional funds through equity and/or debt offerings until sustainable revenues are developed. There is no assurance such equity and/or debt offerings will be successful or that development of the business will be successful.

## Results of Operations

Results for the three months ended September 30, 2014 and 2013 (amounts in thousands)

	Three Months Ended September 30,		
	2014	2013	Variance
Revenues	\$6,476	\$4,338	\$2,138
Cost of watchpoints and engagement points	(1,164)	(2,579)	1,415
Selling, general and administrative expenses	(22,771)	(25,334)	2,563
Operating loss	(17,459)	(23,575)	6,116
Other income (expense):			
Other income, net	5	84	(79)
Interest expense, net	(127)	(768)	641
Total other expense	(122)	(684)	562
Net loss before provision for income taxes	(17,581)	(24,259)	6,678
Income tax expense	(22)	(22)	—
Net loss	\$(17,603)	\$(24,281)	\$6,678

Consolidated Operating Results for the Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013 (amounts in thousands)

## Revenues

Revenue in the three months ended September 30, 2014 was \$6.5 million, an increase of \$2.1 million from the three months ended September 30, 2013. The increase was primarily from increased third party advertising on the Viggle App and barter revenue.

## Cost of Watchpoints and Engagement Points

Cost of watchpoints and engagement points for the three months ended September 30, 2014 was \$1.2 million, a decrease of \$1.4 million from the three months ended September 30, 2013. Such costs relate to the cost of Viggle reward points earned by users of the App for checking into shows and engaging with advertising content. The decrease is primarily due to a lower average cost per point.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$22.8 million for the three months ended September 30, 2014, a decrease of \$2.6 million from the three months ended September 30, 2013. The decrease was driven by decreases in stock based compensation of \$8.2 million, partially offset by increases in marketing costs of \$2.2 million, depreciation and amortization of \$0.8 million, technology related costs of \$0.6 million, personnel costs of \$1.0 million, professional services fees of \$0.5 million, and online services costs of \$0.3 million.

## Interest Expense, Net

Interest expense, net was \$0.1 million for the three months ended September 30, 2014, a decrease of \$0.6 million from the three months ended September 30, 2013. The decrease was due to lower levels of debt during the three months ended September 30, 2014.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, Income Taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and

information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements. At September 30, 2014 and June 30, 2014, the Company provided a full valuation allowance on its deferred tax assets and thus recognized no tax benefit. For the three months ended September 30, 2014, the Company recorded an income tax provision of \$0.02 million to reflect tax amortization of the Company's goodwill.

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

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

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

	Three months ended September 30, 2014	Three months ended September 30, 2013	
Cost of watchpoints and engagement points as reported	\$(1,164	)\$ (2,579	)
Adjustment to cost of watchpoints and engagement points	281	855	
Adjusted cost of watchpoints and engagement points	(883	)(1,724	)
Selling, general and administrative expenses as reported	(22,771	)(25,334	)
Adjustment to selling, general and administrative expenses	31	46	
Adjusted selling, general and administrative expenses	\$(22,740	)\$ (25,288	)

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

	Three months ended September 30, 2014	Three months ended September 30, 2013	
Operating loss as reported	\$(17,459	)\$ (23,575	)



Edgar Filing: Viggle Inc. - Form 10-Q

Add:

Stock compensation costs	7,562	15,796	
Adjustment to cost of watchpoints and engagement points	281	855	
Adjustment to selling, general and administrative expenses	31	46	
Depreciation and amortization costs	1,800	962	
Adjusted EBITDA *	\$(7,785	)\$(5,916	)

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

30

---

Liquidity and Capital Resources (amounts in thousands, except share data)

Cash

At September 30, 2014 and June 30, 2014, we had cash balances of \$0.1 million and \$0.01 million, respectively.

Available Line of Credit

As of September 30, 2014, the Company had no funds available under any of its lines of credit.

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

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

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

There is no assurance that the plan set forth herein will be successful. If implemented, actual results may vary significantly from the plan described in this filing on future forms 10-Q. We do not warrant or guarantee the foregoing. Our June 30, 2014 financial statements contain a going concern emphasis in our audit opinion.

Our current plan will require capital of approximately \$15,500 over the next 12-month period to cover the fixed expenses and capital needs of our company, including employee payroll, marketing expenditures, server capacity, research and development, office space and capital expenditures. As of the date of this filing on form 10-Q, we expect

to receive \$10,000 in connection with a Securities Purchase Agreement that was entered into on October 24, 2014 with SIC III (see further discussion in Footnote 14, Subsequent Events in the notes to the consolidated financial statements). In order to meet our capital requirements for the next 12 months, we anticipate that we will need approximately \$3,500 in new capital (in excess of the cash currently held by us and the \$10,000 discussed above). We believe revenue will continue to improve over the next 12 months as we sell more advertising within the App and on our websites. Additionally, we believe that as our user base grows, we will be able to introduce specific brand offers, additional sweepstakes, and digital rewards into our rewards catalog, which will help reduce cash required to fund rewards. As our App becomes more popular, we plan to increase the number of points needed to redeem certain rewards, which in turn should reduce the cash required to fund rewards. During Fiscal 2014, we increased our revenue and added new rewards to the catalog which required less cash to purchase than some of our previous rewards. This enabled us to reduce our cash outlay for rewards. As we continue to add new items to our rewards catalog, we will focus on how those items are priced in points with the goal of reducing our cash outlay for rewards. Although the increase in revenue and the addition of lower cost rewards suggest

that we should be able to reduce our cash funding requirements over the next 12 months, there is no guarantee that we will be successful. Our ability to sell increasing amounts of advertising is dependent on the amount of registered active users and the activity of those users within the App. It may be challenging to grow revenue as our company faces many competitors seeking to gather revenue in the same manner. Advertising budgets can shift rapidly and the benefits previously seen by advertisers could shift away from mobile platforms to something new. We may not be able to deliver enough users to our advertisers to grow revenue. The level of engagement activity currently seen within the App may slow and the potential revenue per user would fall accordingly. In addition, growing our user base makes us more attractive to advertisers, but will also increase our total rewards cost as new users earn points within the App. We will need to increase our revenue per user above the average cash cost per user in order to achieve profitability. There is no guarantee that we will be able to do so. Our ability to purchase rewards for greater discounts as we buy more may not be sustainable and we may reach a floor on the level of discounting. We have no plan to materially adjust the overall points pricing within our rewards catalog; however, we may find a wholesale re-pricing necessary to reduce the cash needed to fund our rewards program. Adjusting the points needed to redeem a reward may decrease our funding requirements, but may have the counter-balancing effect of discouraging user acceptance and satisfaction.

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

#### Cash Flows for the three months ended September 30, 2013 (amounts in thousands)

	Three Months Ended September 30,	
	2014	2013
Net cash provided by (used in) operating activities	\$628	\$(6,242)
Net cash used in investing activities	\$(243)	\$(325)
Net cash (used in) provided by financing activities	\$(270)	)\$7,000

#### Operating Activities

In the three months ended September 30, 2014, net cash provided by operating activities was \$0.6 million, including our net loss of \$17.6 million, non cash, stock based compensation charges of \$7.6 million, and depreciation and amortization of \$1.8 million. In addition, net cash inflows from changes in operating assets and liabilities was \$8.5 million, primarily due to the release of \$5.0 million of restricted cash (spent on working capital needs), and an increase in accounts payable of \$3.8 million.

In the three months ended September 30, 2013, net cash used in operating activities was \$6.2 million, including our net loss of \$24.3 million, non cash, stock based compensation charges of \$15.8 million and depreciation and amortization of \$1.0 million. In addition, net cash inflows from changes in operating assets and liabilities was \$1.4 million, primarily as a result from an increase in the reward points liability of \$0.9 million (as a result of increased users on the Viggle App) and a decrease in accounts receivable of \$0.6 million (as a result of timing of payments received from customers).

Investing Activities

Cash used in investing activities in the three months ended September 30, 2014 was \$0.2 million consisting of capitalized portion of App development costs and investments in computer related equipment.

Cash used in investing activities in the three months ended September 30, 2013 was \$0.3 million consisting of capitalized portion of App development costs and investments in computer related equipment.

Financing Activities

32

---

Cash used in financing activities in the three months ended September 30, 2014 of \$0.3 million consisted of purchases of common shares from a former officer of the Company.

Cash provided by financing activities in the three months ended September 30, 2013 of \$7.0 million consisted of borrowings on our New \$25 million Line of Credit. Such amount was utilized to fund working capital requirements and for general operating purposes.

#### Off-Balance Sheet Arrangements

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

#### Commitments and Contingencies

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

#### Critical Accounting Policies and Estimates

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

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

During the three months ended September 30, 2014, there have been no significant changes related to our critical accounting policies and estimates as disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

#### 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 what the impact of adoption will have on its consolidated financial statements.

### ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

33

---

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

#### ITEM 4 CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

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

On September 30, 2014, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting Officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Principal Accounting Officer concluded that our disclosure controls and procedures were effective.

On December 16, 2013 and June 24, 2014, the Company completed the acquisitions of Wetpaint and Choose Digital, respectively. The purchase price of each acquisition was represented substantially by goodwill and identifiable intangible assets. We continue to evaluate the internal control over financial reporting of the acquired businesses. As permitted by SEC Staff interpretive guidance for newly acquired businesses, the internal control over financial reporting of Wetpaint and Choose Digital was excluded from a formal evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2014, but we will include an assessment in the year following the date of these acquisitions.

##### Changes in Internal Control over Financial Reporting

There was no change in internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the three months ended September 30, 2014 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.



## PART II

### ITEM 1. LEGAL PROCEEDINGS

On August 17, 2012, the Company was served with 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 companies involving the same patent family, including Peer Media Technologies, Inc., The Echo Nest Corporation, Free Stream Media Corp., iPharro Media GmbH, iPharro Media, Inc., Shazam Entertainment, Ltd., Texas Instruments Incorporated, BIO-Key International, Inc., TuneSat, LLC, Vercury Inc., and SoundHound.

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.

We are 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 our 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 upon our financial condition and results of operations.

### ITEM 1A. RISK FACTORS

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

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

We have incurred significant net losses and negative cash flow from operations since our inception. We incurred net losses of \$17,603 and \$24,281 for the three months ended September 30, 2014 and September 30, 2013, respectively. We have an accumulated deficit of approximately \$306,424 as of September 30, 2014 and \$288,821 as of June 30, 2014. Although our revenue has grown significantly since inception, we have not achieved profitability and cannot be certain that we will be able to sustain our current revenue growth rate or realize sufficient revenue to achieve profitability. Our ability to continue as a going concern is dependent upon raising capital from financing transactions, increasing revenue throughout the year and keeping operating expenses below our revenue levels in order to achieve positive cash flows, none of which can be assured. If we achieve profitability, we may not be able to sustain it.

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

The report of our independent registered public accounting firm contained in our annual report on Form 10-K for the fiscal year ended June 30, 2014 contained an explanatory paragraph expressing substantial doubt about our ability to

remain a going concern because we have suffered recurring losses from operations and, at June 30, 2014, had deficiencies in working capital. We are unlikely to pay dividends or generate significant earnings in the immediate or foreseeable future. The continuation of our company as a going concern is dependent upon the continued financial support from our largest stockholders and the ability of our company to obtain necessary equity and debt financing to continue development of our business and to generate revenue. Management intends to raise additional funds through equity and debt offerings until sustainable revenues are developed. No assurance can be given that such equity and debt offerings will be successful or that development of our business will continue successfully.

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

With the release of any new product or any new features to an existing product, we are subject to the risks generally associated with new product or feature introductions and applications, including lack of market acceptance, delays in development and implementation, and failure of new products or features to perform as expected. In order to introduce and market new or enhanced

products or features successfully with minimal disruption in customer purchasing patterns and user experiences, we must manage the transition from existing products in the market. There can be no assurance that we will successfully develop and market, on a timely basis, products, product enhancements or features that respond to technological advances by others, that our new products will adequately address the changing needs of the market or that we will successfully manage product transitions. Further, failure to generate sufficient cash from operations or financing activities to develop or obtain improved products and technologies could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

Since we are controlled by our current insiders and their affiliates, you and our other non-management stockholders will be unable to affect the outcome in matters requiring stockholder approval.

As of November 7, 2014, approximately 8,320,565 shares of our common stock, not including warrants, options, or rights to acquire common stock, are owned by Mr. Sillerman and current affiliates and insiders representing control of approximately 51.7% of the total voting power, with Mr. Sillerman directly or indirectly beneficially owning more than a majority of the outstanding shares of common stock. As a result, Mr. Sillerman essentially has the ability to elect all of our directors and to approve any action requiring stockholder action, without the vote of any other stockholders. It is possible that the interests of Mr. Sillerman could conflict in certain circumstances with those of other stockholders. Such concentrated ownership may also make it difficult for our stockholders to receive a premium for their shares of common stock in the event we merge with a third party or enter into other transactions that require stockholder approval. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

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

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

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

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

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

Mr. Sillerman and Mitchell J. Nelson, our Executive Vice President, Secretary and a director, are each engaged in other business endeavors, including Circle Entertainment Inc. ("Circle"), in which Mr. Nelson is an executive officer. Mr. Sillerman is also the Chairman of SFX, a company in the live entertainment business. Under Mr. Sillerman's employment agreement, he is obligated to devote his working time to our affairs, but may continue to perform his responsibilities as an executive officer of SFX and as a director of Circle, and may be involved in other outside non-competitive businesses. Mr. Sillerman has agreed to present to us any business opportunities related to or appropriate for our business. Pursuant to Mr. Nelson's employment agreement, he is obligated to devote such time and attention to the affairs of our company as is necessary for him to perform his duties as Executive Vice President. He is also entitled to perform similar functions for Circle and performs general legal duties for SFX pursuant to the shared services agreements described in the section entitled "Certain Relationships and Related Transactions" in this prospectus. In addition, our newest director, Michael Meyer, is a member of the board of directors and chair of the audit committee of Circle. Although Circle, SFX and our company have generally different business plans, interests and programs, it is conceivable there may be a conflict of interest in determining where a potential opportunity should be brought. Conflicts of interest are prohibited as a matter of corporate policy, except under guidelines approved by the Board of Directors, as set forth in our Code of Business Conduct and Ethics. Our Code of Business Conduct and Ethics also sets forth the procedures to follow in the event that a potential conflict of interest arises.

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

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

We are uncertain of our ability to manage our growth.

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

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

The digital and mobile technology business is highly fragmented, extremely competitive, and subject to rapid change. The market for customers is intensely competitive and such competition is expected to continue to increase. We believe that our ability to compete depends upon many factors within and beyond our control, including the timing and market acceptance of new solutions

36

---

and enhancements to existing businesses developed by us and our competitors. We are an entertainment company that utilizes digital media and Smartphone technology. If we are successful, larger and more established entertainment companies, with significantly greater resources, may try to enter the market with similar technologies, and may be in better competitive positions than we are. Many consumers maintain simultaneous relationships with multiple digital brands and products and can easily shift consumption from one provider to another. Our principal competitors are in segments such as:

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

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

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

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

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

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

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

The success of our acquisitions of Choose Digital, Wetpaint and Dijit will depend, in part, on our ability to realize the anticipated benefits from combining the businesses of Choose Digital, Wetpaint and Dijit with our existing business. To realize these anticipated benefits, the businesses of Choose Digital, Wetpaint and Dijit must be successfully integrated and combined. If users of each of the Choose Digital, Wetpaint, Dijit and Viggle services do not prove to have an affinity to the new complementary services they are introduced to, results of the combination could be worse than anticipated. Our management may face significant challenges in consolidating Choose Digital's, Wetpaint's and Dijit's functions with ours, integrating the technologies, organizations, procedures, policies and operations, as well as addressing the different business cultures at the two companies, and retaining key personnel. If Choose Digital, Wetpaint and Dijit are not successfully integrated, the anticipated benefits of our acquisitions of Choose Digital, Wetpaint and Dijit may not be realized fully or at all or may take longer to realize than expected. The integration may

also be complex and time consuming, and require substantial resources and effort. The integration process and other disruptions resulting from our acquisitions of Choose Digital, Wetpaint and Dijit may also disrupt each company's ongoing businesses and/or adversely affect their relationships with employees, users, and others with whom they have business or other dealings.

Since Choose Digital, Wetpaint and Dijit were private companies, we may be required to expend substantial sums in order to bring them into compliance with the various reporting requirements applicable to public companies and/or to prepare required financial statements, and such efforts may harm our operating results or be unsuccessful altogether.

Prior to our acquisitions of them, Choose Digital, Wetpaint and Dijit were not subject to many of the requirements applicable to public companies, including Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which requires that Choose Digital, Wetpaint and Dijit evaluate and report on their system of internal controls. We will need to evaluate and integrate the system of internal controls for Choose Digital, Wetpaint and Dijit. We did not conduct a formal evaluation of Choose Digital's,



Wetpaint's or Dijit's internal controls over financial reporting prior to our acquisition of those companies. If our finance and accounting staff or internal controls over financial reporting are inadequate, we may be required to hire additional staff and incur substantial legal and accounting costs to address such inadequacies. Moreover, we cannot be certain that our remedial measures will be effective. Any failure to implement required or improved controls, or difficulties encountered in their implementation, could harm our operating results or increase its risk of material weaknesses in internal controls.

We will incur significant transaction and merger-related costs in connection with our acquisitions of Choose Digital, Wetpaint and Dijit.

We expect we will incur significant, non-recurring costs in connection with consummating the acquisitions of Choose Digital, Wetpaint and Dijit and integrating the operations of those companies. We may incur additional costs to maintain employee morale and to retain key employees. We may also incur significant fees and expenses relating to financing arrangements and legal, accounting and other transaction fees and costs associated with these acquisitions. In addition, in connection with our acquisition of Choose Digital, we may have to pay a contingent payment, to be made within five business days after June 24, 2015, in an aggregate amount up to \$4,791, depending on the trading price of Viggle common stock at that time.

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

Our licensing agreement with SFX Entertainment, Inc. may adversely affect our ability to generate revenues in the future.

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

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

Wetpaint relies on posts on various social media platforms, including Facebook and Twitter, to drive users to its websites. In the event that Facebook or Twitter changes their respective terms and conditions to prevent such activity by Wetpaint, Wetpaint's user numbers could decrease. Further, these platforms change their algorithms and application programming interfaces, or API's, in the ordinary course of business, often without notice or explanation to publishers. Changes to these algorithms and API's may reduce the effectiveness of Wetpaint's publishing capabilities, and result in

temporary or permanent reductions to the net numbers of fans and followers added each month, as well as the rate at which Wetpaint content is displayed to users and clicked upon. In such cases, traffic to Wetpaint websites could be adversely affected.

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

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

rankings that it has had for such keywords. In addition, as new keywords become popular, Wetpaint content may fail to rank highly for those keywords.

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

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

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

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

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

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

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

We are exposed to the risk of fraudulent and other invalid clicks or conversions that advertisers may perceive as undesirable or that may cost us additional money for points given in connection with such activity. While our terms and conditions limit one account per person and we have specific controls in place to avoid fraud, such as limiting the number of accounts allowed per device and the number of points per day, there is no assurance that our controls will be effective. As a result, estimates of our registered users, monthly active users or other statistical information may be inflated as there may be some instances of double-counting users. We are aware that some people will attempt to evade our rules in an effort to accumulate excess points through a multitude of methods including, but not limited to, establishing multiple accounts, mimicking app activity through “scripting,” and using multiple devices simultaneously. We monitor our users to determine if any are attempting to do so and consider this fraudulent activity a violation of our published terms and conditions. We invalidate users whom we believe to violate these terms and conditions and continually make efforts to improve our systems to detect fraud and improve our defenses. Through September 30, 2014, we have invalidated 213,316 accounts for suspicious activity of a total of 7,253,743 registered accounts. Invalid clicks could result from inadvertent clicks or click fraud, where a mobile device user intentionally clicks on ads for reasons other than to access the underlying content of the ads. If fraudulent or other malicious activity is perpetrated by others, and we are unable to detect and prevent it, the affected advertisers may experience or perceive a reduced return on their investment. High levels of invalid click activity could lead to dissatisfaction with our advertising services, refusals to pay, refund demands or withdrawal of

future business. If fraudulent or other malicious activity occurs, and we are unable to detect and prevent it, we could also experience increased costs relating to awarding points as a result of these activities. Any of these occurrences could damage our brand and lead to a loss of advertisers and revenue and increased costs.

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

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others. We seek patent protection for those inventions and technologies for which we believe such protection is suitable and is likely to provide a competitive advantage to us. Because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our products that may block our use of our intellectual property or may be used in third-party products that compete with our products and processes. In the event a competitor or other party successfully challenges our products, processes, patents or licenses, or claims that we have infringed upon their intellectual property, we could incur substantial litigation costs defending against such claims, be required to pay royalties, license fees or other damages or be barred from using the intellectual property at issue, any of which could have a material adverse effect on our business, operating results and financial condition.

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

In addition, we use open source software in our services and will continue to use open source software in the future. From time to time, we may be subject to claims brought against companies that incorporate open source software into their products or services, claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. These claims could also result in litigation, require us to purchase a costly license, or require us to devote additional research and development resources to changing our products or services, any of which would have a negative effect on our business and results of operations.

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

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

against us, any or all of which could have a material adverse effect on our business and operating results.

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

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

There are many federal, state and international laws that may affect our business, including measures to regulate consumer privacy, the use of copyrighted material, the collection of certain data, network neutrality, patent protection, cyber security, child protection, subpoena and warrant processes, taxes and tax reporting (including issuing IRS 1099 forms to our users), gift cards, employee

classification, employee health care, and others. If we fail to comply with these applicable laws or regulations we could be subject to significant liabilities which could adversely affect our business.

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

Many of our potential partners are subject to industry specific laws, regulations or licensing requirements, including in the following industries: pharmaceuticals, online gaming, alcohol, adult content, tobacco, firearms, insurance, securities brokerage, real estate, sweepstakes, free trial offers, automatic renewal services and legal services. If any of our advertising partners fail to comply with any of these licensing requirements or other applicable laws or regulations, or if such laws and regulations or licensing requirements become more stringent or are otherwise expanded, our business could be adversely affected. Furthermore, these laws may also limit the way we advertise our products and services or cause us to incur compliance costs, which could affect our revenues and could further adversely impact our business.

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

Our business has substantial indebtedness

We currently have, and will likely continue to have, a substantial amount of indebtedness. Our indebtedness could, among other things, make it more difficult for us to satisfy our debt obligations, require us to use a large portion of our cash flow from operations to repay and service our debt or otherwise create liquidity problems, limit our flexibility to adjust to market conditions, place us at a competitive disadvantage and expose us to interest rate fluctuations. As of September 30, 2014, we had total debt outstanding of approximately \$15,000. We expect to obtain the money to pay our expenses and pay the principal and interest on our indebtedness from cash flow from our operations and potentially from other debt or equity offerings. Accordingly, our ability to meet our obligations depends on our future performance and capital raising activities, which will be affected by financial, business, economic and other factors, many of which are beyond our control. If our cash flow and capital resources prove inadequate to allow us to pay the principal and interest on our debt and meet our other obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations, restructure or refinance our debt, which we may be unable to do on acceptable terms, and forgo attractive business opportunities. In addition, the terms of our existing or future debt agreements may restrict us from pursuing any of these alternatives.

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

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

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

The Sarbanes-Oxley Act and new rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, we expect these new rules and regulations to increase our compliance costs in fiscal 2015 and beyond and to make certain activities more time consuming and costly. As a public company, we also expect that these new rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance in the future and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers.

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



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

ITEM 2. Unregistered Sale of Equity and Use of Proceeds (amounts in thousands, except for share information )

ISSUER PURCHASES OF EQUITY SECURITIES

The Company did not have any plan or program to purchase any equity securities during the quarter. However, the Company has described in the chart below the transactions referred to above in this Item 2.

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under Plans or Programs
July 2014	1,250	\$72.00	-	-
August 2014	1,250	\$72.00	-	-
September 2014	1,250	\$72.00	-	-

(1) Relates to shares repurchased from a former officer of the Company.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

ITEM 6. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES

Exhibits

The documents set forth below are filed herewith or incorporated herein by reference to the location indicated.

Exhibit Number	Description
3.1	Certificate of Incorporation (1)
3.2	Certificate of Designations of the Series C Convertible Preferred Stock (2)
3.3	By-Laws (3)
10.64	Securities Purchase Agreement, dated as of October 24, 2014, by and between the registrant and Sillerman Investment Company III LLC (4)
10.65	Line of Credit Promissory Note, dated as of October 24, 2014, issued by the registrant in favor of Sillerman Investment Company III LLC (5)
10.66	Form of Warrant issuable pursuant to the Securities Purchase Agreement (6)
10.67	Registration Rights Agreement, dated as of October 24, 2014, by and between the registrant and Sillerman Investment Company III LLC (7)
10.68	Fifth Amendment to Term Loan Agreement, dated as of October 24, 2014, by and between the registrant and Deutsche Bank Trust Company Americas (8)
10.69	Subordination Agreement, dated as of October 24, 2014, by and between Sillerman Investment Company III LLC and Deutsche Bank Trust Company Americas, and acknowledged by the registrant (9)
31.1	Certification of Principal Executive Officer (10)
31.2	Certification of Principal Accounting Officer (10)
32.1	Section 1350 Certification of Principal Executive Officer (10)
32.2	Section 1350 Certification of Principal Accounting Officer (10)
(1)	) Incorporated by reference to Exhibit D to the registrant's Proxy Statement on Schedule 14D filed on August 16, 1994. Amendments thereto are incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 16, 2011 and to the Registrant's Current Report on Form 8-K filed on June 7, 2012
(2)	) Incorporated by reference to Exhibit 3.1 to the registrant's Current report on Form 8-K filed on October 27, 2014
(3)	) Incorporated by reference to the registrant's Exhibit E to Proxy Statement on Schedule 14A filed on August 16, 1994
(4)	) Incorporated by reference to Exhibit 10.1 to registrant's Current report on Form 8-K filed on October 27, 2014
(5)	) Incorporated by reference to Exhibit 10.2 to registrant's Current report on Form 8-K filed on October 27, 2014
(6)	) Incorporated by reference to Exhibit 10.3 to registrant's Current report on Form 8-K filed on October 27, 2014
(7)	) Incorporated by reference to Exhibit 10.4 to registrant's Current report on Form 8-K filed on October 27, 2014
(8)	) Incorporated by reference to Exhibit 10.5 to registrant's Current report on Form 8-K filed on October 27, 2014
(9)	) Incorporated by reference to Exhibit 10.6 to registrant's Current report on Form 8-K filed on October 27, 2014
(10)	) Filed herewith

SIGNATURES

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

VIGGLE INC.

November 12, 2014

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

November 12, 2014

By: /s/ JOHN C. SMALL  
John C. Small  
Chief Financial Officer  
(Principal Accounting Officer)