

Viggle Inc.  
Form 10-Q  
November 13, 2015

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

Form 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 00-13803

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

Delaware  
(State or other jurisdiction of incorporation or  
organization)

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

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

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

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

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

Common Stock, par value \$0.001 per share

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

(Do not check if a smaller reporting company)

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

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

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

Documents Incorporated by Reference: None

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PART I

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

As used in this report:

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

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

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

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

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

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

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

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

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

ITEM 1. FINANCIAL STATEMENTS



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

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

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

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

Viggle Inc.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in thousands)

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

See accompanying notes to consolidated financial statements

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

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

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Non-Cash investing activities:

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

See accompanying notes to consolidated financial statements

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Viggle Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

### 1. Basis of Presentation and Consolidation

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

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

### Going Concern

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

### 2. Line of Business

#### The Company's Line of Business

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

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

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

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

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

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

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

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

### 3. Summary of Significant Accounting Policies

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

#### Cash and Cash Equivalents and Restricted Cash

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

#### Accounts Receivable

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

#### Concentration of Credit Risk

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

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

#### Fair Value of Financial Instruments

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

#### Property and Equipment

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

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

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

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

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

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

#### Capitalized Software

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

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

#### Deferred Rent

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

## Revenue Recognition

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

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

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

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

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

## Watchpoints and Engagement Points

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

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

## Stock-Based Compensation

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

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

#### Marketing

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

#### Income Taxes

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

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

#### Use of Estimates

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

#### Recently Issued Accounting Pronouncements

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

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

#### 4. Acquisitions

##### Acquisition of Choose Digital

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

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

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

#### Acquisition of DraftDay.com

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

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

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

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

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

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

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

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

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

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

## 5. Property and Equipment

Property and Equipment consists of the following:

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

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

## 6. Intangible Assets and Goodwill

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

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



Years ending June 30,

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

Goodwill consists of the following:

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

#### 7. Loans Payable

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

#### Line of Credit Promissory Note

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

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

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

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

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

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

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

#### Unsecured Demand Loans

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

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

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

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

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

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

#### Line of Credit Grid Note

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

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

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

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

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

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

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

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

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

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

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

#### Related Approvals

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

#### 8. Commitments and Contingencies

##### Litigation

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

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

#### 9. Stockholders' Equity

##### Common Stock

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

##### Preferred Stock

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

##### Series A Convertible Redeemable Preferred Stock

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

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

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

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

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

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

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

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

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

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

**Series B Convertible Preferred Stock**

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

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

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

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

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

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

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

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

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

#### Series C Convertible Redeemable Preferred Stock

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

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

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

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

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

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

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

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

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

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

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

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

#### Securities Purchase Agreement

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

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

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

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

#### Non-controlling Interest

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

#### 10. Share-Based Payments

## Equity Incentive Plan

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

## Restricted Stock

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

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

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

#### Stock Options

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

|                              | Number of<br>Options | Weighted<br>average<br>exercise price |
|------------------------------|----------------------|---------------------------------------|
| Outstanding at June 30, 2015 | 1,181,818            |                                       |