

Viggle Inc.  
Form 10-Q  
November 20, 2012

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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, 2012

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

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):

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Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input checked="" 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 20, 2012, there were 76,470,041 shares of the registrant's common stock outstanding.

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## Introductory Note

The filing of Viggle's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 has been delayed due to the effects of the aftermath of Hurricane Sandy. As a result of the storm, the company experienced a loss of electricity and telephone service for one week at its headquarters in New York City and a number of its employees, auditors and others living in affected areas who have been historically responsible for the preparation and review of the company's SEC filings and related financial statements and disclosures were displaced. The Securities and Exchange Commission recently announced relief measures that extend the filing deadline of any entity that cannot timely file due to Hurricane Sandy and its aftermath to November 21, 2012. The company has elected to make use of this extension.

PART I

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual 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 Annual 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 “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual 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 Annual 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.

## ITEM 1. FINANCIAL STATEMENTS

Viggle Inc.

## CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	September 30, 2012 (Unaudited)	June 30, 2012 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 738	\$ 2,963
Accounts receivable	2,022	1,424
Prepaid expenses	352	1,000
Other receivables	372	1,290
Total current assets	3,484	6,677
Restricted cash	696	696
Capitalized software costs, net	4,150	4,506
Property & equipment, net	3,166	2,861
Intellectual property, net	2,856	3,217
Goodwill	2,953	2,953
Other assets	40	40
Total assets	\$ 17,345	\$ 20,950
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable and accrued expenses	4,328	\$ 4,838
Reward points payable	4,074	3,454
Common stock warrant liability	1,524	4,626
Guarantee liability	1,574	963
Deferred revenue	420	572
Current portion of loan payable	9,000	2,500
Total current liabilities	20,920	16,953
Other long-term liabilities	1,324	1,310
Total liabilities	22,244	18,263
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, authorized 1,000,000 shares, no shares issued and outstanding	—	—
Common stock, \$0.001 par value: authorized 300,000,000 shares, issued and outstanding 76,470,041 shares as of September 30, 2012 and June 30, 2012	76	76
Additional paid-in-capital	146,935	135,019
Due from executive officer	(3,460 )	(3,426 )
Accumulated deficit	(148,450 )	(128,982 )
Total stockholders' equity (deficit)	(4,899 )	2,687
Total liabilities and stockholders' equity	\$ 17,345	\$ 20,950

See accompanying notes to consolidated financial statements



Viggle Inc.

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Revenues	\$2,052	\$—
Cost of watchpoints and engagement points	(2,228 )	—
Selling, general and administrative expense	(21,700 )	(33,930 )
Operating loss	(21,876 )	(33,930 )
Other income (expense):		
Other income, net	2,491	—
Interest income (expense), net	(83 )	40
Total other income (expense)	2,408	40
Net loss	\$(19,468 )	\$(33,890 )
Net loss per common share - basic and diluted	\$(0.25 )	\$(0.48 )
Weighted average common shares outstanding - basic and diluted	76,470,041	70,211,116

See accompanying notes to consolidated financial statements

Viggle Inc.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
(amounts in thousands)

	Common Stock	Additional Paid-In Capital	Due from Executive Officer	Accumulated Deficit	Total
Balance June 30, 2011	67	39,779	(3,291 )	(32,471 )	4,084
Net loss	—	—	—	(96,511 )	(96,511 )
Private placements of common stock and warrants for cash	9	37,523	—	—	37,532
Compensation charge for fair value of common stock and warrants issued in connection with private placement	—	21,572	—	—	21,572
Interest income on notes receivable from shareholders	—	(5 )	—	—	(5 )
Interest income on notes receivable from Executive Officer	—	—	(135 )	—	(135 )
Employee stock options - share based compensation	—	5,916	—	—	5,916
Restricted stock based compensation	—	26,576	—	—	26,576
Stock issued for WatchPoints acquisition	—	1,600	—	—	1,600
Stock issued for Loyalize	—	1,719	—	—	1,719
Capital contribution related to corporate jet	—	336	—	—	336
Notes receivable from stockholders	—	3	—	—	3
Balance June 30, 2012	\$76	\$135,019	\$(3,426 )	\$ (128,982 )	\$2,687
Net loss	—	—	—	(19,468 )	(19,468 )
Interest income on notes receivable from shareholders	—	—	(34 )	—	(34 )
Employee stock options - share based compensation	—	6,221	—	—	6,221
Restricted stock - share based compensation	—	5,618	—	—	5,618
Notes receivable from shareholders	—	77	—	—	77
Balance September 30, 2012	\$76	\$146,935	\$(3,460 )	\$ (148,450 )	\$(4,899 )

See accompanying notes to consolidated financial statements



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

	Three months ended September 30, 2012	Three months ended September 30, 2011
Operating activities:		
Net loss	\$(19,468 )	\$(33,890 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Restricted stock based compensation	5,618	8,378
Employee stock options - share based compensation	6,221	1,930
Common stock and warrants issued in connection with Private Placements - share based compensation	—	19,456
Depreciation and amortization	933	97
Increase in fair value of Loyalize guarantee	611	
Decrease in fair value of common stock warrants	(3,102 )	—
Interest income on notes receivable from shareholder and officer	(34 )	(35 )
Changes in operating assets and liabilities:		
Accounts receivable	(598 )	—
Other receivables	918	(38 )
Prepaid expenses	648	(87 )
Accounts payable and accrued expenses	(510 )	515
Points liability	620	—
Deferred revenue	(151 )	—
Other liabilities	14	47
Net cash used in operating activities	(8,280 )	(3,627 )
Investing activities:		
Purchase of property and equipment	(453 )	(105 )
WatchPoints acquisition	—	(2,620 )
Capitalized software costs	(69 )	(744 )
Net cash used in investing activities	(522 )	(3,469 )
Financing activities:		
Issuance of common stock and warrants for cash	—	33,413
Payments on loan	—	(12 )
Loan from executive officer	6,500	—
Notes receivable shareholders	77	—
Net cash provided by financing activities	6,577	33,401
Net increase (decrease) in cash	(2,225 )	26,305
Cash at beginning of period	2,963	3,794
Cash at end of period	\$738	\$30,099

Supplemental cash flow information:

Cash paid during the year for interest	14
Non-cash financing activities:	
Stock issued for WatchPoints acquisition	1,600
Capital related to corporate jet	336

See accompanying notes to consolidated financial statements

Viggle Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(amounts in thousands, except share and per share data)  
(Unaudited)

1. Basis of Presentation

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.

On February 16, 2011 the Company effectuated a 1 for 10 reverse split of its issued and outstanding common stock (the “1 for 10 Reverse Split”). Under the terms of the 1 for 10 Reverse Split, each share of common stock, issued and outstanding as of such effective date, was automatically reclassified and changed into one-tenth of one share of common stock, without any action by the stockholder. Fractional shares were rounded up to the nearest whole share. On June 7, 2012, the Company effectuated a 1 for 2 reverse split (the “1 for 2 Reverse Split”). Under the terms of the 1 for 2 Reverse Split, each share of common stock, issued and outstanding as of such effective date, was automatically reclassified and changed into one-half of one share of common stock, without any action by the stockholder. Fractional shares were rounded up to the nearest whole share. All share and per share amounts have been restated to reflect both the 1 for 10 and the 1 for 2 reverse splits.

Going Concern

These financial statements have been prepared on a going concern basis. The financial statements as of June 30, 2012 and the auditor's opinion on those financial statements contained a going concern emphasis, which implies that there is substantial doubt about 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 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, the ability of the Company to obtain necessary equity or debt financing to continue development of its new 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 new business will be successful. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Basis of Consolidation

The consolidated financial statements include the accounts of Viggle Inc., and our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

2. Organization and Background

Formation and Former Business

The Company was incorporated in Delaware in July 1994 and had no operating business or full-time employees from December 1996 to 2000, when it acquired all of the outstanding Common Stock of Oaktree Systems, Inc. (“Oaktree”). Through Oaktree, the Company provided cost effective marketing solutions to organizations needing sophisticated information management tools. In December 2007, Marketing Data, Inc. acquired an 80% interest in Oaktree for \$1 and the Company’s ownership interest in Oaktree was reduced to 20% of Oaktree’s outstanding Common Stock. On October 24, 2010, Oaktree repurchased the Company’s remaining 20% interest in Oaktree for \$0.10. As a result, Marketing Data, Inc. owned 100% of the outstanding Common Stock of Oaktree. After the

disposition of the Company's interest in Oaktree and prior to the Recapitalization, the Company was not active and had no operating business. After the disposition of the Oaktree interest, the Company began to explore the redeployment of its existing assets by identifying and merging with or investing in one or more operating businesses. The Board of Directors approved the Recapitalization effecting such change.

## The Recapitalization

On February 7, 2011, Viggle Inc. (formerly Function(x) Inc., Function (X) Inc., and Gateway Industries, Inc., the "Company") entered into the Agreement and Plan of Recapitalization (the "Recapitalization Agreement"), by and among the Company, Sillerman Investment Company LLC, a Delaware limited liability company ("Sillerman"), and EMH Howard LLC, a New York limited liability company ("EMH Howard").

Pursuant to the Recapitalization Agreement, Sillerman, together with other investors approved by Sillerman, invested in the Company by acquiring 60,000,000 newly issued shares of common stock of the Company in a private placement transaction at a price of \$0.06 per share, as a result of which Sillerman and the other investors acquired approximately 99% of the outstanding shares of common stock, with Sillerman (together with Robert F.X. Sillerman personally) directly or indirectly beneficially owning more than a majority of the outstanding shares of common stock. Upon consummation, the proceeds of the private placement of \$3,600 (\$220 in cash and \$3,380 in five-year promissory notes with interest accruing at the annual rate equal to the long-term Applicable Federal Rate in effect as of the date of the Recapitalization Agreement, which was 4.15% per annum) were received.

On February 16, 2011, immediately after the Recapitalization was consummated, the Company issued 6,616,299 shares of common stock to an institutional investor (for \$10,000) at a price of approximately \$1.52 per share, and 470,000 shares of common stock to an accredited investor (for \$500) at a price of approximately \$1.06 per share. The shares of common stock issued in such placements were exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to an exemption from registration for transactions not involving a public offering under Section 4(2) of the Securities Act, and the safe harbors for sales under Section 4(2) provided by Regulation D promulgated pursuant to the Securities Act. Transfer of the shares was restricted by the Company in accordance with the requirements of the Securities Act.

On February 16, 2011, the Company issued a five year warrant for 50,000 shares with an exercise price of \$1.60 per share to Berenson Investments LLC. Berenson & Company, LLC, an affiliate of Berenson Investments LLC, was the financial advisor to Sillerman in connection with the Recapitalization. On May 9, 2011, Berenson Investments LLC exercised the warrant and paid \$80 for 50,000 shares of the Company's common stock.

As part of the Recapitalization, the Company issued 125,000 shares to J. Howard, Inc., an entity affiliated with Jack L. Howard, a director and officer of the Company prior to the Recapitalization, and its designees (which included former directors of the Company) in connection with partially extinguishing outstanding debt of \$171 owed to J. Howard, Inc. The fair market value of the shares at issuance was \$0.06 per share. The remaining debt of \$163 was satisfied on February 15, 2011 by payment to J. Howard, Inc. in such amount. In addition, J. Howard, Inc. was paid \$37 to be used for payment of expenses incurred in connection with the Recapitalization on behalf of the Company.

The newly recapitalized company changed its name to Function (X) Inc. effective as of the date of the Recapitalization and changed its name to Function(x) Inc. on June 22, 2011 and changed its name to Viggle Inc. on May 29, 2012. The Company has five wholly-owned subsidiaries, Function(x) Inc., Project Oda, Inc., Sports Hero Inc., Loyalize Inc. and Viggle Media Inc., each a Delaware corporation.

## The Company's New Line of Business

Our business is built on a simple concept: Watch TV. Earn Rewards. The business, which operates under the name 'Viggle', is a loyalty program that rewards our users for watching television. Users receive points for checking in to and interacting with their favorite TV shows and can then redeem these points for real items such as movie tickets, music and gift cards. We generate revenue through advertising and the sale of merchandise related to the TV shows and other entertainment viewed by users that would appear in users' mobile devices through the use of the

application. We currently do not have any agreements in place with advertisers or vendors whereby the advertisers or vendors issue rewards to our users when the users redeem their points. We have purchased and will continue to purchase gift cards from vendors that we will issue to users upon the redemption of their points. The Company has only generated minimal revenue to date, and there is no guarantee that we will be able to generate sufficient revenue in the future to continue to purchase gift cards from vendors.

### 3. Summary of Significant Accounting Policies

#### Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid securities purchased with remaining 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 deposits that were required as collateral under the lease of office space.

#### Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts. The Company's allowance for doubtful accounts will be 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 will also consider 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. Due to the limited number of accounts receivable and the historical pattern of collections the Company's allowance for doubtful accounts as of September 30, 2012 is \$0.

#### 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, 2012 and 2011 were not significant.

#### Deferred Rent Payable

The Company is party to lease for office space for its corporate offices and as part the agreement the landlord provided a rent abatement for the first 10 months of the lease. The Company accounts for the rental expense on a straight line basis over the entire term of the lease and records a liability for the difference between payments and the expense recorded in selling general and administrative expense.

#### Revenue Recognition

**Advertising Revenue:** We generate 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 (CPE) basis. Advertising campaigns typically range from one to 12 months, and advertisers generally pay us based on a minimum of delivered impressions or the satisfaction of other criteria, such as click-throughs.

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.

Deferred Revenue: Our 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.



### 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.

Users earn points for various activities and the Company reports points earned for checking into shows and points earned for engaging in advertiser sponsored content as a separate line in its statement 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.

### 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.

### Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, receivables, accounts payable, and other current liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying value of the Company's debt approximates fair value due to its short-term maturity.

### Property and Equipment

Property and equipment (consisting 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 that the depreciation method and period are consistent with the anticipated pattern of future economic benefits. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains and losses on disposals are included in the results of operations. Equipment, software, furniture and fixtures are being depreciated over a useful life of three years, leasehold improvements are depreciated over a useful life of 10 years consistent with the life of the underlying lease.

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

As required by ASC 350, Goodwill and Other Intangible Assets, the Company tests goodwill for impairment. 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 annual goodwill impairment test is a two step process. First, the Company determines if the carrying value of its related 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.

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 was no impairment to the Company's long-lived assets as of September 30, 2012.

#### Internal Use Software

The Company recorded \$2,350 of capitalized software as part of the Loyalize acquisition as of September 30, 2012 and June 30, 2012. The Company records amortization of the software on a straight-line basis over the estimated useful life of the software. Once revenue producing activities commenced in the third quarter of 2012, the software was placed in service and \$196 amortization expense has been recorded for the three months ended September 30, 2012. No amortization expense was recorded in the comparable period in 2011.

The Company records and capitalizes computer software and, appropriately, certain internal costs have been capitalized in the amounts of \$2,816 and \$2,747 as of September 30, 2012 and June 30, 2012, respectively, in accordance with ASC 350-40. The Company records amortization of the software on a straight-line basis over the estimated useful life of the software. Once revenue producing activities commenced in the third quarter of 2012 the software was placed in service and \$229 of amortization expense has been recorded for the three months ended September 30, 2012. No amortization expense was recorded in the comparable period in 2011.

#### Marketing

Marketing costs are expensed as incurred. Marketing expense for the Company for the three months ended September 30, 2012 and 2011 was \$1,674 and \$903, respectively.

#### 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.

#### 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.

#### Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08 Intangibles - Goodwill and Other: Testing Goodwill for Impairment. This ASU amends FASB Codification Topic 350 to provide an option for an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether to

perform the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements.

In May 2011, the Financial Accounting Standards Board (FASB) released ASU 2011-04 "Fair Value Measurement", which amends ASC 820 "Fair Value Measurements and Disclosures". This standard became effective beginning in the first calendar quarter of 2012. The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements.

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, Comprehensive Income: Presentation of Comprehensive Income. The ASU amends FASB Codification Topic 220, Comprehensive Income, to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2011, and early adoption is permitted. The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements as there was no comprehensive income /(loss).

## 4. Property and Equipment

Property and Equipment consists of the following:

	September 30, 2012	June 30, 2012
Leasehold Improvements	\$2,020	\$1,839
Furniture and Fixtures	542	441
Computer Equipment	955	785
Software	95	95
Total	3,612	3,160
Accumulated Depreciation and Amortization	(446 )	(299 )
Property and Equipment, net	\$3,166	\$2,861

Depreciation and amortization charges to selling, general and administrative expenses for the three months ended September 30, 2012 and 2011 amounted to \$147 and \$97, respectively.

## 5. Intellectual Property

Description	Amortization Period	September 30, 2012			June 30, 2012		
		Amount	Accumulated Amortization	Carrying Value	Amount	Accumulated Amortization	Carrying Value
Intellectual Property	36 months	\$ 4,209	\$ (1,403 )	\$ 2,806	\$ 4,209	\$ (1,052 )	\$ 3,157
Intellectual Property	24 months	80	(30 )	50	80	(20 )	60
Total		\$ 4,289	\$ (1,433 )	\$ 2,856	\$ 4,289	\$ (1,072 )	\$ 3,217

Amortization of intellectual property charges to selling, general and administrative expenses for the three months ended September 30, 2012 and 2011 amounted to \$361 and \$0, respectively. Future annual amortization expense expected is as follows:

Years Ending June 30,	
2013	\$1,443
2014	1,423
2015	351
2016	—
2017	—

## 6. Loans Payable

On June 29, 2012, Sillerman Investment Company LLC (the "Lender"), an affiliate of Robert F.X. Sillerman, the Executive Chairman and Chief Executive Officer of the Company, agreed to provide the Company a \$10,000 line of credit grid promissory note, dated as of June 29, 2012, that was executed and delivered by the Company in favor of the Lender (the "Grid Note") on July 6, 2012. Under the Grid Note, the Company may periodically draw on the line of credit in amounts of no less than \$100, and interest will accrue on all unpaid principal amounts at a simple interest rate equal to 9% per annum. The Company is not permitted to make draws more than once per month. The Grid Note matures on the earlier to occur of (i) June 29, 2013 or (ii) upon the receipt of net proceeds by the Company or any of its wholly-owned subsidiaries from one or more debt or equity offerings by the Company or any of its wholly-owned subsidiaries in an amount equal to at least the amount of principal and accrued and unpaid interest outstanding under the Grid Note. At maturity, the Company must pay to the Lender all principal amounts then outstanding, plus accrued and unpaid interest thereon. All net proceeds received by the Company or any of its wholly owned subsidiaries from any debt or equity offering by the Company or any of its wholly-owned subsidiaries must first be applied toward the payment in full of all outstanding principal and accrued but unpaid interest outstanding under the Grid Note. The Company may make prepayments in whole or in part under the Grid Note at any time, provided accrued, but unpaid interest is paid through the prepayment date.

The Company intends to use the proceeds from the Grid Note to fund working capital requirements and for general corporate purposes. Because the Lender is an affiliate of the Company's Executive Chairman and Chief Executive Officer, a majority of the Company's independent directors approved the Grid Note.

As of September 30, 2012 and June 30, 2012 the Company had drawn \$9,000 and \$2,500, respectively on the Grid Note. The interest expense on the Grid Note payable for the three months ended September 30, 2012 and 2011 was \$118 and \$0, respectively.

## 7. Commitments and Contingencies

In connection with the purchase from Trusted Opinion Inc. of the Loyalize assets, the Company is also obligated to fund as a purchase price adjustment the difference, if any, by which \$1,839 exceeds the calculated value (computed based on the average closing price of its common shares during the 20 days prior to December 31, 2012) of the 137,519 shares on December 31, 2012, either in cash or in common shares of the Company, at Buyer's election, provided that such additional consideration shall not be payable until claims which remain subject to determination and secured by all the Escrowed Shares are no longer outstanding and the additional consideration shall be eliminated to the extent final claims exceed the value of the shares then remaining in escrow. The guarantee was recorded at \$120 at the time of the acquisition and subsequently has been marked to market to a fair value of \$1,574 at September 30, 2012. The Company has recorded a charge of \$611 which is reflected in other expense in the Consolidated Statement of Operations for the three months ended September 30, 2012. The Company has recorded a \$1,574 liability for the guarantee in the Consolidated Balance Sheet as of September 30, 2012.

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.

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.

## 8. Stockholders' Equity

As of September 30, 2012 and June 30, 2012, there were 300,000,000 shares of authorized common stock and 76,470,041 shares of common stock issued and outstanding. Except as otherwise provided by Delaware law, the holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders.

The Company's Board of Directors is authorized to issue 1,000,000 shares of preferred stock, par value \$0.001 per share. We may issue shares of preferred stock in one or more series as may be determined by our Board of Directors, who may establish the designation and number of shares of any series, and may determine, alter or revoke the rights, preferences, privileges and restrictions pertaining to any wholly unissued series (but not below the number of shares of that series then outstanding).

## 9. 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 30,000,000 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, 2012 the Compensation Committee of the Company'