Function(x) Inc.
Form 10-Q
February 14, 2017

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

Form 10-Q

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

For the quarterly period ended December 31, 2016

OR

o 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

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

| | |
|---|---|
| Delaware | 33-0637631 |
| (State or other jurisdiction of incorporation or organization) | (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 o No x

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 o No x

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 þ No o

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 o No x

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 | o | Accelerated filer | o |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | o | Smaller reporting company | þ |

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on December 31, 2016, based on the closing price of such stock on the NASDAQ stock market on such date, was $2,734,425.

As of February 10, 2017, there were 3,280,280 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-l 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:

- "Function(x)" refers to Function(x) Inc., a Delaware corporation formerly known as DraftDay Fantasy Sports Inc. and Viggle Inc. (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 Function(x) 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
- "SIC VI" refers to Sillerman Investment Company VI, LLC, a company affiliated with Mr. Sillerman

ITEM 1. FINANCIAL STATEMENTS

Function(x) Inc.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

| | December 31, 2016 (Unaudited) | June 30, 2016 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 122 | $537 |
| Marketable securities | — | 2,495 |
| Accounts receivable (net of allowance for doubtful accounts of $20 at December 31, 2016 and June 30, 2016) | 742 | 307 |
| Prepaid expenses | 72 | 226 |
| Other receivables | 50 | 114 |
| Other current assets | 179 | 110 |
| Current assets of discontinued operations | 20 | 39 |
| Total current assets | 1,185 | 3,828 |
| Restricted cash | 498 | 440 |
| Property & equipment, net | 1,260 | 1,414 |
| Intangible assets, net | 9,573 | 5,339 |
| Goodwill | 18,859 | 11,270 |
| Other assets | 432 | 748 |
| Total assets | $ 31,807 | $23,039 |
| | | |
| Liabilities, convertible redeemable preferred stock and stockholders' equity/(deficit) | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 8,901 | $11,625 |
| Deferred revenue | 682 | 637 |
| Current portion of loans payable and conversion feature, net | 10,794 | 8,996 |
| Current liabilities of discontinued operations | 2,703 | 2,851 |
| Total current liabilities | 23,080 | 24,109 |
| Loans payable, less current portion | — | 19,716 |
| Deferred revenue | 3,446 | 3,429 |
| Deferred tax liability | 102 | — |
| Common stock warrant liability | 420 | 10 |
| Other long-term liabilities | 901 | 951 |
| Total liabilities | 27,949 | 48,215 |
| | | |
| Series A Convertible Redeemable Preferred Stock, $1,000 stated value, authorized 100,000 shares, issued and outstanding -0- shares as of December 31, 2016 and June 30, 2016 | — | — |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity/(deficit): | | |
| Series B Convertible Preferred Stock, $1,000 stated value, authorized 50,000 shares, issued and outstanding -0- shares as of December 31, 2016 and June 30, 2016 | — | — |
| Series C Convertible Redeemable Preferred Stock, $1,000 stated value, authorized 100,000 shares, issued and outstanding of 33,175 and 3,000 shares as of December 31, 2016 and June 30, | 34,907 | 4,940 |

| | | |
|---|---|---|
| 2016, respectively | | |
| Series D Preferred Stock, $1,000 stated value, authorized 150 shares, issued and outstanding -0- shares as of December 31, 2016 and June 30, 2016 | — | — |
| Series E Convertible Preferred Stock, $1,000 stated value, authorized 10,000 shares, issued and outstanding 4,435 and -0- shares as of December 31, 2016 and June 30, 2016, respectively | 7,600 | — |
| Common stock, $0.001 par value: authorized 300,000,000 shares, issued and outstanding 3,244,275 and 3,023,753 shares as of December 31, 2016 and June 30, 2016, respectively | 3 | 3 |

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Function(x) Inc.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

| | December 31, 2016 (Unaudited) | June 30, 2016 |
|---|---|---|
| Additional paid-in-capital | 411,075 | 409,765 |
| Treasury stock, 10,758 shares at December 31, 2016 and June 30, 2016 | (11,916 ) | (11,916 ) |
| Accumulated deficit | (438,280 ) | (428,380) |
| Accumulated other comprehensive income | — | (361 ) |
| Non-controlling interest | 469 | 773 |
| Total stockholders' equity/(deficit) | 3,858 | (25,176 ) |
| Total liabilities and stockholders' equity/(deficit) | $ 31,807 | $23,039 |

See accompanying Notes to Consolidated Financial Statements

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

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $1,215 | $1,782 | $1,875 | $3,255 |
| Selling, general and administrative expenses | (3,574) | (10,025) | (7,614) | (19,409) |
| Impairment loss (see Note 3) | — | (30,402) | — | (30,402) |
| Operating loss | (2,359) | (38,645) | (5,739) | (46,556) |
| Other expense: | | | | |
| Other (expense)/income, net | 2,161 | 1 | (326) | 3 |
| Interest expense, net | (2,471) | (926) | (4,121) | (1,783) |
| Total other expense | (310) | (925) | (4,447) | (1,780) |
| Net loss before provision for income taxes | (2,669) | (39,570) | (10,186) | (48,336) |
| Income tax expense | (102) | — | (102) | — |
| Net loss from continuing operations | $(2,771) | $(39,570) | $(10,288) | $(48,336) |
| Net loss from discontinued operations | — | (5,124) | (36) | (9,773) |
| Net loss | (2,771) | (44,694) | (10,324) | (58,109) |
| Accretion of Convertible Redeemable Preferred Stock | 22 | 74 | 44 | 148 |
| Undeclared Series C Convertible Redeemable Preferred Stock Dividend | (1,017) | (306) | (1,511) | (613) |
| Add: Net loss attributable to non-controlling interest | 141 | 522 | 424 | 689 |
| Net loss attributable to Function(x) Inc. common stockholders | $(3,625) | $(44,404) | $(11,367) | $(57,885) |
| Net loss per common share - basic and diluted: | | | | |
| Continuing operations | $(1.13) | $(28.25) | $(3.64) | $(37.21) |
| Discontinued operations | $— | $(3.69) | $(0.01) | $(7.56) |
| Net loss per share attributable to Function(x) Inc. common stockholders - basic and diluted | $(1.13) | $(31.94) | $(3.65) | $(44.77) |
| Weighted average common shares outstanding - basic and diluted | 3,196,136 | 1,390,204 | 3,113,010 | 1,292,838 |

See accompanying Notes to Consolidated Financial Statements

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Function(x) Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(amounts in thousands)
(Unaudited)

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | $(2,771) | $(44,694) | $(10,324) | $(58,109) |
| Other comprehensive income, net of tax: | | | | |
| Unrealized loss on available for sale securities | — | — | (289) | — |
| Reclass of available for sale securities to Consolidated Statements of Operations | — | — | 650 | — |
| Other comprehensive income | — | — | 361 | — |
| Comprehensive loss | $(2,771) | $(44,694) | $(9,963) | $(58,109) |

See accompanying Notes to Consolidated Financial Statements

Function(x) Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY/(DEFICIT)
(amounts in thousands)
(Unaudited)

| | Common Stock | Series C Preferred Stock | Series E Preferred Stock | Additional Paid-In Capital | Treasury Stock | Accumulated Other Comprehensive Loss | Accumulated Deficit | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance at June 30, 2016 | $ 3 | $4,940 | $ — | $409,765 | $(11,916) | $ (361) | $(428,380) | $ 773 | $(25,176) |
| Net loss | | | | | | | (9,900) | (424) | (10,324) |
| Unrealized loss on marketable securities | | | | | | (289) | | | (289) |
| Sale of Perk shares | | | | | | 650 | | | 650 |
| Conversion of debt to common stock | | | | 885 | | | | | 885 |
| Termination of Sportech MSA | | | | | | | | 120 | 120 |
| Write-off of Shareholder notes | | | | 56 | | | | | 56 |
| Issuance of Series C shares | | 28,500 | | 1,675 | | | | | 30,175 |
| Issuance of Series E shares | | | 7,600 | | | | | | 7,600 |
| Accretion of Series C Convertible Redeemable Preferred Stock | | (44) | | 44 | | | | | — |
| Undeclared Series C Preferred Stock Dividend | | 1,511 | | (1,511) | | | | | — |
| Restricted stock - share based compensation | | | | 133 | | | | | 133 |
| Employee stock options - share based compensation | | | | 28 | | | | | 28 |
| Balance December 31, 2016 (unaudited) | $ 3 | $34,907 | $ 7,600 | $411,075 | $(11,916) | $ — | $(438,280) | $ 469 | $3,858 |

See accompanying Notes to Consolidated Financial Statements

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

| | Six months ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Operating activities: | | |
| Net loss | $(10,324) | $(58,109) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Restricted stock - share based compensation | 133 | 9,981 |
| Employee stock options - share based compensation | 28 | 346 |
| Accretion of debt issuance costs and discount | 1,866 | 100 |
| Loss on sale of Perk shares and warrants | 2,195 | — |
| Impairment loss | — | 30,402 |
| Depreciation and amortization | 1,420 | 2,435 |
| Deferred income taxes | 102 | — |
| Change in fair value of conversion features and warrants | (1,790) | — |
| Gain on settlement of debt | (315) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (435) | 2,036 |
| Other receivables | 64 | 621 |
| Restricted cash | (58) | 255 |
| Prepaid expenses | 154 | 596 |
| Other assets | 246 | (5) |
| Deferred revenue | 62 | (283) |
| Accounts payable and accrued expenses | 72 | 6,406 |
| Reward points liability | — | 140 |
| Other liabilities | (50) | (59) |
| Other | — | 94 |
| Net cash used in operating activities | (6,630) | (5,044) |
| | | |
| Investing activities: | | |
| Acquisitions, net of cash acquired | — | 535 |
| Sale of Perk shares and warrants | 1,300 | — |
| Net cash provided by investing activities | 1,300 | 535 |
| | | |
| Financing activities: | | |
| Proceeds from loans | 6,880 | 7,100 |
| Repayments on loans | (1,545) | (3,000) |
| Debt issuance costs | (420) | — |
| Payments related to contingent consideration | — | (3,076) |
| Net cash provided by financing activities | 4,915 | 1,024 |
| | | |
| Net decrease in cash | (415) | (3,485) |
| Cash at beginning of period | 537 | 4,217 |
| Cash at end of period | $122 | $732 |

Supplemental cash flow information:

| | | |
|---|---|---|
| Cash paid during the period for interest | $30 | $— |

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See accompanying Notes to Consolidated Financial Statements

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

| | Six months ended December 31, 2016 | | 2015 | |
|---|---|---|---|---|
| Non-Cash investing and financing activities: | | | | |
| Series C conversion with SIC III, SIC IV, and SIC VI notes | $ | 30,175 | $ | — |
| Series E issuance in connection with the Rant acquisition (Note 6) | 7,600 | | — | |
| Rant Note issuance in connection with the Rant acquisition (Note 6) | 3,500 | | — | |
| Rant assumed liabilities | 1,990 | | — | |
| Warrants issued in connection with Debentures | 1,500 | | — | |
| Common stock and warrants issued for DraftDay acquisition | — | | 1,757 | |
| Common stock and warrants issued for management service contracts | — | | 3,475 | |
| Loans converted to common stock | 885 | | 4,112 | |

See accompanying Notes to Consolidated Financial Statements

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Function(x) Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Consolidation

Overview

On January 27, 2016, Function(x) Inc. ("Company", "Function(x)" and "we") changed its name from Viggle Inc. to DraftDay Fantasy Sports, Inc. ("DraftDay"), and changed its ticker symbol from VGGL to DDAY. On June 10, 2016, the Company changed its name from DraftDay Fantasy Sports, Inc. to Function(x) Inc., and changed its ticker symbol from DDAY to FNCX. It now conducts business under the name Function(x) Inc.

The Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries, and DraftDay Gaming Group, Inc. ("DDGG"). The Company has nine wholly-owned subsidiaries, Function(x) Inc., Project Oda, Inc., Sports Hero Inc., Loyalize Inc., Viggle Media Inc., VX Acquisition Corp., Nextguide Inc., Wetpaint.com, Inc. ("Wetpaint"), and Choose Digital, Inc. ("Choose Digital"), each a Delaware corporation. DraftDay owns approximately 60% of the issued and outstanding common stock of DDGG, and also appoints a majority of the members of its Board of Directors.

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” or "DraftDay.com") from MGT Capital and MGT Sports.

In December 2015, as a result of the sale of certain assets to Perk and acquisition of the DraftDay Business, we reorganized the organizational management and oversight of the Company into three segments (see Note 4, Segments). Accordingly, prior period financial information has been recast to confirm to the current period presentation. These changes impacted Note 4: Segments and Note 3: Summary of Significant Accounting Policies, with no impact on consolidated net loss or cash flows in any period.

On February 8, 2016, the Company completed the sale of assets related to the Company’s rewards business, including the Viggle App, in accordance with the Asset Purchase Agreement (the "Perk Agreement") with Perk.com, Inc. ("Perk") entered into on December 13, 2015. Management entered into this binding sales agreement following a strategic decision to divest the operations related to the Viggle App and place greater focus on its remaining businesses. The assets, liabilities and operations related to Loyalize Inc., and Nextguide Inc. (as well as the portion of the assets relating to our discontinued rewards business within the Company) have been classified as discontinued operations on the accompanying consolidated financial statements for all periods presented. In accordance with Accounting Standards Codification ("ASC") No. 205, Presentation of Financial Statements, the inter-segment revenues and expenses related to services provided by Choose Digital to the Viggle rewards business (discontinued operations) are presented at cost in the Consolidated Statements of Operations.

On July 12, 2016, the Company and RACX Inc., a Delaware corporation and wholly-owned subsidiary of the Company (“RACX”), completed an acquisition pursuant to an Asset Purchase Agreement (the “Asset Purchase Agreement”) with Rant, Inc., a Delaware corporation, pursuant to which RACX has acquired the assets of Rant (the “Asset Purchase”) used in the operation of Rant’s Rant.com independent media network and related businesses (the “Rant Assets”). The Company acquired assets of Rant for approximately $1,990,000 in assumed liabilities, a $3,000,000 note, and 4,435 shares of Series E Convertible Preferred stock which, upon satisfaction of certain conditions including shareholder approval, will be convertible into shares of our common stock equal to 22% of the fully diluted shares outstanding, in a move to become a market leader in social publishing.

On September 16, 2016, the Company amended its Certificate of Incorporation to effect a reverse stock split of all issued and outstanding shares of common stock at a ratio of 1 for 20 (the "Reverse Stock Split"). Owners of fractional shares outstanding after the Reverse Stock Split will be paid cash for such fractional interests. The effective date of the Reverse Stock Split is September 16, 2016. All common stock share amounts disclosed in these financial statements have been adjusted to reflect the Reverse Stock Split.

Going Concern

These financial statements have been prepared on a going concern basis which assumes the Company's ability to continue to realize its assets and discharge its liabilities in the normal course of business. The Company is unlikely to generate significant revenue



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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. Lines of Business

The Company conducts business through three operating segments: Wetpaint, Choose Digital, and DDGG. These operating segments are described below.
Through Wetpaint, the Company reports original news stories and publishes information content covering top television shows, music, celebrities, entertainment news and fashion. Wetpaint publishes more than 55 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.

To enhance our digital publishing business, the Company recently acquired assets of Rant Inc. ("Rant'), a leading digital publisher that publishes original content in 13 different verticals, most notably in sports, entertainment, pets, cars, and food. The combined Wetpaint and Rant properties currently have approximately 13.1 million fans on their Facebook pages and generate an average of 16.2 million visits per month.
Over the six months ended December 31, 2016, the Company focused its efforts on growing Wetpaint user engagement and monetization. The Company anticipates applying the same focus and methodology in the near future to the Rant sites to continue to grow and strengthen its publishing business.

Choose Digital is a white-label digital marketplace featuring a recent and wide range of digital content, including music, movies, TV shows, eBooks and audiobooks. The content is sourced from the world’s leading record companies and book publishers and an aggregator of movie and TV content. Choose Digital generates revenues when participants in Choose Digital's clients' loyalty programs redeem loyalty credits for digital content provided by Choose Digital. For example, if a participant in a loyalty program redeems credits for a song download provided by Choose Digital, the client loyalty program pays Choose Digital for the download.

The Company's wholly owned subsidiary, DDGG, 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 6, Acquisitions, for further details on this acquisition.

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 six months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the year ending June 30, 2017.

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.

Marketable Securities

In February 2016, the Company received 1,370,000 shares of Perk's stock, which is publicly traded on the Toronto Stock Exchange, as part of the consideration in the sale of assets described in the Perk Agreement. These securities are short-term marketable securities, and have been classified as “available-for-sale” securities. Pursuant to Accounting Standards Codification ("ASC") 320-10, “Investments - Debt and Equity Securities” the Company's marketable securities are marked to market on a quarterly basis, with unrealized gains and losses recorded in equity as Other Comprehensive Income/Loss. On September 30, 2016, the Company sold to Perk the remaining shares (1,013,068) of Perk common stock, the warrants for additional shares, and the right to the Earn-Out Shares received from Perk on the sale of the Viggle rewards business on February 8, 2016. The Company received $1,300,000 from Perk as consideration therefor. The execution of the Securities Purchase Agreement and closing were simultaneous. In connection with the sale of the Perk shares, the warrants for additional shares and the right to the Earn-Out Shares, the Company recorded a loss of $2,195,000 in the Other Expense line item of the Consolidated Statements of Operations for the six months ended December 31, 2016.

Accounts Receivable

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Accounts receivable are recorded net of an allowance for doubtful accounts. The Company's allowance for doubtful accounts is based upon historical loss patterns, the number of days that the billings are past due and an evaluation of the potential risk associated with delinquent accounts. The Company also considers any changes to the financial condition of its customers and any other external market factors that could impact the collectability of its receivables in the determination of its allowance for doubtful accounts. The Company's allowance for doubtful accounts as of December 31, 2016 and June 30, 2016 was approximately $20,000.

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 December 31, 2016 and December 31, 2015 were $0.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount of Perk marketable securities held is marked-to-market on a quarterly basis using the closing day share price of the last business day of the quarter. The changes to fair value are recorded in Other Comprehensive Income/Loss.  The carrying amount of Perk warrants held is marked-to-market on a quarterly basis using the Monte Carlo valuation model. The changes to fair value are recorded in the Consolidated Statement of Operations. 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.

The carrying amounts of the Debenture Conversion feature, Rant Note Conversion feature and warrants is marked-to-market on a quarterly basis using a Monte Carlo simulation. The changes to fair value are recorded as other (expense)/income in the Consolidated Statement of Operations

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 that 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.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting. The Company allocates the purchase price of acquired companies to the identifiable assets acquired, liabilities assumed and any non-controlling interest based on their acquisition date estimated fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed.  Any contingent consideration to be transferred to the acquiree is recognized at fair value at the acquisition date.

Determining the fair value of assets acquired and liabilities assumed requires the Company to make significant estimates and assumptions, including assumptions related to future cash flows, discount rates, asset lives and the probability of future cash pay-outs related to contingent consideration. The estimates of fair value are based upon assumptions believed to be reasonable by management, but are inherently uncertain and unpredictable and, therefore, actual results may differ from estimates. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Consolidated Statements of Operations.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's reporting units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.Where goodwill has been allocated to a reporting unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative fair values of the disposed operation and the portion of the reporting units retained.

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. As noted above, the Company has three reporting units. 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.

Historically, the Company had one reporting unit. However, in connection with the sale of a significant portion of the Company's assets (see Note 1, Basis of Presentation and Consolidation), the remaining operations were divided into three reporting units (see Note 4, Segments). The Company engaged a third-party valuation firm to test the Choose Digital and Wetpaint reporting units for goodwill impairment. The DDGG reporting unit was not tested for impairment at December 31, 2015 as the acquisition of this entity occurred in September 2015. The Company determined that the fair value of both of the Wetpaint and Choose Digital reporting units were significantly below their respective carrying values, indicating that goodwill related to these reporting units may be impaired. The Company determined the fair value of all long-lived assets other than goodwill related to each reporting unit and calculated the residual goodwill value for each. Upon comparing the residual goodwill values to the respective carrying values, the Company determined that there was an impairment loss on both the Choose Digital and Wetpaint reporting units.

The Company recorded an impairment loss of $4,335,000 related to the Choose Digital reporting unit and $10,708,000 related to the Wetpaint reporting unit during the three months ended December 31, 2015. Upon the finalization of the December 31, 2015 Choose Digital and Wetpaint goodwill impairment analysis, the consolidated goodwill ending balances as of March 31, 2016 were adjusted by $3,350,000 at June 30, 2016. The Company also recorded an additional goodwill impairment loss of $1,672,000 in the Selling, general and administrative expense line and reduced the gain on the sale of the Viggle Business by $1,672,000 in the Consolidated Statements of Operations during the nine months ended March 31, 2016 as a result of the finalization of the December 2015 Choose Digital and Wetpaint impairment analysis. There were no impairments recorded during the three and six months ended December 31, 2016.

At June 30, 2016, the Company determined that the fair value of the DDGG reporting unit was significantly below its carrying value, indicating that goodwill may be impaired. The Company determined the fair value of all long-lived assets other than goodwill and calculated the residual goodwill for the reporting unit. The residual goodwill was higher than the carrying value of goodwill related to the DDGG reporting unit, therefore the Company did not record an impairment loss for DDGG goodwill during the the year ended June 30, 2016. There were no impairments recorded during the three and six months ended December 31, 2016.

Other Long-Lived Assets

The Company accounts for the impairment of long-lived assets other than goodwill in accordance with ASC 360, “Property, Plant, and Equipment” ("ASC 360"), 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 (fair value) 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 December 31, 2015, as described above, the Company determined that the fair value of the Choose Digital and Wetpaint reporting units tested was significantly below the respective carrying values and assessed the fair values of the long-lived assets other than goodwill for each reporting unit. Upon comparing the fair values of the long-lived assets to their respective carrying values, the Company recorded a loss of $1,331,000 on intangible assets related to Choose Digital's software and licenses, and a loss of $11,418,000 on intangible assets related to Wetpaint's technology, trademark, customer relationships and non-competition agreements, during the three months ended December 31, 2015. No impairments were recorded during the three and six months ended December 31, 2016.

At June 30, 2016, the Company determined that certain intangible assets related to the acquisition of Draftday.com were impaired. At June 30, 2016, DDGG's Management Services Agreement By and Between DraftDay Gaming Group, Inc. and Sportech Racing, LLC ("Sportech MSA") terminated, which led to a significantly lower revenues forecast for the reporting unit. As a result, the Company determined that the intangible assets related to internally developed software, trade name and non-compete agreements were impaired. The Company recorded a loss of $749,000 on intangible assets related to DDGG during the year ended June 30, 2016.

No impairments were recorded during the three and six months ended December 31, 2016.

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 amount of $1,498,000 as of December 31, 2016 and June 30, 2016, 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. The change in capitalized software is due to impairment of long-term assets related to the Choose Digital and Wetpaint businesses described earlier, as well as the abandonment of certain technology as of January 1, 2016, and internal development costs.

DDGG Player Deposits

The Company maintains a separate bank account to hold player deposits in accordance with current industry regulations. The player deposits bank account represents money reserved for player withdrawals and winnings. Accordingly, the Company records an offsetting liability at the time of receipt of player deposits.

Deferred Rent

The Company leases its corporate office, and as part of the lease 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. The satellite office leases were terminated in Fiscal 2016. The Company wrote-off residual leasehold improvement and deferred rent balances related to landlord sponsored tenant improvement work, and recorded a write-off of approximately $83,000 in the Consolidated Statements of Operations for the year ended June 30, 2016.

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 third-party advertising via real-time bidding, which is typically sold on a per impression basis.

Deferred Revenue:  deferred revenue consists principally of prepaid but unrecognized revenue.  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 Emerging Issues Task Force 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 $0 and $217,000 for the three months ended December 31, 2016 and December 31, 2015, respectively. The Company recognized barter revenue and barter expense in the amount of $0 and $424,000 for the six months ended December 31, 2016 and December 31, 2015, respectively.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"). 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 December 31, 2016 and December 31, 2015 was approximately $82,000 and $239,000 respectively. Marketing expense for the six months ended December 31, 2016 and December 31, 2015 was approximately $113,000 and $480,000, respectively.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, "Income Taxes" ("ASC 740"). 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. The Company assesses its income tax positions and record tax benefits for all years subject to examination based upon the Company's 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, the Company's 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.

Comprehensive Loss

In accordance with ASC 220, "Comprehensive Income", the Company reports by major components and as a single total, the change in its net assets during the period from non-owner sources. Comprehensive income consists of net income (loss), accumulated other comprehensive income (loss), which includes certain changes in equity that are excluded from net income (loss). The Company’s comprehensive loss for all periods presented is related to the effect of unrealized gain on available for sale marketable securities.

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.

During the three months ended September 30, 2016, there have been no significant changes related to the Company's critical accounting policies and estimates as disclosed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

Recently Issued Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). The update requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value but the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. The Company does not expect the update to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). The update provides a criteria for determining when an integrated set of assets and activities is not a business. The criteria requires that when substantially all of the fair value of gross assets are acquired in concentrated into a single identifiable asset or a group of similar identifiable assets, the integrated sets of assets and activities is not a business. Even if this criteria is not met, this update requires that the set of assets and activities must include an input and substantive processes that together significantly contribute to creating an output, at a minimum, and removes the evaluation of whether a market participant could replace the missing elements. This guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company does not expect the update to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2016-18"). This update requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods for those years. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In October 2016, the FASB issued Accounting Standards Update 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory" (ASU 2016-16"). This update eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. ASU 2016-16 is effective for financial statements issued for annual periods beginning after December 15, 2017. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In May 2016, FASB issued Accounting Standards Update 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"). The amendments in this update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which is not yet effective. This update focuses on improving several aspects of ASU 2014-09, such as assessing the collectability criterion in paragraph 606-10-25-1(e) and accounting for contracts that do not meet the criteria for step 1; presentation of sales taxes and other similar taxes collected from customers; non-cash consideration; contract modifications at transition; and completed contracts at transition. ASU 2016-12 is effective for financial statements issued for annual periods beginning after December 15, 2017. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In April 2016, the FASB issued Accounting Standards Update 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"). The amendments in this update affect the guidance in ASU 2014-09, which is not yet effective. This update focuses on clarifying the following two aspects of ASU 2014-09: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. ASU 2016-10 is effective for financial statements issued for annual periods beginning after December 15, 2017. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-09, Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). This update is intended to improve the accounting for employee share-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including:(a)income tax consequences;(b)classification of awards as either equity or liabilities; and(c) classification on the statement of cash flows. ASU 2016-09 is effective for financial statements issued for annual periods beginning after December 15, 2016. The Company is currently in the process of evaluating the impact of adoption of ASU 2016-09 on its consolidated financial statements.

In February 2016, FASB issued Accounting Standards Update No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of ASU 2016-02 on its consolidated financial statements.

In January 2016, FASB issued Accounting Standards Update No. 2016-01, “Financial Instruments- Overall: Recognition
and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). Additionally, it requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Lastly, the standard eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU 2016-01 is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In November 2015, FASB issued Accounting Standards Update No. 2015-17, “Income taxes: Balance Sheet Classification
of Deferred Taxes Business” (“ASU 2015-17”). Topic 740, Income Taxes, requires an entity to separate deferred income tax
liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities
and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, ASU 2015-17 requires that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not expect the standard to have a material impact on its consolidated financial statements.

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.

4. Segments

Historically, the Company had one operating segment. However, in connection with the sale of the Viggle rewards business (discontinued operations) to Perk in February 2016, which represented a significant portion of the Company's assets and revenues, the Company's remaining operations were divided into three operating segments. These segments offer different products and services and are currently presented separately in internal management reports, and managed separately.

- Wetpaint: a media channel reporting original news stories and publishing information content covering top television shows, music, celebrities, entertainment news and fashion.
- Choose Digital: a business-to-business platform for delivering digital content.

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• DDGG: a business-to-business operator of daily fantasy sports.

The accounting policies followed by the segments are described in Note 3, Summary of Significant Accounting Policies. The operating segments of the Company include the assets, liabilities, revenues and expenses that management has determined are specifically or primarily identifiable to each segment, as well as direct and indirect costs that are attributable to the operations of each segment. Direct costs are the operational costs that are administered by the Company following the shared services concept. Indirect costs are the costs of support functions that are provided on a centralized or geographic basis by the Company, which include, but are not limited to, finance, human resources, benefits administration, procurement support, information technology, legal, corporate strategy, corporate governance and other professional services and general commercial support functions.

Central support costs have been allocated to each operating segment based on a specific identification basis or, when specific identification is not practicable, a proportional cost allocation method (primarily based on net sales or direct payroll costs), depending on the nature of the services received. Management considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs that would have been incurred if the operating segments had been operated on a stand-alone basis for the periods presented.

Information regarding the results of each reportable segment is included below. Performance is measured based on unit profit after tax, as included in the internal management reports that are reviewed by the chief operating decision maker, who is the Company's Chief Executive Officer. Business unit profit is used to measure performance as management believes that such information is the most relevant in evaluating the success of each business and determining the going forward strategy for the Company as a whole.

Information about reportable segments (amounts in thousands):

| | Three Months Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wetpaint | | Choose Digital | | DDGG | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| External revenues | $834 | $530 | $— | $217 | $256 | $243 | $1,090 | $990 |
| Inter-segment revenues (1) | — | — | | 668 | — | — | — | 668 |
| Net loss, net of income taxes (2) | (1,585) | (28,478) | (47) | (3,645) | (715) | (1,533) | (2,347) | (33,656) |

Notes:
(1) The Choose Digital business provides digital content to the Viggle business. These inter-segment revenues are presented at Choose Digital's cost in this schedule and in the consolidated statements of operations.
(2) The net loss figures presented exclude certain corporate expenses detailed in the reconciliation to the consolidated net loss below.

| | Six Months Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wetpaint | | Choose Digital | | DDGG | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| External revenues | $1,206 | $1,046 | $58 | $415 | $361 | $326 | $1,625 | $1,787 |
| Inter-segment revenues (1) | — | — | — | 1,219 | — | — | — | 1,219 |
| Net loss, net of income taxes (2) | (3,662) | (30,338) | (448) | (4,120) | (1,467) | (1,507) | (5,577) | (35,965) |

Notes:
(1) The Choose Digital business provides digital content to the Viggle business. These inter-segment revenues are presented at Choose Digital's cost in this schedule and in the

consolidated statements of operations.

(2) The net loss figures presented exclude certain corporate expenses detailed in the reconciliation to the consolidated net loss below.

Reconciliation of revenues attributable to reportable segments to consolidated revenues from continuing operations (amounts in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues attributable to reportable segments | $1,090 | $990 | $1,625 | $1,787 |
| Licensing revenues related to SFX licensing agreement | 125 | 125 | 250 | 250 |
| Other revenues | — | 667 | — | 1,218 |
| Revenues per Consolidated Statements of Operations | $1,215 | $1,782 | $1,875 | $3,255 |

Reconciliation of net loss for reportable segments, net of income taxes to consolidated net loss from continuing operations, net of income taxes (amounts in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss for reportable segments, net of income taxes | $(2,347) | $(33,656) | $(5,577) | $(35,965) |
| Other net gain (loss) | 2,184 | (88) | (429) | (297) |
| | (163) | (33,744) | (6,006) | (36,262) |
| Stock compensation related to corporate financing activities (1) | (137) | (4,250) | (161) | (8,500) |
| Corporate expenses allocated to discontinued operations (2) | — | (650) | — | (1,791) |
| Interest expense (3) | (2,471) | (926) | (4,121) | (1,783) |
| Consolidated net loss from continuing operations, net of income taxes | $(2,771) | $(39,570) | $(10,288) | $(48,336) |

Notes:
(1) Stock compensation expense related to RSUs, options and warrants issues in connection with financing activities. Expenses related to financing activities are considered to be corporate expenses and are not allocated to reportable segments.
(2) Certain corporate expenses were allocated to the Viggle segment, however such expenses are not classified as discontinued operations because they are fixed and are not affected by the sales transaction.
(3) Interest expense related to corporate debt instruments is not allocated to reportable segments.

Total assets for reportable segments (amounts in thousands):

| | December 31, 2016 | June 30, 2016 |
|---|---|---|
| Wetpaint | $ 21,234 | $ 8,495 |
| Choose Digital | 5,226 | 5,416 |
| DDGG | 3,713 | 3,740 |
| Total assets for reportable segments | $ 30,173 | $ 17,651 |

Reconciliation of assets attributable to reportable segments to consolidated assets of continuing operations (amounts in thousands):

| | December 31, 2016 | June 30, 2016 |
|---|---|---|
| Total assets for reportable segments | $ 30,173 | $ 17,104 |
| Other assets (1) | 1,614 | 5,896 |
| Total consolidated assets, net of current and non-current assets of discontinued operations | $ 31,787 | $ 23,000 |

Notes:
(1) Corporate assets that are not specifically related to any of the reporting units.

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The Company continues to support the cash needs and operations of DDGG. As of December 31, 2016 the Company has transferred $1,096,000 to the DDGG subsidiary. A portion of these transfers, or $500,000, was funded as part of the purchase price commitment. The remaining transfers are part of the subscription agreement entered into with DDGG on May 12, 2016.

On July 12, 2016, to enhance the Company's digital publishing business, the Company acquired assets of Rant. Rant is a leading digital publisher that publishes original content in 13 different verticals, most notably in sports, entertainment, pets, cars, and food. Rant results of operations are included in the Company's digital publishing segment, Wetpaint.

5. Discontinued Operations

On February 8, 2016, the Company completed the sale of assets related to the Company’s rewards business, including the Viggle App, in accordance with the Perk Agreement entered into on December 13, 2015. Management entered into this binding sales agreement following a strategic decision to divest the operations related to the Viggle App and place greater focus on its remaining businesses. The Company has classified the Viggle assets, liabilities and operations as discontinued operations in the accompanying Consolidated Financial Statements for all periods presented. In accordance with ASC No. 205, Presentation of Financial Statements, the inter-segment revenues and expenses related to services provided by Choose Digital to the Viggle rewards business (discontinued operations) are presented at cost in the Consolidated Statements of Operations.

On December 13, 2015, the Parent entered into the Perk Agreement. Perk’s shares are currently traded on the Toronto Stock Exchange. On February 8, 2016, pursuant to the Perk Agreement, the Company completed the sale of the assets related to the Company’s rewards business, including Viggle’s application, to Perk. The total consideration received net of transaction fees was approximately $5,110,000, and consisted of the following:

- 1,370,000 shares of Perk common stock, a portion of which was placed in escrow to satisfy any potential indemnification claims;

- 2,000,000 shares of Perk common stock if Perk’s total revenues exceed USD $130,000,000 for the year ended December 31, 2016 or December 31, 2017;

- a warrant entitling the Company to purchase 1,000,000 shares of Perk common stock at a strike price of CDN $6.25 per share in the event the volume weighted average price (“VWAP”) of shares of Perk common stock is greater than or equal to CDN $12.50 for 20 consecutive trading days in the two year period following the closing of the transaction;

- a warrant entitling the Company to purchase 1,000,000 shares of Perk common stock at a strike price of CDN $6.25 per share in the event that the VWAP of Perk common stock is greater than or equal to CDN $18.75 for 20 consecutive trading days in the two year period following the closing of the transaction, and

- Perk assumed certain liabilities of the Company, consisting of the Viggle points liability.

At the time the Company entered into the Perk Agreement, Perk provided the Company with a $1,000,000 secured line of credit, which the Company fully drew down. The Company had the option of repaying amounts outstanding under that line of credit by reducing the number of Initial Perk Shares by130,000. The Company exercised this option and received 1,370,000 shares of Perk common stock at closing, and the amounts outstanding under the Line of Credit were deemed paid in full.

At the closing, 37.5% (562,600) of the Initial Perk Shares were issued and delivered to an escrow agent to be used exclusively for the purpose of securing the Company's indemnification obligations under the Perk Agreement.

Additionally, after the closing, the Company delivered 357,032 of the Initial Perk Shares to Gracenote, Inc. and Tribune Media Services, Inc., former providers of technology services of the Company, as per the Settlement and Transfer Agreement dated February 5, 2016, to satisfy an obligation. The Company recognized a gain of $593,000 in the Consolidated Statements of Operations for the year ended June 30, 2016.

On September 30, 2016, the Company sold to Perk the remaining shares (1,013,068) of Perk common stock, the warrants for additional shares, and the right to the Earn-Out Shares received from Perk on the sale of the Viggle rewards business on February 8, 2016. The Company received $1,300,000 from Perk as consideration therefor. The execution of the Securities Purchase Agreement and closing were simultaneous. The escrowed shares were released as part of this transaction.

The Company recognized a gain of approximately $1,060,000 on this transaction, net of transaction fees associated with the sale of the Viggle rewards business.

Results of operations classified as discontinued operations (amounts in thousands):

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $ — | $ 2,330 | $ — | $ 5,909 |
| Cost of watchpoints and engagement points | — | (1,209 ) | — | (3,231 ) |
| Selling, general and administrative expenses | — | (6,224 ) | (36 ) | (12,408 ) |
| Loss before income taxes | — | (5,103 ) | (36 ) | (9,730 ) |
| Income taxes (see Note 13, Income Taxes) | — | (21 ) | — | (43 ) |
| Net loss | $ — | $ (5,124 ) | $ (36 ) | $ (9,773 ) |

Current assets and non-current assets used in discontinued operations (amounts in thousands):

| | December 31, 2016 | June 30, 2016 |
|---|---|---|
| Current assets: | | |
| Accounts receivable, net | $ 20 | $ 39 |
| Prepaid expenses | — | — |
| Current assets of discontinued operations | $ 20 | $ 39 |
| Non-current assets: | | |
| Property and equipment, net | $ — | $ — |
| Intangible assets, net | — | — |
| Goodwill | — | — |
| Other assets | — | — |
| Non-current assets of discontinued operations | $ — | $ — |

Current liabilities and non-current liabilities used in discontinued operations (amounts in thousands):

| | December 31, 2016 | June 30, 2016 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 2,703 | $ 2,634 |
| Reward points payable | — | — |
| Current portion of loan payable | — | 217 |
| Current liabilities of discontinued operations | $ 2,703 | $ 2,851 |
| Non-current liabilities: | | |
| Other long-term liabilities | $ — | $ — |
| Non-current liabilities of discontinued operations | $ — | $ — |

6. Acquisitions

Acquisition of Choose Digital

On June 24, 2014, the Company acquired 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.



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In connection with our 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 $4,800,000, which the Company failed to make timely. As a result, the Company entered into a Forbearance Agreement with AmossyKlein Family Holdings, LLLP (“AmossyKlein”), as representative of the former shareholders of Choose Digital Inc. (the “Stockholders”). The Forbearance Agreement provided that the Company would make monthly installment payments to the Stockholders and the Company agreed to deliver an affidavit of confession of judgment to be held in escrow by AmossyKlein s counsel in the event that the Company does not make such installment payments. The Company made the installment payments through December 2015, but failed to make the payment due on January 29, 2016. On May 12, 2016, the Company and AmossyKlein entered into an amendment to the Forbearance Agreement to provide for the payment of the remaining $1,800,000. The Forbearance Agreement provides that the Company would make a payment of approximately $300,000 by May 18, 2016, and thereafter, the Company would make monthly payments of $100,000, plus interest, until the remaining amount is paid in full. In addition, the Company pledged 100,000 shares of common stock held in Perk.com, Inc. as collateral for these obligations. As of the date of this filing, $354,000 is owed and the 100,000 shares have been released. Finally, the Company agreed if we consummate a sale of a substantial part of its assets or a public equity offering, the Company will first apply the proceeds to remaining amounts due to AmossyKlein, except for payments to advisors or expenses necessary to close such transactions. The Company also agreed to amend the confession of judgment. These payments under the amended forbearance agreement will create additional strain on the Company's limited cash resources. In addition, the requirement to accelerate payments on a sale of a substantial part of the Company's assets or from a public equity offering may hinder its access to additional cash. During the three months ended December 31, 2016, the Company paid approximately $318,000 under the Forbearance Agreement.

Acquisition of DraftDay.com

On September 8, 2015, the Company and its newly created subsidiary 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) 63,647 shares of the Company’s Common Stock, par value $0.001 per share (“Common Stock”), (b) a promissory note in the amount of $234,000 due September 29, 2015, (c) a promissory note in the amount of $1,875,000 due March 8, 2016 (the "MGT Note"), and (d) 2,550 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 shares of DDGG common stock at an exercise price of $400 per share.

In addition, in exchange for the release of various liens and encumbrances, the Company also agreed to issue to third parties: (a) 4,232 shares of its Common Stock, (b) a promissory note in the amount of $16,000 due September 29, 2015 and (c) a promissory note in the amount of $125,000 due March 8, 2016, and DDGG issued: (i) 150 shares of its common stock and (ii) a warrant to purchase 150 shares of DDGG common stock at $400 per share.

Accordingly, the Company issued a total of 67,879 shares of Common Stock in connection with the acquisition of the DraftDay Business.

The Company contributed the assets of the DraftDay Business to DDGG and received 11,250 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 shares of DDGG common stock.

As a result of the transactions described above, the Company owns a total of 11,250 shares of DDGG common stock, Sportech Inc., an affiliate of Sportech, owns 9,000 shares of DDGG common stock, MGT Sports owns 2,550 shares of DDGG common stock and an additional third party owns 150 shares of DDGG common stock. In addition, MGT Sports holds a warrant to purchase 1,500 shares of DDGG common stock at an exercise price of $400 and an additional third party holds a warrant to purchase 350 shares of DDGG common stock at $400 per share. 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. 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.

As a result of the transactions described herein, the Company issued promissory notes in the aggregate principal amount of $250,000 due and paid on September 29, 2015 and in the aggregate principal amount of $2,000,000 due March 8, 2016. All such notes bear interest at a rate of 5% per annum. The Company was not able to make the $2,000,000 in payments at the due

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date and on March 24, 2016 converted $825,000 of the promissory notes to common stock and $110,000 of the promissory notes to a Series D Preferred Stock (see Note 11, Stockholders' (Deficit) Equity). On April 13, 2016, MGT converted all 110 shares of the Company's Series D Preferred Stock into shares of common stock of the Company. Accordingly, the Company issued 18,332 shares of common stock to MGT. Thereafter, there are no shares of the Company's Series D Preferred Stock outstanding. On June 14, 2016, the Company entered into a second exchange agreement with MGT (the "Second MGT Exchange Agreement") relating to the $940,000 remaining due under the MGT Note. Under the Second MGT Exchange Agreement, the MGT Note shall be exchanged in full for (a) $11,000 in cash representing accrued interest and (b) 132,092 shares of our common stock, subject to certain adjustments. Issuance of the shares was conditioned upon approval of the Company's shareholders and approval of its listing of additional shares application with NASDAQ. On October 10, 2016, the Company satisfied the MGT Note through the issuance of 136,304 shares of its common stock and payment of interest of $16,000.

On December 28, 2015, DDGG's Board of Directors effectuated a 1-for-1,000 reverse stock split (the "1-for-1,000 Reverse Split"). Under the terms of the 1-for-1,000 Reverse Split, each share of DDGG's common stock, issued and outstanding as of such effective date, was automatically reclassified and changed into one-thousandth of one share of common stock, without any action by the stockholders. Fractional shares were cashed out.

On May 12, 2016, the Company entered into a subscription agreement with DDGG pursuant to which the Company agreed to purchase up to 550 shares of Series A Preferred Stock of DDGG for $1 per share. DDGG also entered into a subscription agreement with Sportech pursuant to which Sportech agreed to purchase up to 450 shares of Series A Preferred Stock of DDGG for $1 per share. In accordance with this agreement, the Company transferred a total of $550,000 to the DDGG subsidiary since the date of acquisition and through November 20, 2016.

Kuusamo Warrants

In exchange for releasing certain liens and encumbrances with respect to DDGG, the Company issued promissory notes to Kuusamo Capital Ltd. ("Kuusamo Promissory Notes") in the principal amount of $16,000 due and paid on September 29, 2015 and in the aggregate principal amount of $125,000 due March 8, 2016. All such notes bear interest at a rate of 5% per annum. The Company was not able to make the $125,000 payment at the due date. On April 25, 2016, the Company also entered into an exchange agreement with Kuusamo Capital Ltd. ("Kuusamo"), pursuant to which the Company issued 10,394 shares of its common stock to Kuusamo in exchange for a reduction of $71,000 in principal amount of a promissory note the Company owed to Kuusamo.

The outstanding balance of the Kuusamo Promissory Notes was $0 and $54,000 at December 31, 2016 and June 30, 2016, respectively. The Company recorded $5,000 in interest expense for the year ended June 30, 2016. On September 21, 2016, the Company satisfied the Kuusamo Prommisory Note through the issuance of 8,410 shares of its common stock.

Sportech MSA Termination

On April 12, 2016, DDGG entered into an amendment to the transitional management services agreement pursuant to which the DDGG's Management Services Agreement By and Between DraftDay Gaming Group, Inc. and Sportech Racing, LLC ("Sportech MSA") terminated effective June 30, 2016. Sportech paid a $75,000 termination fee, to provide transitional services for 45 days, and has agreed to revert 4,200 shares of DDGG stock back to the Company on August 15, 2016. The Company had previously recorded the value of the services provided by Sportech under the Sportech MSA to prepaid assets, to be recognized as a professional services expense in the Consolidated Statements of Operations over the term of the agreement. Due to the termination of the agreement, the Company reduced prepaid assets and non-controlling interest accounts for the value of the returned 4,200 shares of DDGG stock, and expensed the remaining value of the Sportech services, except for 45 days of transitional services. The value of returned DDGG shares was determined by a third-party valuation firm as of June 30, 2016 using Level 3 inputs. The termination of the Sportech MSA required DDGG to begin performing certain functions on its own.

DDGG Intangibles and Goodwill Impairment

As noted above, at June 30, 2016, the Sportech MSA terminated, which led to a significantly lower revenues forecast for the reporting unit. As a result, the Company determined that intangible assets related to internally developed software, trade name and non-compete agreements were impaired as of June 30, 2016. The Company recorded a loss of approximately $749,000 on intangible assets related to DDGG during the year ended June 30, 2016. There was no impairment of goodwill (see Note 3, Summary of Significant Accounting Policies).

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 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.

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

| | |
|---|---|
| Consideration transferred: | |
| Shares of the Company's common stock on closing market price at issuance | $1,760 |
| Notes issued to sellers | 2,250 |
| Total consideration transferred | $4,010 |
| | |
| Purchase allocation: | |
| Goodwill | $1,591 |
| Intangible assets | 3,012 |
| Other Assets | 799 |
| Total liabilities | (1,392 ) |
| | $4,010 |

The operations of this acquisition are not material, and thus, pro forma disclosures are not presented.

Rant

On July 12, 2016, the Company, and RACX Inc., a Delaware corporation and wholly-owned subsidiary of the Company ("RACX"), completed an acquisition pursuant to an Asset Purchase Agreement (the "Asset Purchase Agreement") with Rant, Inc., a Delaware corporation, pursuant to which RACX has acquired the assets of Rant (the "Asset Purchase") used in the operation of Rant's Rant.com independent media network and related businesses, including but not limited to the www.rantsports.com, www.rantlifestyle.com, www.rantchic.com, www.rantgirls.com, www.rant-inc.com, www.rantstore.com, www.rantcities.com, www.rantcars.com, www.rantfinance.com, www.ranthollywood.com , www.rantfood.com, www.rantgamer.com, www.rantgizmo.com, www.rantpets.com, www.rantplaces.com, www.rantpolitical.com, www.rantmn.com, www.rantbeats.com, www.rantgirls.com, www.rantstore.com, www.rantcities.com, www.rantranet.com, and www.rantmovies.com websites (the "Rant Assets").

In consideration for the purchase of the Rant Assets, the Company delivered a Secured Convertible Promissory Note (the "Secured Convertible Note") to Rant with a fair value determined to be $3,500,000 and delivered the stock consideration of $7,600,000 described below.

The $3,000,000 Secured Convertible Note matures on July 8, 2017 barring any events of default or a change of control of the Company. The Secured Convertible Note bears interest at 12% per annum, payable at maturity. At the election of Rant, the Secured Convertible Note is convertible into shares of the Company's common stock at a price equal to the lower of (i) $5.20 per share, or (ii) such lower price as may have been set for conversion of any debt or securities into Common Stock held on or after the date hereof by Sillerman until the first to occur of March 31, 2017 or the date the Note has been satisfied or converted (for the purposes hereof Robert F.X. Sillerman is the Company's Executive Chairman and Chief Executive Officer and/or any affiliate of Robert F.X. Sillerman is herein collectively, "Sillerman"). In connection with the Secured Convertible Note, the Company has entered into a Note Purchase Agreement (the "NPA") and a Security Agreement (the "Rant Security Agreement") with Rant, under which the Company has granted Rant a continuing security interest in substantially all assets of the Company. In connection with the issuance of the Secured Convertible Note, Sillerman and Rant entered into a subordination agreement subordinating repayment of the notes to the Debentures (as described in (b) hereof) and entered into an Intercreditor Agreement providing for the parties' respective rights and remedies with respect to payments against the collateral held as security for both

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of them.
In connection with the Asset Purchase Agreement, and in addition to the consideration represented by the Secured Convertible Note and the Assumed Liabilities, the Company issued to Rant 4,435 shares of Company Series E Convertible Preferred Stock which, upon satisfaction of certain conditions including shareholder approval, will be convertible into shares of Company common stock equal to 22% of the outstanding common stock of the Company. The number of shares will be adjusted for dilution between the date of closing and the date of any public offering by the Company of its common stock and to reflect additional capital structure changes through the first of (i) the date Sillerman converts debt and preferred shares to common shares pursuant to the Exchange Agreement just before an offering of the Company's common stock closes or (ii) March 31, 2017.

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 Rant 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.

The 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 is as follows (amounts in thousands):

| | |
|---|---|
| Goodwill | $7,589 |
| Intangible assets | 5,500 |
| Total liabilities | (1,990 ) |
| | $11,099 |

The goodwill allocated to the Rant acquisition is tax deductible.

7. Property and Equipment

Property and Equipment consists of the following (amounts in thousands):

| | December 31, 2016 | June 30, 2016 |
|---|---|---|
| Leasehold Improvements | $ 2,261 | $2,261 |
| Furniture and Fixtures | 588 | 588 |
| Computer Equipment | 456 | 456 |
| Software | 164 | 164 |
| Total | 3,469 | 3,469 |
| Accumulated Depreciation and Amortization | (2,209 ) | (2,055 ) |
| Property and Equipment, net | $ 1,260 | $1,414 |

Depreciation and amortization charged to selling, general and administrative expenses for the three months ended December 31, 2016 and 2015 amounted to approximately $77,000 and $139,000, respectively.

Depreciation and amortization charged to selling, general and administrative expenses for the six months ended December 31, 2016 and 2015 amounted to $154,000 and $279,000, respectively.

8. Intangible Assets and Goodwill

The summary of intangible assets and goodwill is a follows (amounts in thousands):

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| Description (amounts in thousands) | Amortization Period | December 31, 2016 Amount | Accumulated Amortization | Carrying Value | June 30, 2016 Amount | Accumulated Amortization | Carrying Value |
|---|---|---|---|---|---|---|---|
| Wetpaint technology | 60 months | $4,952 | $ (3,458 ) | $ 1,494 | $4,952 | $ (3,276 ) | $ 1,676 |
| Wetpaint trademarks | 276 months | 1,453 | (438 ) | 1,015 | 1,453 | (415 ) | 1,038 |
| Wetpaint customer relationships | 60 months | 917 | (837 ) | 80 | 917 | (827 ) | 90 |
| Choose Digital licenses | 60 months | 829 | (589 ) | 240 | 829 | (559 ) | 270 |
| Choose Digital software | 60 months | 627 | (257 ) | 370 | 627 | (212 ) | 415 |
| DraftDay tradename | 84 months | 180 | (61 ) | 119 | 180 | (38 ) | 142 |
| Draftday non-compete agreements | 6 months | 30 | (30 ) | — | 30 | (30 ) | — |
| DraftDay internally generated capitalized software | 60 months | 1,498 | (485 ) | 1,013 | 1,498 | (303 ) | 1,195 |
| DraftDay customer relationships | 24 months | 556 | (556 ) | — | 556 | (351 ) | 205 |
| Rant trademarks | 120 months | 2,700 | (124 ) | 2,576 | — | — | — |
| Rant content | 24 months | 650 | (149 ) | 501 | — | — | — |
| Rant technology | 60 months | 1,500 | (138 ) | 1,362 | — | — | — |
| Rant advertising relationships | 24 months | 650 | (149 ) | 501 | — | — | — |
| Other | various | 326 | (24 ) | 302 | 326 | (18 ) | 308 |
| Total | | $ 16,868 | $ (7,295 ) | $ 9,573 | $ 11,368 | $ (6,029 ) | $ 5,339 |

See Note 3, Summary of Significant Accounting Policies, for a discussion of the write-downs recorded with respect to intangible assets related to the Wetpaint and Choose Digital businesses in the quarter ended December 31, 2015 and to the DraftDay business in the quarter ended June 30, 2016. The changes in the gross amounts and useful lives of intangibles related to the Wetpaint, Choose Digital and DraftDay businesses, and to internally generated capitalized software, are a result of these write-downs during the three months ended December 31, 2015 and June, 30, 2016, as well as the abandonment of certain technology as of January 1, 2016, and internal development costs. See Note 6, Acquisitions, for a detailed description of DraftDay and Rant assets and liabilities purchased and their fair values on the date of the acquisition.

Amortization of intangible assets included in selling, general and administrative expenses for the six months ended December 31, 2016 and 2015 amounted to approximately $1,266,000 and $2,123,000, respectively.

Future annual amortization expense expected is as follows amounts in thousands):

| Years ending June 30, | |
|---|---|
| 2017 | $ 2,370 |
| 2018 | $ 3,026 |
| 2019 | $ 1,730 |
| 2020 | $ 1,367 |
| 2021 | $ 1,036 |

Goodwill consists of the following:

| Description | Amount |
|---|---|
| Balance at July 1, 2016 | $ 11,270 |
| Rant preliminary purchase price allocation | 7,589 |
| Balance at December 31, 2016 | $ 18,859 |

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9. Loans Payable

The summary of loans payable is as follows (amounts in thousands):

| | Maturity Date | Total Facility Amount | December 31, 2016 | June 30, 2016 |
|---|---|---|---|---|
| Convertible Debentures (the "Debentures"), net of discount | 7/11/2017 | $ 4,444 | $3,629 | $— |
| Secured Convertible Promissory Note (the "Secured Convertible Note") | 7/8/2017 | 3,000 | 3,400 | — |
| Line of Credit Promissory Note (the "Note") | 10/24/2017 | 20,000 | — | 19,716 |
| Line of Credit Grid Note (the "Grid Note") * | 12/31/2016 | 5,900 | 3,465 | 4,563 |
| Secured Line of Credit (the "Secured Revolving Loan I") | 12/31/2016 | 1,500 | — | 1,500 |
| Secured Line of Credit (the "Secured Revolving Line of Credit") | 12/31/2016 | 500 | — | 500 |
| Secured Revolving Loan (the "Secured Revolving Loan") | 12/31/2016 | 500 | — | 500 |
| Secured Revolving Loan II (the "Secured Revolving Loan II") | 12/31/2016 | 500 | — | 500 |
| Secured Revolving Loan III (the "Secured Revolving Revolving Loan III") | 12/31/2016 | 1,200 | — | 135 |
| Convertible Promissory Note (the "RI Convertible Note") | 12/31/2016 | 300 | 300 | 300 |
| MGT Promissory Notes (the "MGT Promissory Notes") | 7/31/2016 | 2,109 | — | 943 |
| Kuusamo Promissory Notes (the "Kuusamo Promissory Notes") | 3/8/2016 | 141 | — | 55 |
| Total Loans Payable, net | | | $10,794 | $28,712 |

* As of June 30, 2016 the total facility amount on on the Grid Note was $10,000,000; however, in conjunction with the Exchange Agreement, this amount was reduced to $5,900,000.

Convertible Debentures
On July 12, 2016, the Company closed a private placement (the "Private Placement") of $4,444,000 principal amount of convertible debentures (the "Debentures") and common stock warrants (the "Warrants".) The Debentures and Warrants were issued pursuant to a Securities Purchase Agreement, dated July 12, 2016 (the “Purchase Agreement”), by and among the Company and certain accredited investors within the meaning of the Securities Act of 1933, as amended (the “Purchasers”). Upon the closing of the Private Placement, the Company received gross proceeds of $4,000,000 before placement agent fees, original issue discount, and other expenses associated with the transaction. $1,162,000 of the proceeds was used to repay the Grid Note. The placement agent fees of $420,000 and original issue discount of $444,000 were recorded as a reduction to the debenture balance and will be accreted to interest expense over the term of the Debentures.
The Debentures mature on the one-year anniversary of the issuance date thereof. The Debentures are convertible at any time at the option of the holder into shares of the the Company's common stock at an initial conversion price of $6.2660 per share (the “Conversion Price”). Based on such initial Conversion Price, the Debentures will be convertible into up to 780,230 shares of common stock. If we issue or sell shares of our common stock, rights to purchase shares of our common stock, or securities convertible into shares of our common stock for a price per share that is less than the Conversion Price then in effect, the Conversion Price then in effect will be decreased to equal such lower price. The adjustments to the Conversion Price will not apply to certain exempt issuances, including issuances pursuant to certain employee benefit plans or for certain acquisitions. In addition, the Conversion Price is subject to adjustment upon stock splits, reverse stock splits, and similar capital changes. However, in no event will the Conversion Price be less than $0.10 per share. The Debentures are secured by a first priority lien on substantially all of the Company's assets in accordance with a security agreement.
The Debentures bear interest at 10% per annum with interest payable upon maturity or on any earlier redemption date. At any time after the issuance date, we will have the right to redeem all or any portion of the outstanding principal balance of the Debentures, plus all accrued but unpaid interest at a price equal to 120% of such amount. The holders of Debentures shall have the right to convert any or all of the amount to be redeemed into common stock prior to

redemption. Subject to certain exceptions, the Debentures contain customary covenants against incurring additional indebtedness and granting additional liens and contain customary events of default. Upon the occurrence of an event of default under the Debentures, a holder of

Debentures may require the Company to pay the greater of (i) the outstanding principal amount, plus all accrued and unpaid interest, divided by the Conversion Price multiplied by the daily volume weighted average price or (ii) 115% of the outstanding principal amount plus 100% of accrued and unpaid interest. Pursuant to the Debentures, the Company is required to make amortizing payments of the aggregate principal amount, interest, and other amounts outstanding under the Debentures. Such payments must be made beginning three months from the issuance of the Debentures and on the monthly anniversary through and including the maturity date. The Amortization Amount is payable in cash or in shares of our common stock pursuant to the conversion mechanism contained in the Debentures.
On July 20, 2016, the Company and the Purchasers entered into an Amendment to Securities Purchase Agreement and Consent to Modify Debentures (the "Amendment and Consent"). The Amendment and Consent provides that, while the Debentures are outstanding, Mr. Sillerman will guarantee that the Company shall have $1,000,000 available in its commercial bank account or otherwise available in liquid funds. At any time when the Company's available funds fall below $1,000,000, Mr. Sillerman will provide (the "Sillerman Guaranty") the amounts necessary to make-up the shortfall in an aggregate amount not to exceed $6,000,000; however, the first $5,000,000 of the guaranty shall be provided by drawing down on our Line of Credit with SIC IV. Any remaining amounts, up to a maximum aggregate of $1,000,000 million shall be provided by Sillerman.
As a part of the Private Placement, the Company issued Warrants to the Purchasers providing them with the right to purchase up to an aggregate of 354,650 shares of the Company's common stock at an initial exercise price of $6.5280 per share. Subject to certain limitations, the Warrants are exercisable on any date after the date of issuance and the exercise price for the Warrant is subject to adjustment for certain events, such as stock splits and stock dividends. If the Company issues or sells shares of its common stock, rights to purchase shares of its common stock, or securities convertible into shares of its common stock for a price per share that is less than the conversion price of the Debentures, the exercise price of the Warrants will be decreased to a lower price based on the amount by which the conversion price of the Debentures was reduced due to such transaction. The foregoing adjustments to the exercise price for future stock issues will not apply to certain exempt issuances, including issuances pursuant to certain employee benefit plans or for certain acquisitions. In addition, the exercise price is subject to adjustment upon stock splits, reverse stock splits, and similar capital changes. The Warrants will expire 5 years from the initial issuance date. The fair value of the Warrants as of July 12, 2016 was determined to be $1,500,000 and the offset was recorded as a debt discount on the Convertible Debentures. The Warrants are recorded as a liability on the Consolidated Balance Sheets due to the adjustment of the exercise price due to subsequent common stock issuances and is being marked to market each reporting period. As of December 31, 2016, the balance of the debt discount related to the Warrants was $812,500. The fair value of the Warrants as of December 31, 2016 was determined to be $410,000. The change in fair value of $1,090,000 was recorded as other income in the Consolidated Statements of Operations for the three months ended December 31, 2016.
The Purchasers shall not have the right to convert the Debentures or exercise the Warrants to the extent that such conversion or exercise would result in such Purchaser being the beneficial owner in excess of 4.99% of our common stock. In addition, the Purchasers have no right to convert the Debentures or exercise the Warrants if the issuance of the shares of common stock upon such conversion or exercise would exceed the aggregate number of shares of our common stock which we may issue upon conversion of the Note and exercise of the Warrants without breaching our obligations under NASDAQ listing rules. Such limitation does not apply if our shareholders approve such issuances. We intend to promptly seek shareholder approval for issuances of shares of common stock issuable upon conversion of the Debentures and exercise of the Warrants.
In connection with the Private Placement, the Company and the Purchasers entered into a Registration Rights Agreement under which the Company was required, on or before 30 days after the closing of the Private Placement, to file a registration statement with the Securities and Exchange Commission (the "SEC") covering the resale of the shares of its common stock issuable pursuant to the Debentures and Warrants and to use commercially reasonable efforts to have the registration declared effective as soon as practicable, but in no event later than 90 days after the filing date. The Company will be subject to certain monetary penalties, as set forth in the Registration Rights Agreement, if the registration statement is not filed, does not become effective on a timely basis, or does not remain available for the resale (subject to certain allowable grace periods) of the Registrable Securities, as such term is defined in the

Registration Rights Agreement.
Also in connection with the Private Placement, certain stockholders of the Company have executed Lock-Up Agreements, pursuant to which they have agreed not to sell any shares of the Company's common stock until the later of (i) six months following the issuance of the Debentures or (ii) 90 days following the effectiveness of a resale registration statement filed pursuant to the requirements of the Registration Rights Agreement.
The Company valued the Debentures as of July 12, 2016, the issuance date, using the methods of fair value as described ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"). The fair value of the conversion feature in the Debentures was determined to be $1,856,000 as of July 12, 2016 and the offset was recorded as a debt discount. As of December 31, 2016, the balance of the debt discount on the Debentures related to the Conversion feature was $1,005,000. The fair value of the

Conversion feature as of December 31, 2016 was determined to be $1,256,000. The change in fair value of $600,000 was recorded as other income in the Consolidated Statements of Operations for the three months ended December 31, 2016.
On October 12, 2016, the first amortization payment in the amount of $444,000, plus accrued interest of approximately $114,000 pursuant to the terms of the Debentures became due and payable to the Purchasers. The Company did not make such payment at the time it was due. As a result of the event of default, the Company accrued $739,000 to interest expense in the Consolidated Statements of Operations and the Current portion of loans payable on the Consolidated Balance Sheets for the three and six months ended December 31, 2016, which represents all interest that would have been earned through the one year anniversary of the original issue date. Additionally, $667,000 was accrued to interest expense in the Consolidated Statements of Operations and the Current portion of loans payable on the Consolidated Balance Sheets representing the 15% premium on the outstanding principal for the three and six months ending December 31, 2016. In December 2016, the Company made a payment of $397,000, which included $383,000 of principal and $14,000 of interest.

The Company has also not maintained the Minimum Cash Reserve as required by the Purchase Agreement. Pursuant to the terms of the Debentures, the failure to cure the failure to maintain the Minimum Cash Reserve within three trading days constitutes an Event of Default. Among other things: (1) at the Purchaser's election, the outstanding principal amount of the Debentures, plus accrued but unpaid interest, plus all interest that would have been earned through the one year anniversary of the original issue date if such interest has not yet accrued, liquidated damages and other amounts owed through the date of acceleration, shall become, immediately due and payable in either cash or stock pursuant to the terms of the Debentures; and (2) the interest rate on the Debentures will increase to the lesser of 18% or the maximum allowed by law. In addition to other remedies available to the Purchasers, our obligation to repay amounts due under the Debentures is secured by a first priority security interest in and lien on all of our assets and property, including our intellectual property, and such remedies can be exercised by the Purchasers without additional notice to the Company.

The Company entered into waiver agreements with respect to the initial amortization payments due under the Debentures with Purchasers holding approximately 87% of the Debentures. The Waivers entered into with some of the Purchasers related to the failure to pay the amortization amounts do not address the failure to maintain the Minimum Cash Reserve. In addition, the Company is currently in default with respect to the amortization payment due in January 2017.

Pursuant to the terms of the Debentures, the failure to cure the non-payment of the amortization amount within three trading days after the date such payment was due constitutes an Event of Default. Following the occurrence of an event of default, among other things: (1) at the Purchaser's election, the outstanding principal amount of the Debentures, plus accrued but unpaid interest, plus all interest that would have been earned through the one year anniversary of the original issue date if such interest has not yet accrued, liquidated damages and other amounts owed through the date of acceleration, shall become, immediately due and payable in either cash or stock pursuant to the terms of the Debentures; and (2) the interest rate on the Debentures will increase to the lesser of 18% or the maximum allowed by law. In addition to other remedies available to the Purchasers, our obligation to repay amounts due under the Debentures is secured by a first priority security interest in and lien on all of our assets and property, including our intellectual property, and such remedies can be exercised by the Purchasers without additional notice to the Company.

The Company did not receive a waiver from one of its debenture holders, holding approximately 13% of the principal amount of the Debentures with respect to the event of default arising out of the Company's failure to make the first amortization payment when due. Pursuant to the terms of the Debentures, such holder has sent a notice of acceleration, stating that the Company owes $696,000, reflecting the principal amount of the Debenture plus interest through November 1, 2016. Interest will accrue at 18% until this amount is satisfied.

Secured Convertible Promissory Note

On July 8, 2016 the Company issued a Secured Convertible Promissory Note (the "Secured Convertible Note") to Rant in the amount of $3,000,000 as part of the consideration for the purchase of the Rant Assets.

The $3,000,000 Secured Convertible Note matures on July 8, 2017 barring any events of default or a change of control of the Company. The Secured Convertible Note bears interest at 12% per annum, payable at maturity. At the election of Rant, the Secured Convertible Note is convertible into shares of the Company's common stock at a price equal to the lower of (i) $5.20 per share, or (ii) such lower price as may have been set for conversion of any debt or securities into common stock held on or after the date hereof by Sillerman until the first to occur of March 31, 2017 or the date the Note has been satisfied or converted (for the purposes hereof Robert F.X. Sillerman is the Company's Executive Chairman and Chief Executive Officer and/or any affiliate of Robert F.X. Sillerman is herein collectively, "Sillerman"). In connection with the Secured Convertible Note, the Company has entered into a Note Purchase Agreement (the "NPA") and a Security Agreement (the "Rant Security Agreement") with Rant, under which the Company has granted Rant a continuing security interest in substantially all assets of the Company. In connection with the issuance of the Secured Convertible Note, Sillerman and Rant entered into a subordination agreement subordinating repayment of the notes to the Debentures (as described in (b) hereof) and entered into an Intercreditor Agreement providing for the parties' respective rights and remedies with respect to payments against the collateral held as security for both of them.

The events of default under the Debentures noted above also constituted a default under the Secured Convertible Note issued in connection with the acquisition of Rant. The holder of the Secured Convertible Note has executed a waiver that provides that, until May 15, 2017, the events of default arising out of the failure to pay the amounts due under the Debentures as of the date of the waiver and the failure by the Company to maintain the Minimum Cash Reserve shall not constitute events of default for purposes of the Secured Convertible Note. In addition, the Company is currently in default with respect to the Rant Note as a result of the failure to make the Debentures amortization payment due in January 2017.

The Company valued the Secured Convertible Note as of the acquisition date using the methods of fair value as described ASC 820. The fair value of the conversion feature in the Secured Convertible Note was determined to be $500,000 at the acquisition date. As of December 31, 2016, the fair value of the conversion feature was determined to be $400,000. The $100,000 change in fair value from September 30, 2016 to December 31, 2016 was recorded as other income in the Consolidated Statements of Operations for the three months ended December 31, 2016.

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 $30,000,000. Pursuant to the Securities Purchase Agreement, the Company issued a Line of Credit Promissory Note (the "Note"), which provides for a $20,000,000 line of credit to the Company (see Note 11, Stockholders' Equity, for a discussion of the remaining $10,000,000 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 $1,000,000 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 $4,500,000. On December 15, 2014, SIC III made an additional advance in the principal amount of $15,500,000 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, 2016, the total outstanding principal amount of the Note was $20,000,000. 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, 2016, was $19,666,000, which includes accretion of the discount of $266,000 (the 3% discount of $600,000 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 $4,500,000 under the Note, the Company issued SIC III warrants to purchase 11,250 shares of the Company's common stock. These warrants have an exercise price of $70.20, 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 $15,500,000 under the Note, the Company issued SIC III warrants to purchase 38,750 shares of the Company's common stock. These warrants have an exercise price of $72.60, 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 $2,049,000 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 $500,000 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 $1,000,000 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 $500,000 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 $1,000,000 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.

On August 22, 2016, the Company and SIC III, entered into a Note Exchange Agreement pursuant to which $23,264,000, which represents all of the outstanding principal and accrued interest outstanding under the Notes, was exchanged for 23,264 shares of the Company's Series C Preferred Stock at an exchange price of $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement. After the exchange, the Notes were retired.

Interest expense on the Note was $0 and $613,000 for the three months ended December 31, 2016 and 2015, respectively.

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 $10,000,000. 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 Grid Note matures on the first to occur of: (a) December 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.

As of December 31, 2016 and June 30, 2016 the principal amount outstanding under the Grid Note was $3,465,000 and $4,563,000, respectively.

On July 8, 2016, the Company and SIC III, SIC IV and SIC VI entered into an Exchange Agreement pursuant to which, subject to adjustment, (i) 3,000 shares of the Company's Series C Preferred Stock owned by SIC III are to be exchanged for 890,898 shares of the Company's common stock and (ii) all of the debt held by Mr. Sillerman and such affiliates is to be exchanged for 5,066,654 shares of the Company's common stock. Issuance of the shares is conditioned upon approval of the

Company’s shareholders, the closing of an offering of the Company’s common stock in the amount of at least $10,000,000 approval of its Listing of Additional Shares application with NASDAQ, the Company shall not be subject to any bankruptcy proceeding, and various other conditions. The exchange price shall be equal to the lesser of $5.20 and the price at which the Debentures can be exchanged for shares of the Company’s common stock. The Company received an independent valuation with respect to the original exchange that the exchange price of $5.20 reflects fair value. Any additional change is subject to the receipt by the Company of an updated fair value determination. The agreement provides for termination in the event the conditions are not satisfied by March 31, 2017. At the date of this filing, this transaction has not yet closed.

Amended Exchange Agreement/Amended Grid Note

On July 18, 2016, SIC III, SIC IV and SIC VI, LLC entered into an amendment to the Exchange Agreement relating to the exchange of debt and shares of the Series C Preferred Stock of the Company for shares of the Company's common stock. The Exchange Agreement modified the Grid Note to provide that SIC IV shall be entitled to repayment of up to $2,000,000 of the outstanding principal balance of the Grid Note and the Company shall be entitled to draw up to an additional $5,000,000.

On August 22, 2016, the Company and SIC IV, entered into a Note Exchange Agreement pursuant to which $3,150,000, which represents all of the outstanding principal and accrued interest outstanding under the Grid Note other than $900,000, was exchanged for 3,150 shares of the Company’s Series C Preferred Stock at an exchange price of $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement. Therefore, the outstanding balance of the Grid Note at December 31, 2016 was $3,465,000.

Interest expense on the Grid Note for the six months ended December 31, 2016 and 2015 was $148,000 and $201,000 respectively.

In connection with the Company's entering into the Perk Credit Agreement (as defined below), SIC IV agreed to subordinate payment of the Grid Note to amounts owed to Perk under the Perk Credit Agreement. SIC IV also consented to the consummation of the Asset Purchase Agreement with Perk. In exchange for such consent and such agreement to subordinate, the Company agreed to provide SIC IV a security interest in the assets of the Company in connection with amounts outstanding under the Grid Note.

The Company entered into a Security Agreement with SIC IV , pursuant to which the Company pledged its assets in connection with such security interest. The foregoing descriptions of the Security Agreement is qualified in its entirety by reference to the full text of the form of Security Agreement.

Secured Revolving Loans and Lines of Credit

On January 27, 2016, Sillerman Investment Company VI LLC (“SIC VI”), an affiliate of Robert F.X. Sillerman, the Executive Chairman and Chief Executive Officer of the Company, entered into a Secured Revolving Loan agreement (the “Secured Revolving Loan I”) with the Company and its subsidiaries, wetpaint.com, Inc. and Choose Digital Inc. (collectively, the “Subsidiaries”), pursuant to which the Company can borrow up to $1,500,000. The Secured Revolving Loan bears interest at the rate of 12% per annum. In connection with the Secured Revolving Loan, the Company and the Subsidiaries have entered into a Security Agreement (the “Security Agreement”) with SIC VI, under which the Company and the Subsidiaries have granted SIC VI a continuing security interest in all assets of the Company and the Subsidiaries, with the exception of the Company’s interest in DraftDay Gaming Group, Inc. The Company intends to use the proceeds from the Secured Revolving Loan to fund working capital requirements and for general corporate purposes in accordance with a budget to be agreed upon by SIC VI and the Company. As of June 30, 2016,

$1,500,000 had been advanced thereunder. Interest expense on the Secured Revolving Loan I was approximately $27,000 for the six months ended December 31, 2016.

The Company and its subsidiaries wetpaint.com, inc., and Choose Digital, Inc. (the "Subsidiaries") entered into a secured, revolving Line of Credit on March 29, 2016 with SIC VI (the “Secured Revolving Line of Credit”), pursuant to which the Company can borrow up to $500,000. The Secured Revolving Line of Credit bears interest at the rate of 12% per annum.

In connection with the Secured Revolving Line of Credit, the Company and the Subsidiaries have entered into a Security Agreement (the “Security Agreement”) with SIC VI, under which the Company and the Subsidiaries have granted SIC VI a continuing security interest in all assets of the Company and the Subsidiaries, with the exception of the Company’s interest in DraftDay Gaming Group, Inc. The Company intends to use the proceeds from the Secured Revolving Line of Credit to fund working capital requirements and for general corporate purposes in accordance with a budget to be agreed upon by SIC VI and the Company. At June 30, 2016, $500,000 had been advanced thereunder. Interest expense on the Secured Revolving Line of Credit was approximately $9,000 for the six months ended December 31, 2016.

On April 29, 2016, SIC VI entered into an additional secured revolving loan agreement with the Company and the Subsidiaries ("Secured Revolving Loan"), pursuant to which the Company can borrow up to $500,000. Loans under this loan agreement bear interest at the rate of 12% per annum and mature on December 31, 2016, barring any events of default or a change of control of the Company. As of June 30, 2016, $500,000 had been advanced thereunder. Interest expense on the Secured Revolving Loan was $9,000 for the six months ended December 31, 2016.

On May 16, 2016, SIC VI entered into an additional secured revolving loan agreement with the Company and the Subsidiaries ("Secured Revolving Loan II"), pursuant to which the Company can borrow up to $500,000. Loans under this loan agreement bear interest at the rate of 12% per annum and mature on December 31, 2016, barring any events of default or a change of control of the Company. As of June 30, 2016, $500,000 had been advanced thereunder. Interest expense on the Secured Revolving Loan II was approximately $9,000 for the six months ended December 31, 2016.

On June 27, 2016, SIC VI entered into a secured revolving loan agreement (the “Secured Revolving Loan III”) with the Company and its subsidiaries, pursuant to which the Company can borrow up to $1,200,000. The Secured Revolving Loan III bears interest at the rate of 12% per annum and matures on December 31, 2016, barring any events of default or a change of control of the Company. At June 30, 2016, approximately $135,000 had been advanced thereunder. Interest expense on the Secured Revolving Loan III was approximately $8,000 for the six months ended December 31, 2016.

On August 22, 2016, the Company and SIC VI entered into a Note Exchange Agreement pursuant to which $3,608,000, which represented all of the outstanding principal and accrued interest of certain notes held by SIC VI, was exchanged for 3,608 shares of the Company’s Series C Preferred Stock at an exchange price of $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement. The Secured Revolving Loans and Lines of Credit were retired with the exchange transaction.

Related Approvals

Because each of the transactions 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.

Convertible Promissory Note

On June 27, 2016, the Company entered into a Convertible Promissory Note with Reaz Islam (“RI”), the Company's Chief of Staff, pursuant to which RI loaned the Company $300,000 (the “RI Convertible Note”). The RI Convertible Note bears interest at a rate of 12% and matures on December 31, 2016. RI shall have the right to convert the RI Convertible Note into shares of the common stock of the Company at such time, on such terms, and in accordance with such procedures as Mr. Sillerman shall have the right to convert debt held by Mr. Sillerman or his affiliates into shares of the Company’s common stock. The RI Convertible Note is subordinate to any note held by Mr. Sillerman or his affiliates and RI has agreed to execute any agreement reasonably required in connection therewith. As of December 31, 2016 , $300,000 of principal was outstanding under the RI Convertible Note. Interest expense for the six months ended December 31, 2016 was approximately $18,000.

Promissory Notes

In accordance with the Assets Purchase Agreement to purchase the DraftDay Business (see Note 6, Acquisitions), the Company issued promissory notes to MGT Capital ("MGT Promissory Notes") in the principal amount of $234,000 due and paid on September 29, 2015 and in the aggregate principal amount of $1,875,000 due March 8, 2016. The Company was not able to make the payment at the due date and on March 24, 2016 converted $824,000 of the promissory notes to common stock and $110,000 of the promissory notes to a Series D Preferred Stock (see Note 11, Stockholders' Equity (Deficit)). All such notes bear interest at a rate of 5% per annum. On April 13, 2016, MGT converted all 110 shares of the Company's Series D Preferred Stock into shares of common stock of the Company. Accordingly, the Company issued 18,332 shares of common stock to MGT. Thereafter, there are no shares of the Company's Series D Preferred Stock outstanding.

On June 14, 2016, the Company entered into a second exchange agreement with MGT (the “Second MGT Exchange Agreement”) relating to the $940,000 remaining due under the MGT Note (see Note 6, Acquisitions). Under the Second MGT Exchange Agreement, the MGT Note shall be exchanged in full for (a) $11,000 in cash representing accrued interest and (b) 132,092 shares of Company common stock, subject to certain adjustments. Issuance of the shares is conditioned upon approval of the Company’s shareholders and approval of its Listing of Additional Shares application with NASDAQ. Therefore, the outstanding balance of the MGT Promissory Notes was $0 at December 31, 2016. The Company recorded interest expense of approximately $12,000 for the six months ended December 31, 2016. On October 10, 2016, the Company satisfied the MGT Note through the issuance of 136,304 shares of its common stock and payment of interest of approximately $16,000.

In exchange for releasing certain liens and encumbrances with respect to the DraftDay Business(see Note 6, Acquisitions), the Company issued promissory notes to Kuusamo Capital Ltd. ("Kuusamo Promissory Notes") in the principal amount of $16,000 due and paid on September 29, 2015 and in the aggregate principal amount of $125,000 due March 8, 2016. The Company was not able to make the payment at the due date. All such notes bear interest at a rate of 5% per annum. On September 21, 2016, the Company satisfied the Kuusamo Promissory Note through the issuance of 8,410 shares of its common stock. The outstanding balance of the Kuusamo Promissory Notes was $0 at December 31, 2016. The Company recorded interest expense of approximately $1,000 for the six months ended December 31, 2016.

Accounts Payable Settlements

North America Photon Infotech Ltd. (“Photon”), a company based in Mauritius that had provided development services to the Company, filed suit in California on March 28, 2016 to collect approximately $218,000 owed by the Company to Photon. The Company settled this matter on May 12, 2016 in part by issuing a Note in the amount of $110,000, payable in six months. Such note was settled on November 15, 2016 with the issuance of 31,510 shares of the Company's common stock.

Interest expense on these notes issued in connection with vendor settlements was approximately $7,000 and $22,000 for the three and six months ended December 31, 2016, respectively.

10. Commitments and Contingencies

Litigation

A Complaint (Index #654984/2016) was filed by Andy Mule, on behalf of himself and others similarly situated, in the Supreme Court of the State of New York. The Complaint, which names the Company, each of its current directors, and President, as a former director, as defendants, claims a breach of fiduciary duty relating to the terms of a proposed conversion of debt and preferred shares into common equity by Mr. Sillerman and/or his affiliates. The Complaint seeks unspecified damages and such relief as the Court may deem appropriate. The Company accepted service on October 4, 2016, and filed a motion to dismiss on November 14, 2016. The Plaintiff has until April 7, 2017 to respond. The Company believes that this claim is without merit.

A complaint (Case #8:16-cv-02101-DOC-JCG) was filed in the United States District Court, Central District of California, Southern Division by Stephan Wurth Photography, Inc. The Complaint, which names Wetpaint.com, Inc. and two former employees of Rant, Inc., claims copyright infringement relating to photographs of Anna Kournikova that first appeared on a Rant website some time ago and continued to appear after the Company's purchase of Rant on July 8, 2016. The Company is in settlement discussions.

On January 20, 2017, a Complaint (Case #3D-2017-00898658-CU-CO-CJC) was filed in the Superior Court of California, County of Orange, by Jamboree Center 4 LLC, the former landlord of Rant, Inc., relating to rent Jamboree Center claims is owed for the period after the Company purchased Rant. The Company believes this claim is without merit. as the Company did not assume this liability. The Company intends to vigorously defend this action and seek indemnification from the sellers of the Rant assets.

On January 31, 2017, a complaint (Case #650513/2017) was filed in New York County Supreme Court, New York by Outbrain, Inc. ("Outbrain") against the Company and others, alleging failure to pay $739,190 owed to Outbrain by Rant between July 2015 and January 2016. The Company believes this claim is without merit, as the Company did not assume the liability to Outbrain. The Company intends to vigorously defend this action and seek indemnification from the sellers of the Rant assets.

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.

11. Stockholders' Equity

Common Stock

As of December 31, 2016 there were 300,000,000 shares of authorized common stock and 3,244,275 shares of common stock issued and outstanding, respectively. As of June 30, 2016 there were 300,000,000 shares of authorized common stock and 3,023,753 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 four series of preferred stock, including classes of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock. At this time, there is no Series A, Series B or Series D preferred stock outstanding. Only Series C and Series E Preferred Stock are 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 $23.00.
- 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.

At December 31, 2016 and June 30, 2016 there were no shares of Series A Convertible Redeemable Preferred Stock outstanding.

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 $23.00. 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 $33.40 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 1,250 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 $125,000,000.

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

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

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

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

At December 31, 2016 and June 30, 2016, there were no shares of Series B Convertible Preferred Stock outstanding.

Series C Convertible Preferred Stock

We amended the Certificate of Designation of our Series C Convertible Preferred Stock as of August 22, 2016. As amended, the designation, powers, preferences, and rights of the shares of Series C 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 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.

- The Company may redeem any or all of the outstanding Series C 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 stock at a price of $5.00 or more per share.

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- The Series C Preferred Stock is not redeemable or convertible into common stock by the holder (except the Series C Preferred Stock held by Mr. Sillerman and affiliates remains subject to the Exchange Agreement and is convertible in accordance therewith).

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

- Until the August 22, 2016 amendment, the Series C Convertible Preferred Stock was classified as a component of mezzanine equity in the accompanying Consolidated Balance Sheets. As a result of the amendment, the Series C Preferred Stock is now classified as a component of stockholders' (deficit) equity.

Preferred Stock Conversion

Sillerman Investment Company III, LLC ("SIC III"), an affiliate of Robert F.X. Sillerman, the Company's Executive Chairman and Chief Executive Officer of the Company, owned 10,000 shares of Series C Convertible Redeemable Preferred Stock. On May 9, 2016 (the "Exchange Date"), the Company and SIC III entered into a Subscription Agreement pursuant to which SIC III subscribed for 1,129,032 shares of the Company's common stock at a price of $6.20 per share. Accordingly, the aggregate purchase price for such shares was $7,000,000. The Company and SIC III agreed that SIC III would pay the purchase price for such shares by exchanging 7,000 shares of the Company's Series C Convertible Redeemable Preferred Stock owned by SIC III for the common stock (the "Exchange"). All conditions of the Subscription Agreement have been satisfied, and therefore 1,129,032 shares of the Company's common stock were issued to SIC III. Mr. Sillerman and his affiliates now own more than 50% of the outstanding shares of the Company's common stock. The Company determined that this was a fair transaction and did not recognize any stock compensation expense in relation with the conversion.

On August 22, 2016, the Company and SIC III, SIC IV, SIC VI entered into an Note Exchange Agreement pursuant to which $30,175,000, which represents all of the outstanding principal and accrued interest of certain notes held by SIC III, SIC IV, and SIC VI other than $900,000 of debt held by SIC IV pursuant to that certain Line of Credit Grid Note dated as of June 11, 2015, was exchanged for 30,175 shares of the Company's Series C Convertible Preferred Stock at an exchange price of $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement.

At December 31, 2016 and June 30, 2016, there were 33,175 and 3,000 shares of Series C Convertible Preferred Stock outstanding, respectively.
Series D Convertible Preferred Stock

On March 24, 2016, the Company created a new class of Series D Convertible Redeemable Preferred Stock (the "Series D Convertible Preferred Stock"). The Company authorized the issuance of up to 110 shares of the Series D Convertible Preferred Stock. The rights, preferences, privileges and restrictions of the shares of Series D Convertible Preferred Stock and the qualifications, limitations and restrictions thereof are summarized as follows:

- The shares of Series D Convertible Preferred Stock have a stated value of $1,000 per share.

- Each share of Series D Convertible Preferred Stock is convertible, at the option of the holders, at a rate of 167 shares of common stock for one share of converted Series D Convertible Preferred Stock.

- Shares of Series D Convertible Preferred Stock are not entitled to a liquidation preference.

- Conversions of the Series D Convertible Preferred Stock shall be limited such that any given conversion shall not cause the holder's aggregate beneficial ownership of the shares of common stock to exceed 9.99% of the Company's outstanding common stock.

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

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

The Series D Convertible Preferred Stock is classified as a component of stockholders' equity in the accompanying consolidated balance sheets. There were no shares of Series D Convertible Preferred Stock outstanding at December 31, 2016 and June 30, 2016.

Series E Convertible Preferred Stock

On July 7, 2016, the Company created a new class of Series E Convertible Preferred Stock (the "Series E Convertible Preferred Stock") by filing a Certificate of Designation of the Series E Convertible Preferred Stock of the Company (the "Series E Certificate of Designation") with the Secretary of State of the State of Delaware. The Company authorized the issuance of up to 10,000 shares of the Series E Convertible Preferred Stock. The rights, preferences, privileges and restrictions of the shares of Series E Convertible Preferred Stock and the qualifications, limitations and restrictions thereof are contained in the Series E Certificate of Designation and are summarized as follows:

- The shares of Series E Convertible Preferred Stock have a stated value of $1,000 per share (the "Stated Value").
- Subject to the satisfaction of certain conditions as set forth therein, each share of Series E Convertible Preferred Stock is convertible, at the option of the holders, on the basis of its Stated Value and accrued, but unpaid Dividends, into shares of the Company's common stock at a conversion price equal to the lesser of $5.20 or the Exchange Price.
- The shares of Series E Convertible Preferred Stock shall have no voting rights except as required by law.
- The consent of the holders of a majority of the shares of Series E Convertible Preferred Stock is necessary for the Company to amend its Series C Certificate of Designation.

As of December 31, 2016, there were 4,435 shares of Series E Convertible Preferred Stock outstanding. There were no shares of Series E Convertible Preferred Stock outstanding as of June 30, 2016.

Subscription Agreement

On December 3, 2015, the Company and SIC IV entered into a Subscription Agreement pursuant to which SIC IV subscribed for 437,500 shares of the Company’s common stock at a price of $9.40 per share. Accordingly, the aggregate purchase price for such shares was $4,112,000.

Non-controlling Interest

As discussed in Note 6, 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. In the three months ended September 30, 2016, Sportech invested an additional $121 into the DraftDay Business in exchange for shares of Series A Preferred Stock of DDGG for $1 per share. In connection with termination of the Sportech MSA at June 30, 2016 (see Note 6, Acquisitions), Sportech returned 4,200 shares of DDGG stock. The Company reduced non-controlling interest by approximately $378,000, which represents the fair value of these shares.

12. 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 Plan provides for the issuance of a maximum of 6,250,000 shares of common stock.  Pursuant to the Executive Incentive Plan and the employment agreements, between February 15, 2011 and December 31, 2016, the Compensation Committee of the Company's Board of Directors authorized the grants of restricted stock and stock options described below.

Restricted Stock

Compensation expense related to restricted stock was approximately $133,000 and $9,981,000 for the six months ended December 31, 2016 and 2015, respectively. As of December 31, 2016, there was approximately $239,000 in total unrecognized share-based compensation costs related to restricted stock. There were 65,318 shares of restricted stock granted during the six months ended December 31, 2016.

Stock Options

The Company accounts for these options at fair market value of the options on the date of grant, with the value being recognized over the requisite service period. The fair value of each option award is estimated using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of comparable companies' stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. Options generally have an expiration of 10 years and vest over a period of 3 or 4 years. There were no options granted during the six months ended December 31, 2016 and 2015.

Compensation expense related to stock options of approximately $13,000 and $173,000 is included in the accompanying Consolidated Statements of Operations in selling, general and administrative expenses for the three months ended December 31, 2016 and 2015, respectively. Compensation expense related to stock options of approximately $28,000 and $346,000 is included in the accompanying Consolidated Statements of Operations in selling, general and administrative expenses for the six months ended December 31, 2016 and 2015, respectively. As of December 31, 2016, there was approximately $107,000 of total unrecognized stock-based compensation cost which will generally be recognized over a two year period.

13. Income Taxes

For the three and six months ended December 31, 2016 and 2015, the Company did not record an income tax benefit because it has incurred taxable losses and has no history of generating taxable income and therefore the Company cannot presently anticipate the realization of a tax benefit on its Net Operating Loss carryforward. At December 31, 2016 the Company has a Net Operating Loss carryforward of approximately $165,112,000, which will begin to expire in 2030.

As a result of the Rant Asset Purchase in July 2016, the Company has goodwill of approximately $7,589,000 that is not amortized for financial reporting purposes. However, these assets are tax deductible, and therefore amortized over 15 years for tax purposes. As such, deferred income tax expense and a deferred tax liability arise as a result of the tax-deductibility of these assets. The resulting deferred tax liability, which is expected to continue to increase over time, will have an indefinite life, resulting in what is referred to as a “naked tax credit.” This deferred tax liability could remain on the Company’s balance sheet permanently unless there is an impairment of the related assets (for financial reporting purposes), or the business to which those assets relate were to be disposed of. The Company recorded income tax expense of $102,000 in the three and six months ended December 31, 2016 related to the "naked tax credit."

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

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

14. Related Party Transactions

Shared Services Agreements

The Company also entered into a shared services agreement ("SFX Shared Services Agreement") with SFX, pursuant to which it shares costs for services provided by several of the Company's and/or SFX's employees. Such employees will continue to be paid by their current employers, and SFX will reimburse the Company directly for its portion of such salary and benefits and Company will reimburse SFX directly for its portion of such salary and benefits (but not for any bonus, option or restricted share grant made by either company, which will be the responsibility of the company making such bonus, option or restricted share grant). The Audit Committee of each company's Board of Directors reviews and, if appropriate, approves the allocations made and whether payments need to be adjusted or reimbursed, depending on the circumstances. The Company entered into an amendment (the “Amendment”) to the shared services agreement on January 22, 2015, pursuant to which the Company may provide additional services to SFX, and SFX may provide certain services to the Company. In particular, the shared services agreement provides that, in addition to services already provided, certain employees of the Company may provide human resources, content and programming, and facilities services to SFX, subject to reimbursement based on salary and benefits for the employees providing the services, plus 20% for miscellaneous overhead, based on a reasonable estimate of time spent. In addition, the Amendment provides that SFX may provide certain tax services to the Company, subject to reimbursement based on salary and benefits for the employees providing the services, plus 20% for miscellaneous overhead, based on a reasonable estimate of time spent.

The parties terminated the SFX Shared Services Agreement effective as of January 1, 2016. SFX was reorganized in bankruptcy on December 2, 2016.
The net balance due (to)/from SFX, including amounts related to the Sales Agency Agreement, discussed below, as of December 31, 2016 and June 30, 2016 was approximately $0 and $142,000 respectively.

License Agreement

On March 10, 2014, the Company entered into an audio recognition and related loyalty program software license and services agreement with SFX. Pursuant to the terms of the license agreement, SFX paid the Company $5,000,000 to license its audio recognition software and related loyalty platform for a term of 10 years. The amount was deferred and is being amortized over the ten years period. For the three months ended December 31, 2016 and 2015, the Company recognized $125,000 and $125,000, respectively of revenue related to this agreement. For the six months ended December 31, 2016 and 2015, the Company recognized $250,000 and $250,000, respectively, of revenue related to this agreement.

Secured Line of Credit

On January 27, 2016, Sillerman Investment Company VI LLC ("SIC VI"), an affiliate of Robert F.X. Sillerman, the Executive Chairman and Chief Executive Officer of the Company, entered into a secured revolving loan agreement (the "Secured Revolving Loan") with the Company and its subsidiaries, Wetpaint and Choose Digital (collectively, the "Subsidiaries"), pursuant to which the Company can borrow up to $1,500,000. The Secured Revolving Loan bears interest at the rate of 12% per annum. In connection with the Secured Revolving Loan, the Company and the Subsidiaries have entered into a Security Agreement (the "Security Agreement") with SIC VI, under which the Company and the Subsidiaries have granted SIC VI a continuing security interest in all assets of the Company and the Subsidiaries, with the exception of the Company's interest in DraftDay Gaming Group, Inc. The Company intends to use the proceeds from the Secured Revolving Loan to fund working capital requirements and for general corporate purposes in accordance with a budget to be agreed upon by SIC VI and the Company. As of June 30, 2016, $1,500,000 had been advanced thereunder. Because Mr. Sillerman is a director, executive officer and greater than 10% stockholder of the Company, a majority of the Company's independent directors approved the transaction. On August 22, 2016, the Company and SIC IV entered into an Note Exchange Agreement pursuant to which $1,500,000, which represents all of the outstanding principal and accrued interest of certain notes held by SIC IV was exchanged for 1,500 shares of the Company's Series C Convertible Preferred Stock at an exchange price of $1,000 per share. See Note Exchange Agreement paragraph below for additional information on the August 22, 2016 exchange.
$500,000 Line of Credit

The Company and its subsidiaries entered into a secured, revolving Line of Credit on March 29, 2016 with SIC VI (the "Secured Revolving Line of Credit"), pursuant to which the Company can borrow up to $500,000. The Secured Revolving Line of Credit bears interest at the rate of 12% per annum. In connection with the Secured Revolving Line of Credit, the Company and the Subsidiaries have entered into a Security Agreement (the "Security Agreement") with SIC VI, under which the Company and the Subsidiaries have granted SIC VI a continuing security interest in all assets of the Company and the Subsidiaries, with the exception of the Company's interest in DraftDay Gaming Group, Inc. The Company intends to use the proceeds from the Secured Revolving Line of Credit to fund working capital requirements and for general corporate purposes in accordance with a budget to be agreed upon by SIC VI and the Company. At June 30, 2016, $500,000 had been advanced thereunder. On August 22, 2016, the Company and SIC

VI entered into an Note Exchange Agreement pursuant to which $500,000, which represents all of the outstanding principal and accrued interest of certain notes held by SIC VI was exchanged for 500 shares of the Company's Series C Convertible Preferred Stock at an exchange price of $1,000 per share. See Note Exchange Agreement paragraph below for additional information on the August 22, 2016 exchange.

Preferred Stock Conversion

Sillerman Investment Company III, LLC ("SIC III"), an affiliate of Robert F.X. Sillerman, the Company's Executive Chairman and Chief Executive Officer of the Company, owned 10,000 shares of Series C Convertible Redeemable Preferred Stock. On May 9, 2016 (the "Exchange Date"), the Company and SIC III entered into a Subscription Agreement pursuant to which SIC III subscribed for 1,129,032 shares of the Company's common stock at a price of $6.20 per share. Accordingly, the aggregate purchase price for such shares was $7,000,000. The Company and SIC III agreed that SIC III would pay the purchase price for such shares by exchanging 7,000 shares of the Company's Series C Convertible Redeemable Preferred Stock owned by SIC III for the common stock (the “Exchange”). All conditions of the Subscription Agreement have been satisfied, and therefore 1,129,032 shares of the Company’s common stock were issued to SIC III. Mr. Sillerman and his affiliates now own more than 50% of the outstanding shares of the Company’s common stock. The Company determined that this was a fair transaction and did not recognize any stock compensation expense in relation with the conversion.

Exchange Agreement

On July 8, 2016, the Company and SIC III, SIC IV and SIC VI, each an affiliate of Mr. Sillerman, entered into an Exchange Agreement pursuant to which, subject to adjustment, (i) 3,000 shares of the Company's Series C Preferred Stock owned by SIC III are to be exchanged for 890,898 shares of the Company's common stock and (ii) all of the debt held by Mr. Sillerman and such affiliates is to be exchanged for 5,066,654 shares of the Company's common stock. Issuance of the shares is conditioned upon approval of the Company’s shareholders (see "Shareholder Approval" in this section), the closing of an offering of the Company’s common stock in the amount of at least $10,000,000, approval of its Listing of Additional Shares application with NASDAQ, the Company shall not be subject to any bankruptcy proceeding, and various other conditions. The exchange price shall be equal to the lesser of $5.20 and the price at which the Debentures can be exchanged for shares of the Company’s common stock. The Company received an independent valuation with respect to the original exchange that the exchange price of $5.20 reflects fair value. Any additional change is subject to the receipt by the Company of an updated fair value determination. The agreement provides for termination in the event the conditions are not satisfied by March 31, 2017. At the date of this filing, this transaction has not yet closed.

Amended Exchange Agreement/Amended Grid Note

On July 18, 2016, SIC III, SIC IV and SIC VI, LLC entered into an amendment to the Exchange Agreement relating to the exchange of debt and shares of the Series C Preferred Stock of the Company for shares of the Company's common stock. The Exchange Agreement modified the Grid Note to provide that SIC IV shall be entitled to repayment of up to $2,000,000 of the outstanding principal balance of the Grid Note and the Company shall be entitled to draw up to an additional $5,000,000. $3,605,000 remains available to draw under the Grid Note and at the date of this filing, the current balance is $2,950,000.

Note Exchange Agreement

On August 22, 2016, the Company and SIC III, SIC IV, and SIC VI, each an affiliate of Mr. Sillerman, entered into a Note Exchange Agreement pursuant to which $30,175,000, which represents all of the outstanding principal and accrued interest of the Note, the Loans, the Secured Revolving Loan, the Secured Revolving Promissory Note, the Secured Revolving Promissory Note II, and the Secured Revolving Promissory Note III (all described and defined in Note 9, Loans Payable) other than $900,000 of debt held by SIC IV pursuant to that certain Line of Credit Grid Promissory Note dated as of June 11, 2015 (see "Grid Note"), was exchanged for 30,175 shares of the Company’s Series C Preferred Stock (see "Amendment to Certificate of Designation of Series C Preferred Stock" in this section.) The exchange price is $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement, and subject to the additional obligations set forth in the Subordination Agreement and the Lockup Agreements. The Grid Note remains subject to the Exchange Agreement.

Related Approvals

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

15. Fair Value Measurement

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

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

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

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

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

The Company issued 1,068 warrants in connection with the May 10, 2012 PIPE. Each warrant has a sale price of $8,800 and is exercisable into 1 share of common stock at a price of $12,800 over a term of three years. Further, the exercise price of the warrants is subject to "down round" protection, whereby any issuance of shares at a price below the current price resets the exercise price equal to a the price of newly issued shares (the "Warrants"). In connection with the PIPE Exchanges on September 16, 2013, the exercise price of the Warrants was reset to $2. The fair value of such warrants has been determined utilizing the Binomial Lattice Model in accordance with ASC 820-10, Fair Value Measurements. The fair value of the warrants when issued was approximately $5,281,000. On September 16, 2013, 341 warrants were exchanged in connection with the PIPE Exchanges. The remaining 14,545 warrants were marked to market as of December 31, 2016 and 2015 to a fair value of $10,000 and $10,000, respectively. The Company recorded gains/(losses) of $0 and $0 to other income, net in the Consolidated Statements of Operations for the six months ended December 31, 2016 and 2015, respectively. The fair value of the warrant is classified as a current liability on the Consolidated Balance Sheets as of December 31, 2016, due to the Company's intention to retire a significant portion of these warrants in its next round of financing. The Company's warrants were classified as a Level 3 input within the fair value hierarchy because they were valued using unobservable inputs and management's judgment due to the absence of quoted market prices and inherent lack of liquidity.

On February 8, 2016, the Company received Perk warrants as part of the consideration in the sale of the Viggle business. The carrying amount of Perk warrants held is marked-to-market on a quarterly basis using the Monte Carlo valuation model, in accordance with ASC 820-10, Fair Value Measurements. The changes to fair value are recorded in the Consolidated Statements of Operations. The fair value of the warrants when issued was approximately $1,023,000. The warrants were marked to market as of December 31, 2016 to a fair value of $1,091,000. The Company recorded a loss of approximately $503,000 to other expense, net in the Consolidated Statements of Operations for the three months ended September 30, 2016. The fair value of the warrant was classified as an other asset on the Consolidated Balance Sheets as of June 30, 2016. The Perk warrants were classified as a Level 3 input within the fair value hierarchy because they were valued using unobservable inputs and management's judgment due to the absence of quoted market prices and inherent lack of liquidity.

In February 2016, the Company received 1,370,000 shares of Perk stock, which is publicly traded on the Toronto Stock Exchange, as part of the consideration in the sale of assets described in the Perk Agreement. These securities are short-term marketable securities, and have been classified as "available-for-sale" securities. Pursuant to ASC 320-10, "Investments - Debt and Equity Securities" the Company's marketable securities are marked to market on a quarterly basis, with unrealized gains and losses recorded in equity as Other Comprehensive Income/Loss.

On September 30, 2016, the Company sold to Perk the remaining shares (1,013,068) of Perk common stock, the warrants for additional shares, and the right to the Earn-Out Shares received from Perk on the sale of the Viggle rewards business on February 8, 2016. The Company received $1,300,000 from Perk as consideration therefor. The execution of the Securities Purchase Agreement and closing were simultaneous. In connection with the sale of the Perk shares, the warrants for additional shares and the right to the Earn-Out Shares, the Company recorded a loss of approximately $2,195,000 in the Other Expense line item of the Consolidated Statements of Operations for the three months ended September 30, 2016.

As discussed in Note 6, Acquisitions, the Company purchased Rant on July 12, 2016. In conjunction with the Rant acquisition, the Company delivered a Secured Convertible Note to Rant in the amount of $3,000,000 and issued 4,435 of Series E Convertible Preferred Stock. In accordance with ASC 820, the Company had the Secured Convertible Note and Series E Preferred Stock fair valued at the acquisition date. The fair value of the conversion feature of the Secured Convertible Note was approximately $500,000 and the fair value of the Series E Preferred Stock was approximately $7,600,000. The Secured Convertible Note, the fair value of the conversion feature and Series E Preferred Stock were recorded at their acquisition date fair values with a corresponding charges to goodwill in the Consolidated Balance Sheets at September 30, 2016. As of December 31, 2016, the fair value of the conversion feature was determined to be approximately $400,000. The $100,000 change in fair value from September 30, 2016 to December 31, 2016 was recorded as other income in the Consolidated Statements of Operations for the three months ended December 31, 2016.

On July 12, 2016, the Company closed the Private Placement of $4,444,000 principal amount of the Debentures and Warrants. The Debentures and Warrants were fair valued at the Private Placement closing date. The fair value of the Conversion feature was approximately $1,856,000 and the fair value of the Warrants was $1,500,000. The Conversion feature and Warrants were recorded at the Private Placement closing date fair values with corresponding charges to debt discount of approximately $1,856,000 for the Debentures and approximately $1,500,000 for the Warrants in the Consolidated Balance Sheets at September 30, 2016. As of December 31, 2016, the fair value of the Conversion feature was determined to be approximately $1,256,000 and the fair value of the Warrants was determined to be $410,000. The changes in fair value were recorded as other income in the Consolidated Statements of Operations for the three months ended December 31, 2016.

On August 22, 2016, the Company and SIC III, SIC IV, SIC VI entered into an Note Exchange Agreement pursuant to which $30,175,000, which represents all of the outstanding principal and accrued interest of certain notes held by SIC III, SIC IV, and SIC VI other than $900,000 of debt held by SIC IV pursuant to that certain Line of Credit Grid Note dated as of June 11, 2015, was exchanged for 30,175 shares of the Company’s Series C Convertible Preferred Stock at an exchange price of $1,000 per share. The Series C Convertible Preferred Stock was fair valued at the exchange date, August 22, 2016, and determined to be $28,500,000. The Series C Convertible Preferred Stock was recorded at the exchange date fair value with a corresponding charge to additional paid-in capital of $1,675,000 in the Consolidated Balance Sheets at September 30, 2016.

Non-financial Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

On a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. Measurements based on undiscounted cash flows are considered to be Level 3 inputs. During the fourth quarter of each year, the Company evaluates goodwill and indefinite-lived intangibles for impairment at the reporting unit level. For each acquisition, the Company performed a detailed review to identify intangible assets and a valuation is performed for all such identified assets. The Company used several market participant measurements to determine estimated value. This approach includes consideration of similar and recent transactions, as well as utilizing discounted expected cash flow methodologies, and/or revenue or EBITDA multiples, among other methods. The amounts allocated to assets acquired and liabilities assumed in the acquisitions were determined using Level 3 inputs. Fair value for property and equipment was based on other observable transactions for similar property and equipment. Accounts receivable represents the best estimate of balances that will ultimately be collected, which is based in part on allowance for doubtful accounts reserve criteria and an evaluation of the specific receivable balances.

Where goodwill has been allocated to a reporting unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the reporting units retained. The relative fair value of each reporting unit is established using discounted expected cash flow methodologies, and/or revenue or EBITDA multiples, or other applicable valuation methods, which are considered to be Level 3 inputs.

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

| | (in thousands) |
|---|---|

| | |
|---|---|
| Balance at July 1, 2016 | $ 648 |
| Unrealized losses for the period included in other income (expense), net | (503 ) |
| Sale of Perk warrants | (145 ) |
| Balance at December 31, 2016 | $ — |

As noted above, on September 30, 2016, the Company sold to Perk the remaining shares of Perk common stock, the warrants for additional shares, and the right to the Earn-Out Shares received from Perk on the sale of the Viggle rewards business on February 8, 2016. The Company received $1,300,000 from Perk as consideration therefor. In connection with the sale of the Perk shares, the warrants for additional shares and the right to the Earn-Out Shares, the Company recorded a loss of approximately $2,195,000 in the Other Expense line item of the Consolidated Statements of Operations during the three months ended September 30, 2016.

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

| | (in thousands) |
|---|---|
| Balance at July 1, 2016 | $ 10 |
| Additions to Level 3 | 3,856 |
| Changes to fair value | (1,790 ) |
| Balance at December 31, 2016 | $ 2,076 |

16. Subsequent Events

Events of Default

The Company is currently in events of default under the Debentures issued in the Private Placement for failure to make amortization payments and for failure to maintain the Minimum Cash Reserve.

On October 12, 2016, the first amortization payment in the amount of $444,000, plus accrued interest of approximately $114,000 pursuant to the terms of the Debentures became due and payable to the Purchasers. The Company did not make such payment at the time it was due.The Company entered into waiver agreements with Purchasers holding approximately 87% of the principal amount of the Debentures. Such waivers are not binding on the remaining Purchasers of the Debentures. Pursuant to the terms of the Waiver, the Purchasers have agreed to waive the payment of the amortization payments and accrued interest due for October 2016 and November 2016. In consideration for waiving the payment terms of the Debentures, the Company paid, upon execution of the Waiver, 10% of the Amortization Amount that became due on October 12, 2016 and paid on November 12, 2016 10% of the Amortization Amount due in November 2016. All other amounts will be due and payable in accordance with the terms of the Debentures, with the deferred payments due at maturity. The Company did not receive a waiver from one of its debenture holders, holding approximately 13% of the principal amount of the Debentures with respect to the event of default arising out of the Company’s failure to make the first amortization payment when due. Pursuant to the terms of the Debentures, such holder has sent a notice of acceleration, stating that the Company owes approximately $696,000, reflecting the principal amount of the Debenture plus interest through November 1, 2016. Interest will accrue at 18% until this amount is satisfied. The Company is seeking to settle the matter with the holder; however, there can be no assurance that an agreement will be reached.

The waivers entered into with some of the Purchasers related to the failure to pay the amortization amount do not address the failure to maintain the Minimum Cash Reserve. In addition, the Company is currently in default with respect to the amortization payment due in January 2017.

Pursuant to the terms of the Debentures, the failure to cure the non-payment of amortization or failure to maintain the Minimum Cash Reserve within three trading days after the due date constitutes an Event of Default. Following the occurrence of an event of default, among other things: (1) at the Purchaser’s election, the outstanding principal amount of the Debentures, plus accrued but unpaid interest, plus all interest that would have been earned through the one year anniversary of the original issue date if such interest has not yet accrued, liquidated damages and other amounts owed through the date of acceleration, shall become, immediately due and payable in either cash or stock pursuant to the terms of the Debentures; and (2) the interest rate on the Debentures will increase to the lesser of 18% or the maximum allowed by law. In addition to other remedies available to the Purchasers. the Company's obligation to repay amounts due under the Debentures is secured by a first priority security interest in and lien on all of the Company's assets and property, including the Company's intellectual property, and such remedies can be exercised by the Purchasers without additional notice to the Company.

Under terms of the $3,000,000 Secured Convertible Note issued in connection with the acquisition of Rant, a default under other indebtedness owed by the Company constitutes a default under the Rant Note. As a result of such Event of Default, the holder of the Rant Note has executed a waiver that provides that, until May 15, 2017, the events of default arising out of the failure to pay the amounts due under the Debentures as of the date of the waiver and the failure by the Company to maintain the Minimum Cash Reserve shall not constitute events of default for purposes of the Rant Note. In addition, the Company is currently in default with respect to the Rant Note as a result of the failure to make the Debentures amortization payment due in January 2017.

Secured Lines of Credit

Since the three months ended December 31, 2016, the Company has borrowed an additional $900,000 under the SIC IV Line of Credit as of the date of this filing. The principal amount now outstanding under the Line of Credit is $4,115,000 and the Company is entitled to draw up to an additional $885,000 under the Line of Credit.

Appointment of Chief Operating Officer

On January 19, 2017, the Company named Brian Rosin as its Chief Operating Officer. On January 26, 2017, the Company and Mr. Rosin agreed to the terms of a new employment agreement reflecting his new role.

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

The following management’s discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with the historical unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report, and in the Company's Annual Report on Form 10-K filed on October 12, 2016. Our historical results of operations reflected in our consolidated financial statements are not necessarily indicative of our future results of operations.

### Overview

We were incorporated in Delaware in July 1994. We are a diversified media and entertainment company and conduct business through our three operating segments, including digital publishing through Wetpaint.com, Inc. (“Wetpaint”) and Rant, Inc. (“Rant”), fantasy sports gaming through DraftDay Gaming Group, Inc. (“DDGG”), and digital content distribution through Choose Digital, Inc. (“Choose Digital”).

We recently rebranded, evolving into a standalone business with a completely new focus and business strategy from our predecessor, Viggle. The assets of the Viggle business were sold to Perk Media (“Perk”) on February 7, 2016 (see “Perk.com Transaction-Perk Agreement”).

We are a Social Publishing and Interactive Media platform, focused on creating a uniquely differentiated user experience across various content verticals utilizing multiple types of media for ultimate user engagement.

We plan to execute on this plan via a three-pronged approach:

- Organic Growth: Development of our existing properties and continued creation of exclusive, premium video content. As we continue to grow the business, we will leverage our optimized monetization model to continue to drive revenue growth to support the business via programmatic ad sales;
- Optimal utilization of strategic assets (SDS, Choose and DraftDay): these assets complement our core business and can facilitate audience engagement and contribute to the growth of our audience. Focus on traffic growth utilizing SDS, which is patented, proprietary technology that allows for dynamic learning of audience behavior and interactions on social media; and
- Acquisition: In an effort to scale and grow the business, we will evaluate potential acquisitions in accordance with established, thoughtful and pre-determined parameters. We will seek acquisitions that can be easily integrated into the platform with minimal increases to expenses.

### Key Milestones

- New Management Team: Implementation of a new and experienced Management Team, each of whom have had professional relationships with Robert F.X. Sillerman, our Chairman and Chief Executive Officer;
- Deleveraging the balance sheet: Affiliates of Robert F.X. Sillerman, our Chairman and Chief Executive Officer own a majority of our common stock and held substantial debt in the Company, substantially all of which has been converted into Preferred Equity. These affiliates have committed to converting approximately $36,500,000 in preferred equity into shares of our common stock;

- Defined key performance metrics: These are being tracked and analyzed on a daily basis via automated reporting; and analytics;

- Key foundation for our future growth has been established: This includes a rationalized headcount from which the business can be brought to scale, disciplined financial controls and an improved expense model, revamped technology platform and acquisition team intended to drive incremental growth.

Near Future

- Focus on direct sales and sponsorship revenue as we build out the video platform, which will allow for further diversification of the revenue stream; and

- Leverage our intellectual property and technology to commercialize and monetize core and non-core assets.

We aspire to be become the #1 Interactive Media Platform by leveraging and building on our existing platform and current user base. Our three pronged strategy includes, (a) further developing our platform connecting content owners with their audience through live or on-demand video channels, (b) enhance our comprehensive built-in monetization model for content contributors and distribution partners, and (c) focus on building a technology driven ultimate user engagement platform supporting video, blogs, mobile, social, e-commerce and analytics. We intend to grow our business organically by integrating our recently acquired businesses and by pursuing acquisitions of assets or businesses that would enhance our presence as a media platform.

Our immediate objective is to successfully integrate Wetpaint and Rant assets and lay the foundation and refine processes that can serve as a blueprint for future acquisitions and growth. As part of the integration process we plan to develop a solid and predictable revenue model for our Social Publishing business aiming for profitability in near-term, implement scalable but lean operational processes and staffing within product development and ad revenue divisions and finalize a long-term plan that embraces product innovation with the sole purpose of defining us as the leading player in Interactive Media Publishing with a focus on video, social, mobile, e-commerce and predictive analytics.

Digital Publishing

Our digital publishing businesses include Wetpaint and Rant. Wetpaint is a leading entertainment news destination for millennial women. Covering the latest in television, music, celebrities, entertainment news, fashion, and pop culture, Wetpaint reaches millions of unique users on a monthly basis. Through Wetpaint, we publish more than 55 new articles, videos, and galleries each day. Wetpaint is a social publisher whose target audience is millennial women, primarily 18- to 34-year-old women. With social packaging around original entertainment news content, we showcase exclusive interviews, breaking stories, and our fangirl spin on pop culture. We generate content through our team of in-house professional writers and editors who are experts in their fields. Each writer is immersed in pop culture and what is happening on-screen and behind the scenes of fans' favorite TV shows and movies. They seek to deliver content to our readers in a fun, visual and informative way and to ensure that our fans are up to date on all the latest entertainment news and gossip.

Wetpaint is a leading-edge media platform that uses its proprietary state-of-the-art technologies and expertise in social media to build and monetize audiences. We are very focused on knowing our audience, which is made possible through our proprietary Social Distribution System ("SDS"), a patented technology-based social experimentation and publishing platform. Wetpaint's competitive advantage is this complete audience-development engine, which optimizes the packaging and distribution of content by getting it to the right audience at the right place and time on the internet.

To enhance our digital publishing business, we recently acquired assets of Rant. Rant is a leading digital publisher that publishes original content in 13 different verticals, most notably in sports, entertainment, pets, cars, and food. Adweek published that Rant's flagship RantSports.com property was ranked #1 by Quantcast for target digital ad buying for the 2015 holiday season, indicating the power of reaching a targeted audience. Rant and its expanding internet property lineup has established itself as a leading innovator in online media consumption. Known for the well-established brand RantSports, Rant has since expanded its reach towards the areas of lifestyle, fitness, exercise, entertainment, technology, and celebrities. Rant was recently named both #18 overall on Inc 500's Fastest Growing Companies - #1 in Media - and #31 on Forbes' Most Promising Companies of 2015.

As a complement to our existing Wetpaint publishing business, Rant brings an expanded reach into sports, lifestyle, and entertainment publishing. The combined properties currently have approximately 13.1 million fans on their

Facebook pages and, for the quarter ended December 31, 2016, generated an average of 16.2 million visits per month. With the acquisition of Rant, we gain a highly optimized digital media delivery technology which amplifies the speed of digital content publishing, getting information and relevant advertising to the end user more quickly than before. Rant's platform is designed for desktop and mobile content at the billions-of-pageviews per year level. Because of its low cost of operation, the coupling of the Rant platform and the SDS technology creates powerful tools in digital content publishing. Over the six months ended December 31, 2016, we focused our efforts on growing Wetpaint user engagement and monetization. We anticipate applying the same focus and methodology in the near future to the Rant sites to continue to grow and strengthen our publishing business.

Our digital publishing businesses are very focused on knowing their audience. This is made possible through our proprietary SDS. Our competitive advantage is this complete audience-development engine, which optimizes the packaging and distribution of content, getting it to the right audience at the right place at the right time primarily through social media. The technology is designed to generate fans on our pages on Facebook and other social media outlets. Our content is then displayed in the fans' feeds on Facebook and other social media sites, which can then drive traffic to our websites. Our technology contains a test and measurement system that delivers real-time audience insights, and provides optimized distribution by audience. Because we use this proprietary technology, a significant amount of our website traffic is generated through social media channels, particularly Facebook. Facebook and other social media outlets routinely update their algorithms to adjust what content is displayed in users' feeds. The test and measurement feature of our technology help us to stay current in maximizing website traffic from social media channels as these algorithms change. We have seven issued patents related to the SDS technology.

Our digital publishing businesses generate revenue by displaying advertisements to our users as they view content on our websites. We source ads by working directly with advertisers, or their advertising agencies, and by working through several third party ad networks who are all bidding against each other for our advertising inventory in real time. Advertisements are typically priced as a base price per thousand views, also known as Cost-Per-Mille (CPM), but can also be priced as a base price per click, also known as Cost-Per-Click (CPC), or as a base price per intended action, also known as Cost-Per-Action (CPA). The vast majority of our revenues are derived from ads sourced from third party ad networks.

DraftDay.com

DDGG operates a daily fantasy sports website at DraftDay.com, and other white-label websites on behalf of its business-to-business clients. The DraftDay business is focused on the business-to-business market allowing consumer brands entry into the fantasy sports market with turnkey solutions in the United States and Canada. Outside of the U.S., Draft Day Gaming Group launched the DraftStars daily fantasy platform for CrownBet, the leading sports betting operation in Australia. However, within the U.S., by October of 2015 the regulatory landscape adversely shifted and all daily fantasy sports companies including DDGG were faced with regulatory uncertainty. DDGG's model provides three unique benefits to white label customers: (1) business-to-business white label strategy that significantly reduces customer acquisition cost risks, (2) partner liquidity sharing that provides opportunity for large prize pools via aggregation, and (3) platform with the latest in consumer protections in the industry.

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

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

In exchange for the acquisition of the DraftDay Business, we paid MGT Sports the following: (a) 63,467 shares of our common stock, par value $0.001 per share ("Common Stock"), (b) a promissory note in the amount of $234,000, which was due September 29, 2015, (c) a promissory note in the amount of $1,875,000 due March 8, 2016, and (d) 2,550 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 shares of DDGG common stock at an exercise price of $400 per share. In addition, in exchange for the release of various liens and encumbrances, we also agreed to issue to third parties: (a) 4,232 shares of our common stock, (b) a promissory note in the amount of $16,000 was due September 29, 2015 and (c) a promissory note in the amount of $125,000 was due March 8, 2016, and DDGG issued: (i) 150 shares of our common stock and (ii) a warrant to purchase 350 shares of DDGG common stock at $400 per share. Accordingly, we issued a total of 67,879 shares of common stock in connection with the acquisition of the DraftDay Business. We contributed the assets of the DraftDay Business to DDGG, such that we now own a total of 11,250 shares of DDGG common stock.

In the aggregate, we issued promissory notes in the principal amount of $250,000 due and paid on September 29, 2015 and in the aggregate principal amount of $2,000,000 due March 8, 2016. We were not able to make the payment at the due date and, on March 24, 2016, converted $824,000 of the promissory notes to common stock and 110 of the promissory notes to a Series D Preferred Stock. On April 13, 2016, MGT Sports converted all 110 shares of our Series D Preferred Stock into shares of our common stock. Accordingly, we issued 18,332 shares of common stock to MGT Sports and, thereafter, there are no shares of our Series D Preferred Stock outstanding. On June 14, 2016, we entered into a second exchange agreement with MGT (the “Second MGT Exchange Agreement”) relating to the approximately $940,000 remaining due under the MGT Note. Under the

Second MGT Exchange Agreement, the MGT Note shall be exchanged in full for (a) $11,000 in cash representing accrued interest and (b) 132,092 shares of our common stock, subject to certain adjustments. Issuance of the shares is conditioned upon approval of our shareholders and approval of our listing of additional shares application with NASDAQ. On October 10, 2016, we satisfied the MGT Note through the issuance of 136,304 shares of our common stock and payment of interest of $16,000.

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 shares of DDGG common stock. As a result of the transactions described above, we own a total of 11,250 shares of DDGG common stock, Sportech Inc., an affiliate of Sportech, owns 9,000 shares of DDGG common stock, MGT Sports owns 2,550 shares of DDGG common stock and an additional third party owns 150 shares of DDGG common stock. In addition, MGT Sports holds a warrant to purchase 1,500 shares of DDGG common stock at an exercise price of $400 and an additional third party holds a warrant to purchase 350 shares of DDGG common stock at $400 per share.

On December 28, 2015, DDGG's Board of Directors effectuated a 1-for-1,000 reverse stock split (the “1-for-1,000 Reverse Split”). Under the terms of the 1-for-1,000 Reverse Split, each share of DDGG's common stock, issued and outstanding as of such effective date, was automatically reclassified and changed into one-thousandth of one share of common stock, without any action by the stockholders. Fractional shares were cashed out.

On April 12, 2016, DDGG entered into an amendment to the transitional management services agreement pursuant to which the DDGG's Management Services Agreement By and Between DraftDay Gaming Group, Inc. and Sportech Racing, LLC ("Sportech MSA") terminated effective June 30, 2016. Sportech paid a $75,000 termination fee, reverted 4,200 shares of DDGG stock back to us, previously recorded the value of the services provided by Sportech under the Sportech MSA to prepaid assets, to be recognized as a professional services expense in the Consolidated Statements of Operations over the term of the agreement. Due to the termination of the agreement, we expensed the remaining value of the Sportech services, except for the value associated with the 4,200 shares of DDGG stock which were returned and 45 days of transitional services. The termination of the Sportech MSA required DDGG to begin performing certain management functions on its own.

On May 12, 2016, we entered into a subscription agreement with DDGG pursuant to which we agreed to purchase up to 550 shares of Series A Preferred Stock of DDGG for $1 per share. DDGG also entered into a subscription agreement with Sportech pursuant to which Sportech agreed to purchase up to 450 shares of Series A Preferred Stock of DDGG for $1 per share. In accordance with this agreement, the Company transferred approximately $1,096,000 to the DDGG subsidiary since the date of acquisition and through the date of the filing of this Form 10-Q.

Choose Digital

Choose Digital was founded in 2011 as a supply chain to the loyalty and incentive industry, allowing major programs (airline frequent flier, banks and hotel loyalty programs, etc.) to offer digital content as a reward redemption option. Choose Digital’s products and services allow any reward program to integrate our large digital media marketplace, giving their members the ability to browse, redeem, and download latest releases or classic favorites.

Choose Digital is a white-label digital marketplace featuring a recent and wide range of digital content, including music, eBooks and audiobooks. The content is sourced from leading record companies and book publishers. The marketplace can be fully branded and integrated seamlessly into clients' current online environments. Today Choose Digital’s marketplace powers a number of loyalty programs in the U.S. and Canada allowing customers and participants to enjoy the latest in digital content instantly.

Choose Digital generates revenues when participants in Choose Digital's clients' loyalty programs redeem loyalty credits for digital content provided by Choose Digital. For example, if a participant in a loyalty program redeems credits for a song download provided by Choose Digital, the client loyalty program pays Choose Digital for the download.

Choose Digital offers several custom and turnkey products for creating e-commerce web apps for selling digital music, eBooks, and audiobooks within small or large loyalty programs. The digital media catalog consists of the new releases and large back-catalogs of major music labels and book publishers. New catalog items are added daily.

Choose Digital's technology and expertise provides the ability for client companies and organizations to quickly add digital media items to their loyalty reward programs. The digital media catalog can be fully customized to the client's needs and can involve integrating our full-featured API, or employing our services to create a custom, seamless, standalone, and managed storefront accessible by their member base. We are currently restructuring this line of business.

Technology

Our digital publishing, gaming and digital content distribution businesses are enabled by multiple technology platforms primarily developed internally including proprietary and patented software some of which are briefly described below.

Our digital content distribution businesses are very focused on knowing their audience. This is made possible through our proprietary SDS technology. Our competitive advantage is this complete audience-development engine, which optimizes the packaging and distribution of content - getting it to the right audience at the right place at the right time primarily through social media. The technology is designed to generate fans on our pages on Facebook and other social media outlets. Our content is then displayed in the fans' feeds on Facebook and other social media sites, which can then drive traffic to our websites. Our technology contains a test and measurement system that delivers real-time audience insights, and provides optimized distribution by audience. Because we use this proprietary technology, a significant amount of our website traffic is generated through social media channels, particularly Facebook. Facebook and other social media outlets routinely update their algorithms for what content is displayed in users' feeds. The test and measurement features of our technology help us to stay current in maximizing website traffic from social media channels as these algorithms change. We have seven issued patents related to the SDS technology.

With the acquisition of Rant, we gain a highly optimized digital media delivery technology which amplifies the speed of digital content publishing, getting information and relevant advertising to the end user more quickly than before. Rant's platform is designed for desktop and mobile content at the billions-of-page views per year level. Because of its low cost of operation, the coupling of the Rant platform and our SDS technology creates the extremely powerful tools in digital content publishing.

Choose Digital's technology platform and expertise provides the ability for any client companies and organizations to quickly add digital media items to their loyalty reward programs. The digital media catalog can be fully customized to the client's needs and can involve integrating our full-featured API, or employing our services to create a custom, seamless, standalone, and managed storefront accessible by their member base. The platform is highly scalable and has multiple e-commerce capabilities.

DraftDay has built a sophisticated platform that allows for each operator to have their own portal to drive their customers to, own the data and feed into a pool with other operators. The state of the art technology platform enables us to offer multiple gaming products covering all major sports. Our technology platform is highly scalable and also has proven business-to-business white-label capabilities. In addition, the platform is complemented by a highly responsive design / HTML5 mobile webapp capabilities.

We protect our technology through seeking intellectual property registration and filings. We register certain domain names, trademarks and service marks in the United States and in certain locations outside the United States. Circumstances outside of our control could pose a threat to our intellectual property rights. Effective intellectual property protection may not be available in the United States or other countries in which we provide our solution. In addition, the efforts we have taken to protect our intellectual property rights may not be sufficient or effective. Any impairment of our intellectual property rights could harm our business, our ability to compete and our operating results.

Viggle Rewards Business - Discontinued Operations

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. We sold this business to Perk in a transaction that closed on February 8, 2016.

Perk.com Transaction

Perk Agreement

On December 13, 2015, we entered into an Asset Purchase Agreement with Perk (the “Perk Agreement”). Perk’s shares are currently traded on the Toronto Stock Exchange. In connection with the Perk Agreement, we agreed to sell to Perk certain assets relating to the Viggle rewards business, including the Viggle App. We retained our interest in DDGG, Wetpaint, Choose Digital, and the assets relating to our MyGuy game. The closing of this transaction subsequently occurred on February 8, 2016.

Purchase Price and Adjustments

As consideration for the assets sold, we received the following consideration:

- 1,500,000 shares of Perk common shares free and clear of all liens, less the number of shares of Perk common shares applied to the repayment of principal and interest of the credit facility described below (the "Initial Perk Shares");

- 2,000,000 shares of Perk common shares if Perk's combined revenue, as calculated pursuant to the Perk Agreement, is at least $130,000,000 for the calendar year commencing on January 1, 2016 or January 1, 2017 (the "Earn-Out");

- A warrant ("Warrant 1") entitling us to purchase 1,000,000 shares of Perk common shares at a strike price of CDN $6.25 per share in the event the volume weighted average price ("VWAP") of shares of Perk common shares is greater than or equal to CDN $12.50 per share for 20 consecutive trading days in the two year period following the closing of the Perk.com Transaction;

- A warrant ("Warrant 2", and together with Warrant 1, the "Perk Warrants") entitling the us purchase 1,000,000 shares of Perk common shares at a strike price of CDN $6.25 per share in the event that the VWAP of Perk common shares is greater than or equal to CDN $18.75 per share for 20 consecutive trading days in the two year period following the closing of the Perk.com Transaction; and

- Perk also assumed certain of our liabilities, including points liability.

At the time we entered into the Perk Agreement, Perk provided us with a $1,000,000 secured line of credit, which we fully drew down. We had the option of repaying amounts outstanding under that line of credit by reducing the number of Initial Perk Shares by 130,000. We exercised this option, so we received 1,370,000 shares of Perk common stock at closing, and the amounts outstanding under the Line of Credit were deemed paid in full.

At the closing, 37.5% (562,600) of the Initial Perk Shares were issued and delivered to an escrow agent to be used exclusively for the purpose of securing our indemnification obligations under the Perk Agreement.

Additionally, after the closing, we delivered 357,032 Perk shares to satisfy an obligation to a prior trade creditor.

On September 30, 2016, we sold to Perk the remaining shares (1,013,068) of Perk common stock, the warrants for additional shares, and the right to the Earn-Out Shares received from Perk on the sale of the Viggle rewards business on February 8, 2016. We received $1,300,000 from Perk as consideration therefor. The execution of the Securities Purchase Agreement and closing were simultaneous. The escrowed shares were released as part of this transaction.

Special Committee

In our Quarterly Report on Form 10-Q filed on May 11, 2015, we reported that our Board of Directors intended to form a Special Committee of independent directors to explore strategic alternatives to enhance value, and that these alternatives could include, among others, possible joint ventures, strategic partnerships, marketing alliances, sale of all or some of our company, or other possible transactions. Following the Perk transaction, the Committee of independent directors continues to study alternatives, including the possibility of reorganization.

Reverse Stock Split

On September 16, 2016, we effected the Reverse Stock Split whereby shareholders were entitled to receive one share for each 20 shares of our common stock. Shareholders entitled to a fractional share received cash in lieu of fractional shares. As a result of the reverse stock split, we had 3,023,701 shares of common stock outstanding as of September 16, 2016. The reverse split was approved by our Board of Directors on September 9, 2016, in part, to enable us to regain and maintain compliance with the minimum closing bid price of $1.00 per share for continued listing on NASDAQ. All common stock information disclosed through this filing have been adjusted to reflect the Reverse Stock Split.

Private Placement and Events of Default

On July 12, 2016, we closed a private placement (the “Private Placement”) of $4,444,444 principal amount of convertible debentures (the “Debentures”) and common stock purchase warrants (the “Warrants”). The Debentures and Warrants were issued pursuant to a Securities Purchase Agreement, dated July 12, 2016 (the “Purchase Agreement”), by and among us and certain accredited investors within the meaning of the Securities Act of 1933, as amended (the “Purchasers”). Upon the closing of the Private Placement, we received gross proceeds of $4,000,000 before placement agent fees and other expenses associated with the transaction. We will use the net proceeds from the transaction for general business and working capital purposes.

The Debentures mature on the one-year anniversary of the issuance date thereof. The Debentures are convertible at any time at the option of the holder into shares of our common stock at an initial conversion price of $6.266 per share (the “Conversion Price”). Based on such initial Conversion Price, the Debentures will be convertible into up to 780,230 shares of common stock. If we issue or sell shares of our common stock, rights to purchase shares of our common stock, or securities convertible into shares of our common stock for a price per share that is less than the Conversion Price then in effect, the Conversion Price then in effect will be decreased to equal such lower price. The adjustments to the Conversion Price will not apply to certain exempt issuances, including issuances pursuant to certain employee benefit plans or for certain acquisitions. In addition, the Conversion Price is subject to adjustment upon stock splits, reverse stock splits, and similar capital changes. However, in no event will the Conversion Price be less than $0.10 per share. The Debentures are secured by a first priority lien on substantially all of our assets in accordance with a security agreement.

The Debentures bear interest at 10% per annum with interest payable upon maturity or on any earlier redemption date. At any time after the issuance date, we will have the right to redeem all or any portion of the outstanding principal balance of the Debentures, plus all accrued but unpaid interest at a price equal to 120% of such amount. The holders of Debentures shall have the right to convert any or all of the amount to be redeemed into common stock prior to redemption. Subject to certain exceptions, the Debentures contain customary covenants against incurring additional indebtedness and granting additional liens and contain customary events of default. Upon the occurrence of an event of default under the Debentures, a holder of Debentures may require us to pay the greater of (i) the outstanding principal amount, plus all accrued and unpaid interest, divided by the Conversion Price multiplied by the daily volume weighted average price or (ii) 115% of the outstanding principal amount plus 100% of accrued and unpaid interest. Pursuant to the Debentures, we are required to make amortizing payments of the aggregate principal amount, interest, and other amounts outstanding under the Debentures. Such payments must be made beginning three months from the issuance of the Debentures and on the monthly anniversary through and including the maturity date. The Amortization Amount is payable in cash or in shares of our common stock pursuant to the conversion mechanism contained in the Debentures.

On July 20, 2016, we and the Purchasers entered into an Amendment to Securities Purchase Agreement and Consent to Modify Debentures (the “Amendment and Consent”). The Amendment and Consent provides that, while the Debentures are outstanding, Mr. Sillerman will guarantee that we shall have $1,000,000 available in our commercial bank account or otherwise available in liquid funds. At any time when our available funds fall below $1,000,000, Mr. Sillerman will provide (the “Sillerman Guaranty”) the amounts necessary to make-up the shortfall in an aggregate amount not to exceed $6,000,000; however, the first $5,000,000 of the guaranty shall be provided by drawing down on our Line of Credit with Sillerman Investment Company IV, LLC (“SIC IV”). Any remaining amounts, up to a maximum aggregate of $1,000,000 shall be provided by Mr. Sillerman. In connection with the Sillerman Guaranty, the Company’s independent directors approved a fee of $100,000 as compensation for providing such guaranty.

As a part of the Private Placement, we issued Warrants to the Purchasers providing them with the right to purchase up to an aggregate of 354,650 shares of our common stock at an initial exercise price of $6.528 per share. Subject to certain limitations, the Warrants are exercisable on any date after the date of issuance and the exercise price for the Warrant is subject to adjustment for certain events, such as stock splits and stock dividends. If we issue or sell shares of our common stock, rights to purchase shares of our common stock, or securities convertible into shares of our common stock for a price per share that is less than the conversion price of the Debentures, the exercise price of the Warrants will be decreased to a lower price based on the amount by which the conversion price of the Debentures was reduced due to such transaction. The foregoing adjustments to the exercise price for future stock issues will not apply to certain exempt issuances, including issuances pursuant to certain employee benefit plans or for certain acquisitions. In addition, the exercise price is subject to adjustment upon stock splits, reverse stock splits, and similar capital changes. The Warrants will expire 5 years from the initial issuance date.

In addition, we issued to Aegis Capital Corp. ("Aegis"), the placement agent in connection with the Private Placement, Warrants providing them with the right to purchase up to an aggregate of 53,200 shares of our common stock at initial exercise price of $6.528 per share. The Warrants issued to Aegis contain substantially the same terms as the Warrants issued to the Purchasers.

The Purchasers shall not have the right to convert the Debentures or exercise the Warrants to the extent that such conversion or exercise would result in such Purchaser being the beneficial owner in excess of 4.99% of our common stock. In addition, the Purchasers have no right to convert the Debentures or exercise the Warrants if the issuance of the shares of common stock upon such conversion or exercise would exceed the aggregate number of shares of our common stock which we may issue upon conversion of the Note and exercise of the Warrant without breaching our obligations under NASDAQ listing rules. Such limitation does not apply if our shareholders approve such issuances. We intend to promptly seek shareholder approval for issuances of shares of common stock issuable upon conversion of the Debentures and exercise of the Warrants.

In connection with the Private Placement, we and the Purchasers entered into a Registration Rights Agreement under which we were required, on or before 30 days after the closing of the Private Placement, to file a registration statement with the Securities and Exchange Commission (the "SEC") covering the resale of the shares of our common stock issuable pursuant to the Debentures and Warrants and to use commercially reasonable efforts to have the registration declared effective as soon as practicable, but in no event later than 90 days after the filing date. The resale Registration Statement was declared effective on December 6, 2016. As a result, the Purchasers were entitled to liquidated damages calculated as follows:

- $62,000, 1.5% of the purchase price paid for securities purchased pursuant to the Purchase Agreement, payable in cash; and
- 19,741 shares of our common stock equivalent to 1.5%, or $62,000, of the purchase price divided by the average closing bid price for our common stock for the five-day period prior to the date liquidated damages became due.

Also in connection with the Private Placement, certain stockholders of ours have executed Lock-Up Agreements, pursuant to which they have agreed not to sell any shares of our common stock until the later of (i) six months following the issuance of the Debentures or (ii) 90 days following the effectiveness of a resale registration statement filed pursuant to the requirements of the Registration Rights Agreement.

We are currently in default under the Debentures issued in the Private Placement for failure to make amortization payments and for failure to maintain the Minimum Cash Reserve.

On October 12, 2016, the first amortization payment in the amount of $444,444, plus accrued interest of approximately $114,000 pursuant to the terms of the Debentures became due and payable to the Purchasers. We did not make such payment at the time it was due. We entered into waiver agreements with Purchasers holding approximately 87% of the principal amount of the Debentures. Such waivers are not binding on the remaining Purchaser of the Debentures. Pursuant to the terms of the Waiver, the Purchasers have agreed to waive the payment of the amortization payments and accrued interest due for October 2016 and November 2016. In consideration for waiving the payment terms of the Debentures, we paid, upon execution of the Waiver, 10% of the Amortization Amount that became due on October 12, 2016 and paid on November 12, 2016 10% of the Amortization Amount due in November 2016. All other amounts will be due and payable in accordance with the terms of the Debentures, with the deferred payments due at maturity. We did not receive a waiver from one of its debenture holders, holding approximately 13% of the principal amount of the Debentures with respect to the event of default arising out of our failure to make the first amortization payment when due. Pursuant to the terms of the Debentures, such holder has sent a notice of acceleration, stating that the Company owes approximately $696,000, reflecting the principal amount of the Debenture plus interest through November 1, 2016. Interest will accrue at 18% until this amount is satisfied. We are seeking to settle the matter with the holder; however, there can be no assurance that an agreement will be reached.

The waivers entered into with some of the Purchasers related to the failure to pay the amortization amount do not address the failure to maintain the Minimum Cash Reserve. In addition, we are currently in default with respect to the amortization payment due in January 2017.

Pursuant to the terms of the Debentures, the failure to cure the non-payment of amortization or failure to maintain the Minimum Cash Reserve within three trading days after the due date constituted an Event of

Default. Following the occurrence of an event of default, among other things: (1) at the Purchaser's election, the outstanding principal amount of the Debentures, plus accrued but unpaid interest, plus all interest that would have been earned through the one year anniversary of the original issue date if such interest has not yet accrued, liquidated damages and other amounts owed through the date of acceleration, shall become, immediately due and payable in either cash or stock pursuant to the terms of the Debentures; and (2) the interest rate on the Debentures will increase to the lesser of 18% or the maximum allowed by law. In addition to other remedies available to the Purchasers. the Company's obligation to repay amounts due under the Debentures is secured by a first priority security interest in and lien on all of the Company's assets and property, including our intellectual property, and such remedies can be exercised by the Purchasers without additional notice to the Company.
Under terms of the $3,000,000 Secured Convertible Note issued in connection with the acquisition of Rant, a default under other indebtedness owed by us constitutes a default under the Rant Note. As a result of such Event of Default, the holder of the Rant Note has executed a waiver that provides that, until May 15, 2017, the events of default arising out of the failure to pay the amounts due under the Debentures as of the date of the waiver and the failure by us to maintain the Minimum Cash Reserve shall not constitute events of default for purposes of the Rant Note. The failure to make the January 2017 amortization payment to the Purchasers was a default under the Rant Note and was not covered by the waiver.

Acquisition of Rant, Inc.

On July 12, 2016, we and RACX Inc., a Delaware corporation and wholly-owned subsidiary of ours ("RACX"), completed an acquisition pursuant to an Asset Purchase Agreement (the "Asset Purchase Agreement") with Rant, Inc., a Delaware corporation, pursuant to which RACX has acquired the assets of Rant (the "Asset Purchase") used in the operation of Rant's Rant.com independent media network and related businesses, including but not limited to the www.rantsports.com , www.rantlifestyle.com , www.rantchic.com , www.rantgirls.com , www.rant-inc.com , www.rantstore.com , www.rantcities.com , www.rantcars.com , www.rantfinance.com , www.ranthollywood.com , www.rantfood.com , www.rantgamer.com , www.rantgizmo.com , www.rantpets.com , www.rantplaces.com , www.rantpolitical.com , www.rantmn.com , www.rantbeats.com , www.rantgirls.com , www.rantstore.com , www.rantcities.com , www.rantranet.com , and www.rantmovies.com websites (the "Rant Assets").

Rant is a digital publishing network that creates original content, most notably in sports, entertainment and pets, that reaches major diversified demographics.

In consideration for the purchase of the Rant Assets, we (i) delivered a Secured Convertible Promissory Note to Rant in the amount of $3,000,000; (ii) assumed approximately $2,000,000 of liabilities of Rant and (iii) issued to Rant 4,435 shares of Company Series E Convertible Preferred Stock.

The $3,000,000 Secured Convertible Note matures on July 8, 2017 barring any events of default or a change of control of the Company. The Secured Convertible Note bears interest at 12% per annum, payable at maturity. At the election of Rant, the Secured Convertible Note is convertible into shares of Fn(x) common stock at a price equal to the lower of (i) $5.20 per share, or (ii) such lower price as may have been set for conversion of any debt or securities into Common Stock held on or after the date hereof by Sillerman until the first to occur of March 31, 2017 or the date the Note has been satisfied or converted. In connection with the Secured Convertible Note, the Company has entered into a Note Purchase Agreement and a Security Agreement with Rant, under which the Company has granted Rant a continuing security interest in substantially all assets of the Company. In connection with the issuance of the Secured Convertible Note, Sillerman and Rant entered into a subordination agreement subordinating repayment of the notes to the Debentures and entered into an Intercreditor Agreement providing for the parties' respective rights and remedies with respect to payments against the collateral held as security for both of them.

The 4,435 shares of Company Series E Convertible Preferred Stock issued to Rant are convertible into shares of Company common stock equal to 22% of the outstanding common stock of the Company upon certain conditions. The number of shares will be adjusted for dilution between the date of closing and the date of any public offering by the Company of its common stock and to reflect additional capital structure changes through the first of (i) the date Sillerman converts debt and preferred shares to common shares pursuant to the July Exchange Agreement set forth below just before an offering of the Company's common stock closes or (ii) March 31, 2017.

July Exchange Agreement

The Company entered into an Exchange Agreement on July 8, 2016, as amended July 20, 2016 (the "July Exchange Agreement"), with three of the affiliates of Mr. Sillerman, to allow for the exchange for shares of Common Stock of the Company of: (i) 3,000 shares of the Company's Series C Convertible Redeemable Preferred Stock and a Line of Credit Promissory Note, dated October 24, 2014, in the amount of $20,000,000 plus accrued interest held by SIC III; (ii) a Line of Credit Grid Promissory Note, dated June 12, 2015, as amended July 20, 2016 in the amount of $3,401,000 plus accrued interest held by SIC IV as of the date hereof; (iii) a Revolving Secured Promissory Note, dated January 27, 2016, in the amount of $1,500,000 plus accrued interest, a Revolving Secured Promissory Note, dated March 29, 2016, in the amount of $500,000 plus accrued interest, a Revolving Secured Promissory Note, dated April 25, 2016 in the amount of $500,000 plus accrued interest, a Revolving Secured Promissory Note, dated May 16, 2016, in the amount of $500,000 plus accrued interest and a Revolving Secured Promissory Note, dated June 27, 2016, in the amount of $1,200,000 plus accrued interest held by SIC VI; and (iv) up to an additional $5,000,000 under the Line of Credit Grid Promissory Note dated June 12, 2015 and amended July 20, 2016 held by SIC IV.

Under the July Exchange Agreement, issuance of the shares in the exchange is conditioned upon approval of the Company's shareholders, the closing of an offering of the Company's common stock in the amount of at least $10,000,000, approval of its Listing of Additional Shares application with Nasdaq, the Company shall not be subject to any bankruptcy proceeding, and various other conditions. The Exchange Price shall be equal to the lesser of $5.20 and the price at which the Debentures can be exchanged for shares of the Company's common stock, so long as the Company received a valuation that the exchange price reflects fair value. The agreement provides for termination in the event the conditions are not satisfied by March 31, 2017.

August Exchange Agreement

On August 22, 2016, we and SIC III, SIC IV, and SIC VI, each an affiliate of Sillerman, entered into a Note Exchange Agreement pursuant to which $30,175,000, which represents all of the outstanding principal and accrued interest of certain notes held by SIC III, SIC IV, and SIC VI (the "Sillerman Notes") other than $900,000 of debt held by SIC IV pursuant to that certain Line of Credit Grid Promissory Note dated as of June 11, 2015, was exchanged for 30,175 shares of our Series C Preferred Stock. The exchange price is $1,000 per share. The Note Exchange Agreement provides for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement, and subject to the additional obligations set forth in the Subordination Agreement and the Lockup Agreements. The $900,000 of debt that remained outstanding and future advances under the Grid Note will also remain subject to the Exchange Agreement.

Assignment of License Agreement Payments

On November 18, 2016, the Company entered into an assignment agreement (the "Assignment") with Bajaar, LLC, under which the Company agreed to assign all payments received under an office license agreement with Viggle Rewards, Inc. relating to office space at 902 Broadway, in exchange for a payment of $550,000. The original license agreement provided for payment of $17,000 per month, plus a sharing of common expenses, until February 8, 2019. On November 18, 2016, Bajaar paid $550,000 to the Company under the Assignment.

Going Concern

Our Consolidated Financial Statements as of June 30, 2016, and the auditor's report on those financial statements, include a disclosure paragraph regarding the uncertainty of our ability to remain a going concern, which implies that we will continue to realize our assets and discharge our liabilities in the normal course of business. We are unlikely to pay dividends or generate significant revenue or earnings in the immediate or foreseeable future. The continuation of us as a going concern is dependent upon the continued financial support from its stockholders and our ability to obtain necessary equity and/or debt financing to continue development of our business and to increase revenue. Management intends to raise additional funds through equity and/or debt offerings until sustainable revenues are developed. There is no assurance such equity and/or debt offerings will be successful or that development of the business will be successful, and therefore there is substantial doubt about our ability to continue as a going concern within one year after the financial statements are issued. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Results of Continuing Operations

Results for the three and six months ended December 31, 2016 and 2015 (amounts in tables are in thousands):

| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Variance | 2016 | 2015 | Variance |
| Revenues | $1,215 | $1,782 | $(567) | $1,875 | $3,255 | $(1,380) |
| Selling, general and administrative expenses | (3,574) | (10,025) | 6,451 | (7,614) | (19,409) | 11,795 |
| Impairment loss | — | (30,402) | 30,402 | — | (30,402) | 30,402 |
| Operating loss | (2,359) | (38,645) | 36,286 | (5,739) | (46,556) | 40,817 |
| Other (expense): | | | | | | |
| Other (expense)/income, net | 2,161 | 1 | 2,160 | (326) | 3 | (329) |
| Interest expense, net | (2,471) | (926) | (1,545) | (4,121) | (1,783) | (2,338) |
| Total other expense | (310) | (925) | 615 | (4,447) | (1,780) | (2,667) |
| Net loss before provision for income taxes | (2,669) | (39,570) | 36,901 | (10,186) | (48,336) | 38,150 |
| Income tax expense | (102) | — | (102) | (102) | — | (102) |
| Net loss from continuing operations | $(2,771) | $(39,570) | $36,799 | $(10,288) | $(48,336) | $38,048 |

Revenues

| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Variance | 2016 | 2015 | Variance |
| Revenues by segment: | | | | | | |
| Wetpaint | $834 | $530 | $ 304 | $1,206 | $1,046 | $160 |
| Choose Digital | — | 217 | (217) | 58 | 415 | (357) |
| DDGG | 256 | 243 | 13 | 361 | 326 | 35 |
| Other income | 125 | 792 | (667) | 250 | 1,468 | (1,218) |
| Total | $1,215 | $1,782 | $ (567) | $1,875 | $3,255 | $(1,380) |

Revenue in the three months ended December 31, 2016 was $1,215,000 a decrease of $567,000 from the three months ended December 31, 2015. The decrease was driven by the sale of the Viggle business to Perk, which led to a temporary cessation in Viggle user redemption of digital media on the Choose Digital platform and thus lower revenues approximately $667,000 for Choose Digital, a decrease in Wetpaint barter revenue of approximately $217,000 and a decrease in Choose Digital revenues of $217,000 in the period. The decrease was partially offset by an increase in Wetpaint advertising revenue of $550,000 and an increase in DDGG revenue of $13,000 in the period.

Revenue in the six months ended December 31, 2016 was $1,875,000, a decrease of $1,380,000 from the six months ended December 31, 2015. The decrease was driven by the sale of the Viggle business to Perk, which led to a temporary cessation in Viggle user redemption of digital media on the Choose Digital platform and thus lower revenues approximately $1,218,000 for Choose Digital, a decrease in Wetpaint barter revenue of approximately $424,000 and a decrease in Choose Digital revenue of $357,000 in the period. The decrease was offset by an increase in Wetpaint advertising revenue of $710,000 and an increase in DDGG revenue of $35,000 in the period.

Selling, General and Administrative Expenses

| | Three Months Ended December 31, | | | Six Months Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Variance | 2016 | 2015 | Variance |

| | | | | | | |
|---|---|---|---|---|---|---|
| Selling, general and administrative expenses by segment: | | | | | | |
| Wetpaint | $(2,416) | $(2,895) | $ 479 | $(4,832) | $(6,747) | $1,915 |
| Choose Digital | (47) | (1,104) | 1,057 | (456) | (2,329) | 1,873 |
| DDGG | (1,111) | (1,776) | 665 | (2,326) | (1,833) | (493) |
| Other | — | (4,250) | 4,250 | — | (8,500) | 8,500 |
| Total | $(3,574) | $(10,025) | $ 6,451 | $(7,614) | $(19,409) | $11,795 |

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Selling, general and administrative expenses were $3,574,000 for the three months ended December 31, 2016, a net decrease of $6,451,000 from the three months ended December 31, 2015.

- Stock based compensation decreased approximately $5,027,000 across the segments due to less restricted stock unit and option grants in the current period.
- Professional fees expense approximately decreased by a net $1,087,000 across the segments primarily due to a reduction in legal and accounting fees relating of approximately $437,000 and DDGG consulting fees of $587,000.
- Personnel costs decreased by a net $495,000 across the segments: Decreases of $269,000 in the Wetpaint segment and $272,000 in the Choose Digital segment offset by an increase of $46,000 in the DDGG segment.
- Depreciation and amortization expense decreased by a net $255,000 across the segments due to impairment of intangible assets in the prior year. Depreciation and amortization expense decreases include $26,976,000 on the Wetpaint segment and $3,425,000 on the Choose Digital segment and a decrease in the Viggle segment $1,177,000. The decrease was partially offset by an increase of $210,000 on the DDGG segment.
- DDGG's cost of sales expense totaled $75,000, a decrease of $137,000.

Selling, general and administrative expenses were $7,614,000 for the six months ended December 31, 2016, a net decrease of $11,795,000 from the six months ended December 31, 2015.

- Stock based compensation decreased approximately $8,605,000 across the segments due to less restricted stock unit and option grants in the current period.
- Professional fees expense approximately decreased by a net $1,409,000 across the segments primarily due to a reduction in legal and accounting fees of approximately $2,228,000 and DDGG consulting costs of $608,000. The decrease was offset by an increase to the Other segment of $1,388,000.
- Personnel costs increased approximately by a net $625,000 across the segments: $393,000 in the Wetpaint segment and $358,000 in the DDGG segment, partially offset by a decrease of $126,000 in the Choose segment.
- Depreciation and amortization expense approximately decreased by a net $552,000 across the segments due to impairment of intangible assets in the prior year. Depreciation and amortization decreases include $735,000 on the Wetpaint segment and $319,000 in the Choose Digital segment. The decrease was partially offset by an increase of $502,000 on the DDGG segment.
- DDGG's cost of sales expense totaled $132,000, a decrease of $134,000.

Other (Expense)/Income

Other Income was $2,161,000 for the three months ended December 31, 2016, an increase of $2,160,000 from the three months ended December 31, 2015. The increase was primarily due to the Debenture and Rant Note conversion features and warrants fair value adjustments of approximately $1,790,000, the gain on the exchange of the MGT note to common stock of $315,000 and a gain on accounts payable settlements of $186,000 during the three months ended December 31, 2016.

Other Income was $326,000 for the six months ended December 31, 2016, an increase of $2,096,000 from the six months ended December 31, 2015. The increase was primarily due to the Debenture and Rant Note conversion features and warrants fair value adjustments of $1,790,000, the gain on the exchange of the MGT note to common stock of $315,000 and a gain on accounts payable settlements of $186,000 during the six months ended December 31, 2016. The increase was partially offset by the loss on the sale of the Perk shares and warrants of $2,195,000 during the three months ended September 30, 2016.

Interest Expense, Net

Interest expense, net was approximately $2,471,000 for the three months ended December 31, 2016, an increase of $1,545,000 from the three months ended December 31, 2015. The increase was due to higher levels of debt during the three months ended December 31, 2016 partially offset by reduced interest expense in August 2016 as a result of the exchange of $30,175,000 in loans payable to 30,175 shares of Series C Preferred Stock.

Interest expense, net was $4,121,000 for the six months ended December 31, 2016, an increase of $2,338,000 from the six months ended December 31, 2015. The increase was due to higher levels of debt during the three months ended December 31, 2016 partially offset by reduced interest expense in August 2016 as a result of the exchange of $30,175,000 in loans payable to 30,175 shares of Series C Preferred Stock.

Income Taxes

We account for income taxes in accordance with the liability method of accounting as set forth in Accounting Standards Codification ("ASC") 740, Income Taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements. At December 31, 2016 and June 30, 2016, we provided a full valuation allowance on our deferred tax assets and thus recognized no tax benefit.

Liquidity and Capital Resources (amounts in thousands)

Cash

At December 31, 2016 and June 30, 2016, we had cash balances of approximately $122,000 and $537,000, respectively.

Available Line of Credit

As of December 31, 2016, we had approximately $1,785,000 available under our lines of credit.

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

Our capital requirements to fund our operating segments are variable based on a few key factors. With respect to Wetpaint, the key factors among others include quality content creation, monthly unique visitors and our ability to procure advertising inventory to properly monetize our user base. With respect to Choose Digital, the key factors are our ability to launch new clients and the cost and our ability to purchase digital content at an attractive price. In respect to DDGG, the key factors are our ability to attract new business-to-business partners, the number of players and our ability to set the prize awards at appropriate levels to reduce overlay. These factors combine to determine our cash needs for calendar 2017. As we increase Wetpaint's number of monthly unique users and number of advertising partners, we would expect to generate increased revenue from the sale of digital media on the Wetpaint website and expect these sales to be a source of liquidity within such period for this operating segment. If we can increase Choose Digital's client base, we would expect to generate increased revenue from the provision of digital content to the clients. If we can increase DDGG's client base, we would expect to generate increased revenue from the provision of a white label fantasy sports gaming platform and would expect these sales to be a source of liquidity within such period for this operating segment. However, there is no guarantee that revenues will exceed business fixed and variable costs in calendar 2016 or ever. In respect to our operating costs, employee salaries, cost of content expenditures, leases of office space, and costs of cloud computing and hosting services constitute the majority of our monthly operating expenses. With the exception of leased office space, our operating costs across the operating segments are expected to increase as we add users and clients, work to create more content to entice users, and create new features and functionality on the Choose Digital and DDGG platforms. The overall level of expenses will be reflective of management’s view of the current opportunities for the operating segments within their respective marketplaces and our strategic decisions. We utilize significant computing resources across our business to run and develop our website and platforms and purchase certain server hardware; however, we lease the majority of needed computing hardware, bandwidth, and co-location facilities. Accordingly, we can limit the cost of these servers to be in line with business growth. We plan to carefully manage our growth and costs to attempt to meet the goals of our business plan for such period.

The sale of our rewards business to Perk greatly reduced our cash burn and our rewards points liabilities. We have projected the plan for our business for the 2017 calendar year, which is subject to change resulting from both internal and external circumstances. Our 12-month plan has not been reviewed for consistency with US generally accepted accounting principles, and has been prepared on a modified accrual basis. Our 12-month plan is based on assumptions and is subject to risks and uncertainties. Our 12-month plan represents our estimates and assumptions only as of the date of this filing on Form 10-Q, and our actual future results may be materially different from what we set forth below.

There is no assurance that the plan set forth herein will be successful. If implemented, actual results may vary significantly from the plan described in this filing on future Forms 10-Q. We do not warrant or guarantee the foregoing. Our June 30, 2016 financial statements contain a going concern emphasis in our audit opinion.

With the conclusion of the Perk Transaction, we are in the process of reviewing our remaining three business segments and the cash needs for the 2017 calendar year to cover fixed expenses and capital, including employee payroll, content expenditures, server capacity, office space and capital expenditures. The amount of capital required will depend on strategic decisions to be made with those business segments. As of December 31, 2016, we had approximately $1,785,000 available under our existing lines of credit and cash of approximately $122,000. We intend to increase revenue over the next 12 months as we focus on selling more advertising on the Wetpaint and Rant websites and, depending on our strategic decisions, working to improve the Choose Digital and DDGG platforms. We also intend to reduce our expenses. There is no guarantee that we will be successful. Our ability to sell increasing amounts of advertising is dependent on the amount of monthly unique users and the activity of those users on the Wetpaint and Rant websites. Our ability to generate digital content sales for Choose Digital is dependent on our ability to launch digital rewards programs for new clients and maintain our digital content licenses, which are currently in arrears. Our ability to launch new DDGG partners is dependent on the legal and regulatory developments in the market. We may not be able to deliver enough users to grow revenue. The level of engagement activity currently seen on the Wetpaint and Rant websites and the DDGG fantasy sports application may slow and the potential revenue per user would fall accordingly. We also may not be able to maintain our current relationships with media content providers for Choose Digital.

The actual amount of funds required for the 2017 calendar year may vary depending upon the number of users and clients, the content, rewards, and related expenses, the development costs for the launch of new features and product enhancements, and the speed with which the legal and regulatory issues within the fantasy sports market are resolved. In the event that the required cash is not funded from revenue and expenses reduced, we will need to raise additional capital through either debt or equity financing. Our decisions regarding strategic alternatives will need to take into account all of these factors which can affect our business plan as set forth above.

Cash Flows for the six months ended December 31, 2016 and 2015 (amounts in thousands)

| | Six Months Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Net cash used in operating activities | $(6,630) | $(5,044) |
| Net cash provided by investing activities | $1,300 | $535 |
| Net cash provided by financing activities | $4,915 | $1,024 |

Operating Activities

In the six months ended December 31, 2016, net cash used in operating activities was $6,630,000, including our net loss of $10,324,000, loss on the sale of Perk share and warrants of $2,195,000, non cash, stock based compensation charges of $161,000, depreciation and amortization of $1,420,000, the accretion of the debt discounts for the Debenture Conversion feature and Private Placement warrants of $1,866,000 and the fair value mark-to-market adjustments on the Debenture Conversion feature, Rant Note conversion feature and the Private Placement warrants of $1,790,000. In addition, net cash inflows from changes in operating assets and liabilities were $55,000, primarily due to an increase in accounts payable of $72,000 an increase in accounts receivable of $435,000, a decrease in other assets of $246,000 and a decrease in prepaid expenses of $154,000.

In the six months ended December 31, 2015, net cash used in operating activities was $5,044,000, including our net loss of $58,109,000, non cash stock based compensation charges of $10,327,000, impairment loss of $30,402,000 depreciation and amortization of $2,435,000. In addition, net cash inflows from changes in operating assets and liabilities was $9,801,000, primarily as a result from an increase in accounts payable and accrued expenses of

$6,406,000 and a decrease in accounts receivable of $2,036,000.

Investing Activities

Cash provided by investing activities in the six months ended December 31, 2016 was approximately $1,300,000 as a result of the sale of the Perk shares and warrants.

Cash provided by investing activities in the six months ended December 31, 2015 was approximately $535,000 as a result of the September 2015 acquisition of DDGG.

Financing Activities

Cash provided by financing activities in the six months ended December 31, 2016 of $4,915,000 consisted of net proceeds from borrowings of approximately $6,880,000, repayment of loans of $1,545,000 and payment of deferred financing costs of $420,000.

Cash provided by financing activities in the six months ended December 31, 2015 of $1,024,000 consisted of net borrowings of $4,100,000, partially offset by payments related to contingent consideration of $3,076,000.

Off-Balance Sheet Arrangements

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

Commitments and Contingencies

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

Critical Accounting Policies and Estimates

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

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

During the six months ended December 31, 2016, there have been no significant changes related to our critical accounting policies and estimates as disclosed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

Recently Issued Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). The update requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value but the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those periods. We do not expect the update to have a material impact on its Consolidated Financial Statements.

In January 2017, the FASB issued Accounting Standards Update 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). The update provides a criteria for determining when an integrated set of assets and activities is not a business. The criteria requires that when substantially all of the fair value of gross assets are acquired in concentrated into a single identifiable asset or a group of similar identifiable assets, the integrated sets of assets and activities is not a business. Even if this criteria is not met, this update requires that the set of assets and activities must include an input and substantive processes that together significantly contribute to creating an output, at a minimum, and removes the evaluation of whether a market participant could replace the missing elements. This guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. We do not expect the update to have a material impact on its Consolidated Financial Statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2016-18"). This update requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods for those years. We do not expect the standard to have a material impact on its consolidate financial statements.

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory" (ASU 2016-16"). This update eliminates the exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer. ASU 2016-16 is effective for financial statements issued for annual periods beginning after December 15, 2017. We do not expect the standard to have a material impact on our consolidated financial statements.

In May 2016, FASB issued Accounting Standards Update 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"). The amendments in this update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which is not yet effective. This update focuses on improving several aspects of ASU 2014-09, such as assessing the collectability criterion in paragraph 606-10-25-1(e) and accounting for contracts that do not meet the criteria for step 1; presentation of sales taxes and other similar taxes collected from customers; non-cash consideration; contract modifications at transition; and completed contracts at transition. ASU 2016-12 is effective for financial statements issued for annual periods beginning after December 15, 2017. We do not expect the standard to have a material impact on our consolidated financial statements.

In April 2016, the FASB issued Accounting Standards Update 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"). The amendments in this update affect the guidance in ASU 2014-09, which is not yet effective. This update focuses on clarifying the following two aspects of ASU 2014-09: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. ASU 2016-10 is effective for financial statements issued for annual periods beginning after December 15, 2017. We do not expect the standard to have a material impact on our consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-09,
Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU
2016-09"). This update is intended to improve the accounting for employee share-based payments and affects all organizations
that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award
transactions are simplified, including:(a)income tax consequences;(b)classification of awards as either equity or liabilities; and(c) classification on the statement of cash flows. ASU 2016-09 is effective for financial statements issued for annual periods beginning after December 15, 2016. We currently in the process of evaluating the impact of adoption of ASU 2016-09 on our consolidated financial statements.

In February 2016, FASB issued Accounting Standards Update No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02
requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a
lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a
right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease

term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018. We are currently in the process of evaluating the impact of adoption of ASU 2016-02 on our consolidated financial statements.

In January 2016, FASB issued Accounting Standards Update No. 2016-01, "Financial Instruments- Overall: Recognition
and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). Additionally, it requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Lastly, the standard eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU 2016-01 is effective for financial statements issued for annual periods

beginning after December 15, 2017, and interim periods within those annual periods. We do not expect the standard to have a material impact on our consolidated financial statements.

In November 2015, FASB issued Accounting Standards Update No. 2015-17, “Income taxes: Balance Sheet Classification
of Deferred Taxes Business” (“ASU 2015-17”). Topic 740, Income Taxes, requires an entity to separate deferred income tax
liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities
and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, ASU 2015-17 requires that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We do not expect the standard to have a material impact on our consolidated financial statements.

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). We do not believe that the adoption of ASU 2015-16 will have a material impact on our consolidated financial statements.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

## ITEM 4 CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934).We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities & Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management has assessed the effectiveness of our internal control over disclosure controls and procedures as of December 31, 2016. As a result of this assessment, management concluded that, as of December 31, 2016, our internal control over disclosure controls and procedures was not effective. Our management identified a material weakness in our internal control over disclosure controls and procedures as a result of insufficient levels of supervision and review of the disclosure controls and procedures process.

We have already taken steps to enhance and improve the design of our internal control over disclosure controls and procedures. In January 2017, to remediate the material weakness, we hired additional qualified personnel to address inadequate segregation of duties and ineffective risk management.

### Changes in Internal Control over Financial Reporting

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. As a result of this assessment, management concluded that, as of December 31, 2016, our internal control over financial reporting was not effective. Our management identified a material weakness in our internal control over disclosure controls and procedures as a result of insufficient levels of supervision and review of the disclosure controls and procedures process.

We have already taken steps to enhance and improve the design of our internal control over disclosure controls and procedures. In January 2017, to remediate the material weakness, we hired additional qualified personnel to address inadequate segregation of duties and ineffective risk management.

PART II

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ITEM 1. LEGAL PROCEEDINGS

A Complaint (Index #654984/2016) was filed in the Supreme Court of the State of New York by Andy Mule, on behalf of himself and others similarly situated. The Complaint, which names us, each of our current directors, and President, as a former director, as defendants, claims a breach of fiduciary duty relating to the terms of a proposed conversion of debt and preferred shares into common equity by Mr. Sillerman and/or his affiliates. The Complaint seeks unspecified damages and such relief as the Court may deem appropriate.  We accepted service on October 4, 2016, and responded with a motion to dismiss the case on November 14, 2016. The Plaintiff has until April 7, 2017 to respond. We believe that this claim is without merit.
A complaint (Case #8:16-cv-02101-DOC-JCG) was filed in the United States District Court, Central District of California, Southern Division by Stephan Wurth Photography, Inc. The Complaint, which names Wetpaint.com, Inc. and two former employees of Rant, Inc., claims copyright infringement relating to photographs of Anna Kournikova that first appeared on a Rant website some time ago and continued to appear after our purchase of Rant on July 8, 2016. We are in settlement discussions.

On January 20, 2017, a Complaint (Case #3D-2017-00898658-CU-CO-CJC) was filed in the Superior Court of California, County of Orange, by Jamboree Center 4 LLC, the former landlord of Rant, Inc., relating to rent Jamboree Center claims is owed for the period after we purchased Rant. We believe this claim is without merit. as the Company did not assume this liability. We intend to vigorously defend this action and seek indemnification from the sellers of the Rant assets.

On January 31, 2017, a complaint (Case #650513/2017) was filed in New York County Supreme Court, New York by Outbrain, Inc. (“Outbrain”) against us and others, alleging failure to pay $739,190 owed to Outbrain by Rant between July 2015 and January 2016. We believe this claim is without merit, as we did not assume the liability to Outbrain. We intend to vigorously defend this action and seek indemnification from the sellers of the Rant assets.

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.

RISK FACTORS

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

Our business has substantial indebtedness and trade payables.

We currently have, and will likely continue to have, a substantial amount of indebtedness and trade payables. These obligations could, among other things, make it more difficult for us to satisfy our debt obligations, require us to use a large portion of our cash flow from operations to repay and service our debt or otherwise create liquidity problems, limit our flexibility to adjust to market conditions, place us at a competitive disadvantage and expose us to interest rate fluctuations. As of December 31, 2016, we had total indebtedness of approximately $13,067,000 and trade payables of approximately $10,250,000. During the quarter, we entered into the following transactions affecting indebtedness:

- We and SIC III, SIC IV, and SIC VI, each an affiliate of Sillerman, entered into a Note Exchange Agreement pursuant to which all of the outstanding principal and accrued interest of certain notes held by SIC III, SIC IV, and SIC VI other than $900,000 of debt held by SIC IV pursuant to that certain Line of Credit Grid Promissory Note dated as of June 11, 2015, was exchanged for 30,175 shares of our Series C Preferred Stock.
- In connection with the Private Placement and the acquisition of the Rant Assets, we issued $4,444,444 principal amount of Debentures, delivered a Secured Convertible Promissory Note to Rant in the amount of $3,000,000 and assumed $2,000,000 of liabilities of Rant, thereby increasing our trade payables and total indebtedness significantly.

While we have attempted to settle with many of the vendors to which the trade payables are owed, there can be no assurances that we will be able to do so at all or be able to do so on favorable terms. Failure to settle these trade payables could result in litigation, which could lead to attachments and liens on our assets. In addition, vendors could potentially seek to file against us involuntary reorganization proceedings.

We expect to obtain the money to pay our expenses, to pay our trade payables and to pay the principal and interest on our indebtedness from cash flow from our operations and potentially from other debt and/or equity offerings. Accordingly, our ability to meet our obligations depends on our future performance and capital raising activities, which will be affected by financial, business, economic and other factors, many of which are beyond our control. If our cash flow and capital resources prove inadequate to allow us to pay the principal and interest on our debt and meet our other obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations, restructure or refinance our debt, which we may be unable to do on acceptable terms, and forgo attractive business opportunities. In addition, the terms of our existing or future debt agreements may restrict us from pursuing any of these alternatives.

We are currently in default under the Debentures issued in the Private Placement and the note issued in connection with the Rant Acquisition.

We are currently in events of default under the Debentures issued in the Private Placement for failure to make amortization payments and for failure to maintain the Minimum Cash Reserve.
On October 12, 2016, the first amortization payment in the amount of $444,000, plus accrued interest of approximately $114,000 pursuant to the terms of the Debentures became due and payable to the Purchasers. We did not make such payment at the time it was due. We entered into waiver agreements with Purchasers holding

approximately 87% of the principal amount of the Debentures. Such waivers are not binding on the remaining Purchasers of the Debentures. Pursuant to the terms of the Waiver, the Purchasers have agreed to waive the payment of the amortization payments and accrued interest due for October 2016 and November 2016. In consideration for waiving the payment terms of the Debentures, we paid, upon execution of the Waiver, 10% of the Amortization Amount that became due on October 12, 2016 and paid on November 12, 2016 10% of the Amortization Amount due in November 2016. All other amounts will be due and payable in accordance with the terms of the Debentures, with the deferred payments due at maturity. We did not receive a waiver from one of its debenture holders, holding approximately 13% of the principal amount of the Debentures with respect to the event of default arising out of our failure to make the first amortization payment when due. Pursuant to the terms of the Debentures, such holder has sent a notice of acceleration, stating that the Company owes $696,000, reflecting the principal amount of the Debenture plus interest through November 1, 2016. Interest will accrue at 18% until this amount is satisfied.

The waivers entered into with some of the Purchasers related to the failure to pay the amortization amount do not address the failure to maintain the Minimum Cash Reserve. In addition, we are currently in default with respect to the amortization payment due in January 2017.

Pursuant to the terms of the Debentures, the failure to cure the non-payment of amortization or failure to maintain the Minimum Cash Reserve within three trading days after the due date constitutes an Event of Default. Following the occurrence of an event of default, among other things: (1) at the Purchaser’s election, the outstanding principal amount of the Debentures, plus accrued but unpaid interest, plus all interest that would have been earned through the one year anniversary of the original issue date if such interest has not yet accrued, liquidated damages and other amounts owed through the date of acceleration, shall become, immediately due and payable in either cash or stock pursuant to the terms of the Debentures; and (2) the interest rate on the Debentures will increase to the lesser of 18% or the maximum allowed by law. In addition to other remedies available to the Purchasers. the Company's obligation to repay amounts due under the Debentures is secured by a first priority security interest in and lien on all of the Company's assets and property, including our intellectual property, and such remedies can be exercised by the Purchasers without additional notice to the Company.

If holders of the Debentures accelerate the amounts owed under the Debentures as a result of the events of default and request such payment in shares of our common stock, the conversion price for those shares will be substantially less than the current conversion price of $6.266. As a result, we could be required to issue additional shares that would dilute the ownership of current stockholders.

We have agreed in principle with the holders of approximately $4,170,000 (principal amount) of Debentures to repay the principal amounts of such debentures and to convert our remaining obligations to such holders, valued in the aggregate at $908,000, into shares of our common stock. Proceeds from the offering and the pricing of such shares will be determined in accordance with our Registration Statement 333-215188 (the “Registration Statement”).

Under terms of the $3,000,000 Secured Convertible Note issued in connection with the acquisition of Rant, a default under other indebtedness owed by us constitutes a default under the Rant Note. However, the holder of the Rant Note has executed a waiver that provides that, until May 15, 2017, the events of default arising out of the failure to pay the amounts due under the Debentures as of the date of the waiver and the failure by us to maintain the Minimum Cash Reserve shall not constitute events of default for purposes of the Rant Note. In addition, we are currently in default with respect to the Rant Note as a result of the failure to make the Debentures amortization payment due in January 2017.

Pursuant to the terms of the Registration Rights Agreement, we were required, on or before 30 days after the closing of the Private Placement, to file a registration statement with the Securities and Exchange Commission (the “SEC”) covering the resale of the shares of our common stock issuable pursuant to the Debentures and Warrants and to use commercially reasonable efforts to have the registration declared effective as soon as practicable, but in no event later than 90 days after the filing date. The resale Registration Statement was declared effective on December 6, 2016. As a result, the Purchasers were entitled to liquidated damages calculated as follows:

- $62,000, 1.5% of the purchase price paid for securities purchased pursuant to the Purchase Agreement, payable in cash; and

- 19,741 shares of our common stock, equivalent to 1.5%, or $62,000, of the purchase price divided by the average closing bid price for our common stock for the five-day period prior to the date liquidated damages became due (or the monthly anniversary thereof).

We may have contingent liability arising out of a possible violation of Section 5 of the Securities Act in connection with our use of the free writing prospectuses filed with the Securities and Exchange Commission on January 19, 2017 and January 23, 2017.

Rule 433(b)(2) of the Securities Act requires that an unseasoned issuer (such as the company) disseminating a free writing prospectus must accompany or precede such free writing prospectus with the most recent statutory prospectus (unless there have been no changes to a previously provided prospectus).

On January 19, 2017 and January 23, 2017, after filing Amendment No. 1 to the Registration Statement, we filed a free writing prospectus with the SEC. Amendment No. 1 did not include the volume or amount of shares being offered. We intend to re-circulate an amended preliminary prospectus to all recipients of the free writing prospectuses that includes the volume of shares or amount being offered.

Our use of the free writing prospectuses could be challenged as a violation of Section 5 of the Securities Act. If our use of the free writing prospectuses is challenged, we could have a contingent liability arising out of the possible violation of Section 5 of the Securities Act. Any liability would depend upon the number of shares purchased by the 'recipients' of the free writing prospectuses. If a claim were brought by any such 'recipients' of such free writing prospectuses and a court were to conclude that the public dissemination of such free writing prospectus constituted a violation of Section 5 of the Securities Act, the 'recipient' may have rescission rights and we could be required to repurchase the shares sold to the 'recipients' who reviewed such free writing prospectuses, at the original purchase price, plus statutory interest from the date of purchase, for claims brought during a period of one year from the date of their purchase of shares. We could also incur considerable expense in contesting any such claims. Such payments and expenses, if required, could significantly reduce the amount of working capital we have available for our operations and business plan, delay or prevent us from completing our plan of operations, or force us to raise additional funding sooner than expected, which funding may not be available on favorable terms, if at all. Additionally, the value of our securities will likely decline in value in the event we are deemed to have liability, or are required to make payments or pay expenses in connection with the potential claim described above.

The Company has received substantial financial support from its Chairman and Chief Executive Officer and his affiliates.

Robert F.X. Sillerman, our Chairman and Chief Executive Officer, has from time to time made loans to the Company for working capital purposes. On August 22, 2016, approximately $30,175,000 of debt was converted into preferred stock of the Company, and $900,000 of debt remained outstanding. Pursuant to the terms of the Purchase Agreement entered into in connection with the Private Placement of Debentures, Mr. Sillerman agreed to guarantee for the benefit of the Debenture Holders that we will have $1,000,000 available in our commercial bank account or otherwise available in liquid funds, and if our available funds fall below $1,000,000, Mr. Sillerman agreed to provide the amounts necessary to make-up the shortfall in an aggregate amount not to exceed $6,000,000; however, the first $5,000,000 of the guaranty is to be provided by drawing down on our Line of Credit with Sillerman Investment Company IV, LLC, an affiliate of Mr. Sillerman. Any remaining amounts, up to a maximum aggregate of $1,000,000 shall be provided by Mr. Sillerman. Since the Private Placement, Sillerman Investment Company IV, LLC has loaned an additional $3,765,000 to the Company. However, these amounts have not been sufficient to maintain the minimum liquidity required. As a result, we are in default under the Debentures with respect to this guaranty. There can be no assurances that Mr. Sillerman or his affiliates will provide any additional funds to us.

We may consummate the restructuring transactions that we are currently negotiating, then we may be unable to complete our public offering, and there can be no assurance that we will be able to secure additional funding on terms favorable to us, or at all.

We are negotiating the sale of a majority stake in our non-core assets principally in the technology space, including certain intellectual property related to Social Distribution System ("SDS") and the assets related to the Draft Day daily fantasy sports business. If completed, the contemplated transaction would combine these assets in to a new company, Element(X). We intend to sell 80.1% of Element(X) to a newly formed and separately funded entity owned by current and former employees of Function(x). In addition the Company intends to enter into a shared services agreement with Element(X) providing for payment a month for services related to legal, accounting and office-related services, among other things. The terms of any such transaction will be determined on an arms-length basis and will only be consummated if the board of directors determines that the transaction is in our best interests as a Company. There can be no assurance that we will be successful in consummating such a transaction on the terms as described, or at all.

We have agreed in principle with the holders of approximately $4,170,000 (principal amount) of Debentures to repay the principal amounts of such debentures and to convert our remaining obligations to such holders, valued in the aggregate at $908,000, into shares of our common stock. Proceeds from the offering and the pricing of such shares will be determined in accordance with our Registration Statement.

We are also negotiating an amendment to the exchange agreement with Mr. Sillerman, pursuant to which he and his affiliated entities would agree to convert 100% of his Series C Preferred shares plus accrued dividends at $2.34 which would result in the issuance of 15,593,291 shares. The amendment would permit the line of credit from an affiliate of Mr. Sillerman in the amount of $2,866,000 to remain outstanding after the consummation of the public offering and exchange.

These transactions have not been consummated, and the parties have not yet agreed to final terms. If these transactions are not consummated, then we would not receive the potential benefit of these transactions. In addition, we may have to seek alternative sources of funds, and there can be no guarantee that such funds will be available to us on favorable terms, or at all. Any of the foregoing could have a material adverse impact on our operations and financial condition and our ability to continue as a going concern.

The sale of our Viggle rewards business to Perk and the acquisition of the assets of Rant has changed our business model.
The sale of the Viggle rewards business to Perk and the acquisition of assets of Rant changed our business model. As a result of these transactions, we are a smaller business and are focused on the social publishing industry. Our revenue levels are likely to be different, and possibly lower, than those previously achieved. Our historic stock price has been volatile and the future market price for our common stock is likely to continue to be volatile.

The issuance and sale of common stock upon conversion of the Convertible Promissory Notes, the Debentures and the other convertible securities to be issued, may depress the market price of our common stock.

If there are sequential conversions of the debentures, and sales of such converted shares take place, the price of our common stock may decline. The shares of common stock issuable upon conversion of these securities may be sold without restriction pursuant to the resale registration statement.

We have agreed in principle with the holders of approximately $4,170,000 (principal amount) of Debentures to repay the principal amounts of such debentures and to convert our remaining obligations to such holders, valued in the aggregate at $908,000, into shares of our common stock. Proceeds from the offering and the pricing of such shares will be determined in accordance with our Registration Statement.

We are also negotiating an amendment to the exchange agreement with Mr. Sillerman, pursuant to which he and his affiliated entities would agree to convert 100% of their Series C Preferred shares plus accrued dividends at $2.34 which would result in the issuance of 15,593,291 shares. The amendment would permit the line of credit from an affiliate of Mr. Sillerman in the amount of approximately $2,865,000 to remain outstanding after the consummation of this offering and exchange. The conversion price represents a 4% premium to the closing price of our common stock on January 13, 2017.

The common stock issuable upon conversion of the debentures or the Series C Preferred shares may represent overhang that may also adversely affect the market price of our common stock. Overhang occurs when there is a greater supply of a company's stock in the market than there is demand for that stock. When this happens the price of the company's stock will decrease, and any additional shares which shareholders attempt to sell in the market will only further decrease the share price. If the share volume of our common stock cannot absorb the issuance of the 388,055 shares issuable to the debenture holders and the 15,593,291 shares issuable to Mr. Sillerman and his affiliated entities described above, then the value of our common stock will likely decrease.

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

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

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

We have incurred significant net losses and negative cash flow from operations since our inception. We incurred net losses from continuing operations of $10,288,000 and $58,109,000 for the six months ended December 31, 2016 and September 30, 2015, respectively. We have an accumulated deficit of approximately $438,280,000 as of December 31, 2016 and $428,380,000 as of June 30, 2016. We have not achieved profitability since inception and cannot be certain that we will ever achieve profitability. Our ability to continue as a going concern is dependent upon raising capital from financing transactions, increasing revenue in our remaining businesses throughout the year and keeping operating expenses below our revenue levels in order to achieve positive cash flows, none of which can be assured. If we achieve profitability, we may not be able to sustain it.

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

The report of our independent registered public accounting firm contained in our annual report on Form 10-K for the fiscal year ended June 30, 2016 contains an explanatory paragraph expressing substantial doubt about our ability to remain a going concern because we have suffered recurring losses from operations and, at June 30, 2016, had a working capital deficiency. We are unlikely to pay dividends or generate significant earnings in the immediate or foreseeable future. The continuation of our Company as a going concern is dependent upon the continued financial support from our largest stockholders and the ability of our Company to obtain necessary equity and debt financing to continue development of our business and to generate revenue. Management intends to raise additional funds through equity and debt offerings until sustainable revenues are developed. No assurance can be given that such equity and debt offerings will be successful or that development of our business will continue successfully.

The independent directors are exploring strategic alternatives. There can be no assurances that any transaction will occur, or if such a transaction does occur, the value of that transaction to our company or our stockholders.

The independent directors are exploring strategic alternatives to enhance value. These alternatives could include, among others, possible joint ventures, strategic partnerships, marketing alliances, acquisitions, sale of all or some of our assets or other possible transactions, including the possibility of reorganization. However, there can be no assurance that any such strategic transaction will occur or be successful. In addition, if such a transaction occurs, there can be no assurances as to the value of any such transaction to us or our stockholders. While continuing to explore strategic alternatives, we have approved: (i) recapitalization plan involving the conversion of $34,800,000 of debt held by SIC III, SIC IV and SIC VI, each an affiliate of our Chairman and Chief Executive Officer and the conversion of 3,000 shares of our Series C Preferred Stock into up to 6,379,808 shares of our common stock; (ii) the Reverse Stock Split; (iii) the acquisition of substantially all of the assets of Rant.

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

As of December 31, 2016, we have outstanding stock options to purchase 45,356 shares of common stock and unvested restricted stock units for 50,374 shares of common stock. Exercise of any of these options or warrants, or conversion of any of the shares of preferred stock, would result in our issuing a significant number of additional shares of common stock. Additionally, we have more than 3 million shares available for issuance under the 2011 Executive Incentive Plan. In the future, we may further increase the number of shares available for issuance under that plan. We have entered into an Exchange Agreement and a Note Exchange Agreement (as described below) with affiliates of our Chief Executive Officer, Robert F.X. Sillerman that provides for the conversion of 33,175 shares of Series C Preferred Stock into up to 6,379,808 shares of our common stock. In connection with the Private Placement, we have issued convertible debentures and warrants that are convertible and exercisable for up to 3,722,224 shares of common stock (plus, if applicable, potential additional shares that may be required for liquidated damages.) The issuance of up to 9,484,691 shares of common stock upon the conversion of shares of our outstanding Series E Convertible Preferred stock and convertible notes issued to Rant would result in dilution of your percentage ownership of our Company.

We estimate that, if we issued all 19,586,723 (post Reverse Stock Split) of the shares that the Majority Shareholders have approved for issuance as described in the Information Statement on Schedule 14C filed August 19, 2016, existing shareholders, other than Mr. Sillerman, would own approximately 2.2% of the shares of our common stock outstanding immediately after the conversion is completed.

The Company entered into an Exchange Agreement on July 8, 2016, as amended July 20, 2016 (the "July Exchange Agreement"), with three of the affiliates of Mr. Sillerman, to allow for the exchange for shares of common stock of the Company of: (i) 3,000 shares of the Company's Series C Convertible Redeemable Preferred Stock and a Line of Credit Promissory Note, dated October 24, 2014, in the amount of $20,000,000 plus accrued interest held by SIC III; (ii) a Line of Credit Grid Promissory Note, dated June 12, 2015, as amended July 20, 2016 in the amount of $3,401,000 plus accrued interest held by SIC IV as of the date hereof; (iii) a Revolving Secured Promissory Note, dated January 27, 2016, in the amount of $1,500,000 plus accrued interest, a Revolving Secured Promissory Note, dated March 29, 2016, in the amount of $500,000 plus accrued interest, a Revolving Secured Promissory Note, dated April 25, 2016 in the amount of $500,000 plus accrued interest, a Revolving Secured Promissory Note, dated May 16, 2016, in the amount of $500,000 plus accrued interest and a Revolving Secured Promissory Note, dated June 27, 2016, in the amount of $1,200 plus accrued interest held by SIC VI; and (iv) up to an additional $5,000,000 under the Line of Credit Grid Promissory Note dated June 12, 2015 and amended July 20, 2016 held by SIC IV.

Under the July Exchange Agreement, issuance of the shares in the exchange is conditioned upon approval of the Company's shareholders, the closing of an offering of the Company's common stock in the amount of at least $10,000,000, approval of its Listing of Additional Shares application with NASDAQ, the Company shall not be subject to any bankruptcy proceeding, and various other conditions. The Exchange Price shall be equal to the lesser of $5.20 and the price at which the Debentures can be exchanged for shares of the Company's common stock, so long as the Company received a valuation that the exchange price reflects fair value. The agreement provides for termination in the event the conditions are not satisfied by March 31, 2017.

On August 22, 2016, we and SIC III, SIC IV, and SIC VI entered into an Note Exchange Agreement pursuant to which $30,175 which represents all of the then outstanding principal and accrued interest of certain notes held by SIC III, SIC IV, and SIC VI (the "Sillerman Notes") other than $900,000 of debt held by SIC IV pursuant to that certain Line of Credit Grid Promissory Note dated as of June 11, 2015 (the "SIC IV Note"), was exchanged for 30,175 shares of the Company's Series C Preferred Stock. The exchange price (and therefore the number of shares set forth above) was $1,000 per share. The Note Exchange Agreement provided for the newly issued shares to be held subject to the obligations to convert the shares into common stock on the terms and on the conditions set forth in the Exchange Agreement described in the Company's Form 8-K filed on July 13, 2016, and subject to the additional obligations set forth in the Subordination Agreement and the Lockup Agreements also described therein. The $900,000 of debt that remained outstanding under the SIC IV Note will also remain subject to the Exchange Agreement. As a result of entering into such Agreement, the Certificate of Designation of the Class C Preferred Stock was modified to remove the right of the holder to convert any such Series C Preferred Shares into common shares, but Mr. Sillerman continues to be bound to convert such shares in accordance with the Exchange Agreement.

We may also grant additional stock options, warrants and convertible securities. The exercise, conversion or exchange of stock options, warrants or convertible securities will dilute the percentage ownership of our other stockholders. Sales of a substantial number of shares of our common stock could cause the price of our common stock to fall and could impair our ability to raise capital by selling additional securities.

Our ability to use our net operating loss carryforwards may be limited.

As of December 31, 2016, we had net operating loss carryforwards ("NOLs") for U.S. federal income tax purposes of approximately $165,112,000. We generally are able to carry NOLs forward to reduce taxable income in future years. These NOLs will begin to expire in 2030, if not utilized before that time. However, our ability to utilize the NOLs is subject to the rules of Section 382 of the Internal Revenue Code of 1986 ("Section 382"). Section 382 generally restricts the use of NOLs after an "ownership change." An ownership change occurs if, among other things, the stockholders (or specified groups of stockholders) who own or have owned, directly or indirectly, five percent or more of our common stock or are otherwise treated as five percent stockholders under Section 382 and the regulations promulgated thereunder increase their aggregate percentage ownership of our stock by more than 50 percentage points over the lowest percentage of the stock owned by these stockholders over a three-year rolling period. In the event of an ownership change, Section 382 imposes an annual limitation on the amount of taxable income that we may offset with NOLs. This annual limitation is generally equal to the product of the value of our stock on the date of the ownership change, multiplied by the long-term tax-exempt rate published monthly by the Internal Revenue Service. Any unused annual limitation may be carried over to later years until the applicable expiration date for the respective NOLs.

The rules of Section 382 are complex and subject to varying interpretations. Because of our numerous capital raises, uncertainty exists as to whether we may have undergone an ownership change in the past or will undergo one as a result of the various transactions discussed herein. Accordingly, no assurance can be given that our NOLs will be fully available or utilizable.

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

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

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

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

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

As of December 31, 2016, approximately 2,073,079 shares of our common stock, not including warrants, options, preferred stock or rights to acquire common stock, are owned by Mr. Sillerman and his affiliates, representing a significant percentage of the total voting power. As a result, Mr. Sillerman and his affiliates essentially have the ability to elect all of our directors and to approve any action requiring stockholder action. It is possible that the interests of Mr. Sillerman could conflict in certain circumstances with those of other stockholders. Such concentrated ownership may also make it difficult for our stockholders to receive a premium for their shares of common stock in the event we merge with a third party or enter into other transactions that require stockholder approval. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

Pursuant to the Information Statement on Form 14C filed on August 19, 2016, the holder of a majority of our issued and outstanding shares has authorized the issuance of shares for a recapitalization plan involving the conversion of up to $34,800,000 of debt held by SIC III, SIC IV and SIC VI, each an affiliate of our Chairman and Chief Executive Officer, and the conversion of 3,000 shares of our Series C Preferred Stock into up to 7,016,981 shares of our common stock. Such approval became effective on behalf of our shareholders on September 15, 2016. As a result, there could be dilution of our shareholders if those conversions are effectuated. Mr. Sillerman now has voting control of the Company and, to the extent he also converts in accordance with his exchange agreements, he will remain majority shareholder.

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

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

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

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

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

Mr. Sillerman and Mitchell J. Nelson, our Executive Vice President, Secretary and a director, are each engaged in other business endeavors, including Circle Entertainment Inc. (“Circle”), in which Mr. Nelson is an executive officer. Mr. Sillerman was also the Chairman of SFX, a company in the live entertainment business, until December 2, 2016 when the reorganization of SFX under Chapter 11 of the Bankruptcy Code became effective. Under Mr. Sillerman’s employment agreement, he is obligated to devote his working time to our affairs, but was able to continue to perform his responsibilities as Chairman of SFX and as a director of Circle, and may be involved in other outside non-competitive businesses. Mr. Sillerman has agreed to present to us any business opportunities related to or appropriate for our business. Pursuant to Mr. Nelson's employment agreement, he is obligated to devote such time and attention to the affairs of our company as is necessary for him to perform his duties as Executive Vice President. He is also entitled to perform similar functions for Circle, which is in liquidation. In addition, one of our directors, Michael Meyer, is a member of the board of directors and chair of the audit committee of Circle and was a director of SFX until December 2, 2016, when the reorganization of SFX under Chapter 11of the Bankruptcy Code became effective. Although Circle, SFX and our company have generally different business plans, interests and programs, it is conceivable there may be a conflict of interest in determining where a potential opportunity should be brought. Conflicts of interest are prohibited as a matter of corporate policy, except under guidelines approved by the Board of Directors, as set forth in our Code of Business Conduct and Ethics. Our Code of Business Conduct and Ethics also sets forth the procedures to follow in the event that a potential conflict of interest arises. In addition, not having the full time and attention of the executive officers could cause our business results to suffer.

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

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

We are uncertain of our ability to manage our growth.

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

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

The social publishing business is highly fragmented, extremely competitive, and subject to rapid change. The market for customers is intensely competitive and such competition is expected to continue to increase. We believe that our ability to compete depends upon many factors within and beyond our control, including the ability to generate content and attract readers. If we are successful, larger and more established media companies, with significantly greater resources, may try to enter the market with similar products, and may be in better competitive positions than we are. Many consumers maintain simultaneous relationships with multiple digital brands and products and can easily shift consumption from one provider to another. Our principal competitors are in segments such as:

- Digital publishing network providing original content in sports, entertainment and pets
- Digital marketplace powering some of the largest loyalty programs
- Digital content providers
- Companies with daily fantasy sports offerings

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

Failure to successfully grow the Wetpaint, Rant, DraftDay or Choose Digital businesses in the expected time frame may adversely affect our future results.

The success of our acquisitions of Wetpaint, Rant, DraftDay, or Choose Digital will depend, in part, on our ability to realize the anticipated benefits from such businesses. Our management may face significant challenges in developing Wetpaint’s, Rant’s, DraftDay's, or Choose Digital's businesses, and their respective technologies, organizations, procedures, policies and operations, as well as addressing the different business cultures at these companies, and retaining key personnel. If Wetpaint, Rant, DraftDay, or Choose Digital are not successfully developed, the anticipated benefits of our acquisitions of these companies may not be realized fully or at all or may take longer to realize than expected. Developing these businesses may also be complex and time consuming, and require substantial resources and effort.

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

In connection with our acquisition of Choose Digital, we were required to make a contingent payment, which was due within five business days after June 24, 2015, of $4,800,000, which we failed to make timely. As a result, we entered into a Forbearance Agreement with AmossyKlein Family Holdings, LLLP ("AmossyKlein"), as representative of the former shareholders of Choose Digital Inc. (the “Stockholders”). The Forbearance Agreement provided that we would make monthly installment payments to the Stockholders and we agreed to deliver an affidavit of confession of judgment to be held in escrow by AmossyKlein s counsel in the event that we do not make such installment payments. We made the installment payments through December 2015, but failed to make the payment due on January 29, 2016. On May 12, 2016, we and AmossyKlein entered into an amendment to the Forbearance Agreement to provide for the payment of the remaining $1,800,000. The Forbearance Agreement provides that we would make a payment of approximately $300,000 by May 18, 2016, and thereafter, we would make monthly payments of $100,000, plus interest, until the remaining amount is paid in full. In addition, we pledged 100,000 shares of common stock we hold in Perk.com, Inc. as collateral for these obligations. As of the date of this filing, $354,000 is owed and the 100,000 shares have been released. Finally, we agreed if we consummate a sale of a substantial part of our assets or a public equity offering, we will first apply the proceeds to remaining amounts due to AmossyKlein, except for payments to advisors or expenses necessary to close such transactions. We also agreed to amend the confession of judgment. These payments under the amended forbearance agreement will create additional strain on our limited cash resources. In addition, the requirement to accelerate payments on a sale of a substantial part of our assets or from a public equity offering may hinder our access to additional cash.

We will incur significant transaction and merger-related expenses in connection with our acquisition of our interest in DraftDay.

In connection with our acquisition of an interest in DraftDay, we were required to make payments pursuant to promissory note in the principal amount of $2,000,000 on March 8, 2016. We negotiated with the holders of these notes to pay a portion of the outstanding amounts in our common stock. We were able to retire approximately $1,000,000 of the amounts outstanding under the notes through the issuance of 147,812 shares of our common stock and 110 shares of our Series D preferred stock. The 110 shares of our common stock were convertible into 18,331 shares of our common stock. Approximately $1,000,000 of the principal amount of these notes remains outstanding and will now be payable on July 31, 2016.

We will incur significant transaction and integration expenses in connection with our acquisition of the assets of Rant.

In connection with our acquisition of the assets of Rant, we were required to make payments pursuant to a secured convertible promissory note (the “Rant Note”) that bears interest at 12% per annum on principal amount of $3,000,000. The Rant Note matures on July 8, 2017. At the election of Rant, the secured convertible note is convertible into shares of our common stock at a price equal to the lower of (i) $5.20 per share, or (ii) such lower price as may have been set for conversion of any debt or securities into Common Stock held on or after the date hereof by Sillerman until the first to occur of March 31, 2017 or the date the Rant Note has been satisfied or converted. In connection with the Rant Note, we have entered into a Note Purchase Agreement and a Security Agreement with Rant, under which we have granted Rant a continuing security interest in substantially all of our assets. In connection with the issuance of the secured convertible note, Mr. Sillerman, his affiliates, and Rant entered into a subordination agreement subordinating repayment of the Rant Note to the Debentures and entered into an Intercreditor Agreement providing for the parties’ respective rights and remedies with respect to payments against the collateral held as security for both of them. The issuance of additional equity in conversion of the Rant Note would result in dilution to existing stockholders.

If we do not continue to develop and offer compelling content, products and services and attract new consumers or maintain the engagement of our existing consumers, our revenues could be adversely affected.

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

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

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

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

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

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

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

Choose Digital previously generated a significant amount of its content sales through the Viggle App, which has now been sold to Perk. If Perk does not offer content provided by Choose Digital, or if it uses less content provided by Choose Digital than we used previously, Choose Digital's business could suffer.

The Viggle App, which provides rewards to its users, previously offered digital content provided through Choose Digital. The content provided through the Viggle App was a significant part of Choose Digital's sales. The Viggle App is now owned and operated by Perk. There can be no assurance that Perk will offer digital content provided through Choose Digital, or that Perk will offer digital content at the same levels that were offered historically. For this and other reasons, Choose Digital's revenues have declined considerably, and the Company is in the process of restructuring the Choose Digital business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have noted material weaknesses in internal control over our financial reporting and disclosure controls and procedures. We intend to remediate these issues and have started efforts in that regard. There is no assurance that we will be able to do so.

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

At a U.S. federal level, Unlawful Internet Gambling Enforcement Act of 2006 ("UIGEA") prohibits online gambling practices, but exempts fantasy sports, as long as they operate within certain parameters. The UIGEA specifically exempts fantasy sports games, educational games, or any online contest that "has an outcome that reflects the relative knowledge of the participants, or their skill at physical reaction or physical manipulation (but not chance), and, in the case of a fantasy or simulation sports game, has an outcome that is determined predominantly by accumulated statistical results of sporting events, including any non- participant's individual performances in such sporting events..." However, all prizing must be determined and announced in advance of the competition and cannot be influenced by the fees or number of participants. This creates financial risk because we must determine prizes for games in advance, and if we do not have enough paying players in a game to cover the amount of the prize for the game, we could experience significant losses.

DDGG's business is subject to an evolving legislative and regulatory landscape. Some states employ a “predominance” test or a “material factor” test to determine whether or not a game is one of skill. Others have specific laws prohibiting pay-to- play fantasy sports. Therefore, DDGG does not operate in Alabama, Arizona, Indiana, Iowa, Louisiana, Montana, Nevada, Tennessee, Texas, Vermont, Virginia, or Washington. Several state Attorneys General have issued opinions that daily fantasy sports either does or does not meet the states standards under their current laws. In those states with negative treatment, DDGG has suspended services until there is further clarity in those states through the legal, legislative, and regulatory processes. On November 10, 2015, the New York State Attorney General issued a letter to FanDuel and DraftKings, two of the largest competitors in the fantasy sports industry, stating that it believes that their activities constitute illegal gambling under New York law, and instructing them to cease their offerings to New York residents. As a result, DDGG has ceased its fantasy sports offerings to New York residents. However, on August 3, 2016, New York enacted a law that legalizes and regulates fantasy sports in New York. DDGG intends to seek that approval to operate from the New York state regulators. Approximately 33 states have introduced legislation authorizing and regulating daily fantasy sports ranging from clarifying current state laws to adding new laws regarding daily fantasy sports. DDGG continues to monitor the changing landscape and advocates a favorable position for daily fantasy sports in each of these states. However, any such change could materially and adversely affect DraftDay's business.

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

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

We have suffered a loss of human capital as a result of the Perk Transaction. If we are unable to replace the employees lost, we may not be able to take advantage of opportunities in the marketplace.

As a result of the Perk Transaction and the resulting changes in our business, many of our employees have become Perk employees and others have left our Company. If we are unable to replace these employees, we may not have the manpower necessary to sell advertising, to market and publicize our businesses and to take advantage of changing market conditions.

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

We face a large and growing number of competitors across all our lines of business. Wetpaint and Rant are content publishers, and they face many competitors with far greater resources. They face competition from traditional media sources, such as newspapers and magazines, many of which have their own digital properties, as well as competition from other digital and online publishers, such as Buzzfeed and Vox Media., and many others. Choose Digital competes with other digital content providers. Many of these competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition, and more established relationships in these industries than do we. In addition, as described in greater detail above, DraftDay faces competition from DraftKings and FanDuel, each of which has far greater established customer bases, name recognition, marketing resources and financial resources than DraftDay. As a result, certain of these competitors may be in better positions to compete with us for customers and audiences. Further, our current and/ or future competitors in the digital and mobile technology industry may develop or license technology that is similar to ours. We cannot be sure that we will be able to compete successfully with existing or new competitors.

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

While we believe that a viable market exists for our products, there is no assurance that our technology will prove to be an attractive alternative to conventional or competitive products in the markets that we have identified. In the event that a viable market for our products cannot be created for our business or our products do not achieve market acceptance, we may need to commit greater resources than are currently available to develop a commercially viable and competitive product. There can be no assurance that we would have sufficient financial resources to fund such development or that such development would be successful. In addition, if our products do not generate sufficient revenues, or we are unable to raise additional capital, we may be unable to fund our operations. Our ability to raise additional funds will depend on financial, economic and other factors, many of which are beyond our control. There can be no assurance that, when required, sufficient funds will be available to us on satisfactory terms.

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

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

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

ITEM 2. Unregistered Sale of Equity and Use of Proceeds

Private Placement
MGT Sports Exchange Agreement

On October 10, 2016, we satisfied the note payable to MGT Sports, Inc. through the issuance of 136,304 shares of our common stock and payment of interest of $16,000.

Kuusamo Prommisory Note
On September 21, 2016, we satisfied the Kuusamo Prommisory Note through the issuance of 8,410 shares of our common stock.
Trade Payables

On November 15, 2016, $110,000 of debt payable to a trade creditor was exchanged for 31,150 shares of Company common stock.

Such shares were issued in a transaction exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(a)(2) thereunder and Rule 506 of Regulation D promulgated thereunder.

ITEM 3. Defaults Upon Senior Securities

See Debenture event of default discussion in Note 16, Subsequent Events.

ITEM 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

ITEM 6. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES

Exhibits

The documents set forth below are filed herewith.

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

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

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| 10.50 | Amended and Restated Viggle Inc. 2011 Executive Incentive Plan (46) |
| 10.51 | Revolving Loan Agreement (47) |
| 10.52 | Stockholders Agreement, dated as of January 29, 2014, by and among the registrant, Nancy Lee, as representative and former stockholders of Dijit Media, Inc. (48) |
| 10.53 | Amended Form of Warrant for May 2012 PIPE Transaction (49) |
| 10.54 | Third Amendment, dated as of February 13, 2014, by and between Viggle Inc. and Deutsche Bank Trust Company Americas, and its successors and assigns (50) |
| 10.55 | Form of Certificate of Amendment to Articles of Incorporation (51) |
| 10.56 | Fourth Amendment, dated as of March 11, 2014, by and between Viggle Inc. and Deutsche Bank Trust Company Americas, and its successors and assigns (52) |
| 10.57 | Pledge and Security Agreement, dated as of March 11, 2014, by and between Viggle Inc. and Deutsche Bank Trust Company Americas, and its successors and assigns (53) |
| 10.58 | Software License and Services Agreement, dated as of March 10, 2014, by and between Viggle Inc. and SFX Entertainment, Inc. (54) |
| 10.59 | Amendment to Articles of Incorporation of Viggle Inc. (55) |
| 10.60 | Amendment to the Employment Agreement of Robert F.X. Sillerman (56) |
| 10.61 | Form of Amendment to the Employment Agreements of Gregory Consiglio, John Small and Kevin Arrix (57) |
| 10.62 | Form of Exchange Agreement with Holders of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock (58) |
| 10.63 | Agreement and Plan of Merger, dated as of June 24, 2014, by and among Viggle Inc.,Viggle Merger Sub III Inc., Choose Digital Inc., certain stockholders of Choose Digital Inc., and (solely with respect to Articles 1, 5 and 6 and Subsection 10.1) Amossyklein Family Holdings, LLLP (solely in its capacity as the Stockholders' Agent) (59) |
| 10.64 | Certificate of Designation of Series C Preferred Stock (60) |
| 10.65 | Securities Purchase Agreement dated October 24, 2014 by and between the Company and Sillerman Investment Company III, LLC (61) |
| 10.66 | Line of Credit Promissory Note dated as of October 24, 2014 issued by the Company in favor of Sillerman Investment Company III, LLC (62) |
| 10.67 | Form of Warrant issuable pursuant to the Securities Purchase Agreement (63) |
| 10.68 | Registration Rights Agreement, dated as of October 24, 2014, by and between Sillerman Investment Company III LLC (64) |
| 10.69 | Fifth Amendment to Term Loan Agreement, dated as of October 24, 2014, by and between the Company and Deutsche Bank Trust Company Americas (65) |
| 10.70 | Subordination Agreement, dated as of October 24, 2014, by and between Sillerman Investment Company III, LLC and Deutsche Bank Trust Company Americas, and acknowledged by the Company (66) |
| 10.71 | Sales Agency Agreement dated January 22, 2015 by and between the Company and SFX-94 LLC (67) |
| 10.72 | Amended and Restated Shared Services Agreement (68) |
| 10.73 | Amendment to the Employment Agreement between the Company and Greg Consiglio (69) |
| 10.74 | Amendment to the Employment Agreement between the Company and Kevin Arrix (70) |
| 10.75 | Line of Credit Grid Promissory Note, dated as of June 11, 2015, by and between the Company and Sillerman Investment Company IV LLC (71) |
| 10.76 | Forbearance Agreement dated as of July 31, 2015 by and between Viggle Inc. and AmossyKlein Family Holdings, LLLP (72) |
| 10.77 | Asset Purchase Agreement by and among MGT Sports, Inc., MGT Capital Investments, Inc., DraftDay Gaming Group, Inc. and Viggle Inc., dated as of September 8, 2015 (73) |

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| 10.78 | Stockholders' Agreement of DraftDay Gaming Group, Inc., dated as of September 8, 2015 (74) |
| 10.79 | Form of Promissory Note between Viggle Inc. and MGT Sports, Inc. (75) |
| 10.80 | Separation Agreement between Viggle Inc. and Kevin Arrix (76) |
| 10.81 | Amended and Restated Employment Agreement between Viggle Inc. and Olga Bashkatova (77) |
| 10.82 | Subscription Agreement dated December 3, 2015 between Viggle Inc. and Sillerman Investment Company IV LLC (78) |
| 10.83 | Asset Purchase Agreement, dated as of December 13, 2015, by and between Viggle Inc. and Perk.com Inc. (79) |
| 10.84 | Credit Agreement, dated as of December 13, 2015, by and between Viggle Inc. and Perk.com Inc. (80) |
| 10.85 | Amendment to Amended and Restated Certificate of Incorporation (81) |
| 10.86 | Amendment to Employment Agreement of Mitchell J. Nelson (82) |
| 10.87 | Secured Revolving Promissory Note dated January 27, 2016 between DraftDay Fantasy Sports Inc.and Sillerman Investment Company VI, LLC (83) |
| 10.88 | Security Agreement, effective as of January 27, 2016, between DraftDay Fantasy Sports Inc. and Sillerman Investment Company III, LLC (84) |
| 10.89 | Certificate of Designation of Series D Preferred Stock (85) |
| 10.90 | Form of Exchange Agreement between the Company and MGT Sports, Inc.(86) |
| 10.91 | Revolving Secured Promissory Note, dated as of March 29, 2016, between DraftDay Fantasy Sports Inc. and Sillerman Investment Company VI, LLC (87) |
| 10.92 | Security Agreement, dated as of March 29, 2016, between DraftDay Fantasy Sports Inc. and Sillerman Investment Company VI, LLC (88) |
| 10.93 | Binding Term Sheet, dated as of April 29, 2016, between DraftDay Fantasy Sports Inc. and Rant, Inc. (89) |
| 10.94 | Secured Revolving Promissory Note dated April 29, 2016 between DraftDay Fantasy Sports Inc. and Sillerman Investment Company VI LLC (90) |
| 10.95 | Security Agreement dated April 29, 2016 between DraftDay Fantasy Sports Inc. and Sillerman Investment Company VI LLC (91) |
| 10.96 | Subscription Agreement, dated as of May 9, 2016, by and between the registrant and Sillerman Investment Company III LLC (92) |
| 10.97 | Amendment No.1 to the Forbearance Agreement, dated as of May 12, 2016 by and between the registrant and AmossyKlein Family Holdings, LLP (93) |
| 10.98 | Secured Revolving Promissory Note dated May 16, 2016 between DraftDay Fantasy Sports Inc. and Sillerman Investment Company VI LLC (94) |
| 10.99 | Security Agreement dated May 16, 2016 between DraftDay Fantasy Sports Inc. and Sillerman Investment Company VI LLC (95) |
| 10.100 | Exchange Agreement dated June 14, 2016 between DraftDay Fantasy Sports and MGT Sports, Inc. (96) |
| 10.101 | Secured Revolving Promissory Note dated June 27, 2016 between DraftDay Fantasy Sports Inc. and Sillerman Investment Company VI LLC (97) |
| 10.102 | Security Agreement dated June 27, 2016 between DraftDay Fantasy Sports Inc. and Sillerman Investment Company VI LLC (98) |
| 10.103 | Convertible Promissory Note dated June 27, 2016 between DraftDay Fantasy Sports Inc. and Reaz Islam (99) |
| 10.104 | Employment Agreement between DraftDay Fantasy Sports Inc. and Michelle Lanken (100) |
| 10.105 | Asset Purchase Agreement between Function (x) Inc. and Rant, Inc. (101) |
| 10.106 | Certificate of Designation of Series E Preferred Stock (102) |

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| 10.107 | Secured Convertible Note between Function(x) Inc. and Rant, Inc. (103) |
| 10.108 | Note Purchase Agreement between Function(x) Inc. and Rant, Inc. (104) |
| 10.109 | Security Agreement between Function(x) Inc. and Rant, Inc. (105) |
| 10.110 | Subordination Agreement between Function(x) Inc., Sillerman Investment Company III LLC, Sillerman Investment Company IV LLC, Sillerman Investment Company VI LLC and Rant, Inc. (106) |
| 10.111 | Intercreditor Agreement between Function(x) Inc., Sillerman Investment Company III LLC, Sillerman Investment Company IV LLC, Sillerman Investment Company VI LLC and Rant, Inc. (107) |
| 10.112 | Securities Purchase Agreement dated July 8, 2016 (108) |
| 10.113 | Security Agreement dated July 8, 2016 between Function(x) Inc. and holders of Debentures (109) |
| 10.114 | Registration Rights Agreement dated July 8, 2016 (110) |
| 10.115 | Form of Debenture (111) |
| 10.116 | Form of Warrant (112) |
| 10.117 | Form of Lock-Up Agreement (113) |
| 10.118 | Exchange Agreement dated July 8, 2016 between Function(x) Inc. and Sillerman Investment Company III LLC, Sillerman Investment Company IV LLC and Sillerman Investment Company VI LLC (114) |
| 10.119 | Amendment to Securities Purchase Agreement and Consent to Modify Debentures dated July 20, 2016 (115) |
| 10.120 | Amendment to Subordination Agreement dated July 20, 2016 (116) |
| 10.121 | Amendment to Exchange Agreement dated July 20, 2016 (117) |
| 10.122 | Employment Agreement of Birame Sock (118) |
| 10.123 | Amended and Restated Certificate of Designation of the Series C Preferred Stock of Function(x) Inc. (119) |
| 10.124 | Note Exchange Agreement dated August 22, 2016 between Function(x) Inc., Sillerman Investment Company III LLC, Sillerman Investment Company IV LLC and Sillerman Investment Company VI LLC (120) |
| 10.125 | Amendment to Certificate of Incorporation of Function(x) Inc. (121) |
| 10.126 | Securities Purchase Agreement between Function(x) Inc. and Perk Inc. (122) |
| 10.127 | Waiver Agreement between the Company and Barry Honig, as collateral agent (123) |
| 14.1 | Code of Business Conduct and Ethics (124) |
| 21.1 | List of Subsidiaries |
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification of Principal Executive Officer |
| 31.2 | Certification of Principal Accounting Officer |
| 32.1 | Section 1350 Certification of Principal Executive Officer |
| 32.2 | Section 1350 Certification of Principal Accounting Officer |

(1) Incorporated by reference to Exhibit D to the registrant's Proxy Statement on Schedule 14D filed on August 16, 1994. Amendments thereto are incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 16, 2011 and to the Registrant's Current Report on Form 8-K filed on June 7, 2012. Series D Certificate of Designation is incorporated by reference to Exhibit 3.1 to the registrant's 8-K filed on March 30, 2016.
(2) Incorporated by reference to the registrant's Exhibit E to Proxy Statement on Schedule 14A filed on August 16, 1994
(3) Incorporated by reference to the registrant's registration statement on Form S-1 filed on May 25, 2011
(4) Incorporated by reference to the registrant's Current Report on Form 8-K filed on February 22, 2011
(5) Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on February 16, 2011
(6) Incorporated by reference to Exhibit 10.7 to the registrant's registration statement on Form S-1/A filed on October 7, 2011
(7) Incorporated by reference to Exhibit 10.8 to the registrant's registration statement on Form S-1/A filed on October 7, 2011
(8) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 3, 2011
(9) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 26, 2011
(10) Incorporated by reference to Exhibit 10.13 to the registrant's Registration Statement on Form S-1/A filed on November 23, 2011
(11) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 29, 2011.
(12) Incorporated by reference to Exhibit 10.2 to the registrant's Current report on Form 8-K filed on December 29, 2011.
(13) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on January 4, 2012
(14) Incorporated by reference to Exhibit 10.18 to the registrant's registration statement on Form S-1/A filed on April 5, 2012
(15) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on April 9, 2012
(16) Incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
(17) Incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
(18) Incorporated by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
(19) Incorporated by reference to Exhibit 10.4 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
(20) Incorporated by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 8-K filed on May 15, 2012
(21) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on July 6, 2012
(22) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 14, 2012
(23) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on September 14, 2012
(24) Incorporated by reference to Exhibit 13.2 to the registrant's Quarterly Report on Form 10-Q filed on May 12, 2011. An amendment to the agreement is incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on November 5, 2012
(25) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on November 5, 2012
(26) Incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on November 19, 2012
(27) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 7, 2012

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(28) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 17, 2012
(29) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on January 11, 2013
(30) Incorporated by reference to Exhibit 10.35 to the registrant's Quarterly Report on Form 10-Q filed February 14, 2013
(31) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on March 15, 2013
(32) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on March 15, 2013
(33) Incorporated by reference to Exhibit 10.3 of the registrant's Current Report on Form 8-K filed on March 15, 2013
(34) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K/A filed on March 19, 2013
(35) Incorporated by reference to Exhibit 10.5 of the registrant's Current Report on Form 8-K filed on March 15, 2013
(36) Incorporated by reference to Exhibit 10.6 of the registrant's Current Report on Form 8-K filed on March 15, 2013
(37) Incorporated by reference to Exhibit 10.7 of the registrant's Current Report on Form 8-K filed on March 15, 2013
(38) Incorporated by reference to Exhibit 10.8 of the registrant's Current Report on Form 8-K filed on March 15, 2013
(39) Incorporated by reference to the Exhibits 10.36, 10.37, 10.38, 10.39, 10.40, 10.41, 10.42 and 10.43 of the registrant's Annual Report on Form 10-K filed on September 17, 2013
(40) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on December 2, 2013
(41) Incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed on December 2, 2013
(42) Incorporated by reference to Exhibit 10.3 of the registrant's Current Report on Form 8-K filed on December 2, 2013
(43) Incorporated by reference to Exhibit 2.1 of the registrant's Current Report on Form 8-K filed on December 16, 2013
(44) Incorporated by reference to Exhibit 2.2 of the registrant's Current Report on Form 8-K filed on December 16, 2013
(45) Incorporated by reference to Exhibit 2.3 of the registrant's Current Report on Form 8-K filed on December 16, 2013
(46) Incorporated by reference to the registrant's Preliminary Information Statement on Schedule 14C filed on January 10, 2014
(47) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on February 6, 2014
(48) Incorporated by reference to Exhibit 1.1 to the Schedule 13D/A filed on February 10, 2014
(49) Incorporated by reference to Exhibit 10.1 of the registrant's Quarterly Report on Form 10-Q filed on February 10, 2014
(50) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on February 20, 2014
(51) Incorporated by reference to Exhibit 3.1 of the registrant's Current Report on Form 8-K filed on March 10, 2014
(52) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on March 14, 2014
(53) Incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed on March 14, 2014
(54)

Incorporated by reference to Exhibit 10.3 of the registrant's Current Report on Form 8-K filed on March 14, 2014

(55) Incorporated by reference to Exhibit 3.1 of the registrant's Current Report on Form 8-K filed on March 18, 2014

(56) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on March 18, 2014

(57) Incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed on March 18, 2014
(58) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on March 24, 2014
(59) Incorporated by reference to Exhibit 2.1 of the registrant's Current Report on Form 8-K filed on June 25, 2014
(60) Incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on October 27, 2014
(61) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 27, 2014
(62) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on October 27, 2014
(63) Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on October 27, 2014
(64) Incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on October 27, 2014
(65) Incorporated by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on October 27, 2014
(66) Incorporated by reference to Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on October 27, 2014
(67) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on January 23, 2015
(68) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on January 23, 2015
(69) Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on January 23, 2015
(70) Incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on January 23, 2015
(71) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 12, 2015
(72) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 6, 2015
(73) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 9, 2015
(74) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on September 9, 2015
(75) Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on September 9, 2015
(76) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 2, 2015
(77) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 27, 2015
(78) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on December 7, 2015
(79) Incorporated by reference to Exhibit 2.1 of the registrant's Current Report on Form 8-K filed on December 14, 2015
(80) Incorporated by reference to Exhibit 2.2 of the registrant's Current Report on Form 8-K filed on December 14, 2015
(81) Incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on January 28, 2016
(82) Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on January 28, 2016
(83)

Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on February 2, 2016

(84) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on February 2, 2016

(85) Incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on March 30, 2016

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(86) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on March 30, 2016
(87) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on March 30, 2016
(88) Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on March 30, 2016
(89) Incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on April 29, 2016
(90) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 3, 2016
(91) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on May 3, 2016
(92) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 13, 2016
(93) Incorporated by reference to Exhibit 10.78 to the registrant's Quarterly Report on Form 10-Q filed on May 16, 2016
(94) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 20, 2016
(95) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on May 20, 2016
(96) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 17, 2016
(97) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 30, 2016
(98) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on June 30, 2016
(99) Incorporated by reference to Exhibit 10.9 to the registrant's Current Report on Form 8-K filed on June 30, 2016
(100) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on July 6, 2016
(101) Incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(102) Incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(103) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(104) Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(105) Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(106) Incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(107) Incorporated by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(108) Incorporated by reference to Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(109) Incorporated by reference to Exhibit 10.7 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(110) Incorporated by reference to Exhibit 10.8 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(111) Incorporated by reference to Exhibit 10.9 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(112) Incorporated by reference to Exhibit 10.10 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(113) Incorporated by reference to Exhibit 10.11 to the registrant's Current Report on Form 8-K filed on July 13, 2016
(114) Incorporated by reference to Exhibit 10.12 to the registrant's Current Report on Form 8-K filed on July 13, 2016

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(115) Incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on July 26, 2016
(116) Incorporated by reference to Exhibit 2.2 to the registrant's Current Report on Form 8-K filed on July 26, 2016
(117) Incorporated by reference to Exhibit 2.3 to the registrant's Current Report on Form 8-K filed on July 26, 2016
(118) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 3, 2016
(119) Incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on August 22, 2016
(120) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 22, 2016
(121) Incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on September 16, 2016
(122) Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 6, 2016
(123) Incorporated by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K filed on November 14, 2016
(124) Incorporated by reference to Exhibit 14.1 to the registrant's Information Statement on Form S-1/A filed on October 7, 2011

SIGNATURES

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

FUNCTION(X) INC.

| | | |
|---|---|---|
| February 14, 2017 | By: | /s/ ROBERT F.X. SILLERMAN |
| | | Robert F.X. Sillerman |
| | | Chief Executive Officer |
| | | (Principal Executive Officer) |
| February 14, 2017 | By: | /s/ MICHELLE LANKEN |
| | | Michelle Lanken |
| | | Chief Financial Officer |