Function(x) Inc.
Form S-1/A
February 06, 2017

As filed with the Securities and Exchange Commission on February 3, 2017

Registration No. 333-215188

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

Pre-Effective Amendment No. 2
to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Function(x) Inc.

(Exact name of registrant as specified in its charter)

Delaware	7370	33-0637631
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

902 Broadway, 11th Floor
New York, New York 10010
(212) 231-0092

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Robert F. X. Sillerman
Chief Executive Officer
902 Broadway, 11th Floor
New York, New York 10010
(212) 231-0092

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Aron Izower
Reed Smith LLP
599 Lexington Avenue
New York, New York 10022-7650
(212) 521-5400

Thomas A. Rose
Sichenzia Ross Ference Kesner LLP
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New York, New York 10006
(212) 930-9725

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

TABLE OF CONTENTS

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee*
Common Stock, $0.001 par value per share(2)	$ 11,500,000	$ 1,368.50
Representatives Warrant to Purchase Common Stock(3),		
Common Stock, par value $0.001 per share, underlying Representatives Warrants(2)(4)	$ 312,500	$ 36.22
Total	$ 11,812,500	$ 1,404.72

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933 (the Securities Act). Includes offering price of shares which the underwriters have the option to purchase to cover over-allotments, if any.

(2) Pursuant to Rule 416 under the Securities Act, the shares of common stock registered hereby also include an indeterminate number of additional shares of common stock as may from time to time become issuable by reason of stock split, stock dividends, recapitalizations, or other similar transactions.

(3) No registration fee is required pursuant to Rule 457(g) under the Securities Act.

(4) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(g) under the Securities Act. The proposed maximum aggregate offering price of the Representative s Warrant is $312,500, which is equal to 125% of $250,000 (2.5% of $10,000,000).

* Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

TABLE OF CONTENTS

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS **SUBJECT TO COMPLETION** **DATED FEBRUARY 3, 2017**

Shares
Common Stock

This is a firm commitment public offering of $10 million of shares of our common stock at a price of $ per share. We are also offering warrants to the underwriters to purchase up to shares of our common stock.

We currently have an effective registration statement on Form S-1 (File No. 333-213084) pursuant to which the selling stock holders named therein may sell their common stock.

Our common stock is traded on the NASDAQ Capital Market under the symbol FNCX. On February 2, 2017, the closing price of our common stock was $2.11 per share. Our auditors have included a disclosure paragraph in their opinion regarding their uncertainty of our ability to continue as a going concern as of June 30, 2016.

Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page 8 of this prospectus.

You should rely only on the information contained in this prospectus or any prospectus supplement or amendment thereto. We have not authorized anyone to provide you with different information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions(1)	$	$

(1) Does not include a non-accountable expense allowance equal to 1% of the gross proceeds of this offering payable to Aegis Capital Corp., the representative of the underwriters. See Underwriting for a description of the compensation payable to the underwriters.

We have granted a 45-day option to the representative of the underwriters to purchase up to additional shares of common stock solely to cover over-allotments, if any.

The underwriters expect to deliver our shares to purchasers in the offering on or about , 2017.

Joint Book-Running Managers

Aegis Capital Corp	**Laidlaw & Company (UK) Ltd.**

TABLE OF CONTENTS

TABLE OF CONTENTS

i

TABLE OF CONTENTS

About This Prospectus

You should rely only on the information that we have provided or incorporated by reference in this prospectus, any applicable prospectus supplement and any related free writing prospectus that we may authorize to be provided to you. We have not authorized anyone to provide you with different information. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus, any applicable prospectus supplement or any related free writing prospectus that we may authorize to be provided to you. You must not rely on any unauthorized information or representation. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus, any applicable prospectus supplement or any related free writing prospectus is accurate only as of the date on the front of the document, regardless of the time of delivery of this prospectus, any applicable prospectus supplement or any related free writing prospectus, or any sale of a security.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under the heading Where You Can Find Additional Information.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

This summary does not contain all of the information that should be considered before investing in our common stock. Investors should read the entire prospectus carefully, including the more detailed information regarding our business, the risks of purchasing our common stock discussed in this prospectus under Risk Factors beginning on page 8 of this prospectus and our financial statements and the accompanying notes beginning on page F-8 of this prospectus. As used in this prospectus, unless the context requires otherwise, the Company , we , us , and our refe Function(x) Inc., a Delaware corporation.

Our Company

Function(x) Inc. (the Company) was incorporated in Delaware in July 1994. We conduct business through our three operating segments, including digital publishing through Wetpaint.com (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 are a social publishing and interactive media platform, focused on creating a uniquely differentiated user experience across various content verticals using multiple types of media for ultimate user engagement.

We aspire to become the #1 interactive media platform by leveraging and building on our existing platform and current user base. Our three pronged strategy includes, (a) to further develop our platform connecting content owners with their audience through live or on-demand video channels, (b) to enhance our comprehensive built-in monetization model for content contributors and distribution partners, and (c) to 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.

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; and

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.

Digital Publishing

Our digital publishing businesses include Wetpaint and Rant. The combined properties currently have approximately 13.5 million fans on their Facebook pages and, for the quarter ended September 30, 2016, generated an average of 14.4 million visits per month.

1

TABLE OF CONTENTS

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. 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.

We recently acquired assets of Rant, 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. 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. 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 our Social Distribution System (SDS) technology creates powerful tools in digital content publishing.

Our digital publishing businesses are very focused on knowing their audience. This is made possible through our proprietary SDS platform. This complete audience-development engine, 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.

2

TABLE OF CONTENTS

The table below shows our Digital Publishing revenue increase from approximately $70,000 in July 2016 to approximately $380,000 in December 2016. This revenue information is provided by outside sources, and becomes available in advance of our preparation of full financial statements for such periods. As a result, you should not view the increase in Digital Publishing revenue as indicative of our full financial results for the period ended December 31, 2016, or as indicative of the results of our digital publishing segment for the period ended December 31, 2016, as such information is not yet available. Historically, we have generated losses from our operations, and have generated net losses in our digital publishing segment of approximately $44,397,000 through September 30, 2016.

The table below shows the increase in our Digital Publishing pageviews from just under 20,000,000 in July 2016 to approximately 80,000,000 in December 2016. Pageviews and visits are measured by our third party Google Analytics platform. A pageview is an instance of a page being loaded (or reloaded) in a browser. A visit is a group of interactions that take place on our web properties within a given time frame and can include multiple pageviews.

TABLE OF CONTENTS

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. 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.

Choose Digital

Choose Digital is a white-label digital marketplace featuring a recent and wide range of digital content, including music, eBooks and audiobooks. 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 marketplace can be fully branded and integrated seamlessly into clients current online environments. 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. We are currently restructuring this line of business.

Intellectual Property

Our digital publishing, gaming and digital content distribution businesses are enabled by multiple technology platforms primarily developed internally including proprietary and patented software.

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.

Private Placement

On July 12, 2016, we closed a private placement (the Private Placement) of $4,444,000 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). We are currently in default under the Debentures for failure to make amortization payments and to maintain a minimum cash reserve.

In connection with this offering, we have agreed in principle with holders of $4,169,737 of principal amount of the Debentures to repay the principal amount of such Debentures with the proceeds from this offering, and convert all of our remaining obligations to such holders, valued in aggregate at $908,047 into shares of our common stock at the public offering price, resulting in the issuance of 388,055 shares based on a conversion price of $2.34.

Recent Developments

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 SDS and the assets related to the Draft Day daily fantasy

TABLE OF CONTENTS

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 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 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.

Going Concern

Our Consolidated Financial Statements as of June 30, 2016, and the auditor s report on those consolidated 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 consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

We have assessed the effectiveness of our internal control over disclosure controls and procedures as of September 30, 2016. As a result of this assessment, we concluded that, as of September 30, 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 plan to take steps to enhance and improve the design of our internal control over disclosure controls and procedures. To remediate such weaknesses, we intend to appoint in the near future additional qualified personnel to address inadequate segregation of duties and ineffective risk management. These remediation efforts are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

Corporate Information

We were incorporated in Delaware in July 1994, and were formerly known as DraftDay Fantasy Sports, Inc., Viggle Inc., Function(x) Inc., and Gateway Industries, Inc.

Our principal executive offices are located at 902 Broadway, 11th Floor, New York, New York 10010. The telephone number at our principal executive office is (212) 231-0092. Our website address is *www.functionxinc.com*. Information contained on our website is not deemed part of this prospectus.

TABLE OF CONTENTS

THE OFFERING

Common stock offered by us

shares of our common stock (or shares if the underwriters exercise their over-allotment option in full).

Over-allotment option

We have granted the underwriters an option for a period of up to 45 days to purchase up to additional shares of common stock to cover overallotments, if any.

Common stock to be outstanding immediately after this offering

shares (or shares if the underwriters exercise their over-allotment option in full).

Use of Proceeds

We estimate that the net proceeds from this offering will be approximately $ million, or approximately $ million if the underwriters exercise their overallotment option in full, at an assumed initial public offering price of $ per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We will use the proceeds to reduce or satisfy indebtedness, including reducing the outstanding principal of the debentures issued in July 2016 to settle trade payables, for acquisitions, and for general corporate working capital. See Use of Proceeds for a more complete description of the intended use of proceeds from this offering.

Representative s Warrants

The registration statement of which this prospectus is a part also registers for sale warrants to purchase shares of our common stock to the representative of the underwriters as a portion of the underwriting compensation payable to the underwriters in connection with this offering. The warrants will be exercisable for a four-year period commencing one year following the effective date of this offering at an exercise price equal to 125% of the public offering price of the common stock. Please see Underwriting Representatives Warrants for a description of these warrants.

Risk Factors

You should read the Risk Factors section of this prospectus beginning on page 8 for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.

NASDAQ Capital Market Trading Symbol

FNCX

The number of shares of our common stock that will be outstanding immediately after this offering is based on 3,244,275 shares of common stock outstanding as of February 2, 2017, and excludes the following:

45,351 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2016, with a weighted-average exercise price of $238.40 per share;

264,070 shares of common stock reserved for future issuance under our 2011 Executive Incentive Plan, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the plan;

TABLE OF CONTENTS

780,230 shares of common stock issuable upon conversion of outstanding Debentures (including accrued interest) held by the selling stockholders at a conversion price of $6.266; and

407,850 shares of common stock issuable upon exercise of outstanding warrants to purchase shares of common stock with an exercise price of $6.528 per share.

Except as otherwise stated herein, the information in this prospectus assumes no exercise by the underwriters of their option to purchase up to an additional   shares of common stock to cover over-allotments, if any.

TABLE OF CONTENTS

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 $13,190,000 and trade payables of approximately $10,266,000. We have recently 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; and

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.

As described in Private Placement; Events of Default , 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 $444,000, 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 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

8

TABLE OF CONTENTS

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 our 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. 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.

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.

In connection with this offering, we have agreed in principle with holders of $4,169,737 of principal amount of the Debentures to repay the principal amount of such Debentures with the proceeds from this offering, and convert all of our remaining obligations to such holders, valued in aggregate at $908,047 into shares of our common stock at the public offering price, resulting in the issuance of 388,055 shares based on a conversion price of $2.34.

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.

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).

After the first monthly anniversary, any liquidated damages were pro-rated on a daily basis for any portion of a month before the Registration Statement was declared effective.

TABLE OF CONTENTS

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 of which this prospectus forms a part, or Amendment No. 1, 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 $2,865,000 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 not consummate the restructuring transactions that we are currently negotiating, 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 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

TABLE OF CONTENTS

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.

In connection with this offering, we have agreed in principle with holders of $4,169,737 of principal amount of the Debentures to repay the principal amount of such Debentures with the proceeds from this offering, and convert all of our remaining obligations to such holders, valued in aggregate at $908,047 into shares of our common stock at the public offering price, resulting in the issuance of 388,055 shares based on a conversion price of $2.34.

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 $2,865,000 to remain outstanding after the consummation of this 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 Series C preferred shares, 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.

In connection with this offering, we have agreed in principle with holders of $4,169,737 of principal amount of the Debentures to repay the principal amount of such Debentures with the proceeds from this offering, and convert all of our remaining obligations to such holders, valued in aggregate at $908,047 into shares of our common stock at the public offering price, resulting in the issuance of 388,055 shares based on a conversion price of $2.34.

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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

TABLE OF CONTENTS

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 $7,517,000 and $7,632,000 for the three months ended September 30, 2016 and September 30, 2015, respectively. We have an accumulated deficit of approximately $435,650,000 as of September 30, 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 19,800,000 shares of our common stock; (ii) the Reverse Stock Split; (iii) the acquisition of substantially all of the assets of Rant.

TABLE OF CONTENTS

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 September 30, 2016, we have outstanding stock options to purchase 45,351 shares of common stock and unvested restricted stock units for 4,042 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 21,739,892 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 3,502,318 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 33,276,690 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 $1,200,000 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.

On August 22, 2016, we and SIC III, SIC IV, and SIC VI entered into an Note Exchange Agreement pursuant to which $30,175,000 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

TABLE OF CONTENTS

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 September 30, 2016, we had net operating loss carryforwards (NOLs) for U.S. federal income tax purposes of approximately $162,900,000. 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.

TABLE OF CONTENTS

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 September 30, 2016, approximately 1,986,176 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 21,739,892 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.

We may seek to raise additional funds, finance acquisitions ordevelop strategic relationships by issuing capital stoc

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

TABLE OF CONTENTS

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 11 of 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

16

TABLE OF CONTENTS

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, $454,000 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.

TABLE OF CONTENTS

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,

Choose Digital previously generated a significant amount of itscontent sales through the Viggle App, which has now 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.

TABLE OF CONTENTS

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

TABLE OF CONTENTS

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.

21

TABLE OF CONTENTS

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.

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Information contained in this prospectus may contain forward-looking statements. Except for the historical information contained in this discussion of the business and the discussion and analysis of financial condition and results of operations, the matters discussed herein are forward looking statements. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, believe, intend or project or the negative of these words or other variations on these words or comparable terminology. In addition to the risks and uncertainties described in Risk Factors above and elsewhere in this prospectus, these risks and uncertainties may include risks related to:

General economic and business conditions;
Our ability to continue as a going concern;
Our ability to obtain financing necessary to operate our business;
Our ability to recruit and retain qualified personnel;
Our ability to manage future growth;
Our ability to successfully complete potential acquisitions and collaborative arrangements; and
Other factors discussed under the section entitled Risk Factors.

Forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that any projections or other expectations included in any forward-looking statements will come to pass. Our actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, we undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

TABLE OF CONTENTS

USE OF PROCEEDS

We estimate that the net proceeds from our issuance and sale of shares of our common stock in this offering will be approximately $ million, assuming a public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us in this offering. If the underwriters exercise their over-allotment option in full, we estimate that the net proceeds from this offering will be approximately $ million.

A $0.25 increase or decrease in the assumed public offering price of $ per share would increase or decrease the net proceeds from this offering by approximately $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions.

We intend to use the proceeds from this offing for the following purposes:

- approximately $ to repay the principal amount outstanding under the debentures issued in July 2016, which are currently in default. The debentures mature on July 12, 2017 and bear interest at a rate of 10%;
- approximately $ to settle outstanding trade payables; and
- the reminder for general corporate working capital.

This expected use of net proceeds from this offering represents our intentions based upon our current plans and business conditions. The amounts and timing of our actual expenditures may vary significantly depending on numerous factors, including reaching an agreement with the debenture holders to permit the repayment of the outstanding principal in cash. See Risk Factors. As a result, our management will retain broad discretion over the allocation of the net proceeds from this offering. We may find it necessary or advisable to use the net proceeds from this offering for other purposes, and we will have broad discretion in the application of net proceeds from this offering.

Pending their use, we plan to invest the net proceeds in investment-grade, short-term, interest-bearing securities.

TABLE OF CONTENTS

MARKET PRICE OF AND DIVIDENDS ON COMMON STOCK AND RELATED MATTERS

Market Information

Since June 13, 2016, our common stock has traded on the NASDAQ Stock Market under the symbol FNCX. From January 28, 2016 to June 13, 2016, our common stock traded on the NASDAQ Stock Market under the symbol DDAY. From April 25, 2014 to January 28, 2016, our common stock traded on the NASDAQ Stock Market under the symbol VGGL. Prior to April 25, 2014, our common stock was traded in the over the counter market and was quoted on the OTC QB Electronic Quotation Service.

The following table sets forth the high and low bid prices of our common stock during the fiscal years ended June 30, 2016 and 2015, the first quarter and a portion of the second quarter of the fiscal year ending June 30, 2017. The high and low bid quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not represent actual transactions.

	High	Low
Fiscal 2015		
First Quarter	$ 114.00	$ 39.00
Second Quarter	$ 97.60	$ 25.40
Third Quarter	$ 72.20	$ 26.20
Fourth Quarter	$ 84.80	$ 27.40
Fiscal 2016		
First Quarter	$ 43.40	$ 16.00
Second Quarter	$ 21.40	$ 7.00
Third Quarter	$ 16.40	$ 4.00
Fourth Quarter	$ 11.60	$ 4.80
Fiscal 2017		
First Quarter	$ 8.00	$ 3.00
Second Quarter	$ 5.62	$ 2.09
Third Quarter (through February 2, 2017)	$ 2.66	$ 1.72

Transfer Agent and Registrar

Our transfer agent and registrar is American Stock Transfer & Trust Company, LLC. Its mailing address is 6201 15th Avenue, Brooklyn, New York 11219, and its phone number is (718) 921-8206.

Holders of Common Stock

As of February 2, 2017, there were 109 holders of record of our common stock, not including an indeterminable number of stockholders whose shares are held in street or nominee name. As of such date, 3,244,275 shares of common stock were issued and outstanding.

Dividends

We have never declared or paid any cash dividends or distributions on our capital stock. We currently intend to retain our future earnings, if any, to support operations and to finance expansion and we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

TABLE OF CONTENTS

CAPITALIZATION

Amounts in millions (except share and per share data)

The table below illustrates what the capital structure would look like on February 3, 2017, right before the conversion. The pro-forma column represents the capital structure assuming all instruments are eligible to and do convert on February 3, 2017. Conversion in this instance happens at the stated conversion rates.

Post Conversion   Current Conversion Prices

26

TABLE OF CONTENTS

(1) Accrued Interest and Accrued Dividends assumes a February 3, 2017 Conversion.

(2) Represents the capitalization of the Company as of February 3, 2017.

(3) Represents the capitalization of the Company as of February 3, 2017, adjusted for a $10,000,000 equity offering priced at $2.25 and issuance of Representative Warrants to the underwriters of the offering. This further assumes the exchange of Sillerman Preferreds into common stock occurs at a price of $5.20.

(4) Represents the capitalization of the Company as of February 3, 2017, adjusted for a $10,000,000 equity offering priced at $2.25 and issuance of Representative Warrants to the underwriters of the offering. This is further adjusted for a updated price of $2.34 for the exchange of Sillerman Preferreds into common stock. This exchange is also applicable to the Other Notes.

(5) Represents the capitalization of the Company as of February 3, 2017, adjusted for a $10,000,000 equity offering priced at $2.25 and issuance of Representative Warrants to the underwriters of the offering. This is further adjusted for an agreement to pay off the debentures, under which principal would be repaid in cash and interest and fees would be paid via $1,500,000 in common stock at the same terms of the New Issuance . This assumes the exchange of Sillerman Preferreds into common stock occurs at a price of $5.20.

(6) Represents the capitalization of the Company as of February 3, 2017, adjusted for a $10,000,000 equity offering priced at $2.25 and issuance of Representative Warrants to the underwriters of the offering. This is further adjusted for an agreement to pay off the debentures, under which principal would be repaid in cash and interest and fees would be paid via $1,500,000 in common stock at the same terms of the New Issuance . This assumes the exchange of Sillerman Preferreds into common stock occurs at an updated price of $2.34. This exchange is also applicable to the Other Notes.

TABLE OF CONTENTS

DILUTION

If you purchase shares in this offering your interest will be diluted immediately to the extent of the difference between the assumed public offering price of $ per share and the as adjusted net tangible book value per share of our common stock immediately following this offering. Net tangible book value dilution per share to new investors represents the difference between the amount per share paid by purchasers in this offering and the as adjusted net tangible book value per share of common stock immediately after completion of this offering.

Our net tangible book value as of September 30, 2016 was approximately negative $14.1 million, or approximately negative $4.60 per share. Net tangible book value per share represents our total tangible assets less total tangible liabilities, excluding goodwill and customer relationship intangibles, divided by the number of shares of common stock outstanding as of September 30, 2016.

After giving effect to the sale of shares of our common stock in this offering at an assumed public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our as adjusted net tangible book value as of September 30, 2016, would have been $ million, or $ per share. This represents an immediate increase in as adjusted net tangible book value of approximately $ per share to our existing stockholders, and an immediate dilution of $ per share to purchasers of shares in this offering, as illustrated in the following table:

Assumed public offering price per share		$
Net tangible book value per share as of September 30, 2016	$ 4.60	
Increase per share attributable to new investors	$	
As adjusted net tangible book value per share after this offering		$
Dilution per share to investors in this offering		$

If the underwriters exercise their over-allotment option in full, the as adjusted net tangible book value will increase to $ per share, representing an immediate dilution of $ per share to new investors, assuming that the assumed public offering price remains the same and after deducting underwriting discounts and commissions and the estimated offering expenses payable by us.

Each $0.50 increase (decrease) in the assumed public offering price of $ per share would increase (decrease) the as adjusted net tangible book value by approximately $ million, or approximately $ per share, and increase (decrease) the dilution per share to new investors by approximately $ per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and the estimated offering expenses payable by us in this offering. An increase of 100,000 shares in the number of shares offered by us would increase the as adjusted net tangible book value by approximately $ million, or $ per share, and the dilution per share to new investors would be approximately $ per share, assuming that the assumed public offering price remains the same and after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. Similarly, a decrease of 100,000 shares in the number of shares offered by us would decrease the as adjusted net tangible book value by approximately $ million, or approximately $ per share, and the dilution per share to new investors would be approximately $ per share, assuming that the assumed public offering price remains the same and after deducting the underwriting discounts and commissions and the offering expenses payable by us in this offering. The as adjusted information discussed above is illustrative only and will adjust based on the actual public offering price and other terms of this offering determined at pricing.

The number of shares of our common stock that will be outstanding immediately after this offering is based on 3,244,275 shares of our common stock outstanding as of January 13, 2017 and excludes:

45,351 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2016, with a weighted-average exercise price of $238.40 per share;
264,070 shares of common stock reserved for future issuance under our 2011 Executive Incentive Plan, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the plan;

28

780,230 shares of common stock issuable upon conversion of outstanding Debentures (including accrued interest) held by the selling stockholders at a conversion price of $6.266; and

407,850 shares of common stock issuable upon exercise of outstanding warrants to purchase shares of common stock with an exercise price of $6.528 per share.

TABLE OF CONTENTS

DESCRIPTION OF SECURITIES

Recapitalization and 1-for-80 Reverse Stock Split

On March 19, 2014, we effectuated a 1-for-80 reverse stock split (the 1-for-80 Reverse Split). Under the terms of the 1-for-80 Reverse Split, each share of our common stock, issued and outstanding as of such effective date, was automatically reclassified and changed into one-eightieth of one share of common stock, without any action by the stockholders. Fractional shares were cashed out. On April 30, 2014, we completed a recapitalization, pursuant to which all of our Series A preferred stock and Series B preferred stock outstanding at the time were converted into shares of our common stock.

Reverse Stock Split

On September 16, 2016, we effected the Reverse Stock Split whereby shareholders received one share for each 20 shares of our common stock. Shareholders entitled to any fractional shares received cash in lieu of fractional shares. As a result of the Reverse Stock Split, we have 3,224,167 shares of common stock outstanding as of November 30, 2016. The Reverse Stock 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 Capital Market.

Authorized Capital Stock

We are authorized to issue up to 300,000,000 shares of common stock, par value $0.001 per share, and 1,000,000 shares of preferred stock, par value $0.001 per share, including (i) 100,000 shares of Series A Convertible Redeemable Preferred Stock (with a stated value equal to $1,000 per share), (ii) 50,000 shares of Series B Convertible Preferred Stock (with a stated value equal to $1,000 per share), (iii) 100,000 shares of Series C Convertible Redeemable Preferred Stock (with a stated value equal to $1,000 per share), (iv) 150 shares of Series D Convertible Preferred Stock (with a stated value equal to $1,000 per share), and (v) 10,000 shares of Series E Convertible Preferred Stock (with a stated value equal to $1,000 per share).

Capital Stock Issued and Outstanding

As of November 30, 2016, there were issued and outstanding (i) 3,224,167 shares of common stock, (ii) zero shares of Series A Convertible Redeemable Preferred Stock; (iii) zero shares of Series B Convertible Preferred Stock; (iv) 3,000 shares of Series C Convertible Preferred Stock; (v) zero shares of Series D Convertible Preferred Stock; (vi) 4,335 shares of Series E Convertible Preferred Stock; (vii) warrants to purchase 45,351 shares of our common stock at exercise prices ranging from $0.01 to $8,000 per share (including the Warrants issued in the Private Placement), (viii) Debentures convertible into up to 780,230 shares of common stock, based on their initial conversion price of $6.266 per share; and (viii) options to purchase 96,826 shares of our common stock at exercise prices ranging from $0.46 to $3,680 per share.

Description of Common Stock

The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders, including the election of directors. Our Certificate of Incorporation does not provide for cumulative voting in the election of directors. Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive dividends, if any, declared from time to time by the directors out of legally available funds. We have never paid any cash dividends with respect to our common stock. Upon liquidation, dissolution or winding up of our company, the holders of our common stock will be entitled to receive pro rata all assets available for distribution to the holders, subject to preferences that may be applicable to any then outstanding preferred stock.

Description of 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 shares of Series A Convertible Redeemable Preferred Stock are entitled to receive quarterly cumulative dividends at a rate equal to 7% per annum of their stated value whenever funds are

30

legally available and when and as declared by our board of directors. If we declare a dividend or the distribution of our assets, the holders of Series A Convertible Redeemable Preferred Stock will 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 our common stock.

Each share of Series A Convertible Redeemable Preferred Stock is convertible, at the option of the holders, into shares of our common stock at a conversion price of $23.00.

We may redeem any or all of the outstanding Series A Convertible Redeemable Preferred Stock at any time at their 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 was due on the use of up to 33% of proceeds of a public offering of common shares at a price of $3,600 or more per share.

We are 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 will 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 our common stock.

The shares of Series A Convertible Redeemable Preferred Stock 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 will be necessary for the Company to: (i) create or issue any capital stock (or any securities convertible into any of our 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.

Description of 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 our 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 our 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 our 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 our common stock (as reported on Bloomberg) on the principal securities exchange or trading market where our common stock is listed or traded during the

TABLE OF CONTENTS

measuring period equaling or exceeding 25,000 shares of our common stock per trading day (the conditions set forth in the immediately preceding clauses (i) and (ii) are referred to 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 our assets, (ii) a sale of at least 90% of the shares of our capital stock or (iii) a merger, consolidation or other business combination as a result of which the holders of our capital stock 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), our board of directors has determined that the aggregate implied value of the Company s capital stock in such transaction is equal to or greater than $125,000.

The shares of Series B Convertible Preferred Stock are not redeemable by either us or the holders thereof. The shares of Series B Convertible Preferred Stock are on parity in dividends and liquidation preference with the shares of our common stock, which are payable only if then convertible into common stock.

The shares of Series B Convertible Preferred Stock 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 are necessary for us to alter, amend or change any of the terms of the Series B Convertible Preferred Stock.

Description of 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.

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.

TABLE OF CONTENTS

Description of Series D Convertible Preferred Stock

The designation, powers, preferences and rights 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 an initial stated value of $1,000 per share.
The holder of a share of Series D Convertible Preferred Stock will not be entitled to a liquidation preference or any dividends on such share.
The shares of Series D Convertible Preferred Stock 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 us to amend the Series D certificate of designation.
Each share of Series D Convertible Preferred Stock is convertible, at the option of the holder, into shares of our common stock at a ratio of 3,333.33 shares of our common stock for each share of Series D Convertible Preferred Stock. The conversion price is not subject to antidilutive protection.
We may redeem any or all of the outstanding Series D Convertible Preferred Stock at any time at the then current stated value plus a redemption premium equal to the stated value multiplied by 10%.

Description of Series E Convertible Preferred Stock

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

The shares of Series E Convertible Preferred Stock have an initial stated value of $1,000 per share.
Subject to the satisfaction of certain conditions set forth in the certificate of designation related to the Series E Convertible Preferred Stock (the Series E Certificate of Designation), each share of Series E Convertible Preferred Stock is convertible, at the option of the holder, on the basis of its then stated value and accrued, but unpaid dividends, into shares of our common stock at a conversion price equal to the lesser of $5.20 or the Exchange Price (as such term is defined in the Series E Certificate of Designation).
The shares of Series E Convertible Preferred Stock 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 us to amend the Series E Certificate of Designation.

Description of Debentures

As a part of the Private Placement, the Company issued $4.4 million principal amount of 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 Company s 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 (including accrued interest). 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 then in effect, the Conversion Price then in effect will be decreased to equal such lower price. The foregoing adjustments to the Conversion Price will not apply to certain exempt issuances, including issuances pursuant to certain employee benefit plans. 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 assets in accordance with a security agreement (the 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, the Company 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

33

TABLE OF CONTENTS

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 of plus 100% of accrued and unpaid interest.

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 the Company s Line of Credit with SIC IV. Any remaining amounts, up to a maximum aggregate of $1.0 million 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.

Description of Warrants issued in Private Placement

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 $6.528 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 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. 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, the Company issued to Aegis Capital Corp., 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 the Company s common stock at an initial exercise price of $6.528 per share. The warrants issued to Aegis Capital Corp. contain substantially the same terms as the warrants issued to the Purchasers.

Representative s Warrants

We have agreed to issue to Aegis Capital Corp., the underwriter in this offering, warrants to purchase up to ____ shares of our common stock. Please see Underwriting Representative s Warrants for a description of the warrants we have agreed to issue to the representative of the underwriters in this offering, subject to the completion of the offering. We expect to enter into a warrant agreement in respect of the Representative s Warrants upon the closing of this offering.

TABLE OF CONTENTS

Description of Other Warrants

In addition to the Warrants issued in the Financing, we have issued and outstanding warrants to purchase 97,918 shares of our common stock, as described below:

Name	Exercise Price	Number of Shares	Expiration
DGI Warrants	$ 0.20	4,000	Indefinite
SIC III Warrants for Line of Credit(1)	70.20	11,250	Oct 2019
SIC III Warrants for Line of Credit(1)	59.60	7,500	Nov 2019
SIC III Warrant for Line of Credit(1)	72.60	38,750	Dec 2019
SIC III Warrant for Line of Credit(1)	35.60	17,500	Mar 2020
RFXS LoC Commitment Warrants(1)	1,120.00	3,125	Jun 2018
RFXS DB Guarantee Warrants(1)	1,600.00	6,250	Mar 2018
RFXS Prior Line of Credit Warrants(1)	1,600.00	8,778	Apr 2018
Other Investors Prior Line of Credit Warrants	1,600.00	596	Apr 2018

(1) Warrants held by affiliate entity of Robert F.X. Sillerman, the Company s Chairman and Chief Executive Officer.

Transfer Agent and Registrar

Our transfer agent and registrar is American Stock Transfer & Trust Company, LLC. Its mailing address is 6201 15th Avenue, Brooklyn, New York 11219, and its phone number is (718) 921-8206.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and By-Laws

The provisions of Delaware law and our certificate of incorporation and bylaws could discourage or make it more difficult to accomplish a proxy contest or other change in our management or the acquisition of control by a holder of a substantial amount of our voting stock. It is possible that these provisions could make it more difficult to accomplish, or could deter, transactions that stockholders may otherwise consider to be in their best interests or in our best interests. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of our control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights. Such provisions also may have the effect of preventing changes in our management.

Delaware Statutory Business Combinations Provision. We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, or the DGCL. Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. For purposes of Section 203, a business combination is defined broadly to include a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and, subject to certain exceptions, an interested stockholder is a person who, together with his or her affiliates and associates, owns, or within three years prior, did own, 15% or more of the corporation s voting stock.

Election and Removal of Directors. Except as may otherwise be provided by the DGCL, any director or the entire board of directors may be removed, with or without cause, at an annual meeting or a special meeting called for that purpose, by the holders of a majority of the shares then entitled to vote at an election of directors, provided a quorum is present. Vacancies on our board of directors resulting from the removal of directors and newly created directorships resulting from any increase in the number of directors may be filled solely by the affirmative vote of a majority of the remaining directors then in office (although less than a quorum) or by the sole remaining director. This system of electing and removing directors may discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally

TABLE OF CONTENTS

makes it more difficult for stockholders to replace a majority of our directors. Our certificate of incorporation and bylaws will not provide for cumulative voting in the election of directors.

Advance Notice Provisions for Stockholder Proposals and Stockholder Nominations of Directors. Our bylaws provide that, for nominations to the board of directors or for other business to be properly brought by a stockholder before a meeting of stockholders, the stockholder must first have given timely notice of the proposal in writing to our Secretary. For an annual meeting, a stockholder s notice generally must be delivered not less than 30 days or more than 60 days prior to the meeting; provided, however, that in the event that less than 40 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice, to be considered timely, must be received not later than the close of business on the 10^{th} day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made.

Special Meetings of Stockholders. Special meetings of the stockholders may be called at any time only by the President or by a majority of the directors then in office or by stockholders of record holding not less than 10% of the issued and outstanding shares entitled to vote at such meeting, subject to the rights of the holders of any series of preferred stock then outstanding.

Blank-Check Preferred Stock. Our board of directors will be authorized to issue, without stockholder approval, preferred stock, the rights of which will be determined at the discretion of the board of directors and that, if issued, could operate as a poison pill to dilute the stock ownership of a potential hostile acquirer to prevent an acquisition that our board of directors does not approve.

Liability and Indemnification of Directors and Officers

Section 102 of the Delaware General Corporation Law permits a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of a Delaware corporate law or obtained an improper personal benefit.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against expenses (including attorneys fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by the person in connection with an action, suit or proceeding to which he is or is threatened to be made a party by reason of such position, if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful, except that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

As permitted by the Delaware General Corporation Law, our bylaws and certificate of incorporation provide that we will indemnify and hold harmless any of our officers, directors, employees or agents and reimburse such persons for any and all judgments, fines, liabilities, amounts paid in settlement and expenses, including attorney s fees, incurred directly or indirectly in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, for which such persons served in any capacity at the request of us, to which such person is, was or is threatened to be made a party by reason of the fact that such person is, was or becomes a director, officer, employee or agent of us; provided that, (i) such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of us, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful and (ii) no indemnification is payable if a court having jurisdiction determined such indemnification to be unlawful. Additionally, no indemnification will be made in respect of any claim, issue or matter as to which such person was determined to be liable to us, unless and only to the extent that the court

TABLE OF CONTENTS

in which the action was brought determines that such person is fairly and reasonably entitled to indemnity for such expenses which the court deems proper.

We do not believe that such indemnification affects the capacity of such person acting as our officer, director or control person.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

TABLE OF CONTENTS

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with the historical audited consolidated financial statements and footnotes of the Company s historical audited consolidated financial statements and notes thereto included elsewhere in this Prospectus. 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 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, for several years;
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; and

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.

38

TABLE OF CONTENTS

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 to 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 13.5 million fans on their Facebook pages and, for the quarter ended September 30, 2016, generated an average of 14.4 million visits per month. With the acquisition of Rant, we gain a highly optimized digital media delivery

TABLE OF CONTENTS

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.

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.

The table below shows our Digital Publishing revenue increase from approximately $70,000 in July 2016 to approximately $380,000 in December 2016. This revenue information is provided by outside sources, and becomes available in advance of our preparation of full financial statements for such periods. As a result, you should not view the increase in Digital Publishing revenue as indicative of our full financial results for the period ended December 31, 2016, or as indicative of the results of our digital publishing segment for the period ended December 31, 2016, as such information is not yet available. Historically, we have generated losses from our operations, and have generated net losses in our digital publishing segment of approximately $44,397,000 through September 30, 2016.

TABLE OF CONTENTS

The table below shows the increase in our Digital Publishing pageviews from just under 20,000,000 in July 2016 to approximately 80,000,000 in December 2016. Pageviews and visits are measured by our third party Google Analytics platform. A pageview is an instance of a page being loaded (or reloaded) in a browser. A visit is a group of interactions that take place on our web properties within a given time frame and can include multiple pageviews.

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 DFS 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) a 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.

TABLE OF CONTENTS

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 will be 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 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 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.

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 the Company, and provided 45 days of transition services. 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 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 will require DDGG to begin performing certain functions on its own.

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

$501,000 to the DDGG subsidiary since the date of acquisition and through the date of this prospectus.

TABLE OF CONTENTS

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

43

TABLE OF CONTENTS

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 DraftDay Gaming Group, Inc., Wetpaint.com, Inc., Choose Digital, Inc. 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;

TABLE OF CONTENTS

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, 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.

Intellectual Property

As of September 30, 2016, we have filed to protect our trademarks and patents to protect our technology, some of which have been granted, and some of which are currently pending. It is anticipated that there will be patent and other filings in the future. We intend to protect any intellectual property rights that we may acquire in the future through a combination of patent, trademark, copyright, rights of publicity, and other laws, as well as licensing agreements and third party nondisclosure and assignment agreements. Failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, financial condition and results of operations.

Recent Developments

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 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 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.

In connection with this offering, we have agreed in principle with holders of $4,169,737 of principal amount of the Debentures to repay the principal amount of such Debentures with the proceeds from this offering, and convert all of our remaining obligations to such holders, valued in aggregate at $908,047 into shares of our common stock at the public offering price, resulting in the issuance of 388,055 shares based on a conversion price of $2.34.

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 $3,765,000 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.

TABLE OF CONTENTS

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

46

TABLE OF CONTENTS

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

TABLE OF CONTENTS

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.

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

TABLE OF CONTENTS

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.

TABLE OF CONTENTS

Going Concern

Our Consolidated Financial Statements as of June 30, 2016, and the auditor s report on those consolidated financial statements, include a disclosure paragraph regarding the uncertainty of our ability to continue as a going concern, which implies 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 our Company as a going concern is dependent upon the continued financial support from our 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 consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Assessment of Internal Controls

We have assessed the effectiveness of our internal control over disclosure controls and procedures as of September 30, 2016. As a result of this assessment, we concluded that, as of September 30, 2016, our internal controls 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 plan to take steps to enhance and improve the design of our internal control over disclosure controls and procedures. To remediate such weaknesses, we intend to appoint in the near future additional qualified personnel to address inadequate segregation of duties and ineffective risk management. These remediation efforts are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

We did not complete the above remedial measures in the three months ended September 30, 2016. We anticipate that these remedial measures will be fully implemented in the year ended June 30, 2017. As of the date of this filing we have hired a Chief Financial Officer and additional other finance resources who are focused on implementing the remedial measures noted above.

Results of Continuing Operations for the three months ended September 30, 2016 and 2015

	Three Months Ended September 30,		
(in thousands)	2016	2015	Variance
Revenues	$ 659	$ 922	$ (263)
Selling, general and administrative expenses	(4,040)	(7,700)	3,660
Operating loss	(3,381)	(6,778)	3,397
Other (expense):			
Other (expense)/income, net	(2,485)	2	(2,487)
Interest expense, net	(1,651)	(856)	(795)
Total other expense	(4,136)	(854)	(3,282)

Net loss before provision for income taxes	(7,517)	(7,632)	115
Income tax expense			
Net loss from continuing operations	$ (7,517)	$ (7,632)	$ 115

Revenues

	Three Months Ended September 30,		
(in thousands)	2016	2015	Variance
Revenues by segment:			
Wetpaint	$ 371	$ 516	$ (145)
Choose Digital	58	198	(140)
DDGG	105	83	22
Other income	125	125	
Total	$ 659	$ 922	$ (263)

50

TABLE OF CONTENTS

Revenue in the three months ended September 30, 2016 was $659,000, a decrease of $263,000 from the three months ended September 30, 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 in the amount of $140,000 for Choose Digital as well as a decrease in Wetpaint barter revenue of $207,000. The decrease was offset by an increase in Wetpaint s video revenue of $39,000 and DDGG revenue of $22,000 in the period.

Selling, General and Administrative Expenses

	Three Months Ended September 30,		
(in thousands)	2016	2015	Variance
Selling, general and administrative expenses by segment:			
Wetpaint	$ (2,441)	$ (2,373)	$ (68)
Choose Digital	(458)	(683)	225
DDGG	(1,141)	(57)	(1,084)
Other		(4,587)	4,587
Total	$ (4,040)	$ (7,700)	$ 3,660

Selling, general and administrative expenses were $4,040,000 for the three months ended September 30, 2016, a net decrease of $3,660,000 from the three months ended September 30, 2015.

Stock based compensation decreased by $4,366,000 across the segments due to forfeiture of un-vested options and restricted stock units: $36,000 on the Wetpaint segment, $80,000 on the Choose Digital segment, and $4,250,000 on the Other segment, which represents expense on instruments issued for corporate financing activities.
Choose Digital s content expense decreased by $65,000 due to lower Viggle user redemption of digital media on the digital rewards platform following the sale of the Viggle App to Perk.
Professional fees expense increased by a net $179,000 across the segments. $358,000 on the Wetpaint segment, $181,000 on the DDGG segment and $73,000 on the Choose Digital segment. The increase was partially offset by a decrease of $433,000 on the Other segment as part of a company-wide cost reduction effort.
Personnel costs increased by a net $120,000 across the segments: $136,000 on the DDGG segment and $42,000 on the Other segment, partially offset by a decrease of $16,000 on the Wetpaint segment.
Depreciation and amortization expense decreased by a net $163,000 across the segments due to impairment of intangible assets in the prior year: $238,000 on the Wetpaint segment and $224,000 on the Choose Digital segment. The decrease was partially offset by an increase of $290,000 on the DDGG segment and $90,000 on the Other segment.
DDGG s cost of sales expense totaled $60,000.

Other (Expense)/Income

Other (Expense) was $2,485,000 for the three months ended September 30, 2016, an increase of $2,487,000 from the three months ended September 30, 2015. The increase was primarily due to the loss on the sale of the Perk shares and warrants of $2,193,000 during the three months ended September 30, 2016.

Interest Expense, Net

Interest expense, net was $1,651,000 for the three months ended September 30, 2016, an increase of $795,000 from the three months ended September 30, 2015. The increase was due to higher levels of debt during the three months ended September 30, 2016 partially offset by reduced interest expense in August 2016 as a result of the exchange of approximately $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

51

tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements. At September 30, 2016 and June 30, 2016, we provided a full valuation allowance on our deferred tax assets and thus recognized no tax benefit.

Results of Continuing Operations for the Years Ended June 30, 2016 and 2015

	Year Ended June 30,		
(in thousands)	2016	2015	Variance
Revenues	$ 4,509	$ 5,674	$ (1,165)
Selling, general and administrative expenses	(29,324)	(47,072)	17,748
Impairment loss (see Note 3)	(28,541)	(2,085)	(26,456)
Operating loss	(53,356)	(43,483)	(9,873)
Other expense, net:			
Other (expense)/income, net	(23)	6	(29)
Interest expense, net	(3,788)	(2,050)	(1,738)
Total other expense, net	(3,811)	(2,044)	(1,767)
Net loss before provision for income taxes	(57,167)	(45,527)	(11,640)
Income tax expense			
Net loss from continuing operations	$ (57,167)	$ (45,527)	$ (11,640)

Revenues

	Year Ended June 30,		
(in thousands)	2016	2015	Variance
Revenues by segment:			
Wetpaint	$ 1,533	$ 3,454	$ (1,921)
Choose Digital	1,949	1,703	246
DDGG	528		528
Other	499	517	(18)
Total	$ 4,509	$ 5,674	$ (1,165)

Revenue for the year ended June 30, 2016 was $4,509,000, a decrease of $1,165,000 from the year ended June 30, 2015. The decrease was driven by a $1,921,000 decrease in Wetpaint revenues partially offset by $528,000 in DDGG revenues. Wetpaint s revenue was negatively affected by several changes to the sales force model, including the migration of Wetpaint s sales force to Perk, as part of the Viggle rewards business sale to Perk. DDGG earned $528,000 in revenues in the period, offsetting the revenue decrease experienced by Wetpaint.

Selling, General and Administrative Expenses

(in thousands)	Year Ended June 30, 2016	2015	Variance
Selling, general and administrative expenses by segment:			
Wetpaint	$ 6,966	$ 12,201	$ (5,235)
Choose Digital	3,904	6,362	(2,458)
DDGG	4,974		4,974
Other	13,480	28,509	(15,029)
	$ 29,324	$ 47,072	$ (17,748)

52

Selling, general and administrative expenses were $29,324,000 for the year ended June 30, 2016, a net decrease of $17,748,000 from the prior year. The net decrease was attributable to decreases in Wetpaint of $5,235,000, Choose Digital of $2,458,000, and Other of $15,029,000; these were offset by the addition of DDGG expenses beginning September 2015, when the DraftDay business was acquired.

Stock based compensation decreased by $13,535,000 across the segments due to forfeiture of un-vested options and restricted stock units (RSUs), and due to the fact that a large portion of the expense in Fiscal 2015 related to options and RSUs issued as part of financing efforts. The cost of these issuances has been fully expensed. Stock compensation expense decreased as follows: $2,692,000 on the Wetpaint segment, $717,000 on the Choose Digital segment, and $10,126,000 on the Other segment, which represents expense on instruments issued for corporate financing activities.
Personnel costs decreased by a net $1,242,000 across the segments: $1,592,000 decrease on the Wetpaint segment, $818,000 decrease on the Choose Digital segment, and $446,000 increase on the Other segment. DDGG s personnel costs for the first year of operation amounted to $722,000, and offset the decreases in personnel costs in other segments.
Professional fees expense increased by a net $1,842,000 across the segments due to the addition of DDGG s professional fees which amounted to $2,029,000, and offset decreases in fees in other segments.
We recognized a loss on contingent consideration in Fiscal 2015 of $2,222,000 in relation to the Choose Digital acquisition, no such losses were recognized in Fiscal 2016 as the liability contingency expired at the end of fiscal 2015 and the change in contingent consideration expense year over year in relation to the Choose Digital acquisition was $2,222,000.

Impairment Loss

Impairment loss for the year ended June 30, 2016 was $28,541,000, an increase of $26,456,000 from the year ended June 30, 2015. The current year loss is due to the goodwill impairment we recorded of $4,335,000 related to the Choose Digital reporting unit and $10,708,000 related to the Wetpaint reporting unit, and losses of $749,000, $1,331,000 and $11,418,000 on intangible assets related to DDGG s technology, tradename and customer relationships, Choose Digital s software and licenses and Wetpaint s technology, trademark, customer relationships and non-competition agreements, respectively. The prior year loss of $2,085,000 is due to impairment recorded on intangible assets related to Choose Digital s tradename and customer relationships.

Interest Expense, Net

Interest expense, net was $3,788,000 for the year ended June 30, 2016, an increase of $1,738,000 from the year ended June 30, 2015. The increase was due to higher loan balances.

Income Taxes

We use the liability method of accounting for income taxes 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 June 30, 2016 and 2015, we provided a full valuation allowance on its deferred tax assets and thus recognized no tax benefit.

TABLE OF CONTENTS

Liquidity and Capital Resources (amounts in thousands)

Cash

At September 30, 2016 and June 30, 2016, we had cash balances of approximately $827,000 and $537,000, respectively.

Available Line of Credit

As of September 30, 2016 and June 30, 2016, we had approximately $3,645,000 and $1,065,000 available under our lines of credit, respectively.

The Company s Capital Requirements and 12-Month Plan for its Business

Our capital requirements to fund our operating segments are variable based on a few key factors. With respect to Wetpaint and Rant, 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 S-1, 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. We do not warrant or guarantee the foregoing. Our June 30, 2016 financial statements contain a going concern disclosure 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 September 30, 2016, we had approximately $3,645,000 available under our existing lines of credit and cash of approximately $827,000. 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

TABLE OF CONTENTS

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.

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

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. 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. 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.

In addition to the cash requirements discussed above, we will need to raise additional funds to satisfy the Debentures and the Rant Note in the event that the holders do not convert the required payments into common shares as permitted thereunder.

55

TABLE OF CONTENTS

Cash Flows for the three months ended September 30, 2016 (amounts in thousands)

Description	Three Months Ended September 30, 2016	2015
Net cash used in operating activities	$ (4,196)	$ (3,503)
Net cash provided by investing activities	$ 1,300	$ 535
Net cash provided by financing activities	$ 3,186	$ 272

Operating Activities

In the three months ended September 30, 2016, net cash used in operating activities was $4,196,000, including our net loss of $7,553,000, loss on the sale of Perk share and warrants of $2,193,000, non cash, stock based compensation charges of $27,000, and depreciation and amortization of $687,000. In addition, net cash inflows from changes in operating assets and liabilities were $625,000, primarily due to a decrease in accounts payable of $591,000 and increases in accounts receivable and prepaid expenses of $76,000 and $173,000, respectively.

In the three months ended September 30, 2015, net cash used in operating activities was $3,503,000, including our net loss of $13,412,000, non cash, stock based compensation charges of $5,164,000 and depreciation and amortization of $1,196,000. In addition, net cash inflows from changes in operating assets and liabilities was $3,499,000, primarily as a result from increases in deferred revenue of $3,082,000, accounts receivable of $732,000 partially offset by a decrease in reward point liability of $285,000 as a result of the sale of our Viggle business to Perk.

Investing Activities

Cash provided by investing activities in the three months ended September 30, 2016 was $1,300,000 as a result of the sale of the Perk shares and warrants.

Cash used in investing activities in the three months ended September 30, 2015 was $535,000 as a result of the September 2015 acquisition of DDGG.

Financing Activities

Cash provided by financing activities in the three months ended September 30, 2016 of $3,186,000 consisted of net proceeds from borrowings of $4,349,000 and repayment of loans of $1,162,000.

Cash provided by financing activities in the three months ended September 30, 2015 of $272,000 consisted of net borrowings of $2,000,000, partially offset by payments related to contingent consideration of $1,728,000.

Cash Flows for the Years Ended June 30, 2016 and 2015 (amounts in thousands)

Year Ended June 30,

Description	2016	2015
Net cash used in operating activities	$ (9,595)	$ (30,695)
Net cash used in investing activities		(1,164)
Net cash provided by financing activities	5,915	36,069

Operating Activities

Cash used in operating activities was $9,595,000 for the year ended June 30, 2016. This included a net loss of $63,689,000, a gain on discontinued operations of $1,262,000 and a gain on accounts payable settlements of $2,132,000, partially offset by intangible asset and goodwill impairment losses of $28,541,000, non-cash, share based compensation of $12,233,000, $11,670,000 of net changes in operating assets and liabilities and $3,748,000 of depreciation and amortization.

Cash used in operating activities was $30,695,000 for the year ended June 30, 2015. This included a net loss of $78,539,000, partially offset by non-cash, share based compensation of $32,439,000, $6,040,000 of depreciation and amortization, $4,600,000 of net changes in operating assets and liabilities, $2,222,000 increase in the fair value of acquisition-related contingent consideration and impairment losses on Choose Digital intangible assets of $2,086,000.

56

Cash Flows for the Years Ended June 30, 2016 and 2015(amounts in thousands) 106

TABLE OF CONTENTS

Investing Activities

Cash provided by investing activities was $0 for the year ended June 30, 2016.

Cash used in investing activities was $1,164,000 for the year ended June 30, 2015. The primary components consisted of $113,000 used for the purchase of property and equipment and $1,051,000 used for capitalized software costs.

Financing Activities

Cash provided by financing activities was $5,915,000 for the year ended June 30, 2016. This amount consisted primarily of $8,535,000 of net proceeds from loans and $200,000 of net proceeds from offerings of our common stock, partially offset by contingent consideration payments of $2,570,000.

Cash provided by financing activities was $36,069,000 for the year ended June 30, 2015. This amount consisted primarily of $12,459,000 of net proceeds from the offering of our common stock, $8,975,000 of net proceeds from loans, $10,000,000 from the sale of Class C Convertible Redeemable Preferred Stock and $4,995,000 from the release of restricted cash.

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 our 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.

Application of Critical Accounting Policies

The following accounting policies require significant management judgments and estimates:

Revenue Recognition

We recognize 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, we consider a signed agreement, a binding insertion order or other similar documentation to be persuasive evidence of an arrangement.

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

Barter Revenue: barter transactions represent the exchange of advertising or programming for advertising, merchandise or services. Barter transactions which exchange advertising for advertising are accounted for in accordance with EITF Issue No. 99-17 Accounting for Advertising Barter Transactions (ASC Topic 605-20-25). Such transactions are recorded at the fair value of the advertising provided based on our 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.

We recognized barter revenue and barter expense in the amount of $0 and $2,609,000 for the three months ended September 30, 2016 and September 30, 2015, respectively. We recognized barter revenue and barter expense for the year ended June 30, 2016 of $428,000 and $428,000, respectively. We recognized barter revenue and barter expense for the year ended June 30, 2015 of $437,000 and $437,000, respectively.

TABLE OF CONTENTS

License Revenue: in addition to generating revenue from display and video advertising, from time to time, we may also generate revenue from licensing our proprietary audio recognition software and related loyalty platform. Generally, revenue from such agreements is recognized ratably over the term of the agreement.

Goodwill and Certain Other Long-Lived Assets

As required by ASC 350, *Goodwill and Other Intangible Assets*, we test goodwill for impairment during the fourth quarter of our 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. We have three reporting units: Wetpaint, DDGG, and Choose Digital. The annual goodwill impairment test is a two-step process. First, we determine if the carrying value of any reporting unit exceeds its fair value, which would indicate that goodwill may be impaired. If we then determine that goodwill may be impaired, we compare the implied fair value of the goodwill to its carrying amount to determine if there is an impairment loss.

Historically we have operated as one reporting unit; however, in connection with the sale of our rewards business, we divided our remaining operations into three reporting units. In conjunction with this movement, we engaged a third-party valuation firm to test the Choose Digital and Wetpaint reporting units for goodwill impairment at December 31, 2015. The DDGG reporting unit was not tested for impairment at December 31, 2015 as the acquisition of this entity occurred in September 2015. We 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. We 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, we determined that there was an impairment loss on both the Choose Digital and Wetpaint reporting units.

We recorded an impairment loss to goodwill of $4,335,000 related to the Choose Digital reporting unit and $10,708,000 related to the Wetpaint reporting unit during the year ended June 30, 2016. There were no impairments to goodwill recorded during the year ended June 30, 2015. No impairments were recorded during the three months ended September 30, 2016.

We account 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 are less than the assets carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal.

At June 30, 2015, we determined that certain intangible assets related to the acquisition of Choose Digital (see Note 6, Acquisitions in the accompanying Consolidated Financial Statements for further detail regarding the Choose Digital acquisition) were impaired. Due to a shift in our business operations and utilization of our resources, during the fourth quarter of fiscal 2015, we determined that intangible assets related to customer relationships and trade name no longer had value. Therefore, such assets were written off as of June 30, 2015. The total amount of the write off was $2,085,000 and is included in impairment loss in the accompanying Consolidated Statements of Operations. There were no other impairments of long-lived assets during the year ended June 30, 2015.

During the year ended June 30, 2016, we 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, we 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 year ended June 30, 2016.

At June 30, 2016, we determined that the fair value of the DDGG reporting unit was significantly below the carry value and assessed the fair values of the long-lived assets other than goodwill. Upon comparing the fair

TABLE OF CONTENTS

values of the long-lived assets to their respective carrying values, we recorded a loss of $749,000 on DDGG intangible assets during the year ended June 30, 2016.

There were no impairments recorded during the three months ended September 30, 2016.

Capitalized Software

We record amortization of acquired software on a straight-line basis over the estimated useful life of the software.

In addition, we record and capitalize internally generated computer software and, appropriately, certain internal costs have been capitalized in the amounts of $1,498,000 as of September 30, 2016 and June 30, 2016, in accordance with ASC 350-40, *Internal-use Software*. At the time software is placed into service, we record amortization on a straight-line basis over the estimated useful life of the software.

Income Taxes

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

Stock-Based Compensation

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

Recently Issued Accounting Pronouncements

In May 2016, the Financial Accounting Standards Board (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; noncash consideration; contract modifications at transition; and completed contracts at transition. We do not expect the standard to have a material impact on our consolidated financial statements.

In April 2016, the Financial Accounting Standards Board (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. 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

TABLE OF CONTENTS

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 are 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 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

TABLE OF CONTENTS

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.

TABLE OF CONTENTS

BUSINESS

Our Company

Function(x) Inc. (the Company , we , us our our) was 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, 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 are a diversified media and entertainment company comprised of digital publishing, gaming and digital content distribution businesses. We operate Wetpaint.com, a leading online destination for entertainment news for millennial women, covering the latest in television, music, and pop culture. With the recent acquisition of assets of Rant, a leading digital publisher in diversified areas, we greatly expanded our reach in the digital publishing arena. We are also the largest shareholder of DraftDay.com, which is positioned to become a significant player in the fantasy sports market, offering a high-quality daily fantasy sports experience both directly to consumers and to businesses desiring turnkey solutions to new revenue streams. We also operate Choose Digital, a digital marketplace platform that allows companies to incorporate digital content into existing rewards and loyalty programs in support of marketing and sales initiatives.

As described in the section entitled the Perk.com Transaction , on December 13, 2015, we entered into an Asset Purchase Agreement (the Perk Agreement) with Perk.com, Inc. (Perk) to sell our rewards business, including the Viggle app, to Perk. This asset sale subsequently closed on February 8, 2016.

As the nature of our business has changed, we have recently rebranded, evolving into a standalone business with a completely new focus and business strategy from its predecessor. We changed our name from DraftDay Fantasy Sports, Inc. to Function(x) Inc., and changed our ticker symbol from DDAY to FNCX.

Our Strategy

We were incorporated in Delaware in July 1994. We are a diversified media and entertainment company and conduct our three lines of business, 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 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;

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.

TABLE OF CONTENTS

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, for several years;
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 to 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

63

TABLE OF CONTENTS

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, 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 13.5 million fans on their Facebook pages and, for the quarter ended September 30, 2016, generated an average of 14.4 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.

Our digital publishing businesses are very focused on knowing their audience. This is made possible through our proprietary SDS platform. 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.

TABLE OF CONTENTS

The table below shows our Digital Publishing revenue increase from approximately $70,000 in July 2016 to approximately $380,000 in December 2016. This revenue information is provided by outside sources, and becomes available in advance of our preparation of full financial statements for such periods. As a result, you should not view the increase in Digital Publishing revenue as indicative of our full financial results for the period ended December 31, 2016, or as indicative of the results of our digital publishing segment for the period ended December 31, 2016, as such information is not yet available. Historically, we have generated losses from our operations, and have generated net losses in our digital publishing segment of approximately $44,397,000 through September 30, 2016.

The table below shows the increase in our Digital Publishing pageviews from just under 20,000,000 in July 2016 to approximately 80,000,000 in December 2016. Pageviews and visits are measured by our third party Google Analytics platform. A pageview is an instance of a page being loaded (or reloaded) in a browser. A visit is a group of interactions that take place on our web properties within a given time frame and can include multiple pageviews.

TABLE OF CONTENTS

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) a 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, 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 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 DDGG 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 $110,000 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 $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.

TABLE OF CONTENTS

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 on July 1, 2016, and provided 45 days of transition services. We 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 will require DDGG to begin performing certain management functions on its own.

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 $501,000 to the DDGG subsidiary since the date of acquisition and through the date of this prospectus.

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

67

TABLE OF CONTENTS

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 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,

TABLE OF CONTENTS

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, 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.

Intellectual Property

As of September 30, 2016, we have filed to protect our trademarks and patents to protect our technology, some of which have been granted, and some of which are currently pending. It is anticipated that there will be patent and other filings in the future. We intend to protect any intellectual property rights that we may acquire in the future through a combination of patent, trademark, copyright, rights of publicity, and other laws, as well as licensing agreements and third party nondisclosure and assignment agreements. Failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, financial condition and results of operations.

TABLE OF CONTENTS

Recent Developments

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 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 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.

In connection with this offering, we have agreed in principle with holders of $4,169,737 of principal amount of the Debentures to repay the principal amount of such Debentures with the proceeds from this offering, and convert all of our remaining obligations to such holders, valued in aggregate at $908,047 into shares of our common stock at the public offering price, resulting in the issuance of 388,055 shares based on a conversion price of $2.34.

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 $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.

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

TABLE OF CONTENTS

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

TABLE OF CONTENTS

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 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 $444,444, 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 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 have agreed to pay, upon execution of the Waiver, 10% of the Amortization Amount that became due on October 12, 2016 and has agreed to pay 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. 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 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.

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 constituted 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.

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

TABLE OF CONTENTS

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 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. 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.

Strategic Alternatives

Our independent directors continue to explore strategic alternatives to enhance value, including, among others, possible joint ventures, strategic partnerships, marketing alliances, acquisitions, sale of all or some of our business, or other possible transactions, including reorganization.

Employees

As of September 30, 2016, we had a total of 32 full-time employees. Management considers its relationship with its employees to be good.

Principal Executive Offices

Our principal executive offices are located at 902 Broadway, 11th Floor, New York, New York 10010 and our telephone number is (212) 231-0092.

TABLE OF CONTENTS

PROPERTIES

The following table sets forth certain information with respect to our principal location as of September 30, 2016.

Location	Name of Property	Type/Use of Property	Approximate Size	Owned or Leased
902 Broadway 11th Floor New York, NY	Corporate Office	Corporate Headquarters	16,500 sq. ft.	Leased until April 2022

TABLE OF CONTENTS

LEGAL PROCEEDINGS

CFGI, LLC, a former provider of consulting services to the Company, has filed suit in the New York County Supreme Court to collect approximately $200,000 owed by the Company to CFGI. We were served in the suit on September 9, 2016. We settled the matter for $150,000 and the case was dismissed.

Creditors Adjustment Bureau, Inc., a collection agency in California, has filed suit in Santa Clara County Superior Court (California) to collect an $84,000 debt assigned to it by Gigya Inc. We settled the matter for $55,000.

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, including 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. 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 were served in this matter and were 30 days adjournment to respond. We have since received a 14-day extension. We are trying to settle this case.

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 (Jamboree Center 4), the former landlord of Rant, Inc., relating to rent in the amount of $143,922 that Jamboree Center 4 claims is owed for the period after we purchased Rant. The Company believes this claim is without merit, as the Company did not assume the liability to Jamboree Center 4. 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 Function(x) Inc. 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.

TABLE OF CONTENTS

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Set forth below is certain information regarding our directors and executive officers as of the date of this prospectus:

Name	Age	Position
Robert F. X. Sillerman	68	Director, Executive Chairman, Chief Executive Officer
Mitchell J. Nelson	68	Director, Executive Vice President, Secretary
Frank E. Barnes III	65	Director
Peter Horan	61	Director
Michael J. Meyer	51	Director
Birame Sock	40	President
Brian J. Rosin	32	Chief Operating Officer
Michelle Lanken	37	Chief Financial Officer

The following is a brief account of the education and business experience of our current directors and executive officers:

Robert F.X. Sillerman was elected a Director of the Company and Executive Chairman of the Board of Directors effective as of the closing of the recapitalization in February 2011 and Chief Executive Officer, effective June 19, 2012. He was also Chairman of SFX, a company in the Electronic Dance Music area, until December 2, 2016, when the reorganization of SFX under Chapter 11 of the Bankruptcy Code became effective. Between January 10, 2008 and December 31, 2012, Mr. Sillerman served as Chairman and Chief Executive Officer of Circle Entertainment Inc., where he remains as a director. Mr. Sillerman also served as the Chief Executive Officer and Chairman of CKX from February 2005 until May 2010. From August 2000 to February 2005, Mr. Sillerman was Chairman of FXM, Inc., a private investment firm. Mr. Sillerman is the founder and has served as managing member of FXM Asset Management LLC, the managing member of MJX Asset Management, a company principally engaged in the management of collateralized loan obligation funds, from November 2003 through April 2010. Prior to that, Mr. Sillerman served as the Executive Chairman, a Member of the Office of the Chairman and a director of the former SFX Entertainment, Inc., from its formation in December 1997 through its sale to Clear Channel Communications in August 2000. The Board of Directors selected Mr. Sillerman as a director because it believes he possesses significant entertainment and financial expertise, which will benefit the Company.

Frank E. Barnes III was appointed as a Non-Executive Board Member of the Company on November 30, 2016. As the executive director of Carolina Barnes Corporation, and president of its former NASD/FINRA-registered broker-dealer, Mr. Barnes has over 30 years of extensive experience and financial expertise in the media, entertainment and information; real estate; and transportation industries; and in making principal investments in and serving as financial and strategic senior advisor to growth companies with responsibilities for recapitalizations, private placements, mergers and acquisitions, and going public transactions. Prior to founding Carolina Barnes in 1989, Mr. Barnes was employed with Mabon Nugent & Co., a privately held investment banking firm, as the executive vice president responsible for its investment and merchant banking groups. In addition to his responsibilities within Carolina Barnes, Mr. Barnes has served as chief revenue officer and director of StorageBlue Equities LLC, a self-storage warehouse business, from March 2014 to June 2015, and as president and director of Ocean State Windpower Inc., a manufacturer of wind turbine generators, from August 2009 to December 2012. Throughout the course of his career, Mr. Barnes has served both as a senior executive and on the board of directors of over a dozen companies, including serving as a director of SFX Entertainment Inc. from December 2015 to December 2, 2016 (when the reorganization of SFX under Chapter 11 of the Bankruptcy Code became effective), and on the Nominating and Corporate Governance Committee and Special Committee of SFX. Mr. Barnes brings to our Board knowledge and expertise within corporate finance and investment banking, principal ownership, corporate governance, and mergers and acquisitions. Mr. Barnes financial background, business and executive experience, and independence led the Board of Directors to select him as a director.

Peter C. Horan was appointed as a Non-Executive Board Member of the Company on February 15, 2011. On August 4, 2015, Mr. Horan was appointed as the Lead Independent Director or the Company s Board. Mr. Horan is currently the Executive Chairman of Halogen Network, a next generation digital media company,

TABLE OF CONTENTS

a position he has held since February 2010. Mr. Horan currently serves on the Board of Directors of Tree.com, Inc. Mr. Horan has served as CEO of many internet companies, including Goodmail Systems, Inc. from 2008 to 2010. Previously, Mr. Horan was CEO of IAC s Media and Advertising group from 2007 to 2008. He was CEO of AllBusiness.com from 2005 to 2007. As CEO of About.com from 2003 to 2005, Mr. Horan led the sale of the company to the New York Times Company. Mr. Horan was CEO of DevX.com from 2000 to 2003. Previously at International Data Group, he served as Senior Vice President from 1991 until 2000, where he was also the publisher of their flagship publication Computerworld. He held senior account management roles at leading advertising agencies including BBD&O and Ogilvy & Mather. Mr. Horan was selected as a director because the Board of Directors believes that his technology, internet and advertising experience will benefit the Company.

Michael Meyer was appointed as a Non-Executive Board Member of the Company on June 1, 2013. Mr. Meyer is the founding partner of 17 Broad LLC, a diversified investment vehicle and securities consulting firm. Prior to founding 17 Broad, from 2002 to 2007, he served as Managing Director and Head of Credit Sales and Trading for Bank of America. Prior to that, Mr. Meyer spent four years as the Head of High Grade Credit Sales and Trading for UBS. Mr. Meyer is a member of the Board of Directors and Chair of the Audit Committee of Circle Entertainment Inc. Robert F.X. Sillerman, the Company s Executive Chairman, is a member of the Board of Directors and a principal shareholder in Circle. Mitchell J. Nelson, the Company s Executive Vice President and Secretary, serves as Executive Vice President, General Counsel, and Secretary of Circle. Mr. Meyer was a member of the Board of Directors, Chair of the Compensation Committee, and a member of the Audit Committee of SFX until December 2, 2016, when the reorganization of SFX under Chapter 11 of the Bankruptcy Code became effective. Mr. Sillerman was Chairman of SFX until such time. The Board of Directors selected Mr. Meyer to serve as a director because the Board of Directors believes his experience in financial planning and debt issues will benefit the Company.

Mitchell J. Nelson was appointed Director, Executive Vice President, General Counsel, and Secretary effective as of the closing of the Recapitalization. He stepped down as General Counsel effective April 16, 2013, but remains a Director and the Company s Executive Vice President and Secretary. Mr. Nelson also serves as Executive Vice President, General Counsel and Secretary of Circle Entertainment, Inc., having served in such capacity since January 2008, and served as President of its wholly-owned subsidiary, FX Luxury Las Vegas I, LLC which was reorganized in bankruptcy in 2010. He was a Senior Legal Advisor to SFX from January 1, 2012 until July 7, 2016. He also served as President of Atlas Real Estate Funds, Inc., a private investment fund which invested in United States-based real estate securities, from 1994 to 2008, as Senior Vice President, Corporate Affairs for Flag Luxury Properties, LLC from 2003. Prior to 2008, Mr. Nelson served as counsel to various law firms, having started his career in 1973 at the firm of Wien, Malkin & Bettex. At Wien, Malkin & Bettex, which he left in 1992, he became a senior partner with supervisory responsibility for various commercial real estate properties. Mr. Nelson is an Adjunct Assistant Professor of Real Estate Development at Columbia University. He was a director of The Merchants Bank of New York and its holding company until its merger with Valley National Bank. Additionally, he has served on the boards of various not-for-profit organizations, including as a director of the 92nd Street YMHA and a trustee of Collegiate School, both in New York City. The Board has selected Mr. Nelson as a director because it believes his legal and business experience will benefit the Company.

Birame Sock was appointed as a Non-Executive Board Member of the Company on February 12, 2013, and resigned as a director on August 1, 2016. Ms. Sock was appointed President and Chief Operating Officer of the Company pursuant to an employment agreement entered into on August 1, 2016. Prior to joining the Company, Ms. Sock founded Flyscan, a real-time interactive mobile marketing platform. She was the founder and CEO of Third Solutions, Inc., a leading digital receipts company, which she founded in 2007. In 2002, Ms. Sock founded Musicphone, a wireless entertainment company, which she led until its acquisition by Gracenote, Inc. in 2007. Ms. Sock was a member of the Company s Board of Directors since 2013, and served on the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. She served as a member of the Board of

Directors of CKX Inc. from 2005 until 2006, when she became a consultant for CKX Inc. and affiliated companies. Ms. Sock attended the University of Miami,

TABLE OF CONTENTS

where she studied computer science and broadcasting. The Board of Directors selected Ms. Sock as President and Chief Operating Officer because it believes her experience in technology and consumer marketing will benefit the Company.

Brian J. Rosin Mr. Rosin came to the Company as a result of its July 2016 acquisition of Rant, Inc. (Rant), which he co-founded in 2011. While at Rant, Mr. Rosin served as Chief Operating Officer, Vice President Finance & Accounting, and Vice President of Operations. Prior to beginning full-time employment at Rant in February 2012, Mr. Rosin was an Annuity Specialist and LTC Claims Operations Analyst at Banker s Life and Casualty Company in Chicago, Illinois. Mr. Rosin earned bachelors degrees in International Relations and Economics from Northern Illinois University.

Michelle Lanken was appointed as the Company s Chief Financial Officer on July 5, 2016. Ms. Lanken previously worked as a consultant for The Siegfried Group, LLC. Prior to that, she worked at Saba Software, Inc., as Accounting Manager from May 2011 until September 2013, and as a finance consultant from March 2014 until March 2015. Between September 2013 and March 2014, she was the Assistant Controller at Dome Construction Corporation and from January 2010 to May 2011, she provided finance and accounting consulting services to Cisco Systems, The Gap, and Wells Fargo Corporation. Ms. Lanken served as Senior Manager, Accounting Policy at Charles Schwab from September 2008 to November 2009, as Assistant Controller at bebe Stores, Inc. from March 2007 to September 2008, and at various positions at KPMG LLP from August 2001 to March 2007. Ms. Lanken is a Certified Public Accountant in the State of California and holds a B.S. in Business Administration with a Concentration in Accounting from California Polytechnic State University. Ms. Lanken was selected as Chief Financial Officer due to her extensive experience in the preparation of SEC filings, financial statements, accounting and audit management, budgeting, payroll and benefits management, and implementation and monitoring of accounting standards.

TABLE OF CONTENTS

Corporate Governance

Election of Directors

The Company s directors are elected to serve until the next annual meeting of stockholders and until their respective successors have been duly elected and qualified. The Company s bylaws provide that all elections for the Board of Directors will be decided by a plurality of the votes cast by the holders of shares entitled to vote.

Director Independence

The Company s Board of Directors determined that Frank E. Barnes III, Peter C. Horan and Michael Meyer satisfy the criteria for independence under applicable Nasdaq rules and SEC rules for independence of directors and committee members. We received a letter from NASDAQ that due to the resignation of Birame Sock as a director, we are no longer in compliance with NASDAQ rules relating to independent directors. We received notification from the NASDAQ on December , 2016 that we have regained compliance with the independent director requirement with the recent appointment of Frank Barnes.

Board Committees

The following chart sets forth the membership of each Board of Directors committee as of June 30, 2016:

Committee	Members
Audit Committee	Michael Meyer (Chair) Frank E. Barnes III Peter C. Horan
Compensation Committee	Frank E. Barnes III Peter C. Horan Michael Meyer
Nominating and Corporate Governance Committee	Frank E. Barnes III Michael Meyer Peter C. Horan

Audit Committee

The Audit Committee has adopted a written charter, a copy of which is available on our website, *www.functionxinc.com.* The Audit Committee is comprised of Messrs. Barnes, Meyer and Horan. Mr. Meyer is the Chairman of the Audit Committee. The Audit Committee assists our Board of Directors in fulfilling its responsibility to oversee management s conduct of our financial reporting process, including the selection of our outside auditors, review of the financial reports and other financial information we provide to the public, our systems of internal accounting, financial and disclosure controls and the annual independent audit of our financial statements.

All members of the Audit Committee are independent within the meaning of the rules and regulations of the SEC, the criteria for independence of audit committee members under applicable Nasdaq rules and our Corporate Governance Guidelines. All members of the Audit Committee also are financially literate as defined under Nasdaq rules. In addition, Mr. Meyer is qualified as an audit committee financial expert under the regulations of the SEC, and has the accounting and related financial management expertise required thereby, and is financially sophisticated as required under Nasdaq rules.

Compensation Committee

The Compensation Committee has adopted a written charter, a copy of which is available on our website, *www.functionxinc.com*. The current members of the Compensation Committee are Messrs. Barnes, Horan and Meyer.

The purpose of the Compensation Committee is as follows:

to discharge the responsibilities of the Board of Directors relating to our company s compensation programs and compensation of our executives; and

80

TABLE OF CONTENTS

to produce an annual report on executive compensation for inclusion in our company s annual proxy statement, if and when required, in accordance with applicable rules and regulations of the Nasdaq Stock Market, SEC and other regulatory bodies.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee has adopted a written charter, a copy of which is available at our website, *www.functionxinc.com*. The current members of the Nominating and Corporate Governance Committee are Messrs. Barnes, Horan and Meyer.

The purpose of the Nominating and Corporate Governance Committee is as follows:

- to identify individuals qualified to become board members and to select, or to recommend that the Board of Directors select, the director nominees for the next annual meeting of stockholders;
- to develop and recommend to our Board of Directors a set of corporate governance principles applicable to our company; and
- to oversee the selection and composition of committees of the Board of Directors and, as applicable, oversee management continuity planning processes.

Lead Independent Director

On August 4, 2015, the Company s Board determined that it was in the best interest of the Company and its shareholders to designate an independent director to serve in a lead capacity. The Board appointed Peter Horan as Lead Director. The Lead Director s responsibilities shall include, but are not limited to: (i) reviewing Board meeting agendas to ensure that topics deemed important by the independent directors are included in Board discussions; (ii) calling meetings of the independent directors; (iii) serving as chairman of the executive sessions of the Board s independent directors; (iv) serving as principal liaison between the independent directors and the Company s Executive Chairman and/or Company management on sensitive issues; and (v) performing such other duties as the Board may determine.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics, which is applicable to all of the Company s employees and directors, including the Company s principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Business Conduct and Ethics is posted on our website located at *http://www.functionxinc.com.*

The Company intends to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions by posting such information on our website at *http://www.functionxinc.com.*

Corporate Governance Guidelines

The Company has Corporate Governance Guidelines which provide, among other things, that a majority of our Board of Directors must meet the criteria for independence required by The Nasdaq Stock Market® and that we will at all times have a standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, which committees will be made up entirely of independent directors. The Corporate Governance Guidelines also outline director responsibilities, provide that the Board of Directors will have full and free access to our officers and employees and require the Board of Directors to conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Corporate Governance Guidelines and the charters for these committees can be found on our website at *http://www.functionxinc.com.*

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee was at any time during the past fiscal year an officer or employee of our company, was formerly an officer of our company or any of our subsidiaries or has an immediate family member that was an officer or employee of our company or had any relationship requiring disclosure under Item 404 of Regulation S-K.

TABLE OF CONTENTS

During the last fiscal year, none of our executive officers served as:

- a member of the compensation committee (or other committee of the Board of Directors performing equivalent functions or, in the absence of any such committee, the entire Board of Directors) of another entity, one of whose executive officers served on our compensation committee;
- a director of another entity, one of whose executive officers served on our compensation committee; and
- a member of the compensation committee (or other committee of the board of directors performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a director of us.

Section 16(a) Beneficial Ownership Reporting Compliance

On March 16 2016, SIC III acquired shares of Series C Preferred Stock and warrants to acquire shares of common stock in a transaction exempt from the provisions of Section 16(b) pursuant to Rule 16b-3 promulgated thereunder. Both Mr. Sillerman and SIC III report that acquisition, but reported it one day late due to a technical issue with filing.

TABLE OF CONTENTS

EXECUTIVE COMPENSATION

The table below summarizes the compensation earned for services rendered to the Company for the fiscal years ended June 30, 2016 and June 30, 2015 by our Chief Executive Officer, and the other two most highly compensated executive officers of the Company (the named executive officers) who served in such capacities at the end of the fiscal year ended June 30, 2015.

Summary Compensation Table (in thousands)

Name and Principal Position	Fiscal Year	Salary	Bonus	Stock Awards[2]	Option Awards[3]	All Other Compensation	Total
Robert F.X. Sillerman[1]	2016	$ 63 [4]	$ 250 [5]	$	$	$	$ 313
Executive Chairman, Chief Executive Officer	2015	[4]	250	622 [5]			872
Mitchell J. Nelson[6]	2016	143					143
Executive Vice President	2015	129		102			231
Olga Bashkatova[7]	2016	152	30	74	256		
Principal Accounting Officer	2015	111	5				116
Kyle Brink[8]	2016	169		12		181	
General Manager	2015	217					217

(1) Because Mr. Sillerman is our Chairman and Chief Executive Officer, the Company books a compensation charge for certain financing-related activities undertaken by Mr. Sillerman. These amounts are excluded because they do not constitute compensation to Mr. Sillerman for his service as an officer or director of the Company, but instead solely relate to certain financing arrangements. Specifically, the table excludes the following: (a) compensation charges in fiscal year 2015 of $4,141,000 consisting of: (i) $2,049,000 relating to warrants issued to Sillerman Investment Company III LLC (SIC III) in connection with draws under a Securities Purchase Agreement with the Company entered into on October 24, 2014 (the SPA) and (ii) compensation charges of $2,091,000 relating to Series C Preferred Stock issued to SIC III under the SPA.

(2) These stock awards represent grants of RSUs. The per share fair value of RSUs granted was determined on the date of grant using the fair market value of the shares on that date.

(3) There were no option awards granted during the fiscal years presented.

(4) Mr. Sillerman entered into an amended and restated employment agreement effective as of May 1, 2014. This amendment is described in the section entitled Employment Agreements below.

(5) The Company and Mr. Sillerman entered into an amendment to his employment agreement effective as of May 1, 2014. Pursuant to the revised terms, Mr. Sillerman was to receive a base salary of One Dollar per year, was to receive a guaranteed bonus of $250,000 per year, payable in stock or in cash, and was to receive a grant of 7,754 RSUs, vesting in equal installments on each of May 1, 2015, May 1, 2016, May 1, 2017, May 1, 2018 and May 1, 2019. The grant of 7,754 RSUs occurred on September 29, 2014, and based on a closing price of $80.20 (adjusted for the 1-for-20 reverse split), such grant has a f