Viggle Inc.
Form 10-Q
May 15, 2013

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

Form 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from ____________ to ____________

Commission File No. 00-13803

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

Delaware (State or other jurisdiction of incorporation or organization)	33-0637631 (I.R.S. Employer Identification Number)

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

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

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

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

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

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

As of May 15, 2013, there were 91,124,452 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Consolidated Financial Statements	2
	Consolidated Balance Sheets as of March 31, 2013 (Unaudited) and June 30, 2012	3
	Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2013 and 2012 (Unaudited)	4
	Consolidated Statements of Stockholders' Equity (Deficit) as of March 31, 2013 (Unaudited) and Fiscal Year Ended June 30, 2012	5
	Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2013 and 2012 (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	33
Item 4.	Controls and Procedures	33

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	34
Item 1.A.	Risk Factors	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3.	Defaults Upon Senior Securities	42
Item 4.	Mine Safety Disclosures	42
Item 5.	Other Information	42
Item 6.	Exhibits	46

PART I

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2013 (Unaudited)	June 30, 2012 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$2,089	$2,963
Accounts receivable, net	2,164	1,424
Prepaid expenses	1,245	1,000
Other receivables	331	1,290
Total current assets	5,829	6,677
Restricted cash	696	696
Capitalized software costs, net	3,298	4,506
Property & equipment, net	2,933	2,861
Intellectual property, net	2,135	3,217
Goodwill	2,953	2,953
Other assets	40	40
Total assets	$17,884	$20,950
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable and accrued expenses	$6,107	$4,838
Reward points payable	6,909	3,454
Common stock warrant liability	643	4,626
Guarantee liability	—	963
Deferred revenue	34	572
Loan payable, current portion	5,000	2,500
Total current liabilities	18,693	16,953
Long term debt	20,782	—
Fair value of derivative embedded within convertible debt	6,161	—
Other long-term liabilities	1,413	1,310
Total liabilities	47,049	18,263
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, authorized 1,000,000 shares, no shares issued and outstanding	—	—
Common stock, $0.001 par value: authorized 300,000,000 shares, issued and outstanding 91,124,452 shares as of March 31, 2013 and 76,470,041 shares as of June 30, 2012	91	76
Additional paid-in-capital	178,229	135,019
Due from executive officer	(3,527)	(3,426)
Accumulated deficit	(203,958)	(128,982)
Total stockholders' equity (deficit)	(29,165)	2,687
Total liabilities and stockholders' equity	$17,884	$20,950

See accompanying notes to consolidated financial statements

Viggle Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

3

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Revenues	$3,395	$556	$9,322	$556
Cost of watchpoints and engagement points	(2,593)	(3,197)	(6,393)	(3,197)
Selling, general and administrative expenses	(44,185)	(24,324)	(81,027)	(74,605)
Operating loss	(43,383)	(26,965)	(78,098)	(77,246)
Other income (expense):				
Other income, net	801	—	3,982	—
Interest income (expense), net	(474)	35	(793)	130
Total other income (expense)	327	35	3,189	130
Net loss before provision for income taxes	(43,056)	(26,930)	(74,909)	(77,116)
Income tax expense	(23)	—	(67)	—
Net loss	$(43,079)	$(26,930)	$(74,976)	$(77,116)
Net loss per common share - basic and diluted	$(0.53)	$(0.36)	$(0.96)	$(1.05)
Weighted average common shares outstanding - basic and diluted	81,829,918	74,708,418	78,224,182	73,184,724

See accompanying notes to consolidated financial statements

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

	Common Stock	Additional Paid-In Capital	Due from Executive Officer	Accumulated Deficit	Total
Balance June 30, 2011	$67	$39,779	$(3,291)	$(32,471)	$4,084
Net loss	—	—	—	(96,511)	(96,511)
Private placements of common stock and warrants for cash	9	37,523	—	—	37,532
Compensation charge for fair value of common stock and warrants issued in connection with private placement	—	21,572	—	—	21,572
Interest income on notes receivable from shareholders	—	(5)	—	—	(5)
Interest income on notes receivable from Executive Officer	—	—	(135)	—	(135)
Employee stock options - share based compensation	—	5,916	—	—	5,916
Restricted stock based compensation	—	26,576	—	—	26,576
Stock issued for WatchPoints acquisition	—	1,600	—	—	1,600
Stock issued for Loyalize	—	1,719	—	—	1,719
Capital contribution related to corporate jet	—	336	—	—	336
Notes receivable from stockholders	—	3	—	—	3
Balance June 30, 2012	$76	$135,019	$(3,426)	$(128,982)	$2,687
Net loss	—	—	—	(74,976)	(74,976)
Compensation charge for fair value of common stock and warrants issued in connection with convertible debt offering	13	18,027	—	—	18,040
Compensation charge for fair value of stock issued for services	—	70	—	—	70
Shares issued in connection with the Loyalize guarantee	1	1,464	—	—	1,465
Interest income on notes receivable from shareholders	—	(2)	—	—	(2)
Interest income on notes receivable from Executive Officer	—	—	(101)	—	(101)
Employee stock options - share based compensation	—	10,250	—	—	10,250
Restricted stock - share based compensation	1	13,324	—	—	13,325
Notes receivable from shareholders	—	77	—	—	77
Balance March 31, 2013	$91	$178,229	$(3,527)	$(203,958)	$(29,165)

See accompanying notes to consolidated financial statements

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

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Operating activities:		
Net loss	$(74,976)	$(77,116)
Adjustments to reconcile net loss to net cash used in operating activities:		
Restricted stock based compensation	13,325	25,190
Shares issued for services	70	—
Employee stock options - share based compensation	10,250	4,619
Common stock and warrants issued in connection with Private Placements - share based compensation	18,040	19,456
Compensation charge related to fair value of convertible debt embedded derivative	6,662	—
Depreciation and amortization	2,840	1,328
Provision for doubtful accounts	75	—
Impairment of TIPPT intangible asset	—	2,250
Increase in fair value of Loyalize guarantee	503	125
Decrease in fair value of convertible debt embedded derivative	(501)	—
Increase (decrease) in fair value of common stock warrants	(3,983)	—
Interest income on notes receivable from shareholder and officer	(103)	(105)
Income from deferred revenue contracts acquired with Loyalize acquisition	(194)	—
Interest expense capitalized into convertible notes	782	—
Non-cash barter revenue	1,631	—
Non-cash barter advertising expense	(1,631)	—
Other	(17)	—
Changes in operating assets and liabilities:		
Accounts receivable	(815)	(603)
Other receivables	959	(930)
Prepaid expenses	(245)	(967)
Other assets	—	(40)
Accounts payable and accrued expenses	1,269	2,923
Points liability	3,455	1,983
Deferred revenue	(344)	197
Other liabilities	103	1,266
Net cash used in operating activities	(22,845)	(20,424)
Investing activities:		
Purchase of property and equipment	(537)	(2,629)
WatchPoints acquisition	—	(2,620)
TIPPT acquisition	—	(2,250)
Loyalize acquisition	—	(3,094)
Capitalized software costs	(69)	(1,859)
Net cash used in investing activities	(606)	(12,452)
Financing activities:		
Issuance of common stock and warrants for cash	—	33,413
Loan proceeds (payments)	5,000	(37)

Loan from executive officer	17,500	—
Notes receivable shareholders	77	3
Net cash provided by financing activities	22,577	33,379
Net increase (decrease) in cash	(874)	503
Cash at beginning of period	2,963	3,794
Cash at end of period	$2,089	$4,297

See accompanying notes to consolidated financial statements

6

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

Supplemental cash flow information:		
Cash paid during the year for interest	—	28
Non-cash financing activities:		
Stock issued for WatchPoints acquisition	—	1,600
Stock issued for Loyalize acquisition	—	1,719
Loyalize guarantee	—	120
Warrants issued for TIPPT	—	2,378
Capital related to corporate jet	—	336
Stock issued in satisfaction of Loyalize guarantee	1,465	—

See accompanying notes to consolidated financial statements

7

Viggle Inc.

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

1. Basis of Presentation

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

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

Going Concern

These financial statements have been prepared on a going concern basis. The financial statements as of June 30, 2012 and the auditor's opinion on those financial statements contained a going concern emphasis, which implies that there is substantial doubt about the Company's ability to continue to realize its assets and discharge its liabilities in the normal course of business. The Company is unlikely to pay dividends or generate significant revenue or earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its stockholders, the ability of the Company to obtain necessary equity or debt financing to continue development of its new business and to generate revenue. Management intends to raise additional funds through equity and/or debt offerings until sustainable revenues are developed. There is no assurance such equity and/or debt offerings will be successful or that development of the new business will be successful. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The financial statements for the fiscal year ended June 30, 2012 and June 30, 2011 and for the three and nine months ended March 31, 2013 and 2012 reflect the results of operations of Viggle Inc. and its consolidated subsidiaries (collectively, the "Company"), each a Delaware corporation. The financial information in this report for the three and nine months ended March 31, 2013 and 2012 have not been audited, but in the opinion of management all adjustments (which include normal recurring adjustments) necessary for a fair presentation have been made. The operating results for the three and nine months ended March 31, 2013 and 2012 are not necessarily indicative of the results for the full year.

The financial statements included herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Basis of Consolidation

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

2. Organization and Background

Formation and Former Business

The Company was incorporated in Delaware in July 1994 and had no operating business or full-time employees from December 1996 to 2000, when it acquired all of the outstanding Common Stock of Oaktree Systems, Inc. ("Oaktree"). Through Oaktree, the Company provided cost effective marketing solutions to organizations needing sophisticated information management tools. In December 2007, Marketing Data, Inc. acquired an 80% interest in Oaktree for $1 and the Company's ownership interest in Oaktree was reduced to 20% of Oaktree's outstanding Common Stock. On October 24, 2010, Oaktree repurchased the Company's remaining 20% interest in Oaktree for $0.10. As a result, Marketing Data, Inc. owned 100% of the outstanding Common Stock of Oaktree. After the disposition of the Company's interest in Oaktree and prior to the Recapitalization, the Company was not active and had no operating business. After the disposition of the Oaktree interest, the Company began to explore the redeployment of its existing assets by identifying and merging with or investing in one or more operating businesses. The Board of Directors approved the Recapitalization effecting such change.

The Recapitalization

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

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

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

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

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

The newly recapitalized company changed its name to Function (X) Inc. effective as of the date of the Recapitalization and changed its name to Function(x) Inc. on June 22, 2011 and changed its name to Viggle Inc. on May 31, 2012. The Company has six wholly-owned subsidiaries, Function(x) Inc., Project Oda, Inc., Sports Hero Inc., Loyalize Inc., Viggle Media Inc. and VX Acquisition Corp., each a Delaware corporation.

The Company's New Line of Business

Our business is built on a simple concept: to make watching TV more rewarding. Viggle provides an interactive platform to create more engagement with TV content and more targeted advertising through a loyalty program that rewards our users for watching television. We seek to enhance the consumer TV experience by helping consumers find what shows to watch, making the shows they watch more fun, interesting, and exciting, and rewarding consumers for being loyal to the shows they do watch. Users receive points for checking in to and interacting with their favorite TV shows and can then redeem these points for real items such as movie tickets, music and gift cards. We plan to generate revenue through advertising and the sale of merchandise related to the TV shows and other entertainment viewed by users that would appear in users' mobile devices through the use of the application. We currently do not have any agreements in place with advertisers or vendors whereby the advertisers or vendors issue rewards to our users when the users redeem their points. We have purchased and will continue to source rewards from vendors that we will issue to users upon the redemption of their points. The Company has only generated minimal revenue to date, and there is no guarantee that we will be able to generate sufficient revenue in the future to continue to purchase rewards from vendors or continue our business.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents and Restricted Cash

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

Accounts Receivable

Accounts receivable are recorded net of an allowance for doubtful accounts. The Company's allowance for doubtful accounts is based upon historical loss patterns, the number of days that the billings are past due and an evaluation of the potential risk associated with delinquent accounts. The Company also considers any changes to the financial condition of its customers and any other external market factors that could impact the collectability of its receivables in the determination of its allowance for doubtful accounts. The Company's allowance for doubtful accounts as of March 31, 2013 and June 30, 2012 is $75 and $0, respectively.

Concentration of Credit Risk

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

The Company performs ongoing credit evaluations of customers to assess the probability of accounts receivable collection based on a number of factors, including past transaction experience with the customer, evaluation of their credit history, and review of the invoicing terms of the contract. The Company generally does not require collateral. The Company maintains reserves for potential credit losses on customer accounts when deemed necessary. Actual credit losses during the three and nine months ended March 31, 2013 and 2012 were not significant.

Deferred Rent Payable

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

Revenue Recognition

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

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

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

Barter Transactions - a barter transaction represents 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), which are recorded at the fair value of the advertising provided based on the Company's own historical practice of receiving cash for similar advertising from buyers unrelated to the counter party in the barter transactions.

Barter transactions which exchange advertising or programming for merchandise or services are recorded at the monetary value of the revenue expected to be realized from the ultimate disposition of merchandise or services.

The Company recognized barter revenue for the three and nine months ended March 31, 2013 of $1,034 and $1,631, respectively. The Company recognized barter expense for the three and nine months ended March 31, 2013 of $1,034 and $1,631, respectively. The Company did not recognize any barter revenue or barter expense for the three and nine months ended March 31, 2012.

Watchpoints and Engagement Points

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

Users earn points for various activities and the Company reports points earned for checking into shows and points earned for engaging in advertiser sponsored content as a separate line in its statement of operations ("Cost of watchpoints and engagement points"). All other points earned by users are reflected as a marketing expense in selling, general and administrative expense.

Use of Estimates

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

Fair Value of Financial Instruments

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

Fair Value of Derivatives Embedded within Convertible Debt

The Company records the embedded derivative in accordance with ASC 815-15-25, Derivatives and Hedging. The embedded derivative has been bifurcated from the host contract and recorded at its fair value. The fair value of the embedded derivative has been determined utilizing the Binomial Lattice Model in accordance with ASC 820-10, Fair Value Measurements. The valuation considers key variables such as, the conversion rate price, the risk free rate of return, expected life of the option to convert, and the volatility of Viggle's stock price. The Company recorded a liability for the fair value of the embedded derivative at inception of $6,662. At March 31, 2013 the liability was marked to market and recorded at a fair value of $6,161.

Property and Equipment

Property and equipment (consisting of computers, software, furniture and fixtures, and leasehold improvements) is recorded at historical cost and is depreciated using the straight-line method over their estimated useful lives. The useful life and depreciation method are reviewed periodically to ensure that the depreciation method and period are consistent with the anticipated pattern of future economic benefits. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains and losses on disposals are included in the results of operations. Equipment, software, furniture and fixtures are being depreciated over a useful life of three years, leasehold improvements are depreciated over a useful life of 10 years consistent with the life of the underlying lease.

Impairment of Goodwill and Certain Other Long-Lived Assets

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

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

There was no impairment to the Company's long-lived assets as of March 31, 2013.

Internal Use Software

The Company recorded $2,350 of capitalized software as part of the Loyalize acquisition as of March 31, 2013 and June 30, 2012. The Company records amortization of the software on a straight-line basis over the estimated useful life of the software. Once revenue producing activities commenced in the third quarter of 2012, the software was placed in service and amortized. For the three and nine months ended March 31, 2013 amortization expense has been recorded of $196 and $588, respectively. For the three and nine months ended March 31, 2012 amortization expense has been recorded of $116 and $116, respectively.

The Company records and capitalizes computer software and, appropriately, certain internal costs have been capitalized in the amounts of $2,816 and $2,747 as of March 31, 2013 and June 30, 2012, respectively, in accordance with ASC 350-40. The Company records amortization of the software on a straight-line basis over the estimated useful life of the software. Once revenue producing activities commenced in the third quarter of 2012, the software was placed in service and amortized. For the three and nine months ended March 31, 2013 amortization expense has been recorded of $246 and $704, respectively. For the three and nine months ended March 31, 2012 amortization expense has been recorded of $100 and $100, respectively.

Marketing

Marketing costs are expensed as incurred. Marketing expense for the Company for the three and nine months ended March 31, 2013 was $3,343 and $6,523, respectively. Marketing expense for the Company for the three and nine months ended March 31, 2012 was $2,402 and $4,126, respectively.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, Income Taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is unlikely that the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements.

Stock-Based Compensation

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

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

4. Property and Equipment

Property and Equipment consists of the following:

	March 31, 2013	June 30, 2012
Leasehold Improvements	$2,042	$1,839
Furniture and Fixtures	550	441
Computer Equipment	1,002	785
Software	103	95
Total	3,697	3,160
Accumulated Depreciation and Amortization	(764)	(299)
Property and Equipment, net	$2,933	$2,861

Depreciation and amortization charges to selling, general and administrative expenses for the nine months ended March 31, 2013 and 2012 amounted to $465 and $59, respectively.

5. Intellectual Property

		March 31, 2013			June 30, 2012		
Description	Amortization Period	Amount	Accumulated Amortization	Carrying Value	Amount	Accumulated Amortization	Carrying Value
Intellectual Property	36 months	$4,209	$(2,104)	$2,105	$4,209	$(1,052)	$3,157
Intellectual Property	24 months	80	(50)	30	80	(20)	60
Total		$4,289	$(2,154)	$2,135	$4,289	$(1,072)	$3,217

Amortization of intellectual property charges to selling, general and administrative expenses for the three and nine months ended March 31, 2013 amounted to $361 and $1,083, respectively. Amortization of intellectual property charges to selling, general and administrative expenses for the three and nine months ended March 31, 2012 amounted to $351 and $701, respectively. Future annual amortization expense expected is as follows:

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

6. Loans Payable

Facility Name	Maturity Date	Total Facility Amount	Outstanding Balances March 31, 2013	June 30, 2012
Term Loan Agreement ("DB Line")	09/11/13	$10,000	$5,000	$—
$20,000 Line of Credit Note		20,000	—	2,500
Loan payable, current portion			5,000	2,500
New $25,000 Line of Credit	02/11/15	25,000	$—	$—
Secured Convertible 8% Notes	03/11/16	50,082	20,782	—
Long term debt			$20,782	$—

Term Loan Agreement

On March 11, 2013, Viggle Inc. (the “Company”) entered into a Term Loan Agreement (the “DB Line”) with Deutsche Bank Trust Company Americas (“Deutsche Bank”), under which Deutsche Bank agreed to loan the Company up to $10,000. The Company may, from time to time, request advances (the “Advances”) from the DB Line in amounts of no less than $1,000.

Interest on the outstanding balance may, at the Company's election, be charged at a rate per annum equal to the LIBOR Rate plus 4% or (ii) the Prime Rate plus 1.75%. Interest is payable monthly in arrears. The Company paid a $150 facility fee from the initial draw of $5,000 made at closing, which has been capitalized to prepaid expenses and is being expensed over the term of the agreement.

The DB Line matures on September 11, 2013, unless sooner due as a result of the receipt of net proceeds by the Company or any of its wholly-owned subsidiaries from one or more debt or equity offerings by the Company or any of its wholly-owned subsidiaries in an amount equal to at least the amount of principal and accrued and unpaid interest outstanding on the DB Line.

The Company may make prepayments, in whole or in part, under the DB Line at any time, as long as all accrued and unpaid interest thereon is paid through the prepayment date.

Repayment of the loan was guaranteed by Robert FX Sillerman. In consideration for the guarantee Mr. Sillerman's designee, Sillerman Investment Company II LLC (“SIC II”), which is the lender under the New $25,000 Line of Credit described below, received a warrant for 10,000,000 shares of common stock of Viggle, which may be exercised at any time within 60 months of the issuance date at $1.00 a share, (subject to adjustment in the event of stock splits and combination, reclassification, merger or consolidation)(the “Guarantee Warrant”). The Guarantee Warrant contains a piggyback registration right with respect to the underlying common shares which may be issued if it is exercised. The Guarantee Warrant was issued in a transaction exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(a)(2) thereunder and Rule 506 of Regulation D promulgated thereunder. The Company recorded compensation expense in the third fiscal quarter of $5,559 related to the Guarantee Warrant issued to SIC II, as Mr. Sillerman's designee.

The Company intends to use the proceeds from the DB Line to fund working capital requirements and for general corporate purposes.

As of March 31, 2013 and June 30, 2012 the Company had drawn $5,000 and $0, respectively on the DB Line. The interest expense on the DB Line payable for the three months and nine months ended March 31, 2013 was $12 and $12, respectively.

Amended and Restated $25,000 Line of Credit

On February 11, 2013, SIC II, an affiliate of Robert F.X. Sillerman, the Executive Chairman and Chief Executive Officer of the Company, provided a line of credit (the “Original $25,000 Line of Credit”) to the Company in the amount of up to $25,000. In consideration of the Lender's agreement to provide the Second Line of Credit, the Company issued to SIC II 5,000,000 shares of the Company's common stock. The Company recorded compensation expense in the third fiscal quarter of $5,000 related to the shares issued to SIC.

On March 11, 2013, Viggle and SIC II, an affiliate of Robert F.X. Sillerman, the Company's Executive Chairman and Chief Executive Officer, entered into an amended and restated line of credit (the “New $25,000 Line of Credit”) to the Company, which modified the existing $25,000 Line of Credit (the “Original $25,000 Line of Credit”) to reduce the interest rate from 14% per annum to 9% per annum and provide, as security for the Company's obligations, a pledge of the Company's (and its subsidiaries') assets pursuant to a security agreement (the “Security Agreement”, more particularly described below). In addition, the Company entered into a subordination agreement (the “Subordination Agreement”, as more particularly described below) by which the repayment and the security for the New $25,000 Line of Credit was subordinated to the repayment of the DB Line.

The Company may, from time to time, draw on the New $25,000 Line of Credit in amounts of no less than $1,000, provided that the outstanding principal balance under the DB Line and the New $25,000 Line of Credit may not exceed $25,000. The Company is not permitted to draw on the New $25,000 Line of Credit more than once per month. Interest will accrue on all unpaid principal amounts drawn under the New $25,000 Line of Credit Note at a simple interest rate equal to 9% per annum, with interest being compounded semi-annually and paid at maturity. The Company intends to first draw under the DB Line until fully drawn.

The New $25,000 Line of Credit matures on the earlier to occur of (i) February 11, 2015 or (ii) a change of control transaction. At maturity, the Company must pay all principal amounts then outstanding, plus all accrued and unpaid interest thereon. The Company may prepay at any time, without penalty.

If an event of default occurs, all amounts due under the New $25,000 Line of Credit are due and payable immediately. Events of default include the non-payment of amounts due, certain bankruptcy-type events, incorrect material statements made by the Company, the Company's contest or dispute of any provisions of the New $25,000 Line of Credit, or a material adverse change in the business plan or prospects of the Company in the reasonable opinion of SIC II.

Additionally, in the event of draws which exceed the DB Line maximum of $10,000, the lender (including Robert F.X. Sillerman and his affiliates) under the New Line of Credit will receive 100,000 warrants (which will be in the same form as the Guarantee Warrants) to purchase the Company's common stock for every $100 drawn down and funded to the Company. These warrants shall be exercisable at a price of $1.00 per share and shall expire five (5) years after issuance. To the extent there are participants other than SIC II who agree to fund a portion of the New $25,000 Line of Credit, such participants will be responsible for a pro rata share of each draw and receive the same number of warrants for each $100 drawn from them.

The Company intends to use the proceeds from The New $25,000 Line of Credit to fund working capital requirements and for general corporate purposes.

As of March 31, 2013 and June 30, 2012 the Company had not drawn down any funds from the The New $25,000 Line of Credit.

$20,000 Line of Credit Exchange

The Company and Sillerman Investment Company LLC (“SIC”) entered into a Line of Credit Grid Promissory Note on June 29, 2012, which was subsequently amended (as amended, the “$20,000 Line of Credit Note”). The $20,000 Line of Credit Note was fully drawn, so that as of March 11, 2013 Company owed SIC $20,782 including outstanding principal and accrued interest. On March 11, 2013 SIC exchanged the $20,000 Line of Credit Note for an 8% Convertible Secured Note (the “8% Note”), in the principal amount of $20,782, on the terms set forth in section (d) below. The 8% Note is subordinated in repayment and security to the DB Line and the New $25,000 Line of Credit, provides for an interest rate to 8% (as opposed to the 9% interest rate in the $20,000 Line of Credit Note), and matures on March 11, 2016 (as opposed to the June 29, 2013 maturity date for the $20,000 Line of Credit Note). The exchange was made pursuant to an exchange agreement (the "Exchange Agreement"), which provided for the issuance of 40,000 shares of the common stock of the Company, par value $0.001 per share ("Common Stock") for each $100,000 in principal amount of the Original Note so exchanged, so that the Company issued to SIC 8,312,699 shares of Common Stock in connection with such exchange (the "Common Shares"). The Company recorded compensation expense in the third fiscal quarter of $7,481 related to the shares issued to SIC. In addition, the Exchange Agreement permits the Company to issue up to an additional $29,300 of additional 8% Convertible Secured Notes on the same terms.

The 8% Note is convertible into shares of Common Stock in accordance with the terms of an Exchange Agreement, by and between the Company and SIC, the terms of which are more particularly described in the Section below.

The Exchange Agreement provides for holders of the 8% Notes to have piggyback registration rights for the shares of Common Stock into which the 8% Notes may be converted.

The Company recored interest expense on the $20,000 Line of Credit Note for the three months and nine months ended March 31, 2013 was $392 and $782, respectively.

Secured Convertible 8% Notes

Pursuant to the Exchange Agreement, the Company issued $20,782 of 8% secured convertible notes ("8% Notes"), which will mature on March 11, 2016.

The 8% Notes provide for 8% simple interest per annum, payable on each anniversary of the issuance date thereof in cash or common stock of the Company or any combination thereof, at the Company's discretion. If the Company elects to pay such interest in shares of its common stock, then the value of the shares to be delivered will be based on the average of the closing sale prices of the Common Stock for the fifteen (15) Trading Days immediately preceding such Interest Date. From and after the occurrence and during the continuance of any event of default under the 8% Notes, the interest rate is automatically increased to twelve percent (12%).

The 8% Note may, at any time at the option of the holder thereof, be converted into shares of the Company's common stock at a conversion price equal to $1.25 per share, subject to customary adjustments for stock splits, combinations, dividends, or recapitalization.

The 8% Notes provide for the Company to be able to issue up to an additional $29,300 of 8% Notes on the same terms and maturing on the same date.

If an event of default occurs under the 8% Note, each holder has the right to require the Company to repay all or any portion of its note. Events of default under the 8% Notes include payment defaults, and certain bankruptcy-type events involving the Company.

The Company may, at its option, prepay the 8% Note. If the Company chooses to prepay the 8% Note, it shall prepay a fixed lump sum in the amount of 108% in the first 12 months, 106% in months 13-24, 104% in months 25-30, and at par thereafter of the Principal Amount plus interest accrued thereon. Such payments shall be pro-rata unless otherwise determined by the Note holders. In the event that the Company issues primary shares in a public offering at an offering price above $1.25 per share, the Company may use up to 33% of the proceeds to prepay the Notes at par plus accrued and unpaid interest. If a change of control is consummated, each holder has the right to require the Company to repay all or any portion of its 8% Note on the prepayment terms set forth above, or may convert its Note into common shares immediately prior to the transaction.

The 8% Notes contain customary anti-dilution provisions for stock splits, combinations and dividends only as long as dilution is less than 33%. Dilution above 33% requires the consent of a majority of holders of the 8% Notes, after which the 8% Notes will receive weighted-average share dilution protection.

The 8% Notes also contain certain covenants and restrictions, including, among others, that, for so long as the 8% Notes are outstanding, the Company will not, without the consent of the holders of a majority of the then-outstanding principal amount of the 8% Notes, (i) make any loan or advance in excess of $500 to any officer, director, employee of affiliate of the Company (except advances and similar expenditures: (a) under the terms of employee stock or option plans approved by the Board of Directors, (b) in the ordinary course of business, consistent with past practice and (c) to its subsidiaries), (ii) incur any indebtedness that exceeds $5,000 in the aggregate other than indebtedness already included in a Board-approved budget and subordinated indebtedness, (iii) guaranty any indebtedness of any unaffiliated third party, (iv) change the principal business of the Company or exit the Company's current business, provided that the foregoing is subject to the Board's compliance with its fiduciary duties, (v) sell, assign, or license material technology or intellectual property of the Company except (i) in the ordinary course of business, consistent with past practice, (ii) sales and assignments thereof in any 12 month period that do not have a fair market value in excess of $1,000 or (iii) in connection with a change of control transaction, (vi) enter into any corporate strategic relationship involving the payment, contribution or assignment by the Company of its assets that have a fair market value in excess of $10,000 or (vii) liquidate or dissolve the Company or wind up the business of the Company, subject to certain exceptions set forth in Section 8 of the 8% Notes. The protective covenants set forth above (except for (iii) and (vii), which will remain) disappear after 75% of the principal balance of the Notes has been repaid.

As of March 31, 2013 and June 30, 2012 the Company had drawn $20,782 and $0, respectively on the 8% Notes . The interest expense on the 8% Notes payable for the three months and nine months ended March 31, 2013 was $92 and $92, respectively.

Security Agreement and Subordination Agreements

Each of the New $25,000 Line of Credit and the 8% Notes were secured by all assets of the Company, pursuant to respective security agreements (each, a “Security Agreement”) in favor of Robert F.X. Sillerman, as Collateral Agent for each lender, with the 8% Note being subordinated in repayment and security to the New $25,000 Line of Credit. SIC II and SIC, each as lender, delivered a subordination agreement to the DB Line holder (each, a “Subordination Agreement”) by which the repayment and security therefor was subordinated to repayment of the DB Line. Each Subordination Agreement provides that the Company's notes or Security Agreements may not be modified or amended in any manner which would affect the subordination to the DB Line and that the issuance of new or replacement notes may only be done upon the execution in a form similar to that previously issued and upon specific execution of a new Subordination Agreement by the new or replacement lender.

Related Approvals

Because each of the transactions (other than the DB Line) referred to in the foregoing sections entitled "Amended and Restated $25,000 Line of Credit", "$20,000 Line of Credit Exchange", "Secured Convertible 8% Notes", and "Security Agreement and Subordination Agreement" involved Robert F.X. Sillerman, our Executive Chairman and Chief Executive Officer, or an affiliate of his, the transactions were subject to certain rules regarding "affiliate" transactions, each was approved by a Special Committee of the Board of Directors and a majority of the independent members of the Board of Directors of the Company.

7. Commitments and Contingencies

In connection with the purchase from Trusted Opinion Inc. of the Loyalize assets, the Company was obligated to fund as a purchase price adjustment the difference, if any, by which $1,839 exceeded the calculated value (computed based on the average closing price of its common shares during the 20 days prior to December 31, 2012) of the 137,519 shares on December 31, 2012, either in cash or in common shares of the Company, at Buyer's election. The Company elected to pay this obligation in shares of its common stock and on February 11, 2013, issued 1,171,712 shares of its common stock in satisfaction of this obligation.

On August 17, 2012, the Company was served with a patent infringement lawsuit filed on August 13, 2012 by Blue Spike, LLC ("Blue Spike") in the United States District Court for the Eastern District of Texas, Tyler Division (Civil Action No. 6:12-CV-526). The lawsuit claims patent infringement under U.S. Patent numbers 7,346,472, 7,660,700, 7,949,494, and 8,214,715 in connection with the Company's audio recognition technology. Blue Spike has commenced suits against numerous other companies involving the same patent family. The Company denies that it is infringing any valid, enforceable claims of the asserted patents and intends to vigorously defend itself against the lawsuit. The Company filed its answer on October 3, 2012.

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

8. Stockholders’ Equity

As of March 31, 2013 and June 30, 2012, there were 300,000,000 shares of authorized common stock and 91,124,452, 76,470,041 shares of common stock issued and outstanding, respectively. Except as otherwise provided by Delaware law, the holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders.

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

9. Share-Based Payments

Equity Incentive Plan

The 2011 Executive Incentive Plan (the "Plan") of the Company was approved on February 21, 2011 by the written consent of the holder of a majority of the Company's outstanding common stock. The Plan provides the Company the ability to grant to any officer, director, employee, consultant or other person who provides services to the Company or any related entity, options, stock appreciation rights, restricted stock awards, dividend equivalents and other stock-based awards and performance awards, provided that only employees are entitled to receive incentive stock options in accordance with IRS guidelines. The Company reserved 30,000,000 shares of common stock for delivery under the Plan. Pursuant to the Executive Incentive Plan and the employment agreements, between February 15, 2011 and March 31, 2013 the Compensation Committee of the Company's Board of Directors authorized the grants of restricted stock and stock options described below.

Restricted Stock

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

	Shares	Weighted Average Grant Date Fair Value
Nonvested at June 30, 2012	2,886,668	$29.45
Granted	—	—
Vested	(75,833)	$12.22
Forfeited and cancelled	(941,667)	$28.35
Nonvested at March 31, 2013	1,869,168	$31.11

The total compensation was $4,875 and $13,325 for the three and nine months ended March 31, 2013, respectively. The total compensation was $8,218 and $25,190 for the three and nine months ended March 31, 2012, respectively. As of March 31, 2013 and June 30, 2012 there was $53,451 and $112,995, respectively, in total unrecognized share-based compensation costs.

Stock Options

The following table summarizes the Company's stock option activity for three months ended March 31, 2013:

	Number of Options	Weighted average exercise price
Outstanding at June 30, 2012	3,067,503	$6.24
Granted	15,428,546	$0.88
Exercised	—	—
Forfeited and cancelled	(2,418,003)	$1.93
Outstanding at March 31, 2013	16,078,046	$1.96
Exercisable at March 31, 2013	5,753,926	$2.18

The Company is accounting for these options at fair market value of the options on the date of grant, with the value being recognized over the requisite service period. The fair value of each option award is estimated using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of comparable companies' stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. Options generally have an expiration of 10 years and vest over a period of 3 or 4 years. The fair value of the options granted during the three months and nine months ended March 31, 2013 and 2012 were estimated based on the following weighted average assumptions:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Expected volatility	80%	69%	80%	60%
Risk-free interest rate	0.32%	1.14%	0.92%	1.22%
Expected dividend yield	—	—	—	—
Expected life (in years)	6.21	6.25	6.46	6.25
Estimated fair value per option granted	$0.81	$3.81	$0.95	$4.12

The total compensation expense of $2,015 and $10,250 was included in the accompanying Consolidated Statements of Operations in selling, general and administrative expenses for the three months and nine months ended March 31, 2013, respectively. The total compensation expense of $953 and $4,619 was included in the accompanying Consolidated Statements of Operations in selling, general and administrative expenses for the three months and nine months ended March 31, 2012, respectively. 15,428,546 options were granted during the nine months ended March 31, 2013 and the grants provide for vesting annually in arrears over the next three years. As of March 31, 2013, there was approximately $15,840 of total unrecognized stock-based compensation cost which will be recognized over a 2-3 year period.

10. Income Taxes

For the three and nine months ended March 31, 2013 and 2012 the Company recorded an income tax provision of $67 and $0 to reflect tax amortization of the Company's goodwill. At March 31, 2013, the Company had a Net Operating Loss carryforward of $28,711, which will begin to expire in 2030. The Company has established a full valuation allowance against its deferred tax assets as of March 31, 2013 and 2012.

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

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

11. Related Party Transactions

Recapitalization Notes

In connection with the Recapitalization, Robert F.X. Sillerman (and his spouse and entities controlled by him), and Mitchell Nelson, each executive officers of the Company, executed promissory notes in accordance with their subscription agreements for the payment of the purchase price of the shares, in the amounts of $3,242 and $10, respectively. Each note is an unsecured five-year note with interest accruing at the annual rate equal to the long-term Applicable Federal Rate in effect as of the date of the Recapitalization Agreement (which was 4.15% per annum). Mr. Nelson satisfied his note on April 1, 2011. The notes are due five years after issuance, with interest accrued at the rate of 4.15% per annum. Interest income recorded on these notes for the three and nine months ended March 31, 2013 was $33 and $103, respectively.   Interest income recorded on these notes for the three and nine months ended March 31, 2012 was $35 and $105, respectively.

Shared Services Agreements

In an effort to economize on costs and be efficient in its use of resources, the Company entered into a shared services agreement with Circle Entertainment Inc. ("Circle") as of February 15, 2011, pursuant to which it shares costs for legal and administrative services in support of Mitchell J. Nelson, its General Counsel and General Counsel to Circle. The shared services agreement provides, in general, for sharing of the applicable support provided by either company to Mr. Nelson in connection with his capacity as General Counsel, and an allocation generally based on the services provided by Mr. Nelson, which are initially estimated to be divided evenly between the companies. The Company is responsible for advancing the salary to Mr. Nelson for both companies and will be reimbursed by Circle for such salary and benefits (but not for any bonus, option or restricted share grant made by either company, which will be the responsibility of the company making such bonus, option or restricted share grant). The agreement provides for the Chief Executive Officer or President of each Company to meet periodically to assess whether the services have been satisfactorily performed and to discuss whether the allocation has been fair. The Audit Committee of each company's Board of Directors will then review and, if appropriate, approve the allocations made and whether payments need to be adjusted or reimbursed, depending on the circumstances. Because this transaction is subject to certain rules regarding “affiliate” transactions, the Audit Committee and a majority of the independent members of the Company's Board of Directors have approved the shared services agreement. This is deemed to be an affiliate transaction because Mr. Sillerman is Chairman and Mr. Nelson is Executive Vice President and General Counsel of Circle. For the three and nine months ended March 31, 2013 the Company billed Circle $49 and $207, respectively. For the three and nine months ended March 31, 2012 the Company billed Circle $85 and $178, respectively. Such billings primarily relate to support consisting of legal and administrative services. These services are to be reviewed and, if appropriate, approved by Circle's Audit Committee and the Company's Audit Committee. The balance due from Circle as of March 31, 2013 and June 30, 2012 was $0 and $53, respectively.

Certain Company accounting personnel may provide personal accounting services to our Executive Chairman, Robert F.X. Sillerman. To the extent that such services are rendered, Mr. Sillerman shall reimburse the Company therefor. The reimbursement for any such services shall be reviewed by the Company's Audit Committee. For the three and nine months ended March 31, 2013 the Company billed Mr. Sillerman $66 and $209, respectively. For the three and nine months ended March 31, 2012 the Company billed Mr. Sillerman $47 and $88, respectively. The balance due from Mr. Sillerman as of March 31, 2013 and June 30, 2012 was $72 and $69, respectively.

The Company entered into a shared services agreement with SFX Holding Corporation (“SFX”), a company controlled by Robert F.X. Sillerman, the Company's Executive Chairman and Chief Executive Officer, pursuant to which it shares costs for legal and administrative services in support of Mitchell J. Nelson, the Company's Executive Vice President and Secretary, and several other of the Company's employees. The shared services agreement provides, in general, for sharing generally based on the services provided by Mr. Nelson and such other employees. Mr. Nelson and such other employees will continue to be paid by the Company, and SFX will either reimburse Circle Entertainment Inc. (which will reimburse the Company, if applicable) or reimburse the Company directly for its portion of such salary and benefits (but not for any bonus, option or restricted share grant made by either company, which will be the responsibility of the company making such bonus, option or restricted share grant). The agreement provides for the Chief Executive Officer or President of each company to meet periodically to assess whether the services have been satisfactorily performed and to discuss whether the allocation has been fair. The Audit Committee of each company's Board of Directors will then review and, if appropriate, approve the allocations made and whether payments need to be adjusted or reimbursed, depending on the circumstances. Because this transaction is subject to certain rules regarding “affiliate” transactions, the Company's Audit Committee and a majority of the independent members of the Company's Board of Directors have approved this shared services agreement. For the three and nine months ended March 31, 2013 the Company billed SFX $68 and $90, respectively. The Company did not bill any amount to SFX in 2012. The balance due from SFX as of March 31, 2013 was $92.

Consultant

Benjamin Chen, a director, has acted as a consultant to the Company in the area of technology, systems architecture and technical operations. For the three months and nine months ended March 31, 2013 he has been paid $64 and $188 for his services, respectively. For the three months and nine months ended March 31, 2012 there were no such payments made.

Lines of Credit

The $20,000 Line of Credit Note, originally issued by the Company to Sillerman Investment Company, LLC, an affiliate of Robert F.X. Sillerman, our Executive Chairman and Chief Executive Officer, more particularly described in Note 6, has been exchanged for the 8% Note described therein, and continues to be held by Sillerman Investment Company, LLC.

On February 11, 2013, Sillerman Investment Company II, LLC provided an additional line of credit to the Company of up to $25,000 (See Note 6), which was exchanged for a New $25,000 Line of Credit Note on March 11, 2013, which continues to be held by Sillerman Investment Company II, LLC. Sillerman Investment Company II, LLC is also an affiliate of Robert F.X. Sillerman.

Because each of the transactions described above, including the exchange of the $20,000 Line of Credit Note for the 8% Note and the $25,000 additional line of credit and related transactions, as more particularly described in Note 6, involved Robert F.X.

Sillerman, our Executive Chairman and Chief Executive Officer, or an affiliate of his, the transactions were subject to certain rules regarding "affiliate" transactions, and each was approved by a Special Committee of the Board of Directors and a majority of the independent members of the Board of Directors of the Company.

12. Fair Value Measurement

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

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

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

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

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers counter-party credit risk in its assessment of fair value. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions based on the best information available.

The Company has certain assets and liabilities that are required to be recorded at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States. The Company's investment in overnight money market institutional funds, which amounted to $1,278 and $1,838 as of March 31, 2013 and June 30, 2012, respectively, is included in Cash and Cash Equivalents on the accompanying Consolidated Balance Sheets and is classified as a Level 1 input. The carrying value for Cash and Cash Equivalents, Accounts Receivable and Accounts Payable approximate fair value because of the immediate or short-term maturity of these financial instruments.

The Company issued 1,709,091 warrants in connection with the May 10, 2012 PIPE. Each warrant has a sale price of $5.50 and is exercisable into 1 share of common stock at a price of $8.00 over a term of three years. Further, the exercise price of the warrants is subject to "down round" protection, whereby any issuance of shares at a price below the current price resets the exercise price equal to a price equal to the price of the newly issued shares (the "Warrants"). The fair value warrants has been determined utilizing the Binomial Lattice Model in accordance with ASC 820-10, Fair Value Measurements. The fair value of the warrants when issued was $5,281 and was $4,626 as of June 30, 2012. The warrants were marked to market as of March 31, 2013 to a fair value of $643. The Company recorded a gain of $300 and $3,983 to other income, net in the Consolidated Statements of Operations for the three and nine months ended March 31, 2013, respectively. The warrant liability is classified as a current liability on the Consolidated Balance Sheet as of March 31, 2013 , due to the Company's intention to retire these warrants in its next round of financing. The Company's warrants were classified as Level 3 within the fair value hierarchy because they were valued using unobservable inputs and management's judgment due to the absence of quoted market prices and inherent lack of liquidity.

The Company issued $20,782 of 8% secured convertible notes (“8% Notes”), which will mature on March 11, 2016. The 8% Note may, at any time at the option of the holder thereof, be converted into shares of the Company's common stock at a conversion price equal to $1.25 per share, subject to customary adjustments for stock splits, combinations, dividends, or recapitalization. Further, the conversion price is subject to "down round" protection, whereby any dilution above 33% requires the consent of a majority of holders of the 8% Notes, after which the 8% Notes will receive weighted-average share dilution protection. The Company has determined that the due to the nature of the "down round" protection that the conversion feature is an embedded derivative in accordance with ASC 815-15-25, Derivatives and Hedging. The embedded derivative has been bifurcated from the host contract and recorded at its fair value. The fair value of the embedded derivative has been determined utilizing the Binomial Lattice Model in accordance with ASC 820-10, Fair Value Measurements. The fair value of the embedded derivative when issued was $6,662 which was recorded as stock compensation cost and included in selling, general and administrative expense in the Consolidated Statements of Operations for the three and nine months ended March 31, 2013 due to the fact that the 8% Notes are owned 100% by an executive officer of the Company. The embedded derivative was marked to market to a fair value at March 31, 2013 of $6,161. The Company recorded a gain of $501 to other income, net in the Consolidated Statements of Operations for the three and nine months ended March 31, 2013. The Company's convertible conversion rights were classified as Level 3 within the fair value hierarchy because they were valued using unobservable inputs and management's judgment due to the absence of quoted market prices and inherent lack of liquidity.

13. Subsequent Events

Additional draws on DB Line

On April 3, 2013 and May 6, 2013, Viggle Inc. (the “Company”) drew down an additional $4,000 and $1,000 , respectively on the DB Line (see Note 6). The Company intends to use the proceeds from the DB Line to fund working capital requirements and for general corporate purposes.

Amendment of Employment Agreement

On April 4, 2013, the employment agreement of Robert F.X. Sillerman, the Executive Chairman and Chief Executive Officer of Viggle Inc. (the “Company”) was amended to provide for a decrease in his annual salary from $1,000 to $500, as well as a grant of options to purchase 2,500,000 shares of the Company's common stock at a price of $1.00 per share.

Issuance of Additional Options to Directors

On May 6, 2013, the Board of Directors approved the issuance of 186,000 additional stock options. The company expects to record a stock-based compensation charge of approximately $89 in the fourth quarter related to these options.

Resignation of Director

On May 6, 2013, Benjamin Chen resigned from the Board of Directors of the Company.

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

The following management’s discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with the historical unaudited consolidated financial statements and footnotes of the Company’s historical audited consolidated financial statements and notes thereto included elsewhere in this Quarterly Report and in the Company's Annual Report on Form 10-K filed on October 15, 2012. Our historical results of operations reflected in our historical audited consolidated financial statements are not indicative of our future results of operations as we have entered a new line of business from which we do not currently generate significant revenue.

Overview

Viggle Inc. was incorporated in Delaware in July 1994, and was formerly known as Function (x) Inc, Function (X) Inc. and Gateway Industries, Inc.

In February 2011, the Company completed a Recapitalization with Sillerman and EMH Howard. The newly recapitalized company changed its name to Function (X) Inc. effective as of the date of the Recapitalization, changed its name to Function(x) Inc. on June 22, 2011. On May 31, 2012, the Company changed its name to Viggle Inc. We have six wholly owned subsidiaries, Project Oda, Inc., Sports Hero Inc., Loyalize Inc., Function(x) Inc., Viggle Media Inc. and VX Acqusition Corp. Upon completion of the Recapitalization, the Company changed course after being inactive from October 2010. The Recapitalization and the resulting change in management were the initial steps in the

Company developing a new operating business. Its new direction is intended to provide a platform for investments in media and entertainment, with a particular emphasis on digital and mobile technology.

Our business is built on a simple concept: to make watching TV more rewarding. Viggle provides an interactive platform to create more engagement with TV content and more targeted advertising through a loyalty program that rewards our users for watching television. We seek to enhance the consumer TV experience by helping consumers find what shows to watch, making the shows they watch more fun, interesting, and exciting, and rewarding consumers for being loyal to the shows they do watch. Users receive points for checking in to and interacting with their favorite TV shows and can then redeem these points for real items such as movie tickets, music and gift cards. We plan to generate revenue through advertising and the sale of merchandise related to the TV shows and other entertainment viewed by users that would appear in users' mobile devices through the use of the application. We currently do not have any agreements in place with advertisers or vendors whereby the advertisers or vendors issue rewards to our users when the users redeem their points. We have purchased and will continue

to source rewards from vendors that we will issue to users upon the redemption of their points. The Company has only generated minimal revenue to date, and there is no guarantee that we will be able to generate sufficient revenue in the future to continue to purchase rewards from vendors or continue its business.
The Company's loyalty program is delivered to consumers in the form of a free application, or app, that works on multiple device types, including mobile phones and tablets. The user experience is simple. The consumer downloads the app, creates an account and while watching TV, taps the check in button. Using the device's microphone, the application collects an audio sample of what the user is watching on television and uses proprietary technology to convert that sample into a digital fingerprint. Within seconds, that proprietary digital fingerprint is matched against a database of reference fingerprints that are collected from approximately 170 English and Spanish television channels within the United States. We are able to verify TV check-ins across broadcast, cable, online, satellite, time-shifted and on-demand content. The ability to verify check-ins is critical because users are rewarded points for each check in. Users can redeem the points within the app's rewards catalogue for items that have a monetary value such as movie tickets, music, gift cards and charitable contributions.

In addition to television show check-in points, users can earn additional points by engaging with brand or network sponsored games, videos, polls or quizzes related to the show that they are watching and by inviting friends or sharing their activities via social media. There are sweepstakes opportunities and instant win games for higher value prizes or unique experiences in addition to rewards. Our product is limited to participants who are 13 years of age or older.

Our program is designed to give users rewards for checking-in to television shows and for performing other engagements within the Viggle app. For example, when a user checks-in to a television program, that user will receive approximately 60 points for each hour checked in. In addition, users may earn additional points for checking into certain specified shows or performing certain engagements within the app, such as participating in a poll or quiz or viewing an advertisement. For example, if a user checks in to a show for which we are rewarding extra points, the user may receive 50 extra points so long as the user remains checked in for at least ten minutes. This would also apply to participating in a poll or interactive game or other engagement to which extra points have been allocated, such as our Viggle Live events or MyGuy real-time fantasy sports games. The number of points that a user may earn in a day may be capped. For example, we currently cap the number of points a user earns at 6,000 per day. We may change from time to time the number of points that a user may earn for checking in to shows and for engaging in certain actions on our app, and the daily cap on points.

Our rewards catalog consists primarily of gift cards for consumer goods in amounts ranging from $5.00 to $25.00. There are other rewards, primarily physical products, that can be earned for significantly more reward points, and offers that deliver meaningful discounts to our users for fewer points. For example, a $5.00 CVS gift card can be earned for 10,000 points, a $25.00 Best Buy Gift card can be earned for 62,500 points, a Kindle Fire for 375,000 points, and an offer of 20% off a purchase at Fanatics.com for 3,000 points. From time to time we may change the rewards offered and the number of points required to earn any given reward. For the 1,619,811 reward redemptions through March 31, 2013, the average number of points used per redemption has been approximately 13,396 points and the average value of a reward for such a redemption was $7.13.

The loyalty program for which the rewards are the incentive is designed to constantly attract new users and to increase the number of active users in a manner that can be marketed to advertisers. The success of the marketing will depend on being able to show the number of active users in the program. We further anticipate that the number of active users will depend on the availability of rewards and the ability of users to accumulate points and redeem their points for rewards.

The first version of the application was approved by Apple and launched to the public in the Apple iTunes App Store in January, 2012. It has been updated periodically. The approved version of the app works on Apple iOS devices such as the iPhone, iPad and iPod Touch. On June 27, 2012, we released a version of the application for use on Android

smartphones and tablets. We have also launched a platform developer kit to allow third party developers to create functionality accessible from within the Viggle app. Although we have launched the app to the public, there is no guarantee how effectively the technology will perform. We continuously test and update the application with a goal of improving overall performance and usability.
We will consider adding versions for other mainstream mobile operating systems such as Windows Phone and Blackberry based on demand and other business factors. Distribution of the product will occur via regular online marketplaces for content and applications used by such mobile operating systems, and will include iTunes for iOS devices or the Android marketplace for devices using the Android operating system.
Since our launch in January, 2012, and through March 31, 2013, 2,353,467 users have registered for our app, of which we have deactivated 170,765 for a total of 2,182,702 registered users. In addition, for the three months ended March 31, 2013, we have accumulated an average of 599,317 monthly active users. Monthly active users are computed by determining those users that have logged into the Viggle app at any time during the month. As of March 31, 2013, our members have checked-in to

195,215,435 TV programs and spent an average of 72 minutes of active time within the Viggle app per session. Users have redeemed a total of 1,619,811 rewards.

Also for the three months ended March 31, 2013, of the Active Users in those months, the average number of days that such Active Users were active in each month was 9. That number is derived by dividing the number of days that all Active Users were active in the month by the number of Active Users in the month. “Active Users” for such purposes is defined as any user that has logged into the Viggle app at any time during the month.

The back-end technology for the application has been designed to accommodate the significant numbers of simultaneous check-ins required to support primetime television audiences. This back-end technology is currently operational and we have the capacity to support simultaneous check-ins around major television events such as the Super Bowl. In addition to our own dedicated co-location facilities on the east and west coasts, we are using third-party cloud computing services from Amazon Web Services to help us scale our technical capacity as efficiently as possible.

The technology supporting our unique feature of digital fingerprinting and our matching technology is subject to a currently unissued but pending patent.

While most people watch television, we are targeting male and female consumers between the ages of 18-49. This target audience was selected due to the amount of television they consume on a weekly basis as well as the likelihood that they will have smartphones and other wireless devices such as tablets and laptops with them while viewing television. To build our user base, we will target this audience using traditional media techniques such as direct response, banner, and mobile advertising, public relations, search engine optimization and search engine marketing across online, broadcast and print media outlets.

When a user signs up for and downloads our app, we collect the user's email, zip code, television provider and date of birth. The email enables us to verify the user and reduces the chance of fraud. The zip code allows us to present a relevant list of cable and satellite providers to the user to deliver the correct channel listing data. Knowing the television provider in turn helps us to increase the rate of success for television show matching. We encourage the user to provide additional information such as their physical mailing address. The user's birthday information helps us verify that a user is at least 13 years old. The physical mailing address is required for the delivery of physical goods selected by the user in the application rewards catalogue. This information also helps us better target relevant advertising to the user. We manage this information in adherence with standard privacy policies and regulations.

We have hired personnel with diverse backgrounds in general management and in digital media and entertainment, along with specialists in product development, editorial, graphic design, software engineering, marketing, analytics, sales, business development, human resources, finance and legal for the purpose of developing the business plan, building the product, generating ad sales with brand and network marketers, and acquiring and retaining customers.

Operations

The back-end technology for the application has been designed to accommodate the significant numbers of simultaneous check-ins required to support primetime television audiences. This back-end technology is currently operational and we have the capacity to support simultaneous check-ins around major television events such as the Super Bowl. In addition to our own dedicated co-location facilities on the east and west coasts, we are using third-party cloud computing services from Amazon Web Services to help us scale our technical capacity as efficiently as possible. The following are the primary components of our technical operations:

Audio fingerprinting and matching technology

Using proprietary technology, audio from approximately 170 English and Spanish television channels within the United States is sampled in real-time and converted into digital fingerprints that can be used to uniquely identify each individual television program. These fingerprints are then stored in a reference database in leased cloud infrastructure.

When a user attempts to check into a television program from the user's smartphone or tablet, the Viggle application uses the same proprietary technology to collect an audio sample of what that user is watching and converts that sample into a digital fingerprint which can be matched against the reference database to identify the program the user is watching

Points ledger

The points ledger is proprietary software used to track user accrual of rewards points. Whenever a user earns points for activities within Viggle, a transaction is written to the ledger to provide details on how many points were added to the user's account, the activity for which the points were awarded, the timestamp of the transaction, and other pertinent information required to provide effective controls and auditability. Likewise, when a user redeems for a reward, a transaction is written to the ledger to provide appropriate details on the redemption. The ledger is hosted on leased hardware in a co-location facility in the United States.

Event processor

The event processor is proprietary software which continually monitors user activity within Viggle and identifies when a user should be awarded points for a completed action e.g., watching a TV program or engaging with an advertisement. The event processor then triggers a ledger transaction to add points to a user account. The event processor is hosted on leased hardware in a co-location facility in the United States.

Rewards management platform

Viggle's rewards management platform is proprietary software used to securely manage rewards inventory and redemptions. Rewards inventory, primarily digital redemption codes, is loaded into the rewards management platform and can then be priced and made available for redemption by Viggle users via the Viggle mobile application. When a user redeems a reward, the points price of that reward is removed from the user's account via a ledger transaction, the rewards code is sent to the user, and inventory of that reward is reduced to reflect the transaction. The rewards management platform is hosted on leased hardware in a co-location facility in the United States.

Ad serving technology

Viggle uses 3rd party ad serving technology to manage advertising campaigns, serve ads to users within the Viggle application, and report on the delivery of these advertisements. Viggle has also created proprietary software, hosted on leased hardware in our co-location facility, which integrates with the 3rd party technology to define a number of Viggle points available to a user for completing an ad view and subsequently interfacing with the event processor to assign these points upon each completed ad view.

Other administrative tools

Viggle has also created a set of other proprietary tools used to manage the user experience within Viggle (e.g., editorial tools for promoting individual television programs to users), support customer service inquiries, and enable other administrative activities. These tools are hosted on leased hardware in a co-location facility in the United States.

The technology supporting our unique feature of digital fingerprinting and our matching technology is subject to a currently unissued but pending patent.

Like many applications, the Company's initial product integrates into users' existing social media networks, making it possible for users to share their activity with friends, family and followers. The social media experience within the Company's product is important, and will be complementary to the core value proposition of generating revenue through advertising sales.

Revenue

The application became available to the public in January, 2012. We have begun to generate revenue. Advertising is sold primarily direct to brand marketers and television networks by our dedicated sales team. Our focus is on brand marketers that are most relevant to our target demographic of consumers between the ages of 18-49, and are active in television, digital and retail marketing. Our sales team is also briefing large advertising and media agencies on our capabilities so that they might recommend integration of our application into their client proposals. We have and plan to generate revenue from standard mobile media advertising sales and affiliate programs: (i) when our users click and view advertisements in our application, (ii) when our users complete an engagement (defined as a poll or quiz or game or slide show) appearing in our application that is created by an advertising agency or the Company's brand partners or by our team; and/or (iii) through affiliate or bounty commissions to third parties if our users purchase items or subscribe to services after clicking from our application to other applications and/or websites. With the exception of one-time sponsorships with advertisers (which are charged a separate and specific fee), all advertising is serviced via a third-party advertising server for billing and verification purposes. Revenues are generated by measuring delivered impressions on a cost per thousand (CPM) basis and completed engagements on a cost per engagement (CPE) basis. Therefore, our sales team contracts with brand advertisers to deliver a specific number of impressions and/or engagements for a specific price per thousand impressions (CPM) and/or per completed engagement (CPE). The third-party ad server then serves the ads and/or engagements within the application during the course of using the Viggle app. As impressions and engagements are delivered and completed, we will bill brand partners or advertising agencies on a monthly basis for the media delivered at our contracted rates.

Regarding television marketers, we are focusing on TV networks and producers based on their relevance to our target audience, their reach and popularity. We are prioritizing networks and shows that we know to be actively engaged in digital extensions, such as Social TV or second screen technology. Additionally, we expect to gain revenue from the sale of television show related merchandise such as show music, DVDs and apparel, all of which is featured within the application and sold through online retail partners such as iTunes and Amazon.

Initially, we anticipate revenues to be generated substantially in the United States.

Watchpoints and Engagement Points

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

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

Results of Operations

Results for the Three and Nine Months ended March 31, 2013 and 2012 (amounts in thousands)

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2013	2012	$ Change	2013	2012	$ Change
Revenues	$3,395	$556	$2,839	$9,322	$556	$8,766
Cost of watchpoints and engagement points	(2,593)	(3,197)	604	(6,393)	(3,197)	(3,196)
Selling, general and administrative expenses	(44,185)	(24,324)	(19,861)	(81,027)	(74,605)	(6,422)
Operating loss	(43,383)	(26,965)	(16,418)	(78,098)	(77,246)	(852)
Other income (expense):						
Other income, net	801	—	801	3,982	—	3,982
Interest income (expense), net	(474)	35	(509)	(793)	130	(923)
Total other income (expense)	327	35	292	3,189	130	3,059
Net loss before provision for income taxes	(43,056)	(26,930)	(16,126)	(74,909)	(77,116)	2,207
Income tax expense	(23)	—	(23)	(67)	—	(67)
Net loss	$(43,079)	$(26,930)	$(16,149)	$(74,976)	$(77,116)	$2,140

Consolidated Operating Results for the Three Months Ended March 31, 2013 Compared to the Three Months Ended December 31, 2012 (amounts in thousands)

Revenue for the three months ended March 31, 2013 was $3,395 versus $556 for the three months ended March 31, 2012. Cost of watchpoints and engagement points for the three months ended March 31, 2013 was $(2,593) and $(3,197) for the three months ended March 31, 2012. Selling, general and administrative expenses were $(44,185) for the three months ended March 31, 2013 and $(24,324) for the three months ended March 31, 2012.

Revenues

Revenue in the three months ended March 31, 2013 increased by $2,839 primarily from the sale of advertising on the Viggle app.

Cost of Watchpoints and Engagement Points

Cost of watchpoints and engagement points for the three months ended March 31, 2013 decreased by $604 primarily due to the reduction in the costs to the Company for Viggle reward points earned by users of the application for checking into shows and engaging with advertising content.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the three months ended March 31, 2013 by $(19,861) , primarily due to an increase of $21,875 in personnel costs (including an increase of $21,775 in stock compensation costs), an increase of $941 in marketing costs, an increase of $515 in other G&A (primarily related to a break up fee related to the Adaptive Blue transaction), $221 increase of depreciation and amortization expense, offset by decreases of $319 in technical and operating costs to run the product, $248 of professional fees, $352 of travel and entertainment expenses and a decrease of $2,750 in the TIPPT impairment charge

Other Income, Net

Other income, net includes a $300 gain related to the valuation of the warrants payable and a $501 gain related to the valuation of the conversion feature within the convertible note.

Interest Income (Expense), Net

We had interest income of $37 offset by interest expense of $511 for the three months ended March 31, 2013 versus $35 of interest income for the three months ended March 31, 2012.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, Income Taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements. At March 31, 2013 and June 30, 2012, the Company provided a full valuation allowance on its deferred tax assets and thus recognized no tax benefit. For the three months ended March 31, 2013 the Company recorded an income tax provision of $(23) to reflect tax amortization of the Company's goodwill.

Consolidated Operating Results for the nine months ended March 31, 2013 Compared to the nine months ended March 31, 2012 (amounts in thousands)

Revenue for the nine months ended March 31, 2013 was $9,322 versus $556 for the nine months ended March 31, 2012. Cost of watchpoints and engagement points for the nine months ended March 31, 2013 was $(6,393) and $(3,197) for the nine months ended March 31, 2012. Selling, general and administrative expenses were $(81,027) for the nine months ended March 31, 2013 and $(74,605) for the nine months ended March 31, 2012.

Revenues

Revenue in the nine months ended March 31, 2013 increased by $8,766 primarily from the sale of advertising on the Viggle app.

Cost of Watchpoints and Engagement Points

Cost of watchpoints and engagement points for the nine months ended March 31, 2013 increased by $3,196 primarily due to the cost of Viggle reward points earned by users of the application for checking into shows and engaging with advertising content.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the nine months ended March 31, 2013 by $6,422, primarily due to a $1,897 increase in personnel costs (includes a decrease of $988 in stock compensation costs), $1,496 increase in professional fees, $2,397 increase in marketing expenses, $985 in technical and operating costs to run the product, $1,515 increase in depreciation and amortization expenses, and an $814 increase other G&A primarily related to a break up fee related to the Adaptive Blue transaction, offset by a $636 decrease in board of directors expenses, $494 decrease in travel expenses, and a $2,750 decrease in the TIPPT impairment charge.

Other Income, Net

Other income, net includes the expense related to the valuation of the Loyalize guarantee $(502) offset by a $3,983 gain related to the valuation of the warrants payable and a $501 gain related to the valuation of the conversion feature within the convertible note.

Interest Income (Expense), Net

We had interest income of $108 offset by interest expense of $901 for the nine months ended March 31, 2013 versus $171 of interest income offset by $41 of interest expense for the nine months ended March 31, 2012.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, Income Taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements. At March 31, 2013 and June 30, 2012, the Company provided a full valuation allowance on its deferred tax assets and thus recognized no tax benefit. For the nine months ended March 31, 2013 the Company recorded an income tax provision of $(67) to reflect tax amortization of the Company's goodwill.

Non-GAAP Adjusted Rewards Costs and Adjusted EBITDA

The Company provides a non-GAAP measure for adjusted rewards costs as an alternative view of the Company's cost of providing rewards to its users. The Company reports rewards costs in its Consolidated Statement of Operations in both Cost of watchpoints and engagement points and in Selling, general and administrative expenses. Management believes that due to the lack of operating history associated with user point accumulation and redemption activity, that a useful financial measure for investors is to provide to them the amount of cash the Company has actually paid to provide rewards to its users. The Company also presents Adjusted EBITDA. Adjusted EBITDA is a non-GAAP measure that represents operating loss (as reported) plus depreciation and amortization, stock based compensation and adjustment to rewards costs. The information on adjusted rewards costs and Adjusted EBITDA should be considered in addition to, but not in lieu of operating income prepared in accordance with generally accepted accounting principles in the United States (GAAP). Management believes these non-GAAP measures enhance investors' understanding of the Company's financial performance. Since adjusted reward costs and Adjusted EBITDA are not measures determined in accordance with GAAP, they have no standardized meaning prescribed by GAAP and therefore, may not be comparable to the calculation of similar measures of other companies. A reconciliation between GAAP financial measures and non-GAAP financial measures is as follows.

Adjusted Rewards Costs Amounts in 000's	Reconciliation of rewards cost to adjusted rewards costs			
	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Cost of watchpoints and engagement points as reported	$(2,593)	$(3,197)	$(6,393)	$(3,197)
Selling, general and administrative expenses as reported	(44,185)	(24,324)	(81,027)	(74,605)
Adjustment to cost of watchpoints and engagement points	1,388	1,764	2,121	1,764
Adjustment to Selling, general and administrative expenses	650	1,019	1,053	1,019
Adjusted cost of watchpoints and engagement points	(1,205)	(1,433)	(4,272)	(1,433)
Adjusted selling, general and administrative expenses	(43,535)	(23,305)	(79,974)	(73,586)

Adjusted EBITDA Amounts in 000's	Reconciliation of Operating Loss to Adjusted EBITDA			
	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Revenue	$3,395	556	$9,322	556
Operating loss as reported	$(43,383)	$(26,965)	$(78,098)	$(77,246)
Add:				
Stock compensation costs	31,572	9,425	48,347	49,265
Adjustment to rewards costs				
Adjustment to cost of watchpoints and engagement points	1,388	1,764	2,121	1,764
Adjustment to Selling, general and administrative expenses	650	1,019	1,053	1,019
Depreciation and amortization costs	970	739	2,840	1,328
Adjusted EBITDA *	$(8,803)	$(14,018)	$(23,737)	$(23,870)

* Adjusted EBITA is a non-GAAP measure, but shown above it represents operating loss plus depreciation and amortization, stock based compensation and adjustment to rewards costs

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

Cash

At March 31, 2013 and June 30, 2012, we had cash balances of $2,089 and $2,963, respectively.

Lines of Credit

On February 11, 2013, Sillerman Investment Company II, LLC provided an additional line of credit to the Company of up to $25,000 (See Notes to Consolidated Financial Statements Note 6), which was exchanged for a New $25,000 Line of Credit Note on March 11, 2013. On March 11, 2013, Viggle Inc. (the "Company") entered into a Term Loan Agreement (the "DB Line") with Deutsche Bank Trust Company Americas ("Deutsche Bank"), under which Deutsche Bank agreed to loan the Company up to $10,000. The combined credit lines provide the Company with an aggregate of $25,000 of additional funding. As of March 31, 2013 the Company had $20,000 of funds available under the combined credit lines.

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

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

The Company has projected the plan for its business for the next 12 months (April 1, 2013-March 31, 2014), which is subject to change resulting from both internal and external circumstances. The 12-month plan of the Company has not been reviewed for consistency with US GAAP, and has been prepared on a modified accrual basis. The Company's 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 report, and our actual future results may be materially different from what we set forth below.

There is no assurance that the plan set forth will be successful. If implemented, actual results may vary significantly from the plan described in this report. The Company does not warrant or guarantee the foregoing.

The Company's current plan will require capital of approximately $32 million over the next 12-month period to cover the fixed expenses and capital needs of the Company, including employee payroll, marketing expenditures, server capacity, research and development, office space and capital expenditures. As described above the Company has up to $20,000 available to draw on its credit line to fund its operations (see Note #6 Loans Payable in Notes to Consolidated Financial Statements). In order to meet its capital requirements for the next 12 months, the Company will need approximately $10 million in new capital (in excess of the cash currently held by the Company and amounts currently available to draw under its credit line). We believe revenue will continue to improve over the next twelve months as we contract to sell more advertising within the application. Additionally, we believe that as our user base grows we may be able to introduce specific brand offers, additional sweepstakes, and virtual rewards into our rewards catalog to help reduce cash required to fund rewards. In addition, as our app becomes more popular we plan to increase the number of points needed to redeem certain rewards, which in turn should reduce the cash required to fund rewards. In June, we increased our revenue and added new rewards to the catalog, which required less cash to purchase than some of our previous rewards. This enabled us to reduce our cash outlay for rewards. As we continue to add new items to our rewards catalog, we will focus on how those items are priced in points with the goal of reducing our cash outlay for rewards. Although the increase in revenue and the addition of lower cost rewards suggest that we should be able reduce our cash funding requirements over the next 12 months, there is no guarantee that we will be successful. Our ability to sell increasing amounts of advertising is dependent on the amount of registered active users and the activity of those users within the application. It may be challenging to grow revenue as Viggle faces many competitors seeking to gather revenue in the same manner. Advertising budgets can shift rapidly and the benefits previously seen by advertisers could shift away from mobile platforms to something new. We may not be able to deliver enough users to our advertisers to grow revenue. The level of engagement activity currently seen within Viggle may slow and the potential revenue per user would fall accordingly. In addition, growing our user base makes us more attractive to advertisers, but will also increase our total rewards cost as new users earn points within Viggle. We will need to increase our revenue per user above the average cash cost per user in order to achieve profitability. There is no guarantee that we will be able to do so. Our ability to purchase rewards for greater discounts as we buy more may not be sustainable and we may reach a floor on the level of discounting. We have no plan to adjust the overall points pricing within our rewards catalog; however, we may find a wholesale re-pricing necessary to reduce the cash needed to fund our rewards program. Adjusting the points needed to redeem for a reward may decrease our funding requirements, but may have the counter-balancing effect of discouraging user acceptance and satisfaction.

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

Since our launch on January, 2012, and through March 31, 2013, 2,353,467 users have registered for our app, of which we have deactivated 170,765 for a total of 2,182,702 registered users. In addition, for the three months March 31, 2013 we have accumulated an average of 599,317 monthly active users. Monthly active users are computed by determining those users that have logged into the Viggle app at any time during the month.

Also for the three months ended March 31, 2013, of the Active Users in those months, the average number of days that such Active Users were active in each month was 9. That number is derived by dividing the number of days that all Active Users were active in the month by the number of Active Users in the month. “Active Users” for such purposes is defined as any user that has logged into the Viggle app at any time during the month.

As of March 31, 2013, our members have checked-in to 195,215,435 TV programs and spent an average of 72 minutes of active time within the Viggle app per session. Users have redeemed a total of 1,619,811 rewards. It is not possible to earn points on the Viggle app without registering. In order to avoid double-counting and limit the instances of fraud, the app is limited to five accounts per device (so as to allow for use by family members sharing a device), users are limited to a maximum of 6,000 points per day and users are not able to share or combine points with different users or devices. While it is possible for users to establish multiple accounts which could overstate our actual number of registered active users and permit those fraudulent users to attempt to evade our rules in an effort to accumulate excess points by checking-in to TV shows at the same time on different devices, we monitor for such activity and, when discovered, take corrective action according to our published terms and conditions.

Cash Flows for the nine months ended March 31, 2013 (amounts in thousands)

	Nine Months Ended March 31,	
	2013	2012
Net cash used by operating activities	(22,845)	(20,424)
Net cash used in investing activities	(606)	(12,452)
Net cash provided by financing activities	22,577	33,379

Operating Activities

In the nine months ended March 31, 2013 net cash used in operating activities was $(22,845) including our net loss of $(74,976) and non cash charges of $47,749. In addition cash inflows from changes in operating assets and liabilities included a decrease in other receivables of $959 due to payment received from our landlord related to leasehold improvements, an increase in accounts payable and accrued expenses of $1,269 primarily due to the timing in payment of invoices, an increase in points liability of $3,455 related to the increase in the number of people using our App, offset by an increase in accounts receivable of $(740) due to increased billings, an increase in prepaid expenses of $245 related to an increase in the number of gift cards in our rewards catalog, and a decrease in deferred revenue $(344) related to the reclassification of amounts to be earned in connection with a contract acquired in the Loyalize acquisition.

In the nine months ended March 31, 2012 net cash used in operating activities was $(20,424) including our net loss of $(77,116) and non cash charges of $52,863. In addition cash inflows from changes in operating assets and liabilities included an increase in accounts payable and accrued expenses of $2,923 primarily due to the timing in payment of invoices an increase in points liability of $1,983 related to the increase in the number of people using our App, an increase in other liabilities of $1,266 related to deferred rent, offset by an increase in accounts receivable of $(740) due to increased billings, an increase in other receivables of $(930) due amounts received from our landlord, an increase in prepaid expenses of $(967) related to an increase in the number of gift cards in our rewards catalog.

Investing Activities

Cash used in investing activities in the nine months ended March 31, 2013 was $(606) consisting of capital expenditures for computer related equipment and capitalized software costs.

Cash used in investing activities in the nine months ended March 31, 2012 was $(12,452) consisting of $(2,629) purchase of property and equipment primarily related to leasehold improvements, $(2,620) used for the WatchPoints acquisition, $(2,250) used for the TIPPT acquisition, $(3,094) used for the Loyalize acquisition and $(1,859) of capitalized software costs.

Financing Activities

Cash provided by financing activities in the nine months ended March 31, 2013 of $22,577 consisted primarily of $17,500 of cash proceeds from the $20,000 Line of Credit Note and $5,000 of proceeds from the DB Line.

Cash provided by financing activities in the nine months ended March 31, 2012 of $33,379 consisted primarily of $33,314 proceeds from the issuance of common stock and warrants.

Dividends

We have no intention of paying any cash dividends on our common stock for the foreseeable future. The terms of any future debt agreements we may enter into are likely to prohibit or restrict the payment of cash dividends on our common stock.

Off-Balance Sheet Arrangements

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

Commitments and Contingencies

On August 17, 2012, the Company was served with patent infringement lawsuit filed on August 13, 2012 by Blue Spike, LLC ("Blue Spike") in the United States District Court for the Eastern District of Texas, Tyler Division (Civil Action No. 6:12-CV-526). The lawsuit claims patent infringement under U.S. Patent numbers 7,346,472, 7,660,700, 7,949,494, and 8,214,715 in connection with the Company's audio recognition technology. Blue Spike has commenced suits against numerous companies involving the same patent family, including Peer Media Technologies, Inc., The Echo Nest Corporation, Free Stream Media Corp., iPharro Media GmbH, iPharro Media, Inc., Shazam Entertainment, Ltd., Texas Instruments Incorporated, BIO-Key International, Inc., TuneSat, LLC, Vercury Inc., and SoundHound. The Company denies that it is infringing any valid, enforceable claims of the asserted patents and intends to vigorously defend itself against the lawsuit. The Company filed its answer on October 3, 2012.

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

Application of Critical Accounting Policies

During the nine months ended March 31, 2013, there have been no significant changes related to the Company’s critical accounting policies and estimates as disclosed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk arising from changes in market rates and prices, interest rates and the market price of our common stock. To mitigate these risks, we may utilize derivative financial instruments, among other strategies. We do not use derivative financial instruments for speculative purposes.

We are exposed to market risk arising from changes in market rates and prices, interest rates and the market price of our common stock. To mitigate these risks, we may utilize derivative financial instruments, among other strategies. We do not use derivative financial instruments for speculative purposes. To the extent that our deposits are in excess of Federal deposit insurance program maximums, we bear that potential risk.

Foreign Exchange Risk

We presently have no operations outside the United States. As a result, we do not believe that our financial results have been or will be materially impacted by changes in foreign currency exchange rates.

Interest Rate Risk

Although certain subscription agreements were funded on the basis of promissory notes, the interest rate in those notes has been fixed and is not subject to variation. To the extent that we have or maintain deposits with financial institutions that pay interest on those deposits, we have market risk.

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities & Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive

Officer and Principal Accounting Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 31, 2013, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting Officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Principal Accounting Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the three months ended March 31, 2013 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

On August 17, 2012, the Company was served with patent infringement lawsuit filed on August 13, 2012 by Blue Spike, LLC ("Blue Spike") in the United States District Court for the Eastern District of Texas, Tyler Division (Civil Action No. 6:12-CV-526). The lawsuit claims patent infringement under U.S. Patent numbers 7,346,472, 7,660,700, 7,949,494, and 8,214,715 in connection with the Company's audio recognition technology.

Blue Spike has commenced suits against numerous companies involving the same patent family, including Peer Media Technologies, Inc., The Echo Nest Corporation, Free Stream Media Corp., iPharro Media GmbH, iPharro Media, Inc., Shazam Entertainment, Ltd., Texas Instruments Incorporated, BIO-Key International, Inc., TuneSat, LLC, Vercury Inc., and SoundHound.

The Company denies that it is infringing any valid, enforceable claims of the asserted patents and intends to vigorously defend itself against the lawsuit. The Company filed its answer on October 3, 2012.

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

ITEM 1A. RISK FACTORS

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

Since we have a limited operating history and minimal revenues to date, we may be unable to achieve or maintain profitability. The likelihood of our success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered by a small developing company.

We have limited financial resources and minimal revenues to date. The likelihood of our success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered by a small developing company starting a new business enterprise and the highly competitive environment in which we will operate. Since we have a limited operating history, we cannot assure you that our business will be profitable or that we will ever generate sufficient revenues to fully meet our expenses and totally support our anticipated activities.

Our ability to continue as a business and implement our business plan will depend on our ability to raise sufficient debt or equity if our revenue is not sufficient, as is now the case.   There is no assurance such debt and/or equity offerings will be successful or that we will remain in business or be able to implement our business plan if such offerings are not successful.

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

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

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

Since there is substantial doubt as to the Company's ability to continue as a going concern as noted in BDO's opinion for the fiscal year ended June 30, 2012, it may be difficult for the Company to effectuate its business plan.

The Company has incurred losses since its inception and has not yet been successful in establishing profitable operations. Our financial statements have been prepared on a going concern basis. Unanticipated costs and expenses, or the inability to generate revenues, could require additional financing; which would be sought through equity or debt financing, or asset sales. The fact that there are going concern considerations may make raising additional funds or obtaining loans more difficult. To the extent financing is not available, the Company may not be able to, or may be delayed in, implementing its business plan, developing its property and/or meeting its obligations. This could result in the entire loss of any investment in shares of the Company's common stock. The Company will continue to evaluate its projected expenditures relative to its available cash and to evaluate additional means of financing in order to satisfy its working capital and other cash requirements. Details regarding these concerns are included in the notes to the Financial Statements included in the Company's Form 10-Q for the fiscal quarter ended March 31, 2013.

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, acquisitions and 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 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 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 shares of common stock. The holders of any debt securities or instruments we may issue would have rights superior to the rights of our common stockholders.

Our common stock price may fluctuate significantly and you may lose all or part of your investment.

Because we are a newly operating company, there are few objective metrics by which our progress may be measured. Consequently, we expect that the market price of our common stock will likely fluctuate significantly. There can be no assurance whether or when we will generate revenue from the license, sale or delivery of our unique products and services. In the absence of product revenue as a measure of our operating performance, we anticipate that investors and market analysts will assess our performance by considering factors such as:

- announcements of developments related to our business;
- developments in our strategic relationships with companies;
- our ability to enter into or extend investigation phase, development phase, commercialization phase and other agreements with new and/or existing partners;
- announcements regarding the status of any or all of our collaborations or products;
- market perception and/or investor sentiment regarding our products and services;
- announcements regarding developments in the digital and mobile technology and the broadcast and entertainment industries in general;
- the issuance of competitive patents or disallowance or loss of our patent or trademark rights; and
- quarterly variations in our operating results.

We will not have control over many of these factors but expect that our stock price may be influenced by them. As a result, our stock price may be volatile and you may lose all or part of your investment.

The market for purchases and sales of our common stock may be very limited, and the sale of a limited number of shares could cause the price to fall sharply.

Our securities are very thinly traded. Accordingly, it may be difficult to sell shares of the common stock without significantly depressing the value of the stock. Unless we are successful in developing continued investor interest in our stock, sales of our stock could continue to result in major fluctuations in the price of the stock.

Since we do not intend to declare dividends for the foreseeable future, and we may never pay dividends, you may not realize a return on your investment unless the price of our common stock appreciates and you sell your common stock.

We will not distribute cash to our stockholders until and unless we can develop sufficient funds from operations to meet our ongoing needs and implement our business plan. The time frame for that is inherently unpredictable, and you should not plan on it occurring in the near future, if at all. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize a return on their investment. Investors seeking cash dividends should not purchase our common stock.

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

As of May15, 2013, approximately 68,010,154 shares of our common stock, not including warrants, options or rights to acquire common stock, are owned by Sillerman and current affiliates and insiders representing control of approximately 75% of the total voting power, with Sillerman, together with Robert F.X. Sillerman personally, directly or indirectly beneficially owning more than a majority of the outstanding shares of common stock. As a result, Sillerman essentially has the ability to elect all of our directors and to approve any action requiring stockholder action, without the vote of any other stockholders. It is possible that the interests of Sillerman could conflict in certain circumstances with those of other stockholders. Such concentrated ownership may also make it difficult for our shareholders to receive a premium for their shares of our common stock in the event we merge with a third party or enter into other transactions that require shareholder approval. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

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

Our success depends to a certain degree upon certain key members of the management. 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 Robert F.X. Sillerman, our Executive Chairman, Chief Executive Officer, and a Director. The loss 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 officers, directors and employees regardless of our profitability, which may limit our ability to finance our business plan and adversely affect our business.

Robert F.X. Sillerman, our Executive Chairman and Chief Executive Officer and a director and other officers are receiving compensation and any other current or 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 the board of directors or our Compensation Committee. Such obligations may negatively affect our cash flow and our ability to finance our business plan, which could cause our business to fail.

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

Robert F.X. Sillerman, our Executive Chairman and director, and Mitchell Nelson, our Executive Vice President and Secretary and director, are each engaged in other business endeavors. Additionally, Mr. Sillerman is also Chairman and Chief Executive Officer of SFX Entertainment Inc. ("SFX"), a new company in the live entertainment business, and Mr. Nelson is a Senior Legal Advisor to such company. Mr. Sillerman is a director of Circle Entertainment Inc. (“Circle”) and Mr. Nelson is Executive Vice President, General Counsel and Corporate Secretary of Circle. Under Mr. Sillerman's employment agreement with the Company, he is obligated to devote his working time to the Company's affairs, but may continue to devote time to other outside non-competitive businesses. Mr. Sillerman has agreed to present to the Company any business opportunities related to or appropriate for the Company's business plan. Pursuant to Mr. Nelson's employment agreement, he is obligated to devote such time and attention to the affairs of the Company as is necessary for him to perform his duties as Executive Vice President. He is also entitled to perform similar functions for Circle and/or SFX pursuant to the shared services agreements described in Note 11, Related Party Transactions to the Consolidated Financial Statements filed with this Quarterly Report on Form 10-Q. Certain other employees of the Company, including employees in Human Resources, IT management and office management, also perform services for SFX under the shared services agreement. Although Circle, SFX, and the 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 Company policy, except under guidelines approved by the board of directors, as set forth in the Company's Code of Business Conduct and Ethics. The Company's Code of Business Conduct and Ethics also sets forth the procedures to follow in the event that a potential conflict of interest arises. For a description of the Company's Code of Business Conduct and Ethics, please see the section entitled “Corporate Governance” in the Company's Annual Report on Form 10-K filed on October 15, 2012.

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

Our success depends on the expertise and continued service of our Executive Chairman and Chief Executive Officer, Robert F.X Sillerman, and certain other key executives and technical personnel. 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 implement our business plan and the Company having no operations or revenues.

Furthermore, our ability to expand operations to accommodate our anticipated growth will also 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. The Company believes that it will be able to attract competent employees, but no assurance can be given that the Company will be successful in this regard. If the Company is unable to engage and retain the necessary personnel, its business may be materially and adversely affected.

We are uncertain of our ability to manage our growth.

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

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

The digital and mobile technology business is highly fragmented and extremely competitive and subject to rapid change. The market for customers is intensely competitive and such competition is expected to continue to increase. We believe that our ability to compete depends upon many factors within and beyond our control, including the timing and market acceptance of new solutions and enhancements to existing businesses developed by us, our competitors, and their advisers. Viggle is an entertainment company that utilizes digital media and Smartphone technology. If we are successful, larger and more established entertainment companies with significantly greater resources may try to enter the market with similar technologies, and may be in better competitive positions than we are. Many consumers maintain simultaneous relationships with multiple digital brands and products and can easily shift consumption from one provider to another. Our principal competitors are in segments such as the following:

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

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

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

We face a large and growing number of competitors in the digital and mobile technology and entertainment industries. If we successfully marry digital and mobile technology and entertainment, we will have competitors from both the digital and mobile and the entertainment industries. Many of these competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition, and more established relationships in the industry than does the Company. 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 may develop or license technology that is similar to the Viggle app. We cannot be sure that we will be able to compete successfully with existing or new competitors.

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

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

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

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

We are exposed to the risk of fraudulent and other invalid clicks or conversions that advertisers may perceive as undesirable or that may cost us additional money for points given in connection with such activity. While our terms and conditions limit one account per person and we have specific controls in place to avoid fraud, such as limiting the number of accounts allowed per device and the number of points per day, there is no guarantee that our controls will be effective. As a result, estimates of our registered users, monthly active users or other statistical information may be inflated as there may be some instances of double-counting users. We are aware that some people will attempt to evade our rules in an effort to accumulate excess points through a multitude of methods including, but not limited to, establishing multiple accounts, mimicking app activity through “scripting,” and using multiple devices simultaneously. We monitor our users to determine if any are attempting to do so and consider this fraudulent activity a violation of our published terms and conditions. We invalidate users whom we believe to violate these terms and conditions and continually make efforts to improve our systems to detect fraud and improve our defenses. Through March 31, 2013, we have invalidated 170,765 accounts for suspicious activity of a total of 2,353,467 registered accounts. Invalid clicks could result from inadvertent clicks or click fraud, where a mobile device user intentionally clicks on ads for reasons other than to access the underlying content of the ads. If fraudulent or other malicious activity is perpetrated by others, and we are unable to detect and prevent it, the affected advertisers may experience or perceive a reduced return on their investment. High levels of invalid click activity could lead to dissatisfaction with our advertising services, refusals to pay, refund demands or withdrawal of future business. If fraudulent or other malicious activity occurs, and we are unable to detect and prevent it, we could also experience increased costs relating to awarding points as a result of these activities. Any of these occurrences could damage our brand and lead to a loss of advertisers and revenue and increased costs.

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

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

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

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

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

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

Our Common Stock is subject to risks arising from restrictions on reliance on Rule 144 by shell companies or former shell companies.

Under a regulation of the SEC known as “Rule 144,” a person who has beneficially owned restricted securities of an issuer and who is not an affiliate of that issuer may sell them without registration under the Securities Act provided that certain conditions have been met. One of these conditions is that such person has held the restricted securities for a prescribed period, which will be 6 months or 1 year, depending on various factors. The holding period for our common stock would be 1 year if our common stock could be sold under Rule 144. However, Rule 144 is unavailable for the resale of securities issued by an issuer that is a shell company (other than a business combination related shell company) or that has been at any time previously a shell company. The SEC defines a shell company as a company that has (a) no or nominal operations and (b) either (i) no or nominal assets, (ii) assets consisting solely of cash and cash equivalents; or (iii) assets consisting of any amount of cash and cash equivalents and nominal other assets. Until the Recapitalization, we were a shell company.

The SEC has provided an exception to this unavailability if and for as long as the following conditions are met:

- The issuer of the securities that was formerly a shell company has ceased to be a shell company,
- The issuer of the securities is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act,
- The issuer of the securities has filed all Exchange Act reports and material required to be filed, as applicable, during the preceding 12 months (or such shorter period that the issuer was required to file such reports and materials), other than Current Reports on Form 8-K; and
- At least one year has elapsed from the time that the issuer filed current comprehensive disclosure with the SEC reflecting its status as an entity that is not a shell company known as “Form 10 Information.”

As a result, although we have filed “Form 10 Information” as of July 24, 2012, stockholders who receive our restricted securities will be able to sell them pursuant to Rule 144 without registration only as long as we continue to meet those requirements and are not a shell company. No assurance can be given that we will continue to meet these requirements or that we will not again be a shell company. Furthermore, any non-registered securities we sell in the future or issue for acquisitions or to consultants or employees in consideration for services rendered, or for any other purpose will have limited or no liquidity until and unless such securities are registered with the Commission and/or until a year after we have complied with the requirements of Rule 144. As a result, it may be harder for us to fund our operations, to acquire assets and to pay our consultants with our securities instead of cash. Furthermore, it will be harder for us to raise funding through the sale of debt or equity securities unless we agree to register such securities with the Commission, which could cause us to expend additional resources in the future. In addition, if we are unable to attract additional capital, it could have an adverse impact on our ability to implement our business plan and sustain our operations. Our status as a former "shell company" could prevent us from raising additional funds, engaging consultants, and using our securities to pay for any acquisitions, which could cause the value of our securities, if any, to decline in value or become worthless.

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

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

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

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

Many of our potential partners are subject to industry specific laws and 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.

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

$25,000 Line of Credit

In consideration of Sillerman Investment Company II, LLC's ("SIC II's") agreement to provide the $25,000 Line of Credit, on February 11, 2013, the Company issued to SIC II, an affiliate of Mr. Sillerman, 5,000,000 shares of the Company's common stock. Such 5,000,000 shares of the Company's common stock were issued in a transaction exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(2) thereunder and Rule 506 of Regulation D promulgated thereunder.

Exchange

The Company and Sillerman Investment Company LLC ("SIC") entered into a Line of Credit Grid Promissory Note on June 29, 2012, which was subsequently amended (as amended, the "$20,000 Line of Credit Note"). The $20,000 Line of Credit Note was fully drawn, so that as of March 11, 2013 Company owed SIC $20,782 including outstanding principal and accrued interest. On March 11, 2013 SIC exchanged the $20,000 Line of Credit Note for an 8% Convertible Secured Note (the "8% Note"), in the principal amount of $20,782. The exchange was made pursuant to an exchange agreement (the "Exchange Agreement"), which provided for the issuance of 40,000 shares of the common stock of the Company for each $100 in principal amount so exchanged, so that the Company issued to SIC 8,312,699 shares of Common Stock in connection with such exchange. Such 8,312,699 shares of the Company's common stock were issued in a transaction exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(2) thereunder and Rule 506 of Regulation D promulgated thereunder.

Issuance of Shares in Connection with Loyalize Acquisition

In connection with the purchase from Trusted Opinion Inc. of the Loyalize assets, the Company was also obligated to fund as a purchase price adjustment the difference, if any, by which $1,839 exceeds the calculated value (computed based on the average closing price of its common shares during the 20 days prior to December 31, 2012) of the 137,519 shares on December 31, 2012, either in cash or in common shares of the Company, at Buyer's election. The Company elected to pay this obligation in shares of its common stock and on February 11, 2013, issued 1,171,712 shares of its common stock in satisfaction of this obligation. Such shares were issued in a transaction exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(2) thereunder and Rule 506 of Regulation D promulgated thereunder.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information (in thousands except for share information)

Resignation of Director

On May 6, 2013, Benjamin Chen resigned from the Board of Directors of the Company.

Issuance of Additional Options to Directors

On May 6, 2013, the Board of Directors approved the issuance of 186,000 additional stock options. The company expects to record a stock-based compensation charge of approximately $89 in the fourth quarter related to these options.

Term Loan Agreement

On March 11, 2013, Viggle Inc. (the "Company") entered into a Term Loan Agreement (the "DB Line") with Deutsche Bank Trust Company Americas ("Deutsche Bank"), under which Deutsche Bank agreed to loan the Company up to $10,000. The Company may, from time to time, request advances (the "Advances") from the DB Line in amounts of no less than $1,000.

Interest on the outstanding balance may, at the Company's election, be charged at a rate per annum equal to the LIBOR Rate plus 4% or (ii) the Prime Rate plus 1.75%. Interest is payable monthly in arrears. The Company paid a

$150,000 facility fee from the initial draw of $5,000 made at closing.

The DB Line matures on September 11, 2013, unless sooner due as a result of the receipt of net proceeds by the Company or any of its wholly-owned subsidiaries from one or more debt or equity offerings by the Company or any of its wholly-owned subsidiaries in an amount equal to at least the amount of principal and accrued and unpaid interest outstanding on the DB Line.

The Company may make prepayments, in whole or in part, under the DB Line at any time, as long as all accrued and unpaid interest thereon is paid through the prepayment date.

Repayment of the loan was guaranteed by Robert F.X. Sillerman. In consideration for the guarantee Mr. Sillerman's designee, Sillerman Investment Company II LLC ("SIC II"), which is the lender under the New $25,000 Line of Credit described below, received a warrant for 10,000,000 shares of common stock of Viggle, which may be exercised at any time within 60 months of the issuance date at $1.00 a share, (subject to adjustment in the event of stock splits and combination, reclassification, merger or consolidation)(the “Guarantee Warrant”). The Guarantee Warrant contains a piggyback registration right with respect to the underlying common shares which may be issued if it is exercised. The Guarantee Warrant was issued in a transaction exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(2) thereunder and Rule 506 of Regulation D promulgated thereunder. The Company recorded compensation expense in the third fiscal quarter of $5,559 related to the Guarantee Warrant issued to SIC II, as Mr. Sillerman's designee.

Amended and Restated $25,000 Line of Credit

On February 11, 2013, SIC II, an affiliate of Robert F.X. Sillerman, the Executive Chairman and Chief Executive Officer of the Company, provided a line of credit (the “Original $25,000 Line of Credit”) to the Company in the amount of up to $25,000. In consideration of the Lender's agreement to provide the Second Line of Credit, the Company issued to SIC II 5,000,000 shares of the Company's common stock. Such 5,000,000 shares of the Company's common stock were issued in a transaction exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(2) thereunder and Rule 506 of Regulation D promulgated thereunder. The Company booked stock based compensation expense in the third fiscal quarter of approximately $5,000 related to the shares issued to SIC II.

Because the transactions involving the Second Line of Credit and the Second Line of Credit Note were between the Company and an affiliate of Mr. Sillerman, who is the Executive Chairman and Chief Executive Officer of the Company, the Company formed a special committee of independent directors to review the proposed transactions. Such special committee reviewed and unanimously approved such transactions.

On March 11, 2013, Viggle and SIC II entered into an amended and restated line of credit (the “New $25,000 Line of Credit”)which modified the Original $25,000 Line of Credit to reduce the interest rate from 14% per annum to 9% per annum and provide, as security for the Company's obligations, a pledge of the Company's assets pursuant to a security agreement (the “Security Agreement”, more particularly described below). In addition the Company entered into a subordination agreement (the “Subordination Agreement”, as more particularly described below) by which the repayment and the security for the New $25,000 Line of Credit was subordinated to the repayment of the DB Line.

The Company may, from time to time, draw on the New $25,000 Line of Credit in amounts of no less than $1,000, provided that the outstanding principal balance under the DB Line and the New $25,000 Line of Credit may not exceed $25,000. The Company is not permitted to draw on the New $25,000 Line of Credit more than once per month. Interest will accrue on all unpaid principal amounts drawn under the New $25,000 Line of Credit Note at a simple interest rate equal to 9% per annum, with interest being compounded semi-annually and paid at maturity. The Company intends to first draw under the DB Line until fully drawn.

The New $25,000 Line of Credit matures on the earlier to occur of (i) February 11, 2015 or (ii) a change of control transaction. At maturity, the Company must pay all principal amounts then outstanding, plus all accrued and unpaid interest thereon. The Company may prepay at any time, without penalty.

If an event of default occurs, all amounts due under the New $25,000 Line of Credit are due and payable immediately. Events of default include the non-payment of amounts due, certain bankruptcy-type events, incorrect material statements made by the Company, the Company's contest or dispute of any provisions of the New $25,000 Line of Credit, or a material adverse change in the business plan or prospects of the Company in the reasonable opinion of SIC II.

Additionally, in the event of draws which exceed the DB Line maximum of $10,000, the lender (including Robert F.X. Sillerman and his affiliates) under the New $25,000 Line of Credit will receive 100,000 warrants (which will be in the same form as the Guarantee Warrants) to purchase the Company's common stock for every $100 drawn down and funded to the Company. These warrants shall be exercisable at a price of $1.00 per share and shall expire five (5) years after issuance. To the extent there are participants other than SIC II who agree to fund a portion of the New $25,000 Line of Credit, such participants will be responsible for a pro rata share of each draw and receive the same number of warrants for each $100 drawn from them.

$20,000 Line of Credit Exchange

The Company and Sillerman Investment Company LLC (“SIC”) entered into a Line of Credit Grid Promissory Note on June 29, 2012, which was subsequently amended (as amended, the “$20,000 Line of Credit Note”). The $20,000 Line of Credit Note was fully drawn, so that as of March 11, 2013 Company owed SIC $20,782 including outstanding principal and accrued interest. On March 11, 2013 SIC exchanged the $20,000 Line of Credit Note for an 8% Convertible Secured Note (the “8% Note”), in the principal amount of $20,782, on the terms described below. The 8% Note is subordinated in repayment and security to the DB Line and the New $25,000 Line of Credit, provides for an interest rate of 8% (as opposed to the 9% interest rate in the $20,000 Line of Credit Note), and matures on March 11, 2016 (as opposed to the June 29, 2013 maturity date for the $20,000 Line of Credit Note). The exchange was made pursuant to an exchange agreement (the "Exchange Agreement"), which provided for the issuance of 40,000 shares of the common stock of the Company, par value $0.001 per share ("Common Stock") for each $100,000 in principal amount of the Original Note so exchanged, so that the Company issued to SIC 8,312,699 shares of Common Stock in connection with such exchange (the "Common Shares"). The Company recorded compensation expense in the third fiscal quarter of $7,481 related to the shares issued to SIC. In addition, the Exchange Agreement permits the Company to issue up to an additional $29,300 of additional 8% Convertible Secured Notes on the same terms.

The 8% Note is convertible into shares of Common Stock in accordance with the terms of an Exchange Agreement, by and between the Company and SIC, the terms of which are more particularly described in the Section below.

The Exchange Agreement provides for holders of the 8% Notes to have piggyback registration rights for the shares of Common Stock into which the 8% Notes may be converted.

Secured Convertible 8% Notes

Pursuant to the Exchange Agreement, the Company issued $20,782 of 8% secured convertible notes ("8% Notes"), which will mature on March 11, 2016.

The 8% Notes provide for 8% simple interest per annum, payable on each anniversary of the issuance date thereof in cash or common stock of the Company or any combination thereof, at the Company's discretion. If the Company elects to pay such interest in shares of its common stock, then the value of the shares to be delivered will be based on the average of the closing sale prices of the Common Stock for the fifteen (15) Trading Days immediately preceding such Interest Date. From and after the occurrence and during the continuance of any event of default under the 8% Notes, the interest rate is automatically increased to twelve percent (0.12%).

The 8% Note may, at any time at the option of the holder thereof, be converted into shares of the Company's common stock at a conversion price equal to $1.25 per share, subject to customary adjustments for stock splits, combinations, dividends, or recapitalization.

The 8% Notes provide for the Company to be able to issue up to an additional $29,300 of 8% Notes on the same terms and maturing on the same date.

If an event of default occurs under the 8% Note, each holder has the right to require the Company to repay all or any portion of its note. Events of default under the 8% Notes include payment defaults, and certain bankruptcy-type events involving the Company.

The Company may, at its option, prepay the 8% Note. If the Company chooses to prepay the 8% Note, it shall prepay a fixed lump sum in the amount of 108% in the first 12 months, 106% in months 13-24, 104% in months 25-30, and at par thereafter of the Principal Amount plus interest accrued thereon. Such payments shall be pro-rata unless otherwise determined by the Note holders. In the event that the Company issues primary shares in a public offering at an offering price above $1.25 per share, the Company may use up to 33% of the proceeds to prepay the Notes at par plus accrued and unpaid interest. If a change of control is consummated, each holder has the right to require the Company to repay all or any portion of its 8% Note on the prepayment terms set forth above, or may convert its Note into common shares immediately prior to the transaction.

The 8% Notes contain customary anti-dilution provisions for stock splits, combinations and dividends only as long as dilution is less than 33%. Dilution above 33% requires the consent of a majority of holders of the 8% Notes, after which the 8% Notes will receive weighted-average share dilution protection.

The 8% Notes also contain certain covenants and restrictions, including, among others, that, for so long as the 8% Notes are outstanding, the Company will not, without the consent of the holders of a majority of the then-outstanding principal amount of the 8% Notes, (i) make any loan or advance in excess of $500 to any officer, director, employee of affiliate of the Company (except advances and similar expenditures: (a) under the terms of employee stock or option plans approved by the Board of Directors, (b) in the ordinary course of business, consistent with past practice and (c) to its subsidiaries), (ii) incur any indebtedness that exceeds $5,000 in the aggregate other than indebtedness already included in a Board-approved budget and subordinated indebtedness, (iii) guaranty any indebtedness of any unaffiliated third party, (iv) change the principal business of the Company or exit the Company's current business, provided that the foregoing is subject to the Board's compliance with its fiduciary duties, (v) sell, assign, or license material technology or intellectual property of the Company except (i) in the ordinary course of business, consistent with past practice, (ii) sales and assignments thereof in any 12 month period that do not have a fair market value in excess of $1,000 or (iii) in connection with a change of control transaction, (vi) enter into any corporate strategic relationship involving the payment, contribution or assignment by the Company of its assets that have a fair market value in excess of $10,000 or (vii) liquidate or dissolve the Company or wind up the business of the Company, subject to certain exceptions set forth in Section 8 of the 8% Notes. The protective covenants set forth above (except for (iii) and (vii), which will remain) disappear after 75% of the principal balance of the Notes has been repaid.

Security Agreement and Subordination Agreements

Each of the New $25,000 Line of Credit and the 8% Notes were secured by all assets of the Company, pursuant to respective security agreements (each, a “Security Agreement”) in favor of Robert F.X. Sillerman, as Collateral Agent for each lender, with the 8% Note being subordinated in repayment and security to the New $25,000 Line of Credit. SIC II and SIC, each as lender, delivered a subordination agreement to the DB Line holder (each, a “Subordination Agreement”) by which the repayment and security therefor was subordinated to repayment of the DB Line. Each Subordination Agreement provides that the Company's notes or Security Agreements may not be modified or amended in any manner which would affect the subordination to the DB Line and that the issuance of new or replacement notes may only be done upon the execution in a form similar to that previously issued and upon specific execution of a new Subordination Agreement by the new or replacement lender.

Approvals

Because each of the transactions (other than the DB Line) referred to in the foregoing sections entitled "Amended and Restated $25,000 Line of Credit", "$20,000 Line of Credit Exchange", "Secured Convertible 8% Notes", and "Security Agreement and Subordination Agreement" involved Robert F.X. Sillerman, our Executive Chairman and Chief Executive Officer, or an affiliate of his, the transactions were subject to certain rules regarding "affiliate" transactions, each was approved by a Special Committee of the Board of Directors and a majority of the independent members of the Board of Directors of the Company.

The Company also intends to engage in negotiations with Mr. Sillerman and his affiliated entities relating to the 8% Note and other equity investments held by Mr. Sillerman and his affiliated entities as soon as practicable in an attempt to restructure such indebtedness on a long term basis. to optimize the capital structure of the Company.

ITEM 6. EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES

Exhibits

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

Exhibit Number	Description
10.34	Amended and Restated Line of Credit Grid Promissory Note, dated as of January 4, 2013, between Viggle Inc. and Sillerman Investment Company, LLC (1)
10.35	Line of Credit Grid Promissory Note, dated as of February 11, 2013, between Viggle Inc. and Sillerman Investment Company II, LLC (2)
10.36	Form of Term Loan Agreement, dated as of March 11, 2013, between Viggle Inc. and Deutsche Bank Trust Company Americas (3)
10.37	Form of Guarantee Warrant (4)
10.38	Form of New $25,000,000 Line of Credit Note, dated as of March 11, 2013, between Viggle Inc. and Sillerman Investment Company II LLC (5)
10.39	Form of Exchange Agreement, dated as of March 11, 2013, between Viggle Inc. and Sillerman Investment Company LLC (6)
10.4	Form of 8% Note, dated as of March 11, 2013, between Viggle Inc. and Sillerman Investment Company LLC (7)
10.41	Form of Security Agreement for the New $25,000,000 Line of Credit Note (8)
10.42	Form of Security Agreement for the 8% Note (9)
10.43	Form of Subordination Agreement (10)
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Accounting Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Accounting Officer
101	[XBRL Exhibits to be added]
(1)	Incorporated by reference to the registrant's Current Report on Form 8-K filed on January 11, 2013
(2)	Incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed on February 14, 2013
(3)	Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on March 15, 2013
(4)	Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on March 15, 2013
(5)	Incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on March 15, 2013
(6)	Incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K/A filed on March 19, 2013
(7)	Incorporated by reference to Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on March 15, 2013
(8)	Incorporated by reference to Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on March 15, 2013
(9)	Incorporated by reference to Exhibit 10.7 to the registrant's Current Report on Form 8-K filed on March 15, 2013
(10)	Incorporated by reference to Exhibit 10.8 to the registrant's Current Report on Form 8-K filed on March 15, 2013

46

SIGNATURES

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

	VIGGLE INC.
May 15, 2013	By: /s/ ROBERT F.X. SILLERMAN Robert F.X. Sillerman Chief Executive Officer (Principal Executive Officer)
May 15, 2013	By: /s/ JOHN C. SMALL John C. Small Chief Financial Officer (Principal Accounting Officer)