

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 001-33720

REMARK MEDIA, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or
Organization)

33-1135689

(I.R.S. Employer Identification No.)

**3930 Howard Hughes Parkway, Suite 400
Las Vegas, Nevada 89169**

(Address of Principal Executive Offices) (Zip Code)

(702) 701-9514

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 13, 2014, the registrant had 12,539,755 shares of common stock outstanding.

REMARK MEDIA, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

REMARK MEDIA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014	December 31, 2013
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 218,980	\$ 1,260,723
Trade accounts receivable, net	30,417	100,583
Notes receivable	1,350,000	—
Prepaid expenses and other current assets	175,075	358,264
Total current assets	1,774,472	1,719,570
Property and equipment, net	723,186	213,192
Investment in unconsolidated affiliate	1,029,763	229,929
Licenses to operate in China	100,000	100,000
Intangibles assets, net	6,618,078	3,502,411
Goodwill	5,293,387	1,823,048
Other long-term assets	93,605	133,605
Total assets	\$ 15,632,491	\$ 7,721,755
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 774,883	\$ 1,025,738
Advances from shareholder	85,745	85,745
Accrued expenses and other current liabilities	912,243	731,578
Derivative liability	828,820	769,284
Current portion of capital lease obligations	152,360	177,452
Loan payable to related party	350,000	—
Total current liabilities	3,104,051	2,789,797
Long-term liabilities		
Deferred tax liabilities	25,000	25,000
Capital lease obligations, less current portion	41,773	151,029
Long-term debt with related party	5,976,806	2,500,000
Total liabilities	9,147,630	5,465,826
Commitments and contingencies (Note 7)		
Stockholders' Equity		
Preferred stock, \$0.001 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.001 par value; 20,000,000 shares authorized, 12,299,968 and 10,979,372 issued and outstanding at September 30, 2014 and December 31, 2013, respectively	12,300	10,979
Additional paid-in-capital	131,020,286	114,025,752
Accumulated other comprehensive income (loss)	27,751	(3,343)
Accumulated deficit	(124,575,476)	(111,777,459)
Total stockholders' equity	6,484,861	2,255,929
Total liabilities and stockholders' equity	\$ 15,632,491	\$ 7,721,755

The accompanying notes are an integral part of these condensed consolidated financial statements.

REMARK MEDIA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating revenue				
Brands	\$ 229,719	\$ 133,703	\$ 1,655,784	\$ 1,066,312
Operating expenses				
Sales and marketing	142,048	38,281	250,494	225,700
Content, technology and development	105,921	92,065	414,430	437,715
Stock-based compensation	1,586,589	37,195	6,607,985	405,643
General and administrative	2,299,210	866,433	5,816,201	3,257,943
Impairment of assets	—	—	268,215	—
Depreciation and amortization expense	229,899	121,282	528,524	350,531
Total operating expenses	<u>4,363,667</u>	<u>1,155,256</u>	<u>13,885,849</u>	<u>4,677,532</u>
Operating loss	(4,133,948)	(1,021,553)	(12,230,065)	(3,611,220)
Other income (expense)				
Interest expense	(113,945)	(110,363)	(320,340)	(267,908)
Gain (loss) on change in fair value of derivative liability	490,826	(161,911)	(288,577)	(363,030)
Other income (expense)	19,427	(141)	40,965	(146)
Total other income (expense)	<u>396,308</u>	<u>(272,415)</u>	<u>(567,952)</u>	<u>(631,084)</u>
Loss before loss from equity-method investments	(3,737,640)	(1,293,968)	(12,798,017)	(4,242,304)
Proportional share in loss of equity-method investment	—	—	—	(222,707)
Loss before income taxes	(3,737,640)	(1,293,968)	(12,798,017)	(4,465,011)
Income tax expense	—	—	—	—
Net loss	<u>\$ (3,737,640)</u>	<u>\$ (1,293,968)</u>	<u>\$ (12,798,017)</u>	<u>\$ (4,465,011)</u>
Net loss per share				
Net loss per share, basic and diluted	\$ (0.42)	\$ (0.18)	\$ (1.52)	\$ (0.62)
Basic and diluted weighted average shares outstanding	<u>8,980,759</u>	<u>7,224,810</u>	<u>8,415,864</u>	<u>7,224,810</u>
Comprehensive loss				
Net loss	\$ (3,737,640)	\$ (1,293,968)	\$ (12,798,017)	\$ (4,465,011)
Foreign currency translation adjustments	(19,511)	(1,891)	31,093	(8,286)
Total comprehensive loss	<u>\$ (3,757,151)</u>	<u>\$ (1,295,859)</u>	<u>\$ (12,766,924)</u>	<u>\$ (4,473,297)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements

REMARK MEDIA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net cash used in operating activities	\$ (4,857,922)	\$ (2,649,463)
Cash used in operating activities	(4,857,922)	(2,649,463)
Cash flows from investing activities:		
Purchases of property, equipment and software	(611,237)	(120,135)
Cash paid for acquisition, net of cash acquired	(178,511)	(2,375,000)
Cash paid for asset acquisition	(450,000)	—
Cash paid for investment in unconsolidated affiliate	(799,834)	—
Loan issued to Bombo	(1,350,000)	—
Cash paid for distribution license	(68,043)	—
Other long-term, net	—	295,267
Cash used in investing activities	(3,457,625)	(2,199,868)
Cash flows from financing activities:		
Proceeds from issuance of debt	3,850,000	4,000,000
Proceeds from issuance of common stock	3,492,967	—
Payment of capital leases	(100,256)	(89,930)
Cash provided by financing activities	7,242,711	3,910,070
Net change in cash and cash equivalents	(1,072,836)	(939,260)
Impact of foreign currency translation on cash	31,093	(783)
Cash and cash equivalents at beginning of period	1,260,723	1,355,332
Cash and cash equivalents at end of period	\$ 218,980	\$ 415,289
Supplemental disclosure of cash flow information:		
Other non-cash financing and investing activities:		
Equity consideration for Hotelmobi, Inc. acquisition	\$ 6,638,023	\$ —
Exercise of warrants	\$ 229,041	\$ —

The accompanying notes are an integral part of these condensed consolidated financial statements

REMARK MEDIA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Remark Media, Inc., a Delaware corporation (“Remark Media” or the “Company”), is a global digital media company focusing on the 18-to-34 year old demographic in primarily the United States and Asia. The Company is headquartered in Las Vegas, Nevada, with additional operations in Beijing, China and Sao Paulo, Brazil. Remark Media owns and operates digital media properties in a number of different content verticals. The Company's content verticals presently include: (i) its education vertical, encompassing the translated and localized additions of HowStuffWorks.com in China and Brazil; (ii) its personal finance vertical, encompassing Banks.com, US Tax Center at www.irs.com, FileLater.com, TaxExtension.com and TaxExtension.org; (iii) its young adult lifestyle vertical, including Bikini.com; (iv) its sports vertical, providing original sports and entertainment content; and (v) its travel vertical, including Roomlia, a mobile hotel booking application. Additionally, we aim to acquire, develop and launch other content, social and ecommerce websites focused on the 18-to-34 year old demographic, primarily in the United States and Asia.

Funding and Liquidity Considerations

As of September 30, 2014, the Company's total cash and cash equivalents balance was approximately \$219 thousand.

The Company has incurred net losses and generated negative cash flow from operations in the nine months ended September 30, 2014 and in each fiscal year since its inception, and has an accumulated deficit of \$124.6 million as of September 30, 2014. The Company's revenues were \$1.7 million for the nine months ended September 30, 2014, generated principally from owning and operating its digital media properties. The Company's primary focus has been on organically building and strategically acquiring digital media properties.

On January 29, 2014 (the “January 2014 Note”), November 14, 2013 (the “November 2013 Note”), April 2, 2013 (the “April 2013 Note”), and November 23, 2012 (the “November 2012 Note”), the Company issued Senior Secured Convertible Promissory Notes to Digipac, LLC (“Digipac”), of which Kai-Shing Tao, the Company's Chairman of the Board and Chief Executive Officer, is the manager and a member, and Douglas Osrow, the Company's Chief Financial Officer, is a member, in the original principal amounts of \$3.5 million, \$2.5 million, \$4.0 million and \$1.8 million, respectively, in exchange for cash equal to the respective original principal amounts. The January 2014 Note, November 2013 Note, April 2013 Note and November 2012 Note are collectively referred to herein as the “Digipac Convertible Notes”.

The January 2014 Note and November 2013 Note bear interest at a rate of 6.67% per annum for the first year and 8.67% per annum thereafter, with interest payable quarterly and all unpaid principal and any accrued but unpaid interest due and payable on the second anniversary of issuance. At any time, Digipac may elect to convert all or any portion of the outstanding principal amount and accrued but unpaid interest under such notes into shares of common stock at a conversion price of \$5.03 per share for the January 2014 Note and \$3.75 per share for the November 2013 Note. The Company also may elect to convert all or any portion of the outstanding principal amount and accrued but unpaid interest under such notes into common stock at the applicable conversion price if the volume weighted average price of the common stock is equal to at least 150% of the applicable conversion price for at least 30 of the 40 trading days immediately prior to the date of the Company's election. Such notes also provide that the Company and Digipac will negotiate and enter into a registration rights agreement providing Digipac with demand and piggyback registration rights with respect to the shares of common stock underlying such notes. The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission (“SEC”), registering the resale of 1,420,497 shares of the Company's common stock issuable upon conversion of the January 2014 Note and the November 2013 Note, which was declared effective on August 26, 2014. The Company may prepay all or a portion of such notes at any time upon at least 15 days' prior written notice to Digipac.

The April 2013 Note bore interest at a rate of 6.67% per annum for the first year and 8.67% per annum thereafter, and the November 2012 Note bore interest at a rate of 6.67% per annum. The outstanding principal amount and accrued but unpaid interest under the April 2013 Note and the November 2012 Note were convertible into common stock at a conversion price of \$2.00 per share for the April 2013 Note and \$1.30 per share for the November 2012 Note. On November 12, 2013, Digipac converted the \$4.0 million principal amount and approximately \$164 thousand accrued but unpaid interest outstanding under the April 2013 Note into 2,082,233 shares of common stock, and converted the \$1.8 million principal amount and approximately \$117 thousand accrued but unpaid interest outstanding under the November 2012 Note into 1,474,439 shares of common stock.

In connection with the issuance of the November 2012 Note, the Company and Digipac entered into a Security Agreement dated as of November 23, 2012 (the “Security Agreement”) to secure the Company's obligations under such note. The Security Agreement provides that the Company's obligations are secured by all assets of the Company other than the shares of common

REMARK MEDIA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

stock of Sharecare, Inc. owned by the Company. The Company and Digipac subsequently entered into amendments to the Security Agreement in connection with the issuances of the April 2013 Note, the November 2013 Note and the January 2014 Note to include the Company's obligations under such notes as obligations secured by the Security Agreement.

On September 11, 2014, Digipac loaned the Company \$350 thousand, which loan is evidenced by a Demand Note dated as of the same date (the "Demand Note"). The Demand Note bears interest at a rate of 5.25% per annum, with all principal and interest due and payable within 10 days after the Company's receipt of a written demand from Digipac. If the Demand Note is not paid in full at the end of the 10 day period, the outstanding principal will bear interest at a rate of 8.25% per annum until paid in full. The Company may prepay all or any portion of the Demand Note at any time without premium or penalty.

On January 15, 2014, the Company's wholly owned subsidiary, Banks.com, completed an asset acquisition of the following domain names, which provide web-based tax extension services: www.taxextension.com, www.taxextensions.com, and www.onlinetaxextension.com, for an aggregate purchase price of \$450 thousand.

On February 11, 2014, the Company and Bombo Sports & Entertainment, LLC ("BSE") entered into a Loan Agreement pursuant to which the Company loaned BSE \$1 million (the "BSE Loan Agreement"). On April 16, 2014, the Company and BSE entered into an amendment to the BSE Loan Agreement, pursuant to which the Company increased the amount of the loan to up to \$1.35 million. On April 16, 2014, April 21, 2014 and June 12, 2014, the Company loaned BSE an additional \$50 thousand, \$150 thousand and \$150 thousand, respectively, bringing the outstanding principal balance to \$1.35 million. The outstanding principal balance of the loan bears interest at a rate of 5% per annum, with principal and interest due and payable within 10 days after the delivery of a written demand to BSE. If the loan is not paid in full at the end of the 10 day period, the outstanding principal will bear interest at a rate of 12% per annum until paid in full. BSE may prepay all or any portion of the loan at any time without premium or penalty. On September 12, 2014, the Company delivered a written demand for payment to BSE. As of the date of this report payment has not been received and the Company has commenced legal proceedings against BSE and its controlling owner to recover the amount owed. See Notes 3 and 10 for additional information regarding the loan and related legal proceedings.

On May 2, 2014, the Company entered into an Agreement and Plan of Merger, dated as of May 2, 2014 (the "Merger Agreement"), between Roomlia, Inc., a wholly-owned subsidiary of the Company ("Merger Sub" or "Roomlia"), and Hotelmobi Inc. ("Hotelmobi"), a company engaged in the business of developing, owning and operating mobile hotel booking applications. Pursuant to the Merger Agreement, Hotelmobi merged with and into Merger Sub, with Merger Sub surviving as a wholly-owned subsidiary of the Company, referred to herein as the Merger. As consideration for the Merger, the outstanding shares of Hotelmobi's common stock were converted into the right to receive an aggregate of (i) 400,000 shares of the Company's common stock, (ii) 100,000 shares of the Company's common stock to be issued on the one year anniversary of the closing of the Merger, provided that the recipient is employed by the Company on such date or was terminated by the Company for any reason, (iii) warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$8.00 per share and (iv) warrants to purchase 500,000 shares of the Company's common stock at an exercise price of \$12.00 per share. The warrants to purchase shares of the Company's common stock issued to former Hotelmobi stockholders in the Merger (the "Roomlia Warrants") vest 12.5% on the last day of each fiscal quarter beginning June 30, 2014, provided the recipient is employed by the Company on such date or has been terminated other than for Cause (as defined in the Merger Agreement). The Roomlia Warrants expire on the fifth anniversary of their issuance. Additionally, pursuant to the terms of the Merger Agreement, concurrently with the closing of the Merger, the Company paid Hotelmobi's principal stockholders a total of approximately \$172 thousand in cash in repayment of funds they loaned to Hotelmobi.

On June 16, 2014, the Company sold an aggregate of 470,000 shares of common stock to six accredited investors in a private placement in exchange for \$2.8 million in cash. On September 15, 2014 the Company sold 83,333 shares of common stock to an accredited investor in a private placement in exchange for \$0.5 million in cash.

The Company intends to fund its future operations, particularly its young adult lifestyle and personal finance properties, through dynamic growth. Additionally, the Company is actively engaged in evaluating future acquisitions to provide revenue growth and assessing the sale of certain non-core assets to provide capital. Alternatively, the Company may consider selling minority interests in certain of its operating businesses. The Company has implemented measures to reduce operating costs and will continue to evaluate other opportunities to streamline costs.

Absent any acquisitions of new businesses or material increases in revenues from its existing customers, current revenue growth will not be sufficient to sustain the Company's operations in the long term. As such, the Company will, in all likelihood,

REMARK MEDIA INC. AND SUBSIDIARIES
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need to obtain additional equity or debt financing and/or divest of certain assets or businesses, none of which can be assured on commercially reasonable terms, if at all. In addition, any equity financing that might be obtained may dilute existing stockholders. There is no certainty that the Company will be successful at raising capital, nor is there certainty around the amount of funds that may be raised. In addition, the success of the Company will be subject to the performance of the markets and the volatility of investor sentiment regarding macro and micro economic conditions. Any failure by the Company to successfully implement these plans would have a material adverse effect on the Company's business, including the possible inability to continue operations.

Based on the Company's most recent cash flow projections, the Company believes it has sufficient existing cash and cash equivalents and cash resources as of the date of this report to meet its ongoing requirements through December 31, 2014. Projecting operating results, however, is inherently uncertain as anticipated expenses may exceed current forecasts.

Basis of Preparation

The accompanying interim condensed consolidated financial statements for the three and nine months ended September 30, 2014 and 2013 are unaudited. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for financial information have been omitted pursuant to the rules and regulations of Article 10 of SEC Regulation S-X. In the opinion of management, these condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to state fairly the financial position, results of operations and cash flows for the periods indicated. The December 31, 2013 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Remark Media and its subsidiaries. Operating results for the three and nine months ended September 30, 2014 and 2013 are not necessarily indicative of results that may be expected for any other future interim period or for the year ending December 31, 2014.

All intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect amounts reported and disclosed in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates its estimates, including those related to accounts receivable, intangible assets, useful lives of property and equipment, stock-based compensation, equity-method investments, and income taxes, among other things.

Revenue Recognition

The Company generally recognizes revenue when persuasive evidence of an arrangement exists, services have been provided, fees are fixed or determinable and collectability is reasonably assured.

The Company generally recognizes revenue from its network of domestic and international websites. Revenue is recognized as visitors are exposed to or react to advertisements on its websites, or purchase goods or services. Revenue from advertising is generated in the form of sponsored links and display ads. This includes both pay-per-performance ads and paid-for-impression ads. In the pay-per-performance model, revenue is generally earned based on the number of clicks or other actions taken associated with such ads; in the paid-for-impression model, revenue is derived from the display of ads.

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Operating Expenses

General and administrative expenses include all legal, finance, accounting and administrative expenses such as professional fees and facilities costs. Depreciation and amortization include the depreciation of our acquired fixed assets and amortization of software and definite-lived intangible assets.

Purchase Price Allocations

Occasionally, the Company enters into business combinations. The purchase price is allocated to the various assets acquired and liabilities assumed based on their estimated fair value. Fair values of assets acquired and liabilities assumed are based upon available information and may involve engaging an independent third party to perform an appraisal of tangible and intangible assets. Estimating fair values can be complex and subject to significant business judgment and most commonly impacts property, equipment, software, and definite- or indefinite-lived intangible assets.

Software Development Costs

The Company capitalizes qualifying costs of computer software and website development costs. Costs incurred during the application development stage as well as upgrades and enhancements that result in additional functionality are capitalized. The internally developed software costs capitalized were approximately \$175 thousand and \$80 thousand, at September 30, 2014 and December 31, 2013, respectively, and are included in "Property, equipment and software" in the condensed consolidated balance sheets. Internally developed software and website development costs are being amortized utilizing the straight-line method over a period of three years, the expected period of the benefit. For the three months ended September 30, 2014 and 2013, the Company recorded approximately \$16 thousand and \$12 thousand of amortization expense, respectively. For the nine months ended September 30, 2014 and 2013, the Company recorded approximately \$27 thousand and \$16 thousand of amortization expense, respectively.

Stock-Based Compensation

The Company measures stock-based compensation at the grant date based on the calculated fair value of the award. The Company recognizes the expense over the recipient's requisite service period, generally the vesting period of the award. The Company estimates the fair value of stock options at the grant date using the Black-Scholes option pricing model with weighted average assumptions for the activity under its stock plans. Option pricing model input assumptions such as expected term, expected volatility and risk-free interest rate, among others, impact the fair value estimate. These assumptions generally require significant analysis and use of judgment and estimates to develop. Options vest based on meeting a minimum service period or performance condition. Restricted stock grants are recorded using the fair value of the granted shares based on the market value at the grant date. In addition, the forfeiture rate impacts the amount of aggregate compensation. These assumptions are subjective and generally require significant analysis and judgment to develop.

The Company does not recognize a deferred tax asset for unrealized tax benefits associated with the tax deductions in excess of the compensation recorded (excess tax benefit). The Company applies the "with and without" approach for utilization of tax attributes upon realization of net operating losses in the future. This method allocates stock-based compensation benefits last among other tax benefits recognized. In addition, the Company applies the "direct only" method in calculating the amount of windfalls or shortfalls.

Long-lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such trigger events or changes in circumstances may include the following: a significant decrease in the market price of a long-lived asset; a significant adverse change in the extent or manner in which a long-lived asset is being used; a significant adverse change in legal factors or in the business climate, including those resulting from technology advancements in the industry, the impact of competition or other factors that could affect the value of a long-lived asset; a significant adverse deterioration in the amount of revenue or cash flows the Company expects to generate; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset; current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset; or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company

REMARK MEDIA INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

performs impairment testing at the asset level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and the expected undiscounted future cash flows attributable to the asset are less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. During the nine months ended September 30, 2014, the Company recorded an impairment loss related to the net carrying value of the intangible assets for its subsidiary MyStockFundSecurities, Inc. of approximately \$268 thousand. There was no impairment loss recorded in the three months ended September 30, 2014 or the three and nine months ended September 30, 2013.

Intangible Assets

Intangible assets consist of trade and domain names, customer relationships, acquired technology, a license, a non-compete agreement and other intangible assets with useful lives ranging from two years to 11 years and amortized using the straight-line method, except for the license, which has an indefinite life. For the three months ended September 30, 2014 and 2013, the Company recorded approximately \$205 thousand and \$100 thousand of amortization expense, respectively. For the nine months ended September 30, 2014 and 2013, the Company recorded approximately \$475 thousand and \$280 thousand of amortization expense, respectively.

Assets Formerly Held For Sale

The Company has early adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-08 "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)" (together, "ASU 2014-08"), which change the requirements for reporting discontinued operations in accordance with Accounting Standards Codification ("ASC") Topic 205-20. As a result of this update, beginning in the second quarter of 2014, the Company will no longer classify individual properties that are either disposed of or are classified as held for sale as discontinued operations in the consolidated statements of operations if the removal, or anticipated removal, of the asset(s) from the reporting entity does not represent a strategic shift that has or will have a major effect on an entity's operations and financial results when disposed of. ASU 2014-08 requires previously reported assets that qualified for discontinued operations reporting to continue to be reported in that manner.

In June 2014, the Company reached a decision to actively market for sale one of its wholly owned subsidiaries, MyStockFundSecurities, Inc. ("MyStockFund"), excluding any current obligations owed to FOLIO *fn*, Inc ("FOLIO"), to better focus its resources on the Company's core strategy. In accordance with the terms and conditions of a Settlement Agreement dated April 11, 2013 between MyStockFund and FOLIO, MyStockFund is required to transfer all customer accounts to FOLIO. The transfer of customer accounts is expected to be completed by the end of the first quarter of 2015, at which time MyStockFund will be sold or dissolved after all remaining assets of the entity are sold and/or transferred to another subsidiary of the Company. In accordance with ASC 360-10-45, the asset met all of the criteria to be classified as held for sale as of June 30, 2014. As of June 30, 2014, held for sale assets were approximately \$18 thousand and held for sale liabilities were approximately \$8 thousand. These assets are net of an impairment charge of approximately \$268 thousand. The assets and liabilities are comprised of cash, accounts receivable, prepaid assets and intangible assets, as well as accrued expenses and other current liabilities.

Upon the initial designation as an asset held for sale, the Company recorded the carrying value of each asset at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and ceased recording depreciation. During the quarter ended September 30, 2014, the criteria for classifying the assets as held for sale were no longer met and the assets previously classified as held for sale were reclassified as held and used and measured individually at the lower of the following:

- a. the carrying amount before the asset was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the asset been continuously classified as held and used;
- b. the fair value at the date of the subsequent decision not to sell.

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Derivative Liability for Warrants to Purchase Common Stock

The Company's derivative liability for warrants represents the fair value of warrants issued in connection with an equity financing related to the Banks.com acquisition consummated on February 26, 2012. These warrants are presented as liabilities based on certain exercise price reductions provisions. The liability, which is recorded at the fair value on the balance sheet, is calculated using the Monte Carlo simulation valuation method. The change in the fair value of these warrants is recognized as a component of other income or expense in the unaudited condensed consolidated statements of operations.

Notes Receivable

Notes receivable from debt facilities originated by the Company are recorded at cost and evaluated for impairment. Relevant factors considered in the determination of recoverability include the interest rate offered in the market, as well as management's estimate of projected cash flows and profitability.

Interest Income

Interest income earned by the Company on the note receivable is recognized under the accrual basis of accounting.

Recent Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)," which changes the requirements for reporting discontinued operations in ASC Subtopic 205-20. This pronouncement has been early adopted by the Company in the second quarter of 2014.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue From Contracts With Customers" ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2016. The Company is currently reviewing the provisions of ASU 2014-09, but does not expect it to have a material effect on the Company's financial condition, results of operations or cash flows.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern" ("ASU 2014-15"), which outlines the Company's responsibility for disclosure of uncertainties about an entity's ability to continue as a going concern. The provisions state that the Company should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter with early application permitted. The Company is currently reviewing the provisions of ASU 2014-15, but does not expect it to have a material effect on the Company's financial condition, results of operations or cash flows.

The Company has evaluated all other new ASUs issued by the FASB in 2014 and has concluded these updates do not have a material effect on the Company's condensed consolidated financial statements as of September 30, 2014.

In July 2013, the FASB issued ASU 2013-11, "Income Taxes — Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carry forward Exists" ("ASU 2013-11") which is part of ASC 740, Income Taxes. The new guidance requires an entity to present an unrecognized tax benefit and a net operating loss carryforward, a similar tax loss, or a tax credit carryforward on a net basis as part of a deferred tax asset, unless the unrecognized tax benefit is not available to reduce the deferred tax asset component or would not be utilized for that purpose, then a liability would be recognized. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning after December 15, 2013. Adoption of this ASU had no impact on the reported consolidated financial statements or results of operations.

2. INVESTMENT IN SHARECARE

In 2009, the Company co-founded Sharecare, Inc., a U.S.-based venture between: Dr. Mehmet Oz, a leading cardiac surgeon, health expert and host of "The Dr. Oz Show"; HARPO Productions, producer of "The Oprah Winfrey Show"; Discovery

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Communications, the world's largest non-fiction media company; Jeff Arnold, WebMD founder and Discovery Communications' former Chief of Global Digital Strategy; Sony Pictures Television; and Remark Media ("Sharecare"). Sharecare was created to build a web-based platform that simplifies the search for health and wellness information by organizing a vast array of health-related questions and providing multiple answers from experts, organizations, publishers, and caregivers representing various points of view. As a part of the transactions, the Company received an equity stake in Sharecare, sold substantially all of the assets of its DailyStrength subsidiary to Sharecare, agreed to provide management and website development services to Sharecare, and received a license to use Sharecare's web platform for its own businesses.

Until November 30, 2012, the Company accounted for its equity interest in Sharecare under the equity method of accounting. Under this method, the Company recorded its proportionate share of Sharecare's net income or loss based on Sharecare's financial results. As of December 1, 2012, the Company moved to the cost method of accounting due to a lower percentage of ownership (10.8% as of December 31, 2012), nonparticipation in policy-making processes, and limited existence of technology dependency by Sharecare on the Company.

On July 3, 2014, the Company entered into a Stock Subscription Agreement with Sharecare to purchase 3,201 shares of Series B Preferred Stock and 7,420 Warrant Shares convertible to Common Stock at an exercise price of \$.01 per share, for \$0.8 million in cash. As of September 30, 2014, the Company owned approximately 8.18% of Sharecare's stock and had representation on its Board of Directors.

The following table shows selected unaudited financial data of Sharecare including Remark Media's proportional share of net loss in Sharecare as reported under the equity method for the nine months ended September 30, 2014 and 2013, respectively. During the nine months ended September 30, 2013, the Company recorded a \$0.2 million change in its estimate of its proportional share in loss of equity-method investment related to the period from January 1, 2012 through November 30, 2012, based on information that was finalized and provided to the Company subsequent to the issuance of its December 31, 2012 financial statements:

	Nine Months Ended September 30,	
	2014	2013
Revenues	\$ —	\$ —
Gross profit	—	—
Loss from operations	—	—
Net loss	—	—
Proportional share in loss of equity-method investment	\$ —	\$ (222,707)

3. NOTE RECEIVABLE FROM BOMBO SPORTS & ENTERTAINMENT, LLC

On February 11, 2014, the Company and Bombo Sports & Entertainment, LLC, or BSE, entered into the BSE Loan Agreement pursuant to which the Company loaned BSE \$1 million. On April 16, 2014, the Company and BSE entered into an amendment to the BSE Loan Agreement, pursuant to which the Company increased the amount of the loan to up to \$1.35 million. On April 16, 2014, April 21, 2014 and June 12, 2014, the Company loaned BSE an additional \$50 thousand, \$150 thousand and \$150 thousand, respectively, bringing the outstanding principal balance to \$1.35 million. The outstanding principal balance of the loan bears interest at 5% per annum, with principal and interest due and payable within 10 days after the delivery of a written demand to BSE. If the loan is not paid in full at the end of the 10 day period, the outstanding principal will bear interest at 12% per annum until it is paid in full. BSE may prepay all or any portion of the loan at any time without premium or penalty. On September 12, 2014, the Company delivered a written demand for payment to BSE. As of the date of this report payment has not been received and the Company has commenced legal proceedings against BSE and its controlling owner to recover the amount owed. See Note 10 for additional information regarding these legal proceedings.

BSE's obligations under the BSE Loan Agreement are secured by (i) a membership interest pledge agreement pursuant to which Robert S. Potter, the manager and owner of 86% membership interest in BSE, pledged to the Company all of his right, title, and interest in and to such membership interest and (ii) a pledge by BSE to the Company of all BSE's assets.

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The interest income on the loan was approximately \$19 thousand and \$40 thousand for the three and nine months ended September 30, 2014 and is recorded in the condensed consolidated statements of operations.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis. The common stock warrants which are classified as liabilities are recorded at their fair market value as of each reporting period.

The measurement of fair market value requires the use of techniques based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The inputs create the following fair market value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets.
- 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-derived valuations where inputs are observable or where significant value drivers are observable.
- Level 3 - Instruments where significant value drivers are unobservable to third parties.

The Company uses model-derived valuations where inputs are both observable and unobservable in active markets to determine the fair value of certain common stock warrants on a recurring basis. The lowest level of significant inputs are classified as Level 3; thus, the common stock warrants are classified as Level 3. The Company utilized a Monte Carlo simulation valuation model to fair value the warrants.

Assumptions used in calculating the fair value of these warrants were noted as follows:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Annual rate of quarterly dividend	0.00%	0.00%
Expected volatility	90.0%	100%
Risk free interest rate	1.03%	1.10%
Expected remaining term (in years)	2.91	1.16 - 3.66

In addition to the assumptions above, the Company takes into consideration whether or not it would participate in another round of equity financing and, if so, what the stock price would be for such a financing at that time.

At September 30, 2014 and December 31, 2013, the fair value of liability classified warrants were as follows:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Derivative liabilities	\$ 828,820	\$ 769,284

The change in the fair value of the warrants accounted for as derivative liabilities is reflected below:

Balance at January 1, 2014	\$ 769,284
Increase in fair value resulting in loss	59,536
Fair value at September 30, 2014	<u>\$ 828,820</u>

The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise or expiration of the warrants, at which time the liability will be reclassified to stockholders' equity.

REMARK MEDIA INC. AND SUBSIDIARIES
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5. ACQUISITIONS*Hotelmobi*

On May 2, 2014, the Company acquired Hotelmobi for total cash and equity consideration of \$6.8 million pursuant to the terms of the Merger Agreement, as described in detail in Note 1. The common stock component of the purchase price was valued using the Company's closing share price as of May 2, 2014, the Valuation date, multiplied by the number of shares issued. The shares to be issued on the one-year anniversary of the closing were valued similarly except a small discount for lack of marketability was applied as these shares are not readily marketable for a one year period due to their delayed issuance. The warrants were valued utilizing the Black-Scholes option pricing model.

The acquisition was accounted for under the purchase method and, accordingly, the purchase price was allocated to the assets and liabilities based on their estimated fair values on the date of the acquisition.

Of the intangible assets acquired, \$0.5 million relate to trade names and domain names and have an amortization period of 11 years, \$0.4 million relate to acquired technology and have an amortization period of 5 years, and \$2.4 million relate to client relationships and have an amortization period of 10 years.

Trade names and domain names were valued using a variation of the income approach, the relief from royalty method. This method is based on the assumption that a market participant would pay an assumed royalty rate (as a percent of revenue) to license the Company's trademarks and trade names in an arms-length transaction. Acquired technology was valued using the cost approach. Client relationships were valued using a variation of the income approach, the multi-period excess earnings method. Under this method, the fair value of the asset reflects the present value of the projected stream of net cash flows that will be generated by the asset over the projection period.

The table below illustrates the final allocation of the purchase price over the identifiable assets and assumed liabilities on May 2, 2014.

Consideration	
Cash	\$ 171,894
Equity consideration (see Note 1)	6,638,023
Total consideration	\$ 6,809,917
Acquisition-related costs	\$ 95,275
Tangible assets	
Current assets	\$ 1,500
Total tangible assets	1,500
Intangible assets	
Trade names and domain names	470,100
Acquired technology	435,500
Client relationships	2,433,400
Total intangible assets	3,339,000
Accounts payable	(922)
Total identifiable net assets	3,339,578
Goodwill	3,470,339
Total purchase price	\$ 6,809,917

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Tax Extension

On January 15, 2014, the Company's wholly owned subsidiary, Banks.com, completed an asset acquisition of the following domain names which provide web-based tax extension services: www.taxextension.com, www.taxextensions.com, and www.onlinetaxextension.com, for an aggregate purchase price of \$450 thousand. The domains were recorded at cost and amortized over their useful life. The Company recorded approximately \$28 thousand and \$9 thousand in amortization for the nine and three months ended September 30, 2014.

Pop Factory, LLC

On March 29, 2013, Remark Media acquired Pop Factory, LLC ("Pop Factory") for total cash consideration of \$2.4 million.

The acquisition was accounted for under the purchase method and, accordingly, the purchase price was allocated to the assets and liabilities based on their estimated fair values on the date of the acquisition.

Of the total intangibles acquired, \$2.1 million related to domain names and have an amortization period of 12 years.

The table below reflects a summary of the unaudited pro forma results of operations for the three and nine months ended September 30, 2014 and 2013, as if Remark Media, Hotelmobi and Pop Factory were combined as of January 1, 2013. The pro forma results include estimates and assumptions which management believes are reasonable. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of these entities, and are not necessarily indicative of the results that would have occurred if the business combinations had been in effect on the dates indicated, or which may result in the future.

	Unaudited Pro Forma Results of Operations		Unaudited Pro Forma Results of Operations	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 229,719	\$ 133,703	\$ 1,655,784	\$ 1,102,999
Operating Loss	(4,133,948)	(1,139,797)	(12,366,920)	(3,877,879)
Net Loss	\$ (3,737,640)	\$ (1,412,212)	\$ (12,934,872)	\$ (4,730,813)

6. CAPITAL LEASES

On December 7, 2010, Banks.com entered into a sale-leaseback arrangement with Domain Capital, LLC ("Domain Capital") consisting of an agreement to assign the domain name, *banks.com*, to Domain Capital in exchange for \$0.6 million in cash and a lease agreement to lease back the domain name from Domain Capital for a five year term. The lease provides for a bargain purchase option at the end of its term, effectively transferring ownership back to Banks.com. Effective June 28, 2012, Banks.com became a wholly-owned subsidiary of Remark Media and pursuant to that certain Agreement and Plan of Merger among the Company, Remark Florida, Inc. and Banks.com dated February 26, 2012, Remark Media assumed all its outstanding liabilities. As of September 30, 2014, total obligations under this agreement were \$0.2 million, \$0.15 million of which is included under the current portion of capital lease obligations and the remainder is included under capital lease obligations, net of current portion on the Company's condensed consolidated balance sheet at September 30, 2014. The following table represents the approximate future minimum capital lease payments due under this agreement as of September 30, 2014:

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	Capital Lease Commitments
October through December 31, 2014	\$ 42,822
2015	171,287
Total commitments	214,109
Interest on capital leases	(19,976)
Present value of minimum capital lease payments	\$ 194,133

7. COMMITMENTS AND CONTINGENCIES

The Company has entered into operating leases for office space. The lease agreement associated with its headquarters required a security deposit and included an allowance, which was used against leasehold improvements. Rental expense for operating leases, which is recognized on a straight-line basis over the lease term, was approximately \$240 thousand and \$401 thousand for the nine months ended September 30, 2014 and 2013, respectively, and approximately \$127 thousand and \$135 thousand for three months ended September 30, 2014 and 2013, respectively.

The following table represents the approximate future minimum lease payments at September 30, 2014 due under non-cancellable operating lease agreements with terms in excess of a year:

	Operating Lease Commitments
2014	\$ 84,000
2015	336,000
2016	56,000
Total commitments	\$ 476,000

On May 1, 2013, Remark Media entered into a sublease for its Concourse Six office space through the remainder of the lease term giving cause to an abandonment of lease analysis. Following the exit of the lease, Remark Media recognized an early termination liability of \$0.3 million adjusted for sublease rental income, leasehold allowances, and the use of security deposits. The early termination liability principally represents the escalating lease payments inherent in the deferred rent as of the cease use date, net of the sub-lease income. The estimated fair value of the costs was based on the terms of the lease agreement and sub-lease agreement and, as such, represents the lease commitment over the next three years. The Company elected not to present value that obligation because the difference between the gross and discounted future cash flow settlements was immaterial to the financial statements.

On the cease use date, the Company recorded an early termination expense of approximately \$16 thousand, which was adjusted for the remaining deferred rent, use of security deposits, and future sublease income. These fees were included in the general and administrative expenses in the consolidated statement of operations and comprehensive loss. In June 2014, the Company recorded a reduction to the early termination liability of approximately \$93 thousand to reflect the remaining rent due net of sublease rental income. This adjustment was included in general and administrative expenses in the consolidated statement of operations and comprehensive loss. The early termination liability has been reduced by approximately \$147 thousand during the nine months ended September 30, 2014.

On December 31, 2013, the Company entered into a Lease Termination Agreement with the landlord of its Concourse Five office space, waiving all rights to apply unpaid leasehold improvements. The termination penalty for abandoning the Concourse Five office space was approximately \$83 thousand, which was recorded as an expense and included in general and administrative expenses in the consolidated statements of operations and comprehensive loss. The early termination liability was extinguished as of March 31, 2014.

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The following depicts the remaining accrual balances for these early termination costs:

	Accrual at December 31, 2013	Charges or Reversals	Costs paid or Settled	Accrual at September 30, 2014
Lease termination, facility closure and other costs of Concourse 6	\$ 277,747	\$ (92,843)	\$ (53,832)	\$ 131,072
Lease termination, adjusted for escalating rents, leasehold improvements, and security deposits for Concourse 5	82,500	—	(82,500)	—
Total	\$ 360,247	\$ (92,843)	\$ (136,332)	\$ 131,072

The early termination liability of approximately \$131 thousand for the Concourse Six office space is recorded in accrued expenses and other current liabilities on the condensed consolidated balance sheet.

Contingencies

The Company is engaged from time to time in certain legal disputes arising in the ordinary course of business. The Company accrues liabilities for legal contingencies when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. The Company will review these accruals and adjust them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. To the extent new information is obtained, and the Company's views on the probable outcomes of claims, suits, assessments, investigations, or legal proceedings change, changes in the Company's accrued liabilities would be recorded in the period in which such determination is made. Management believes that the outcome of any such matters will not have a material impact on the consolidated financial statements.

8. STOCKHOLDERS' EQUITY AND NET LOSS PER SHARE

Net Loss per Share

The following is a reconciliation of the numerators and denominators of the Company's basic and diluted earnings per share computations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Loss per share:				
Net loss	\$ (3,737,640)	\$ (1,293,968)	\$ (12,798,017)	\$ (4,465,011)
Weighted average shares outstanding	8,980,759	7,224,810	8,415,864	7,224,810
Net loss per share, basic and diluted	\$ (0.42)	\$ (0.18)	\$ (1.52)	\$ (0.62)
Common shares and dilutive securities:				
Weighted average shares outstanding	8,980,759	7,224,810	8,415,864	7,224,810
Dilutive securities	—	—	—	—
Total common shares and dilutive securities	8,980,759	7,224,810	8,415,864	7,224,810

The number of anti-dilutive shares excluded from the calculation above was 3,755,952 and 2,801,919 for the nine months ended September 30, 2014 and 2013, respectively.

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Stock-Based Compensation

The Company has authorization to issue 800,000 shares under its 2006 Equity Incentive Plan adopted April 13, 2006 (the "2006 Plan"), 525,000 shares under its 2010 Equity Incentive Plan adopted June 15, 2010, and modified on December 30, 2011 (the "2010 Plan") and 1,500,000 shares under its 2014 Incentive Plan adopted February 17, 2014 (the "2014 Plan"), to help attract, retain and motivate its eligible executives, employees, officers, directors and consultants. Options to purchase common stock under the 2006 Plan, 2010 Plan and 2014 Plan have been granted to the Company's officers and employees with an exercise price equal to or greater than the fair market value of the underlying shares on the date of grant.

The Company measures stock-based compensation cost at the grant date based on the fair value of the award, and recognizes it as an expense over the requisite service period. Stock-based compensation expense for the nine months ended September 30, 2014 and 2013, respectively, was \$6.6 million and \$0.4 million and for the three months ended September 30, 2014 and 2013 was \$1.6 million and approximately \$37 thousand, respectively. An expense of \$0.7 million was included in stock compensation expense for the nine months ended September 30, 2014 related to modifying the vesting terms of 210,000 stock option grants and 170,000 restricted shares from 3-to-5 years to a 1 year vesting period in the first quarter of 2014. As of September 30, 2014, unrecognized compensation expense relating to non-vested stock options approximated \$1.9 million, and is expected to be recognized through 2017.

In February 2014, the Company granted 275,000 restricted shares at a per share price of \$6.10 to Pacific Star Capital Management, LP, an entity controlled by Kai-Shing Tao, the Company's Chairman of the Board and Chief Executive Officer, as compensation for providing Mr. Tao's services as the Company's Chief Executive Officer from September 2012 to December 2013. The grant date fair value of these restricted shares was approximately \$1.7 million and was recognized as compensation expense during the quarter ended March 31, 2014. During the nine months ended September 30, 2014, the Company granted 1,185,000 options, net of forfeitures, at an exercise price ranging from \$6.30 to \$10.02 per share to employees and directors. The grant date fair value of options vesting during the nine months ended September 30, 2014 and 2013 was \$3.7 million and \$0.5 million, respectively. During the nine months ended September 30, 2014, former employees exercised 73,574 stock options with various grant dates for total cash consideration of \$0.2 million.

At September 30, 2014, the Company had additional outstanding warrants to acquire 30,000 shares of common stock with exercise prices ranging from \$35.00 to \$98.90, expiring through 2017.

9. RELATED PARTY TRANSACTIONS

As discussed in detail in Note 1, the Company has outstanding the November 2013 Note, the January 2014 Note and the Demand Note issued to Digipac in the aggregate principal amount of \$6.4 million. Kai-Shing Tao, the Company's Chairman of the Board and Chief Executive Officer, is the manager and a member, and Douglas Osrow, the Company's Chief Financial Officer, is a member, of Digipac.

The future maturity schedule of these notes as of September 30, 2014 is as follows:

Year ending December 31,	
2014	\$ 350,000
2015	2,500,000
2016	3,500,000

The November 2013 Note and the January 2014 Note mature on November 14, 2015 and January 29, 2016, respectively. The Demand Note is payable within 10 days after the Company's receipt of a written demand from Digipac.

The Company determined that the January 2014 Note contained an embedded beneficial conversion feature as the January 2014 Note is convertible at a price per share of common stock equal to 99% of the closing stock price as of the effective date of the January 2014 Note. The value of the embedded conversion feature was calculated using the intrinsic method and the Company recorded a debt discount of approximately \$35 thousand, which will be amortized over the life of the January 2014 Note using the effective interest method. For the nine months ended September 30, 2014, the Company amortized approximately \$12

REMARK MEDIA INC. AND SUBSIDIARIES
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thousand of the debt discount as interest expense. The unamortized discount at September 30, 2014 was approximately \$23 thousand.

The related party interest expense for the Digipac Convertible Notes and the Demand Note was approximately \$280 thousand and \$225 thousand for the nine months ended September 30, 2014 and 2013, respectively, and was approximately \$100 thousand and \$95 thousand for the three months ended September 30, 2014 and 2013, respectively.

10. SUBSEQUENT EVENTS

BSE Loan Agreement

On November 4, 2014, the Company filed suit against BSE and its controlling owner in the United States District Court for the District of Nevada in a matter captioned *Remark Media, Inc. v. Bombo Sports & Ent., et al.* In the lawsuit, the Company claimed that BSE breached the terms of the BSE Loan Agreement by failing to pay the principal and interest on its loan when due, as well as for fraud and declaratory relief. The Company intends to vigorously pursue collection of the full amount owed to it under the BSE Loan Agreement. However, there can be no assurance as to what amount, if any, the Company will be able to collect.

Private Placements

On November 11, 2014, the Company sold an aggregate of 239,787 shares of common stock to four accredited investors in a private placement in exchange for a total of \$1.35 million in cash, or \$5.63 per share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information included or incorporated by reference in this Quarterly Report on Form 10-Q may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different than the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 31, 2014, as amended on April 7, 2014. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Quarterly Report on Form 10-Q will in fact be accurate. Further, we do not undertake any obligation to publicly update any forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements.

Business Overview and Recent Events

Remark Media, Inc. ("we", "us", "our", "Remark Media" or the "Company"), is a global digital media company focusing on the 18-to-34 year old demographic in primarily the United States and Asia. We are headquartered in Las Vegas, Nevada, with additional operations in Beijing, China and Sao Paulo, Brazil. We own and operate digital media properties in a number of different content verticals. Our content verticals presently include: (i) our education vertical, encompassing the translated and localized additions of HowStuffWorks.com in China and Brazil; (ii) our personal finance vertical, encompassing Banks.com, US Tax Center at www.irs.com, FileLater.com, TaxExtension.com and TaxExtension.org; (iii) our young adult lifestyle vertical, including Bikini.com; (iv) our sports vertical, providing original sports and entertainment content; and (v) our travel vertical, including Roomlia, a mobile hotel booking application.

For the duration of 2014, the Company intends to focus on the 18-to-34 year old demographic, investing in technology and product development to provide unique and dynamic digital media experiences across multiple verticals.

HowStuffWorks International

BoWenWang (www.bowenwang.cn) is a Chinese language portal that provides a broad array of engaging, informative content, covering everything from sports, entertainment, the arts, technology, and health. Published from Beijing since June 2008, BoWenWang is the exclusive digital publisher in China of translated and localized articles from Discovery Communications HowStuffWorks family of content.

ComoTudoFunciona (hsw.com.br) is a Brazilian portal designed to inform and engage on a vast array of subjects, ranging from cultural events, athletics, entertainment, science, technology, and travel. Published in Sao Paulo, the Portuguese-language site is the exclusive digital publisher in Brazil of translated and localized articles from Discovery Communications HowStuffWorks family of content.

Personal Finance

Banks.com is an action-oriented resource for users searching for relevant news and information on financial institutions and products. Users are able to compare rates and take action on financial products, such as mortgages and savings accounts.

US Tax Center at www.irs.com offers information about U.S. tax matters while providing access to tax related information and services.

FileLater.com and *TaxExtenion.com* are ecommerce businesses that assist taxpayers with filing official business and personal tax extensions with the Internal Revenue Service through an online platform.

Young Adult Life

Bikini.com is an aspirational beach lifestyle destination for 18-to-34 year old women featuring original editorial content covering the latest in fashion, beauty, travel, and health and fitness trends. In November 2013, the Company added retail ecommerce to the site, with the introduction of a swimwear and accessories boutique selling a carefully curated collection with

the latest in must have seasonal trends. In April 2014, the Company launched Bikini.com's mobile application, which offers the same content found on the website, with a unique and dynamic mobile design, compatible across multiple devices.

Sports

We seek to develop and acquire the rights to original sports and entertainment content for the evolving Chinese media market and the global market. In September 2013, we signed an agreement with PPTV, a leading streaming video platform in the Chinese market, to become the exclusive content partner for China's first streaming video Boxing Channel. We currently are exploring additional acquisition opportunities in this area.

Travel

Roomlia, which we acquired in May 2014, is engaged in the business of developing, owning and operating mobile hotel booking applications. Roomlia initially launched with 10 cities and now offers hotel bookings for 30 cities. On July 11, 2014, Roomlia officially launched its partnership with HBSi to offer two-way seamless connectivity to hotels. Roomlia also added two-way connectivity with TravelClick on August 14, 2014. On September 16, 2014, Roomlia released its hotel booking app on Android allowing consumers access to Roomlia on iOS and the Android platforms. On October 24, 2014, Roomlia filed a patent with the United States Patent and Trademark Office for its proprietary hotel merchandising system.

New Business Development

We are in the process of developing a social media app to link all major social media networks (e.g., Tencent QQ, Sina Weibo, Instagram, DaZhong DianPing, Douban) from a front end and back end perspective. We believe that this app (code name "Project Dragon", official name to be determined) will be the first of its kind and we expect to launch the app in China in the next 90 days, with a plan to expand globally. We have spent approximately \$200 thousand on third party development of this app through the end of the third quarter of 2014 and expect capital requirements to increase during 2015.

Results of Operations

Revenue

Total revenue for the three months ended September 30, 2014 was approximately \$230 thousand, an increase of approximately \$96 thousand from the same period in 2013. For the nine months ended September 30, 2014 total revenue was \$1.7 million, an increase of \$0.6 million from the same period in 2013. The increase from the prior year's period relates primarily to an increase in revenues generated from the purchase of tax extension services through the Company's personal finance websites.

Sales and Marketing

Sales and marketing expenses were approximately \$142 thousand and \$38 thousand in the three months ended September 30, 2014 and 2013, respectively, and approximately \$250 thousand and \$226 thousand for the nine months ended September 30, 2014 and 2013, respectively. The increase is attributable to marketing expenses for social media campaigns, event sponsorships, and promotional merchandise.

Content, Technology and Development

Content, technology and development expenses include the ongoing third-party costs to acquire original content, translate and localize content from English to Portuguese and Chinese, as well as costs of designing and developing our products, including labor, content and third party platform support services. For the three months ended September 30, 2014 and 2013, the expense was approximately \$106 thousand and \$92 thousand, respectively. For the nine months ended September 30, 2014 and 2013, the expense was approximately \$414 thousand and \$438 thousand, respectively.

Stock-Based Compensation

Stock-based compensation expense was \$1.6 million and approximately \$37 thousand in the three months ended September 30, 2014 and 2013, respectively, and \$6.6 million and \$0.4 million in the nine months ended September 30, 2014 and 2013, respectively. The increase in the three and nine month periods is primarily due to 1,185,000 options, net of forfeitures, granted under the 2014 Incentive Plan to employees and directors during 2014. These grants represent \$1.5 million and \$4.0 million of stock-based compensation expense for the three and nine months ended September 30, 2014, respectively. The additional

increase in the nine month period reflects an expense of \$0.7 million related to the modification of vesting terms for certain stock option grants and restricted shares, and a \$1.7 million restricted stock grant for performance of past services. In February 2014, we granted 275,000 restricted shares at a per share price of \$6.10 to Pacific Star Capital Management, LP, an entity controlled by Kai-Shing Tao, the Company's Chairman of the Board and Chief Executive Officer, as compensation for providing Mr. Tao's services as the Company's Chief Executive Officer from September 2012 to December 2013. Stock-based compensation is further discussed in Note 8, Notes to Condensed Consolidated Financial Statements.

General and Administrative Expenses

Total general and administrative expense was \$2.3 million and \$0.9 million in the three months ended September 30, 2014 and 2013, respectively, and \$5.8 million and \$3.3 million in the nine months ended September 30, 2014 and 2013, respectively. The increase for the three month period primarily relates to higher employee compensation and related benefits costs of \$0.9 million, consistent with increased headcount from acquisitions and business development. Additionally, legal and accounting fees increased \$0.3 million driven by acquisitions/dispositions and related due diligence, as well as ongoing corporate matters, an increase of \$0.1 million in facilities related expenses, and an increase of \$0.1 million in other general and administrative expenses. For the nine month periods, the increase primarily relates to higher employee compensation and related benefits costs of \$1.6 million, consistent with increased headcount from acquisitions and business development. Additionally, legal and accounting fees increased \$0.4 million driven by acquisitions/ dispositions and related due diligence, as well as ongoing corporate matters, an increase of \$0.1 million in facilities related expenses, an increase of \$0.2 million in fees paid to third party service providers and project consultants, an increase of \$0.1 million for platform services to support our mobile and web sites, and an increase of \$0.1 million in other general and administrative expenses.

Depreciation and Amortization

Depreciation and amortization expense was approximately \$230 thousand and \$121 thousand for the three months ended September 30, 2014 and 2013, respectively, and \$529 thousand and \$351 thousand for the nine months ended September 30, 2014 and 2013, respectively. The increase primarily relates to the amortization of assets acquired in the Pop Factory and Roomlia acquisitions.

Interest Expense

Interest expense was approximately \$114 thousand and \$110 thousand for the three months ended September 30, 2014 and 2013, respectively. Interest expense for the nine months ended September 30, 2014 and 2013 was approximately \$320 thousand and \$268 thousand, respectively. The increase in interest expense is due to the conversion of the November 2012 Note and the April 2013 Note into common stock on November 12, 2013 and the issuance of the November 2013 Note on November 13, 2013 and the January 2014 Note on January 29, 2014 as well as the Demand Note on September 11, 2014.

Change in Fair Value of Derivative Liability

The change in fair value of the derivative liability, comprised of the Company's outstanding warrants, for the three months ended September 30, 2014 and 2013 was a gain of \$0.5 million and a loss of \$0.2 million, respectively, and a loss of \$0.3 million and \$0.4 million for the nine months ended September 30, 2014 and 2013, respectively. The three month gain at September 30, 2014 was driven by the decrease in the Company's common stock price as of September 30, 2014 compared to June 30, 2014 along with the exercise of warrants in the 2014 period. The three month loss at September 30, 2013 was driven by the increase in the Company's common stock price as of September 30, 2013 compared to June 30, 2013. For the nine months ended September 30, 2014, the loss was driven by the increase in the Company's common stock price as of September 30, 2014 compared to December 31, 2013, offset by the exercise of warrants in the 2014 period. For the nine months ended September 30, 2013, the loss was driven by the increase in the Company's common stock price as of September 30, 2013 compared to December 31, 2012.

Loss from Equity-Method Investments and Change of Interest Gain

We accounted for our investment in Sharecare under the equity method of accounting through November 2012. In December 2012, the Company changed to the cost method of accounting. Under the equity method, for the three and nine months ended September 30, 2013, we did not record any gain or loss resulting from the change in interest ownership in Sharecare. In the first quarter of 2013, the Company recorded a \$0.2 million change in the estimate of its proportional share in loss of equity-method investment related to the period from January 1, 2012 through November 30, 2012.

Critical Accounting Policies

A description of our significant accounting policies can be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2013 Form 10-K. There were no material changes to those policies during the nine months ended September 30, 2014.

Recent Accounting Pronouncements

For a description of recently issued accounting pronouncements, see Note 1, Notes to Condensed Consolidated Financial Statements, Description of Business and Summary of Significant Accounting Policies.

Liquidity and Capital Resources

As of September 30, 2014, the Company's total cash and cash equivalents balance was approximately \$219 thousand.

The Company has incurred net losses and generated negative cash flow from operations in the nine months ended September 30, 2014 and in each fiscal year since its inception and has an accumulated deficit of \$124.6 million as of September 30, 2014. The Company's revenues were \$1.7 million for the nine months ended September 30, 2014, generated principally from owning and operating its digital media properties. The Company's primary focus has been organically building and strategically acquiring digital media properties.

On January 29, 2014 (the "January 2014 Note"), November 14, 2013 (the "November 2013 Note"), April 2, 2013 (the "April 2013 Note"), and November 23, 2012 (the "November 2012 Note"), the Company issued Senior Secured Convertible Promissory Notes to Digipac, LLC ("Digipac"), of which Kai-Shing Tao, the Company's Chairman of the Board and Chief Executive Officer, is the manager and a member, and Douglas Osrow, the Company's Chief Financial Officer, is a member, in the original principal amounts of \$3.5 million, \$2.5 million, \$4.0 million and \$1.8 million, respectively, in exchange for cash equal to the respective original principal amounts. The January 2014 Note, November 2013 Note, April 2013 Note and November 2012 Note are collectively referred to herein as the "Digipac Convertible Notes".

The January 2014 Note and November 2013 Note bear interest at a rate of 6.67% per annum for the first year and 8.67% per annum thereafter, with interest payable quarterly and all unpaid principal and any accrued but unpaid interest due and payable on the second anniversary of issuance. At any time, Digipac may elect to convert all or any portion of the outstanding principal amount and accrued but unpaid interest under such notes into shares of common stock at a conversion price of \$5.03 per share for the January 2014 Note and \$3.75 per share for the November 2013 Note. The Company also may elect to convert all or any portion of the outstanding principal amount and accrued but unpaid interest under such notes into common stock at the applicable conversion price if the volume weighted average price of the common stock is equal to at least 150% of the applicable conversion price for at least 30 of the 40 trading days immediately prior to the date of the Company's election. Such notes also provide that the Company and Digipac will negotiate and enter into a registration rights agreement providing Digipac with demand and piggyback registration rights with respect to the shares of common stock underlying such notes. The Company filed a Registration Statement on Form S-1 with the SEC, registering the resale of 1,420,497 shares of the Company's common stock issuable upon conversion of the January 2014 Note and the November 2013 Note, which was declared effective on August 26, 2014. The Company may prepay all or a portion of such notes at any time upon at least 15 days' prior written notice to Digipac.

The April 2013 Note bore interest at a rate of 6.67% per annum for the first year and 8.67% per annum thereafter, and the November 2012 Note bore interest at a rate of 6.67% per annum. The outstanding principal amount and accrued but unpaid interest under the April 2013 Note and the November 2012 Note were convertible into common stock at a conversion price of \$2.00 per share for the April 2013 Note and \$1.30 per share for the November 2012 Note. On November 12, 2013, Digipac converted the \$4.0 million principal amount and approximately \$164 thousand accrued but unpaid interest outstanding under the April 2013 Note into 2,082,233 shares of common stock, and converted the \$1.8 million principal amount and approximately \$117 thousand accrued but unpaid interest outstanding under the November 2012 Note into 1,474,439 shares of common stock.

In connection with the issuance of the November 2012 Note, the Company and Digipac entered into a Security Agreement dated as of November 23, 2012 (the "Security Agreement") to secure the Company's obligations under such note. The Security Agreement provides that the Company's obligations are secured by all assets of the Company other than the shares of common stock of Sharecare, Inc. owned by the Company. The Company and Digipac subsequently entered into amendments to the Security Agreement in connection with the issuances of the April 2013 Note, the November 2013 Note and the January 2014 Note to include the Company's obligations under such notes as obligations secured by the Security Agreement.

On September 11, 2014, Digipac loaned the Company \$350 thousand, which loan is evidenced by a Demand Note dated as of the same date (the "Demand Note"). The Demand Note bears interest at a rate of 5.25% per annum, with all principal and interest due and payable within 10 days after the Company's receipt of a written demand from Digipac. If the Demand Note is not paid in full at the end of the 10 day period, the outstanding principal will bear interest at a rate of 8.25% per annum until paid in full. The Company may prepay all or any portion of the Demand Note at any time without premium or penalty.

On January 15, 2014, the Company's wholly owned subsidiary, Banks.com, completed an asset acquisition of the following domain names which provide web-based tax extension services: www.taxextension.com, www.taxextensions.com, and www.onlinetaxextension.com, for an aggregate purchase price of \$450 thousand.

On February 11, 2014, the Company and BSE entered into the BSE Loan Agreement pursuant to which the Company loaned BSE \$1 million. On April 16, 2014, the Company and BSE entered into an amendment to the BSE Loan Agreement, pursuant to which the Company increased the amount of the loan to up to \$1.35 million. On April 16, 2014, April 21, 2014 and June 12, 2014, the Company loaned BSE an additional \$50 thousand, \$150 thousand and \$150 thousand, respectively, bringing the outstanding principal balance to \$1.35 million. The outstanding principal balance of the loan bears interest at a rate of 5% per annum, with principal and interest due and payable within 10 days after the delivery of a written demand to BSE. If the loan is not paid in full at the end of the 10 day period, the outstanding principal will bear interest at a rate of 12% per annum until paid in full. BSE may prepay all or any portion of the loan at any time without premium or penalty. On September 12, 2014, the Company delivered a written demand for payment to BSE. As of the date of this report payment has not been received and the Company has commenced legal proceedings against BSE and its controlling owner to recover the amount owed. See Notes 3 and 10, Notes to Condensed Consolidated Financial Statements, for additional information regarding the loan and related legal proceedings.

BSE's obligations under the BSE Loan Agreement are secured by (i) a membership interest pledge agreement pursuant to which Robert S. Potter, the manager and owner of 86% membership interest in BSE, pledged to the Company all of his right, title, and interest in and to such membership interest and (ii) a pledge by BSE to the Company of all BSE's assets.

The interest income on the loan was approximately \$40 thousand and is recorded in the condensed consolidated statement of operations.

On June 16, 2014, the Company sold an aggregate of 470,000 shares of our common stock to six accredited investors in a private placement in exchange for \$2.8 million in cash. On September 15, 2014, the Company sold 83,333 shares of common stock to an accredited investor in a private placement in exchange for \$0.5 million in cash. On November 11, 2014, the Company sold an aggregate of 239,787 shares of common stock to four accredited investors in a private placement in exchange for a total of \$1.35 million in cash.

Based on the Company's most recent cash flow projections, the Company believes it has sufficient existing cash and cash equivalents and cash resources as of the date of this report to meet its ongoing requirements through December 31, 2014. Projecting operating results, however, is inherently uncertain as anticipated expenses may exceed what has been forecast.

Cash flows from operating activities

Net cash used in operating activities during the nine months ended September 30, 2014 was \$4.9 million. Our net loss during the period was \$12.8 million, which included non-cash charges of \$7.7 million such as depreciation, amortization, stock-based compensation, intangible asset impairment, and change in fair value of derivative liability. Stock based compensation accounted for \$6.6 million of the \$7.7 million non-cash charges. The remainder of cash used in operating activities was from changes in our working capital of \$0.2 million.

Net cash used in operating activities during the nine months ended September 30, 2013 was \$2.6 million. Our net loss during the period was \$4.5 million, which included non-cash charges of \$1.6 million such as depreciation, amortization, stock-based compensation, and certain gains and losses. The remainder of cash used in operating activities was from changes in our working capital of \$0.2 million.

Cash flows from investing activities

Net cash used in investing activities during the nine months ended September 30, 2014 was \$3.5 million. Cash outflows from business acquisitions included \$0.6 million related to the TaxExtension.com acquisition in the first quarter of 2014 and Hotelmobi acquisition in the second quarter of 2014. Cash outflows also included \$0.7 million investment in our property, equipment, software and intangibles, a \$0.8 million additional investment in Sharecare and \$1.35 million loaned to BSE

pursuant to the BSE Loan Agreement. The BSE Loan Agreement is further discussed in Note 3, Notes to Condensed Consolidated Financial Statements, Note Receivable from Bombo Sports & Entertainment, LLC.

Net cash used in investing activities during the nine months ended September 30, 2013 was \$2.2 million, primarily driven by the \$2.4 million Pop Factory business acquisition in the first quarter of 2013.

Cash flows from financing activities

Net cash provided by financing activities was \$7.2 million during the nine months ended September 30, 2014. This includes \$3.5 million cash proceeds from the issuance of common stock, including \$2.8 million for shares issued in a private placement on June 16, 2014, \$0.5 million for shares issued in a private placement on September 15, 2014 and \$0.2 million from other issuances of common stock. An additional \$3.5 million cash proceeds were provided by the sale of the January 2014 Note to Digipac on January 29, 2014 and \$0.35 million cash proceeds were provided by the Demand Note to Digipac on September 11, 2014. The January 2014 Note and Demand Note are further discussed in Note 1, Notes to Condensed Consolidated Financial Statements, Description of Business and Summary of Significant Accounting Policies. These inflows were partially offset by \$0.1 million of capital lease payments.

Net cash provided by financing activities during the nine months ended September 30, 2013 was \$3.9 million. This includes cash proceeds of \$4.0 million from the sale of the April 2013 Note to Digipac on April 2, 2013. This inflow was partially offset by \$0.1 million of capital lease payments. The April 2013 Note is further discussed in Note 1, Notes to Condensed Consolidated Financial Statements, Description of Business and Summary of Significant Accounting Policies.

Off Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We translate the foreign currency financial statements of our international operations into U.S. dollars at current exchange rates, except revenue and expenses, which we translate at average exchange rates during each reporting period. We accumulate net exchange gains or losses resulting from the translation of assets and liabilities in a separate caption of stockholders' equity titled "accumulated other comprehensive income (loss)". Generally, our foreign expenses are denominated in the same currency as the associated foreign revenue, and at this stage of our development, the exposure to rate changes is minimal.

Financial instruments that potentially subject us to a concentration of credit risk consist principally of cash and accounts receivables. At September 30, 2014, approximately 3% of our cash was denominated in Brazilian *Reais*, Chinese *Renminbi* or Hong Kong Dollars, with nearly 97% of our cash denominated in U.S. Dollars. The majority of our cash is placed with financial institutions we believe are of high credit quality. Our cash is maintained in bank deposit accounts, which, at times, exceed federally insured limits. We have not experienced any losses in such accounts and do not believe our cash is exposed to any significant credit risk.

We do not use financial instruments to hedge our foreign exchange exposure because the effects of the foreign exchange rate fluctuations are not currently significant. We do not use financial instruments for trading purposes. We do not use any derivative financial instruments to mitigate any of our currency risks.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on their evaluation of the Company's disclosure controls and procedures, the Company's principal executive officer and principal financial officer, with the participation of the Company's management, have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2014, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during our fiscal quarter ended September 30, 2014, or in other factors that could significantly affect these controls, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

On November 4, 2014, the Company filed suit against BSE and its controlling owner in the United States District Court for the District of Nevada in a matter captioned Remark Media, Inc. v. Bombo Sports & Ent., et al. In the lawsuit, the Company claimed that BSE breached the terms of the BSE Loan Agreement by failing to pay the principal and interest on its loan when due, as well as for fraud and declaratory relief. The Company intends to vigorously pursue collection of the full amount owed to it under the BSE Loan Agreement. However, there can be no assurance as to what amount, if any, the Company will be able to collect.

Item 1A. Risk Factors.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On September 15, 2014, the Company sold 83,333 shares of common stock to an accredited investor in a private placement in exchange for \$0.5 million in cash. The offer and sale of the shares in the private placement were made in reliance upon an exemption from registration requirements pursuant to Section 4(a)(2) under the Securities Act of 1933, as amended, based upon representations made to us by the investors in purchase agreements we entered into with each investor.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit Number	Description of Document
4.1*	Demand Note dated September 11, 2014.
31.1*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1*	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase

*Filed herewith.

**These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REMARK MEDIA, INC.

November 13, 2014

By: /s/ Douglas Osrow
Douglas Osrow
Chief Financial Officer (Principal Financial Officer and
Principal Accounting Officer)

EXHIBIT INDEX

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*Filed herewith.

**These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO BORROWER THAT REGISTRATION IS NOT REQUIRED UNDER THE ACT OR UNLESS SOLD PURSUANT TO RULE 144 UNDER THE ACT.

Demand Note

\$350,000

September 11, 2014

FOR VALUE RECEIVED, REMARK MEDIA, INC., a Delaware corporation ("**Borrower**"), hereby promises to pay to the order of DIGIPAC, LLC, a Delaware limited liability company ("**Lender**"), the principal sum of Three Hundred Fifty Thousand Dollars (\$350,000) (the "**Principal Amount**"), in lawful money of the United States of America and in immediately available funds.

1. **Payment.** The unpaid Principal Amount plus accrued and unpaid interest thereon shall be due and payable on demand by the Lender on not less than ten (10) days prior written notice. Interest on the unpaid Principal Amount of this Note shall accrue at a rate per annum equal to five and 25/100 percent (5.25%). Interest will be computed on the basis of a 365 or 366-day year, as applicable, and the actual number of days elapsed.

2. **Prepayment.** Borrower may prepay this Note, in full or in part, at any time without penalty. All payments hereon shall be applied first to the payment of accrued interest, with the balance applied to principal.

3. **Default Interest.** If demand for payment is made hereunder and if the requested amount is not paid in full on or prior to the date due in accordance with Section 1 above, interest on the unpaid Principal Amount shall then be due and payable from such due date at the rate of interest specified in Section 1 PLUS three percent (3%) per annum, or such lower maximum rate of interest permitted to be charged under applicable law, until all principal and accrued and unpaid interest is paid in full.

4. **Notices.** Any notice, demand, communication or other document required, permitted, or desired to be given under this Note shall be in writing and shall be delivered personally or sent by United States registered or certified mail, return receipt requested, postage prepaid, by Federal Express or other reputable overnight courier, or by facsimile (with confirmation of receipt), and addressed to the party at the respective numbers and/or addresses set forth below, and the same shall be deemed given and effective (i) upon receipt or refusal if delivered personally or by hand delivered messenger service, (ii) the date received or refused if sent by Federal Express or other reputable overnight courier, (iii) the date received or refused if mailed by United States registered or certified mail, return receipt requested, postage prepaid, and (iv) the date received if sent by facsimile or electronic mail during normal business hours of the recipient and on the next business day if sent after normal business hours of the recipient. A party may change its address for receipt of notices by service of a notice of such change in accordance herewith.

If to Lender:

Digipac, LLC
One Hughes Center Drive, Unit 1901
Las Vegas, Nevada 89169
Facsimile: 702-586-8721
Electronic mail: Stao@pacificstarparters.com
Attention: Mr. Kai-Shing Tao

If to Borrower:

Remark Media, Inc.
3930 Howard Hughes Parkway, Suite 400
Las Vegas, Nevada 89169
Facsimile: N/A
Electronic mail: N/A
Attention: Mr. Douglas Osrow

5 . Captions; Interpretation. The captions and headings of Sections and paragraphs of this Note are for convenience only and are not to be considered as defining or limiting in any way, the scope or intent of the provisions hereof. The term "Borrower" shall include each person and entity now or hereafter liable hereunder, whether as maker, successor, assignee or endorsee, each of whom shall be jointly, severally and primarily liable for all of the obligations set forth herein.

6 . Merger. This Note constitutes the entire agreement of the parties with respect to the transactions contemplated herein, and all prior discussions, negotiations and document drafts with respect to the transactions contemplated hereby are merged herein.

7 . Expenses. All costs and expenses incurred in connection with this Note and the transactions contemplated herein shall be paid by the party incurring such costs and expenses. Notwithstanding the foregoing, Borrower agrees to pay or reimburse the Lender for all reasonable out-of-pocket costs and expenses of the Lender (including, without limitation, fees and expenses of legal counsel) in connection with (a) any default hereunder and any enforcement or collection proceedings resulting therefrom, including, without limitation, all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated) and (b) the enforcement of this Section 7.

8 . Modification; Waiver. No modification, waiver, amendment, discharge or change of this Note shall be valid unless the same is in writing and signed by the Lender. No waiver of any breach or default hereunder shall constitute or be construed as a waiver by Lender of any subsequent breach or default or of any breach or default of any other provision of this Note, unless specifically set forth in a writing executed by Lender. To the extent permitted by applicable law, Borrower waives all rights and benefits of any statute of limitations, moratorium, reinstatement, marshalling, forbearance, valuation, stay, extension, redemption, appraisal or exemption now provided or which may hereafter be provided by law, both as to itself and as to all of its properties, real and personal, against the enforcement and collection of the indebtedness evidenced hereby.

9 . Governing Law. MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE UNDER OR RELATING TO THIS NOTE AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE (WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS) AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA.

10 . Consent to Jurisdiction. BORROWER HEREBY CONSENTS TO THE SOLE AND EXCLUSIVE JURISDICTION AND VENUE IN THE FEDERAL OR STATE COURTS IN NEW YORK COUNTY, NEW YORK, AND AGREES THAT ALL DISPUTES BASED ON OR ARISING OUT OF THIS NOTE SHALL ONLY BE SUBMITTED TO AND DETERMINED BY SAID COURTS, WHICH SHALL HAVE SOLE AND EXCLUSIVE JURISDICTION.

11 . Time is of the Essence. Time is hereby declared to be of the essence of this Note and every portion hereof and thereof.

12 . Attorneys' Fees. In the event of any dispute arising out of, or in connection with, this Note, the prevailing party shall be entitled to its reasonable attorneys' fees and costs.

13. Severability. If any provision or provisions, or if any portion of any provision or provisions, in this Note is found by a court of competent jurisdiction to be in violation of any applicable law, and if such court declares such portion, provision, or provisions of this Note to be illegal, invalid, unlawful, void or unenforceable as written, then it is the intent of all parties hereto that such portion, provision, or provisions shall be given force to the fullest possible extent that they are legal, valid and enforceable, and that the remainder of this Note shall be construed as if such illegal, invalid, unlawful, void, or unenforceable portion, provision, or provisions were not contained herein or therein, and that the rights, obligations, and interests of Borrower and Lender under the remainder of this Note shall continue in full force and effect.

14. Assignment. Borrower may not assign this Note without the prior written consent of Lender. Lender may assign or transfer this Note without the prior written consent of Borrower.

15. Savings Clause. Nothing contained in this Note shall be deemed to establish or require the payment of a rate of interest or other charges in excess of the maximum interest rate permitted by applicable law. In the event that the rate of interest required to be paid or other charges hereunder exceed the maximum interest permitted by such law, any payments in excess of such maximum shall be credited against amounts owed by Borrower to Lender.

16. Counsel. Lender acknowledges that Olshan Frome Wolosky LLP ("*Olshan*") represents only the Borrower in the preparation and negotiation of this Note. Lender acknowledges that it has waived the opportunity to retain separate counsel. Lender consents to the representation of the Borrower by Olshan in its business dealings and in connection with this Note and any disputes arising hereunder.

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CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kai-Shing Tao, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Remark Media, Inc. for the quarterly period ended September 30, 2014;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 13, 2014

/s/ Kai-Shing Tao

Name: Kai-Shing Tao
Title: Chief Executive Officer and Chairman
(Principal Executive Officer)

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Douglas Osrow, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Remark Media, Inc. for the quarterly period ended September 30, 2014;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 13, 2014

/s/ Douglas Osrow

Name: Douglas Osrow
Title: Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Remark Media, Inc., (the "Company") on Form 10-Q for the quarterly period ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kai-Shing Tao, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 13, 2014

/s/ Kai-Shing Tao

Name: Kai-Shing Tao
Title: Chief Executive Officer and Chairman
(Principal Executive Officer)

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Remark Media, Inc., (the "Company") on Form 10-Q for the quarterly period ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas Osrow, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 13, 2014

/s/ Douglas Osrow

Name: Douglas Osrow
Title: Chief Financial Officer
(Principal Financial Officer)

