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

Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis ("MD&A") of the financial condition and results of operations of the Company should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2015 and 2014, which have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). All dollar amounts are in U.S. dollars ("US$" or "$") unless stated otherwise. As at November 2, 2015, the Bank of Canada noon rate for conversion of United States dollars to Canadian dollars ("CDN$") was US$1 to CDN$1.3095. Our MD&A is intended to enable readers to gain an understanding of our current results and financial position. To do so, we provide information and analysis comparing the results of operations and financial position for the current period to those of the preceding comparable period.

Cautions Regarding Forward-Looking Statements

This MD&A contains certain forward-looking statements that reflect management's expectations regarding our growth, results of operations, performance and business prospects and opportunities.

Statements about our future plans and intentions, results, levels of activity, performance, goals, achievements or other future events constitute forward-looking statements. Wherever possible, words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," or "potential" or the negative or other variations of these words, or similar words or phrases, have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information available to management as of the date of this Quarterly Report on Form 10-Q.

Forward-looking statements involve significant risk, uncertainties and assumptions. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, we cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this Quarterly Report on Form 10-Q and we assume no obligation to update or revise them to reflect new events or circumstances, except as required by law. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including: our ability to derive anticipated benefits from the acquisition of DivX Corporation ("DivX"); our ability to successfully integrate the operations of DivX; our ability to realize some or all of the anticipated benefits of our partnerships; our ability to increase revenue; general economic and market segment conditions; our customers' subscriber levels and financial health; our ability to pursue and consummate acquisitions in a timely manner; our continued relationships with our customers; our ability to negotiate favorable terms for contract renewals; competitor activity; product capability and acceptance rates; technology changes; regulatory changes; foreign exchange risk; interest rate risk; and credit risk. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations is contained in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Overview

We are a leading provider of digital video solutions and services with the mission to deliver and enable the highest quality live and on-demand digital content experiences anywhere and on any device. Our flagship solution, the NeuLion Digital Platform, is a proprietary, cloud-based, fully-integrated, turnkey solution that enables the distribution and monetization of digital video content. During 2014, we streamed over 50,000 live events and surpassed one billion connected devices enabled with our technology.

Enterprises throughout the entire digital video ecosystem use our solutions to better grow, engage and monetize their customer bases. Our NeuLion Digital Platform offers content owners, such as sports leagues, television networks and cable TV operators, a highly-configurable and scalable suite of digital technologies, together with services for back-end content preparation, management and secure delivery of content, in an end-to-end solution that addresses the complexities associated with monetizing their content.

We generate revenue for our NeuLion Digital Platform through subscription license agreements based on the number of channels and events through which we deliver our customers' content and the number of connected devices we enable. We also receive variable revenue based on the volume of digital video content we deliver, the level of advertising and ecommerce activity and the support services we provide to our customers' end users. Revenue from our NeuLion Digital Platform customers typically grows over time as customers grow the number of channels, events and connected devices and the volume of digital video content, advertising and ecommerce. We expect revenue from our NeuLion Digital Platform to continue to grow as we add more customers and as existing customers expand their use of our solution.

On January 30, 2015, we completed the acquisition of DivX for total consideration of approximately $59.0 million. On closing, we issued 35,890,216 shares of common stock valued at $31.9 million on the issuance date and a $27.0 million two-year convertible promissory note, or the Note. On June 4, 2015, our stockholders approved the conversion of the Note, and it was converted into 25,840,956 shares of our common stock. Our DivX video viewing solution allows Consumer Electronics (“CE”) manufacturers to provide a secure, high-quality video viewing experience and premium screen resolution, up to Ultra HD/4K, across all content formats, for a wide range of their connected devices. Our MainConcept solution provides a high-quality video compression-decompression, or codec, software library to CE manufactures, video integrators and others.

We generate revenue from our DivX, MainConcept and other solutions through subscription license agreements and variable per unit fees. Revenue from these solutions declined in 2015 versus 2014, but we expect this revenue to remain relatively stable for the foreseeable future.

We believe that the proliferation of Internet-connected devices, the increasing amount of digital video content, the growth in video consumption, particularly sports, on mobile devices and the demand for continually improving and personalized viewing experiences will be the principal drivers of our growth. As enterprises continue to struggle with the complexities of managing growing libraries of digital content, creating compelling branded user experiences and delivering those experiences across a wide range of connected devices in high-quality resolutions, we believe that our comprehensive product offerings and focus on innovation will allow us to increase revenues from existing customers and expand our customer base in our current markets and internationally.

To continue to grow our business, we intend to invest across our organization to expand and enhance our solutions and improve our operating efficiencies. These investments will increase our costs and expenses on an absolute dollar basis, but the timing and amount of these investments will vary based on the rate at which we expect to add new customers, the volume and timing of digital video content we expect to deliver, the implementation and support needs of our customers, our solution development plans, our technology infrastructure requirements and the internal needs of our organization. Many of these investments will occur in advance of our realizing any resultant benefit, which may make it difficult to determine if we are effectively allocating our resources.

Since our acquisition of DivX, we have reorganized our sales and marketing team and selling process to increase the number of representatives selling our NeuLion Digital Platform. We intend to target new customers both domestically and internationally and to increase the usage by our existing customers. We also expect to add sales and marketing personnel as well as bolster our investment in marketing initiatives to increase awareness of our solutions and to generate new customer opportunities. We do not know the extent to which these changes in our sales and marketing organization will be effective at adding new customers or growing our business. If we are successful in growing our revenue by increasing the number and scope of our customer relationships, we anticipate that greater economies of scale and increased operating leverage will improve our margins over the long term. We also anticipate that increases in the volume of digital video content will improve our margins.

Key Performance Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

	3 months ended September 30,			9 months ended September 30,		
	2015	2014	% change	2015	2014	% change
Revenue - Pro Forma (amounts in millions)	$ 21.9(1)	$ 18.5	18%	$ 68.5	$ 58.4	17%
Revenue (GAAP) as reported	$ 21.9	$ 12.2		$ 66.3	$ 39.1	
Revenue (GAAP) DivX (prior to acquisition)		$ 6.3		$ 2.2	$ 19.3	

We principally use pro forma revenue, in combination with non-GAAP revenue and platform revenue, as described below, to monitor the period-over-period performance of the business. Pro forma revenue reflects the combined revenue of our historical business and our acquired DivX business, adjusted as a result of purchase accounting. Our pro forma revenues increased 18% and 17% for the three and nine months ended September 30, 2015, respectively.

(1) Figures for the three months ended September 30, 2015 are actual results.

	3 months ended September 30,					9 months ended September 30,				
	2015		2014		% change	2015		2014		% change
Pro Forma Revenue - non-GAAP (amounts in millions)	$	25.6(1)	$	25.1	2%	$	81.4	$	80.6	1%
Revenue (GAAP) as reported	$	21.9(1)	$	12.2		$	66.3	$	39.1	
Revenue (GAAP) DivX (prior to acquisition)			$	6.3		$	2.2	$	19.3	
Revenue due to purchase accounting adjustment	$	3.7	$	6.6		$	12.9	$	22.2	

We principally use pro forma non-GAAP revenue, in combination with pro forma revenue and platform revenue, as described above and below, to monitor the period-over-period performance of the business. Pro forma non-GAAP revenue measures the revenue of our historical business and our acquired DivX business on a combined basis without excluded revenue due to purchase accounting. We expect the adjustments to revenue for purchase accounting to end in the first quarter of 2016. Our pro forma non-GAAP revenue increased by 2% and 1%, for the three and nine months ended September 30, 2015, respectively. The growth in pro forma non-GAAP revenue is lower than our organic revenue growth due to a decline in revenues in our DivX and MainConcept revenue streams. Refer to reconciliation of non-GAAP Revenue to GAAP Revenue, below, for full details.

(1) Figures for the three months ended September 30, 2015 are actual results.

	3 months ended September 30,					9 months ended September 30,				
	2015		2014		% change	2015		2014		% change
Revenue - NeuLion Digital Platform (amounts in millions)	$	14.3	$	12.2	17%	$	46.3	$	39.1	18%

We monitor our revenue from our NeuLion Digital Platform because we expect it to grow faster than our revenue from our other solutions as we add new customers and increase the variable revenue we realize from existing customers. As a result, we expect our platform revenue to continue to grow in absolute dollars and as a percentage of revenue. Our platform revenue grew 17% and 18% during the three and nine months ended September 30, 2015, respectively, and 18% for the full year 2014 versus 2013. Our platform revenue is seasonal, related to the timing and size of events that our customers deliver through our solution. The fourth quarter has historically been our highest revenue quarter, but this seasonality changes as we add new customers and events.

	3 months ended September 30,		9 months ended September 30,	
	2015	2014	2015	2014
Pro Forma Cost of Revenue as a % of Pro Forma non-GAAP Revenue	15%	17%	16%	19%

Cost of revenue consists principally of bandwidth costs paid in connection with our distribution of digital video content and, to a lesser extent, license fees paid to certain customers for whom we recognize revenue on a gross basis. We use cost of revenue as a percent of revenue, together with adjusted EBITDA, to measure the operating performance of our business. We have been able to reduce our cost of revenue as a percent of revenue as we have increased the digital video content we deliver on our NeuLion Digital Platform and as a result of the acquisition of DivX. Our cost per unit of bandwidth decreases as we deliver more digital video content. Our cost of revenue as a percentage of revenue going forward will depend primarily on our revenue mix.

	3 months ended September 30,					9 months ended September 30,				
	2015		2014		% change	2015		2014		% change
Pro Forma Adjusted EBITDA (amounts in millions)	$	5.0(1)	$	3.1	61%	$	16.0	$	11.9	34%

We monitor pro forma adjusted EBITDA, together with cost of revenue as a percent of revenue, to measure the operating performance of our business. We expect adjusted EBITDA to improve over time as we grow our revenue and improve our operating performance, but adjusted EBITDA as a percent of revenue will vary based on the timing of revenue and expenses. Refer to reconciliation of Adjusted EBITDA to GAAP Net Income, below, for full details.

(1) Figures for the three months ended September 30, 2015 are actual results.

	Year ended December 31,		
	2014	2013	2012
Petabytes Streamed	227	154	82

We measure the amount of digital video content we stream in petabytes We monitor petabytes streamed to measure the performance of both our variable revenues as well as our operating leverage in terms of cost of revenue from the NeuLion Digital Platform. As we stream more petabytes, our variable revenues increase while our cost of revenue as a percentage of revenue decreases. We expect our petabytes streamed to increase to over 300 petabytes in 2015 as we expand our customer relationships and we grow our existing customer base.

Reconciliation of GAAP Revenue to Pro Forma Revenue non-GAAP (in thousands)**:**

Three months ended September 30,	Organic 2015	Organic 2014	DivX 2015	DivX 2014	Consolidated 2015	Consolidated 2014
GAAP Revenue	$ 14,341	$ 12,177	$ 7,560	$ 6,283	$ 21,901	$ 18,460
Revenue excluded due to purchase accounting	0	0	3,741	6,660	3,741	6,660
Non-GAAP Revenue	$ 14,341	$ 12,177	$ 11,301	$ 12,943	$ 25,642	$ 25,120

Nine months ended September 30,	Organic 2015	Organic 2014	DivX 2015	DivX 2014	Consolidated 2015	Consolidated 2014
GAAP Revenue	$ 46,314	$ 39,056	$ 22,184	$ 19,397	$ 68,498	$ 58,453
Revenue excluded due to purchase accounting	0	0	12,937	22,136	12,937	22,136
Non-GAAP Revenue	$ 46,314	$ 39,056	$ 35,121	$ 41,533	$ 81,435	$ 80,589

Since DivX was acquired by NeuLion on January 30, 2015, the purchase price allocation included an adjustment to record the fair value of assumed contractual payments due to DivX for which no or little additional obligations existed in order to receive such payments. These contractual payments are for fixed multi-year site licenses and unbilled per unit royalties for units shipped prior to the acquisition. Prior to the acquisition, revenue in such transactions was recognized during the period in which such customers reported the number of royalty-eligible units that they had shipped. Revenues from annual or other license fees are recognized based on the specific terms of the license arrangement. For instance, some of the DivX's large CE customers have entered into agreements for which they have the right to ship an unlimited number of units over a specified term for a flat fee. The Company records the fees associated with these arrangements on a straight-line basis over the specified term. Upon closing the acquisition of DivX, because DivX assumed no additional obligations under such contracts, these fixed payments are considered a fixed payment stream, rather than revenue and are therefore treated as accounts receivable as opposed to revenue as part of the purchase accounting. The fair value of the remaining fixed payments due under the applicable contracts is estimated by calculating the discounted cash flows associated with such fixed payments. The reduction in revenues related to the fixed payments being treated as accounts receivable as opposed to revenues has been reflected as a non-GAAP financial measure to include the effect of the excluded revenues to allow investors and analysts to make meaningful comparisons between DivX's ongoing core business operating results and those of other companies.

We anticipate the revenue excluded due to purchase accounting going-forward as follows:

Q4 2015	3,478
Q1 2016	878
	$ 4,356

Reconciliation of Pro Forma GAAP Net Income (Loss) to Pro Forma Adjusted EBITDA (in thousands)**:**

Three months ended September 30,	Organic 2015	Organic 2014	DivX 2015	DivX 2014	Consolidated 2015	Consolidated 2014
Consolidated Net Income (Loss) on a GAAP basis	$ 855	$ 249	$ (3,975)	$ (6,515)	$ (3,120)	$ (6,266)
Revenue excluded due to purchase accounting	0	0	3,741	6,660	3,741	6,660
Depreciation and amortization	450	680	1,596	1,434	2,046	2,114
Stock-based compensation	921	380	0	277	921	657
Income taxes	(167)	(28)	1,408	(54)	1,241	(82)
Investment income (expense) and foreign exchange loss	145	29	(12)	(12)	133	17
Adjusted EBITDA	$ 2,204	$ 1,310	$ 2,758	$ 1,790	$ 4,962	$ 3,100

Nine months ended September 30,	Organic 2015	Organic 2014	DivX 2015	DivX 2014	Consolidated 2015	Consolidated 2014
Consolidated Net Income (Loss) on a GAAP basis	$ 4,926	$ 1,946	$ (14,001)	$ (20,268)	$ (9,076)	$ 18,322
Revenue excluded due to purchase accounting	0	0	12,937	22,136	12,937	22,136
Depreciation and amortization	1,389	2,076	4,778	4,256	6,167	6,332
Stock-based compensation	1,843	1,089	0	0	1,843	1,089
Acquisition-related expenses	342	0	18	1,185	360	1,185
Gain on revaluation of convertible note derivative	(507)	0	0	0	(507)	0
Income taxes	71	164	3,871	(351)	3,942	(187)
Investment income (expense) and foreign exchange loss	441	(362)	(92)	(2)	349	(364)
Adjusted EBITDA	$ 8,505	$ 4,913	$ 7,511	$ 6,956	$ 16,015	$ 11,869

We report non-GAAP Revenue and Adjusted EBITDA because they are key measures used by management to evaluate our results and make strategic decisions about the Company, including potential acquisitions. Non-GAAP revenues represents GAAP revenues before purchase price accounting adjustments as a result of an acquisition. Non-GAAP Adjusted EBITDA represents net income (loss) before interest, income taxes, depreciation and amortization, stock-based compensation, acquisition-related expenses, purchase accounting adjustments, gain on revaluation of convertible note derivative, investment income/expense and foreign exchange gain/loss. This measure does not have any standardized meaning prescribed by U.S. GAAP and therefore is unlikely to be comparable to the calculation of similar measures used by other companies, and should not be viewed as an alternative to measures of financial performance or changes in cash flows calculated in accordance with U.S. GAAP.

COMPONENTS OF OPERATING RESULTS

We operate in one segment. Our chief operating decision-maker reviews our operating results on an aggregate basis and manages our operations as a single operating segment.

Revenue

We generate revenue by offering the NeuLion Digital Platform on a subscription license basis. Our revenue is generated from fees determined by the number of channels through which we deliver our customers' content, the number of events we stream and the number of connected devices we enable, as well as from variable fees determined by the volume of digital video content we deliver and the end user revenue generated by our customers. In addition, we generate revenue from our DivX solution through software license agreements with CE manufacturers.

Our contracts with customers are typically between two years and five years. Our contracts are generally on an exclusive basis. We recognize recurring fees in the period in which services are provided and when collection of fees is reasonably assured and the amount of fees is fixed or determinable.

Our platform revenue is seasonal and is based significantly on the timing and size of events that our customers deliver through our solution. The fourth quarter has historically been our highest revenue quarter, but this seasonality changes as we add new customers and events.

Cost and Expenses

Cost of revenue

Cost of revenue consists principally of bandwidth costs paid in connection with our distribution of digital video content and, to a lesser extent license, fees paid to certain customers for whom we recognize revenue on a gross basis. Cost of revenue excludes amortization and depreciation and labor costs.

We expect cost of revenue to increase in absolute dollars as revenue increases; however, we expect cost of revenue as a percentage of revenue to decrease for the foreseeable future.

Selling, general and administrative expenses, including stock-based compensation

Selling, general and administrative expenses, including stock-based compensation, or SG&A, include wages and benefits, stock-based compensation, acquisition-related expenses, professional fees, marketing costs, travel expenses, rent, office supplies, corporate IT services, credit card processing fees and other general operating expenses. Historically, approximately 75% of SG&A has consisted of wages and benefits for our employees.

We expect SG&A to increase in absolute dollars as we add personnel, increase our spending on sales and marketing and grow our business; however, we expect SG&A to decline as a percent of revenue over time.

Research and development

Research and development expenses primarily consist of wages and benefits for research and development personnel. We expect research and development to increase in absolute dollars as we continue to add personnel to enhance and grow our solutions; however, we expect research and development to decline as a percent of revenue over time.

RESULTS OF OPERATIONS

Comparison of Three Months Ended September 30, 2015 to Three Months Ended September 30, 2014 (unaudited)

Our consolidated financial statements for the three months ended September 30, 2015 have been prepared in accordance with U.S. GAAP. A comparison of our results of operations for those periods is as follows (amounts in thousands):

	3 months ended September 30,			
	2015			2014
	NeuLion	DivX	Total	NeuLion
Revenue	$ 14,341	$ 7,560	$ 21,901	$ 12,177
Costs and expenses				
Cost of revenue, exclusive of depreciation and amortization shown separately below	3,124	739	3,863	2,813
Selling, general and administrative, including stock-based compensation	7,482	3,668	11,150	6,330
Research and development	2,453	4,136	6,589	2,104
Depreciation and amortization	449	1,596	2,045	680
	13,508	10,139	23,647	11,927
Operating income (loss)	833	(2,579)	(1,746)	250
Other income (expense)	(145)	11	(134)	(29)
Net and comprehensive income (loss) before income taxes	688	(2,568)	(1,880)	221
Income taxes	168	(1,408)	(1,240)	28
Net and comprehensive income (loss)	$ 856	$ (3,976)	$ (3,120)	$ 249

Revenue

Revenue increased to $21.9 million for the three months ended September 30, 2015 from $12.2 million for the three months ended September 30, 2014. The $9.7 million improvement was primarily the result of the acquisition of DivX, which accounted for $7.6 million of revenue during the quarter. The organic improvement of $2.1 million, or 17%, was primarily the result of an increase in revenue from fixed license fees of $1.0 million and variable usage fees of $0.9 million.

Costs of Revenue

Cost of revenue increased to $3.9 million for the three months ended September 30, 2015 from $2.8 million for the three months ended September 30, 2014. Cost of revenue as a percentage of revenue improved from 23% for the three months ended September 30, 2014 to 18% for the three months ended September 30, 2015. The 5 percentage point improvement (as a percentage of revenue) primarily resulted from the acquisition of DivX and improved broadcast operating costs.

Selling, general and administrative expenses, including stock-based compensation

Selling, general and administrative expenses, including stock-based compensation, increased by $4.8 million, or 76%, from $6.3 million for the three months ended September 30, 2014 to $11.1 million for the three months ended September 30, 2015. Selling, general and administrative expenses, including stock-based compensation, but excluding expenses associated with the acquisition of DivX were $7.5 million, an increase of 19%. The individual variances are as follows:

- Wages and benefits increased from $4.5 million for the three months ended September 30, 2014 to $7.1 million for the three months ended September 30, 2015. DivX accounted for $2.1 million of wages and benefits. The remaining $0.5 million increase was primarily a result of salary increases and bonuses.

- Stock based compensation increased from $0.4 million for the three months ended September 30, 2014 to $0.9 million for the three months ended September 30, 2015. The $0.5 million increase was the result of stock option and restricted stock grants.

- Professional fees increased from $0.3 million for the three months ended September 30, 2014 to $1.0 million for the three months ended September 30, 2015. The $0.7 million increase was primarily the result of the acquisition of DivX.

- Marketing expenses increased from a nominal amount for the three months ended September 30, 2014 to $0.3 million for the three months ended September 30, 2015. The $0.3 million increase was primarily the result of the acquisition of DivX.

• Other SG&A expenses increased from $1.1 million for the three months ended September 30, 2014 to $1.8 million for the three months ended September 30, 2015. DivX accounted for $0.7 million of Other SG&A expenses. Other SG&A expenses include travel expenses, rent, office supplies, corporate IT services, credit card processing fees and other general operating expenses.

Research and development

Research and development costs increased from $2.1 million for the three months ended September 30, 2014 to $6.6 million for the three months ended September 30, 2015. DivX accounted for $4.1 million of research and development costs. The remaining $0.4 million increase was primarily a result of salary increases and bonuses approved in the second quarter of 2015.

Depreciation and amortization

Depreciation and amortization increased from $0.7 million for the three months ended September 30, 2014 to $2.0 million for the three months ended September 30, 2015. The $1.3 million increase was due to amortization of intangible assets as a result of the acquisition of DivX.

Income taxes

The provision for income taxes during the 2015 and 2014 periods is primarily comprised of current and deferred tax expense in profitable cost-plus foreign jurisdictions, changes in deferred tax liabilities that cannot be offset by deferred tax assets and foreign withholding taxes. Due to the full valuation allowance on our U.S. net deferred tax assets, we do not incur significant U.S. income tax expense or benefit.

As of September 30, 2015, we continued to provide a full valuation allowance against essentially all of our U.S. deferred tax assets as we do not believe that it is more likely than not that we will realize a benefit from those assets. We have not recorded a valuation allowance against certain foreign net deferred tax assets as we believe that it is more likely than not that we will realize a benefit from those assets.

Comparison of Nine Months Ended September 30, 2015 to Nine Months Ended September 30, 2014 (unaudited)

Our consolidated financial statements for the nine months ended September 30, 2015 have been prepared in accordance with U.S. GAAP. A comparison of our results of operations for those periods is as follows (in thousands):

	9 months ended September 30,			
	2015			2014
	NeuLion	DivX	Total	NeuLion
		(1)		
Revenue	$ 46,314	$ 19,945	$ 66,259	$ 39,056
Costs and expenses				
Cost of revenue, exclusive of depreciation and amortization shown separately below	10,337	2,067	12,404	9,860
Selling, general and administrative, including stock-based compensation	22,367	10,088	32,455	19,108
Research and development	7,291	12,093	19,384	6,265
Depreciation and amortization	1,388	4,245	5,633	2,075
	41,383	28,493	69,876	37,308
Operating income (loss)	4,931	(8,548)	(3,617)	1,748
Other income	65	30	95	362
Net and comprehensive income (loss) before income taxes	4,996	(8,518)	(3,522)	2,110
Income taxes	(71)	(3,258)	(3,329)	(164)
Net and comprehensive income (loss)	$ 4,925	$ (11,776)	$ (6,851)	$ 1,946

(1) Results for DivX are for the period from February 1, 2015 to September 30, 2015.

Revenue

Revenue increased to $66.3 million for the nine months ended September 30, 2015 from $39.1 million for the nine months ended September 30, 2014. The $27.2 million improvement was primarily the result of the acquisition of DivX, which accounted for $19.9 million of revenue during the quarter. The organic improvement of $7.3 million, or 19%, was primarily the result of an increase in revenue from fixed license fees of $2.4 million and variable usage fees of $4.5 million.

Costs of Revenue

Cost of revenue increased to $12.4 million for the nine months ended September 30, 2015 from $9.9 million for the nine months ended September 30, 2014. Cost of revenue as a percentage of revenue improved from 25% for the nine months ended September 30, 2014 to 19% for the nine months ended September 30, 2015. The 6 percentage point improvement (as a percentage of revenue) primarily resulted from the acquisition of DivX and improved broadcast operating costs.

Selling, general and administrative expenses, including stock-based compensation

Selling, general and administrative expenses, including stock-based compensation, increased by $13.4 million, or 70%, from $19.1 million for the nine months ended September 30, 2014 to $32.5 million for the nine months ended September 30, 2015. Selling, general and administrative expenses, including stock-based compensation, excluding expenses associated with the acquisition of DivX were $22.4 million, an increase of 17%. The individual variances are as follows:

- Wages and benefits increased from $13.9 million for the nine months ended September 30, 2014 to $21.0 million for the nine months ended September 30, 2015. DivX accounted for $6.0 million of wages and benefits. The remaining $1.1 million increase was primarily a result of retroactive salary increases and bonuses.

- Stock-based compensation increased from $1.1 million for the nine months ended September 30, 2014 to $1.8 million for the nine months ended September 30, 2015. The $0.7 million increase was the result of stock option and restricted stock grants.

- Professional fees increased from $1.0 million for the nine months ended September 30, 2014 to $2.4 million for the nine months ended September 30, 2015. The $1.4 million increase was primarily the result of the acquisition of DivX.

- Marketing expenses increased from $0.3 million for the nine months ended September 30, 2014 to $1.1 million for the nine months ended September 30, 2015. The $0.8 million increase was primarily the result of the acquisition of DivX.

- Acquisition-related expenses increased from $0 million for the nine months ended September 30, 2014 to $0.4 million for the nine months ended September 30, 2015. The $0.4 million increase was the result of the acquisition of DivX.

- Other SG&A expenses increased from $2.8 million for the nine months ended September 30, 2014 to $5.8 million for the nine months ended September 30, 2015. DivX accounted for $2.1 million of Other SG&A expenses. Other SG&A expenses include travel expenses, rent, office supplies, corporate IT services, marketing, credit card processing fees and other general operating expenses.

Research and development

Research and development costs increased from $6.3 million for the nine months ended September 30, 2014 to $19.4 million for the nine months ended September 30, 2015. DivX accounted for $12.1 million of research and development costs. The remaining $1.0 million increase was primarily a result of retroactive salary increases and bonuses approved during the second quarter of 2015.

Depreciation and amortization

Depreciation and amortization increased from $2.1 million for the nine months ended September 30, 2014 to $5.6 million for the nine months ended September 30, 2015. The $3.5 million increase was due to the amortization of intangibles as a result of the acquisition of DivX.

Income taxes

The provision for income taxes during the 2015 and 2014 periods is primarily comprised of current and deferred tax expense in profitable cost-plus foreign jurisdictions, changes in deferred tax liabilities that cannot be offset by deferred tax assets and foreign withholding taxes. Due to the full valuation allowance on our U.S. net deferred tax assets, we do not incur significant U.S. income tax expense or benefit.

As of September 30, 2015, we continued to provide a full valuation allowance against essentially all of our U.S. deferred tax assets as we do not believe that it is more likely than not that we will realize a benefit from those assets. We have not recorded a valuation allowance against certain foreign net deferred tax assets as we believe that it is more likely than not that we will realize a benefit from those assets.

LIQUIDITY AND CAPITAL RESOURCES

Our cash position was $59.1 million at September 30, 2015. During the nine months ended September 30, 2015, we generated $23.3 million from operating activities, which included cash of $22.3 million from changes in operating assets and liabilities. Additionally, cash provided by financing activities included $0.9 million from the exercise of stock options and broker units and cash provided by investing activities included $9.7 million from the acquisition of DivX, offset by $1.2 million to purchase fixed assets.

As of September 30, 2015, our principal sources of liquidity included cash and cash equivalents of $59.1 million and trade accounts receivable of $16.0 million, offset by $22.9 million in accounts payable and $9.3 million in accrued liabilities. We continue to closely monitor our cash balances to ensure that we have sufficient cash on hand to meet our operating needs. Management believes that we have sufficient liquidity to meet our working capital and capital expenditure requirements for at least the next twelve months.

At September 30, 2015, approximately 39% of our cash and cash equivalents were held in accounts with a U.S. bank that received a BBB+ rating from Standard and Poor’s and an Baa1 rating from Moody’s and 26% of our cash and cash equivalents were held in accounts with a U.S. bank that received a AA- rating from Standard and Poor’s and an AA1 rating from Moody’s. The Company believes that these U.S. financial institutions are secure notwithstanding the current global economy and that we will be able to access the balance of our bank deposits. Our investment policy is to invest in low-risk short-term investments which are primarily term deposits. We have not had a history of any defaults on these term deposits, nor do we expect any in the future given the short- term maturity of these investments.

Working Capital Requirements

Our net working capital at September 30, 2015 was $36.3 million, an improvement of $29.2 million from the December 31, 2014 net working capital of $7.1 million. Our working capital ratios at September 30, 2015 and December 31, 2014 were 1.8 and 1.2, respectively. Included in current liabilities at September 30, 2015 and December 31, 2014 are approximately $11.6 million and $9.6 million, respectively, of liabilities (deferred revenue) that we do not anticipate settling in cash.

The change in working capital was primarily due to increases in current assets of $43.9 million and current liabilities of $14.7 million.

Current assets at September 30, 2015 were $80.2 million, an increase of $43.9 million from the December 31, 2014 balance of $36.3 million. The change was primarily due to an increase of $33.2 million in cash and cash equivalents, $7.9 million in accounts receivable and $2.3 million in prepaid expenses and deposits.

Current liabilities at September 30, 2015 were $43.9 million, an increase of $14.7 million from the December 31, 2014 balance of $29.2 million. The increase was primarily due to increases of $8.5 in accounts payable, $4.1 million in accrued liabilities and $2.0 million in deferred revenue.

Off Balance Sheet Arrangements

The Company did not have any off balance sheet arrangements as of September 30, 2015.