

OMINTO, INC.

FORM 10-Q/A (Amended Quarterly Report)

Filed 11/17/17 for the Period Ending 03/31/17

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

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended **March 31, 2017**

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 0-49801

OMINTO, INC.



(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

13-4067623

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

**1515 S. Federal Highway, Suite 307
Boca Raton, Florida 33432**

(Address of principal executive offices)

561-362-2393

(Registrant's telephone number, including area code)

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of each of the issuer's classes of stock, as of November 14, 2017 is as follows:

Number of shares of Common Stock outstanding: 17,282,352

EXPLANATORY NOTE

Ominto, Inc. (“Ominto,” the “Company,” “we,” “our,” or “us”) is filing this amendment No. 1 on Form 10-Q/A to the Company’s Quarterly Report on Form 10-Q (“the Amendment”) for the period ended March 31, 2017, as originally filed with the Securities and Exchange Commission (“the SEC”) on May 16, 2017 (“Original Filing”), to restate our unaudited condensed consolidated financial statements and related footnote disclosures at March 31, 2017 and for the three and six months ended March 31, 2017. The restatement has arisen in connection with the Company’s acquisition of its VIE, Lani Pixels, on December 13, 2016. The 1,285,714 shares of the Company’s common stock issued as part of the consideration paid in the acquisition of Lani Pixels should have been recorded as treasury stock on the Company’s unaudited condensed consolidated financial statements. Additionally, total goodwill recorded in the acquisition was not pushed down to Lani Pixels. Details and net effect of the restatement can be found in Note 18, *Restatement*, of our Notes to the unaudited condensed consolidated financial statements included in this report. In addition, the Company should have recorded and disclosed: (a) its various related party transactions; and (b) its commitments and contingencies. Details of related party transactions and commitments and contingencies can be found in Notes 9, *Related Party Transactions* and Note 13, *Commitments and Contingencies* in the Notes to unaudited condensed consolidated financial statements included in this report.

In addition, the Company should have also recorded and disclosed additional cost of revenues totaling \$890,000 during the three months ended March 31, 2017 that resulted from several Business Associates earning 218,052 shares of the Company’s common stock in connection with a prior marketing campaign called the “Hot Summer Promotion.” The issuance of shares tied to the promotion was triggered by the approval to list the Company’s shares on the Nasdaq Capital Markets stock exchange (“Nasdaq”) on March 6, 2017. In addition to standard commissions, the Company offered an extra 20% commission to participating BAs (payable in shares of Ominto common stock subject to approval of the listing of the Company’s common stock on Nasdaq). The total amount to be expensed as cost of revenues is \$1,281,000 recognized ratably over twelve months with related revenue. The Company also will issue approximately 218,052 shares related to this promotion. The Company valued these shares using the closing price of the Company’s common stock on March 6, 2017 (see Note 18, *Restatement* in the Notes to unaudited condensed consolidated financial statements included in this report).

The Company is also restating the fair value of restricted shares granted and issued to our CEO due to a determination that we had previously utilized an incorrect measurement date in the determination of fair value. Thus, we are now recording a reduction of our selling, general, and administrative expenses of approximately \$265,000.

Items Amended in this Form 10-Q/A

This Form 10-Q/A sets forth the Original Filing, in its entirety, as modified and superseded as necessary to reflect the restatement described above. The following items in the Original Filing have been amended as a result of, and to reflect, the restatement:

- A. Part I, Item 1. Financial Statements and Notes to Financial Statements
- B. Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

In addition, The Company’s Chief Executive Officer and Chief Financial Officer have provided new certifications dated as of the date of this filing in connection with this amendment (Exhibits 31.1, 31.2 and 32.1) and the Company has provided its revised unaudited condensed consolidated financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibit 101.

Except as provided in this explanatory note, or as indicated in the applicable disclosure, this Amendment No. 1 has not been updated to reflect other events occurring after the filing of the Original Filing and does not modify or update information and disclosures in the Original Filing affected by subsequent events. Accordingly, this Amendment No. 1 should be read in conjunction with our filings with the SEC subsequent to the date on which we filed the Original Filing, together with any amendments to those filings.

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PART I: FINANCIAL INFORMATION

Ominto, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	<u>March 31, 2017</u> (restated)	<u>September 30,</u> <u>2016</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (amount related to VIE \$130,859)	\$ 11,509,309	\$ 9,596,394
Restricted cash	1,720,087	1,997,921
Other receivables and prepaid expenses (amount related to VIE of \$693,695)	1,373,683	573,958
Deferred costs	17,781,106	7,431,751
Total current assets	32,384,185	19,600,024
Property and equipment, net (amount related to VIE of \$243,450)	2,065,596	2,042,316
Goodwill (amount related to VIE of 19,834,636)	19,834,636	-
Film costs (amount related to VIE of 4,519,238)	4,519,238	-
Investment in unconsolidated company, at cost	3,214,284	-
Other assets	67,102	42,471
TOTAL ASSETS	\$ 62,085,041	\$ 21,684,811
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable (amount related to VIE of \$585,215)	\$ 1,272,033	\$ 1,560,001
Amounts payable to Business Associates	5,447,947	5,114,675
Customer deposits	2,510,220	2,829,220
Other payables and accrued liabilities (amount related to VIE of \$376,912)	3,961,220	3,129,671
Amounts due to related parties (amount related to VIE of \$1,255,014)	2,137,439	539,438
Deferred subscription fee revenue	21,670,004	13,111,338
Deferred advertising revenue	9,180,575	2,897,835
Debt (amount related to VIE of \$1,857,834)	1,857,834	-
Liabilities of discontinued operations	-	26,975
Total current liabilities	48,037,272	29,209,153
TOTAL LIABILITIES	48,037,272	29,209,153
Commitments and contingencies		
EQUITY (DEFICIT):		
Preferred stock, \$.01 par value; 25.0 million shares authorized; 185,000 and 185,000 shares issued and outstanding, respectively.	1,850	1,850
Common stock, \$.001 par value; 200.0 and 14.0 million shares authorized at March 31, 2017 and September 30, 2016 respectively; approx. 18.3 and 13.4 million shares issued at March 31, 2017 and September 30, 2016 respectively; approx. 17.0 and 13.4 million shares outstanding at March 31, 2017 and September 30, 2016 respectively, approx.	18,259	13,386
Additional paid-in capital	72,509,336	51,120,663
Treasury stock, at cost (1,285,714 shares)	(5,142,856)	-
Subscription receivable	(970,000)	-
Accumulated other comprehensive income	1,265,976	936,705
Accumulated deficit	(66,653,070)	(59,596,946)
Total Ominto, Inc. stockholders' equity (deficit)	1,029,495	(7,524,342)
Noncontrolling interests	13,018,274	-
Total equity (deficit)	14,047,769	(7,524,342)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	\$ 62,085,041	\$ 21,684,811

See accompanying notes to unaudited condensed consolidated financial statements.

Ominto, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017 (restated)	2016	2017 (restated)	2016
REVENUE				
Business license fees	\$ 2,184,554	\$ 613,424	\$ 3,940,722	\$ 1,403,755
Membership subscription fees and commission income	4,921,246	3,256,975	8,577,840	7,721,950
Advertising and marketing programs	585,919	13,792	957,754	20,269
Other	169,421	112,473	257,296	282,919
Gross Revenue	7,861,140	3,996,664	13,733,612	9,428,893
COST OF REVENUES				
	5,296,282	3,015,590	9,254,983	6,906,852
Gross profit	2,564,858	981,074	4,478,629	2,522,041
Selling, general and administrative expenses	7,637,745	4,016,390	11,934,242	7,815,783
LOSS FROM OPERATIONS	(5,072,887)	(3,035,316)	(7,455,613)	(5,293,742)
OTHER INCOME (EXPENSE):				
Interest (Expense)/Income	(8,530)	16	(51,901)	(298,828)
Change in fair value of derivative liability	-	-	-	549,656
LOSS BEFORE INCOME TAXES	(5,081,417)	(3,035,300)	(7,507,514)	(5,042,914)
Income taxes	-	-	-	-
LOSS FROM CONTINUING OPERATIONS	(5,081,417)	(3,035,300)	(7,507,514)	(5,042,914)
(Loss) income from discontinued operations, net of taxes	(230)	28,060	25,825	31,908
Net loss including noncontrolling interest	(5,081,647)	(3,007,240)	(7,481,689)	(5,011,006)
Net loss attributable to noncontrolling interest	310,340	-	425,565	-
NET LOSS ATTRIBUTABLE TO OMINTO, INC.	\$ (4,771,307)	\$ (3,007,240)	\$ (7,056,124)	\$ (5,011,006)
NET LOSS PER SHARE ATTRIBUTABLE TO OMINTO, INC. - Basic and diluted				
Loss from continuing operations	(0.30)	(0.25)	(0.49)	(0.43)
(Loss) Income from discontinued operations	0.00	0.00	0.00	0.00
Total loss attributable to Ominto, Inc.	(0.28)	(0.25)	(0.46)	(0.43)
WEIGHTED AVERAGE SHARES OUTSTANDING Basic and diluted	16,803,394	11,921,187	15,328,157	11,759,438

See accompanying notes to unaudited condensed consolidated financial statements.

Ominto, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2017	2016	2017	2016
(restated)	(restated)		(restated)	
Net loss including noncontrolling interest	\$ (5,081,647)	\$ (3,007,240)	\$ (7,481,689)	\$ (5,011,006)
Net loss attributable to noncontrolling interest	310,340	-	425,565	-
Net loss attributable to Ominto, Inc.	\$ (4,771,307)	\$ (3,007,240)	\$ (7,056,124)	\$ (5,011,006)
Other comprehensive income (loss)				
Foreign currency translation adjustments	1,005,378	(340,105)	329,271	(142,711)
Comprehensive loss attributable to Ominto, Inc.	\$ (3,765,929)	\$ (3,347,345)	\$ (6,726,853)	\$ (5,153,717)

See accompanying notes to condensed consolidated financial statements.

Ominto, Inc. and Subsidiaries
Condensed Consolidated Statements of Equity (Deficit) (Unaudited) (restated)
Six months ended March 31, 2017

	Preferred stock		Common stock		Additional paid-in capital	Treasury stock	Subscription receivable	Accumulated other comprehensive income		Total Ominto equity (deficit)	Non- controlling Interest	Total equity (deficit)
	Shares outstanding	Par value	Shares	Par value				Accumulated deficit	Accumulated deficit			
Balance, September 30, 2016	185,000	\$1,850	13,386,538	\$13,387	\$51,120,663	\$ -	\$ -	936,705	\$ (59,596,946)	\$(7,524,341)	\$ -	\$(7,524,341)
Stock based compensation	-	-	260,000	260	1,681,107	-	-	-	-	1,681,367	-	1,681,367
Common stock issuance for services	-	-	113,950	114	440,386	-	-	-	-	440,500	-	440,500
Private placement	-	-	523,161	522	2,091,756	-	-	-	-	2,092,278	-	2,092,278
Private placement to Michael Hansen	-	-	300,000	300	2,069,700	-	(70,000)	-	-	2,000,000	-	2,000,000
Common stock issued for Investment in unconsolidated company	-	-	803,571	804	3,213,480	-	-	-	-	3,214,284	-	3,214,284
Acquisition of subsidiary with non-controlling interests	-	-	2,428,571	2,429	9,711,855	(5,142,856)	-	-	-	4,571,428	13,256,489	17,827,917
Issuances of common stock for promotions	-	-	218,052	218	1,280,614	-	-	-	-	1,280,832	-	1,280,832
Subscribed common stock sold	-	-	225,000	225	899,775	-	(900,000)	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	329,271	-	329,271	187,350	516,621
Net loss	-	-	-	-	-	-	-	-	(7,056,124)	(7,056,124)	(425,565)	(7,481,689)
Balance, March 31, 2017 As restated	185,000	\$1,850	18,258,843	\$18,259	\$72,509,336	\$(5,142,856)	\$(970,000)	1,265,976	\$ (66,653,070)	\$ 1,029,495	\$13,018,274	\$14,047,769

See accompanying notes to condensed consolidated financial statements.

Ominto, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended	
	March 31,	
	2017	2016
	Restated	
CASH FLOW FROM OPERATING ACTIVITIES:		
Loss from continuing operations including noncontrolling interest	\$ (7,507,514)	\$ (5,042,914)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	253,617	33,191
Write-off of uncollectible accounts	103,357	-
Stock issued for services	440,500	-
Stock-based compensation	1,681,367	690,707
Stock issued to Business Associates	1,280,832	-
Change in fair value of derivative liability		(549,656)
Changes in operating assets and liabilities, net of effects of acquisition:		
Restricted cash	183,365	(436,994)
Other receivables and prepaid expenses	(432,181)	(1,033,543)
Deferred costs	(10,749,413)	1,960,180
Other assets	(7,259)	-
Accounts Payable	(964,206)	412,492
Amounts payable to Business Associates	588,612	195,276
Customer deposits	(178,450)	517,630
Other payables and accrued liabilities	(671,638)	1,376,871
Amounts due to related parties	1,598,001	(191,857)
Deferred subscription fee revenue	9,235,829	(2,381,445)
Deferred advertising revenue	6,467,008	183,673
NET CASH FLOWS PROVIDED BY/(USED IN) CONTINUING OPERATIONS	1,321,827	(4,266,389)
Income (loss) from assets and liabilities of discontinued operations	25,825	31,908
Net change in assets and liabilities of discontinued operations	(25,814)	(5,301)
Net cash flows from discontinued operations	11	26,607
NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES	1,321,838	(4,239,782)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in debenture to VIE prior to acquisition	(2,000,000)	-
Issuance of note receivable to VIE prior to acquisition	(500,000)	-
Acquisition of business, net of cash acquired	683,401	-
Acquisition of movie rights and related expenses- included in film costs	(1,152,024)	-
Purchases of equipment and software	(42,836)	(505,630)
NET CASH FLOWS USED IN INVESTING ACTIVITIES:	(3,011,459)	(505,630)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	2,092,279	362,260
Proceeds from stock sold to CEO	2,000,000	-
Advances from related parties	78,527	-
Proceeds from exercise of warrant	-	250,000
Proceeds from convertible loan	-	1,400,000
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	4,170,806	2,012,260
Effect of exchange rate changes	(568,270)	155,854
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,912,915	(2,577,298)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,596,394	3,531,124
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,509,309	\$ 953,826
Supplemental cash flow information:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Non-cash investing and financing activities:		
Conversion of convertible notes to common stock	\$ -	\$ 5,000,000

Reclass of derivative liability of warrants to stockholders' equity	\$	-	\$	165,919
Stock issued in lieu of salaries, bonuses and fees	\$	-	\$	227,527
Common stock issued for acquisition	\$	9,714,284	\$	-
Common stock issued for investment in unconsolidated company	\$	3,214,284	\$	-
Subscription receivable	\$	970,000	\$	-
Treasury stock - owned by VIE	\$	(5,142,856)	\$	-

See accompanying notes to unaudited condensed consolidated financial statements.

Ominto, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

1. The Company

On June 26, 2015, the Company changed its name to Ominto, Inc. (“Ominto,” the “Company,” “we,” “our,” or “us”) from DubLi, Inc. We are a global e-commerce Cash Back and network marketing company that operates a worldwide shopping website. We market membership subscriptions directly to consumers and through Partner Programs and our network marketing subsidiary. The Company is incorporated in the State of Nevada and our principal executive offices are located in Boca Raton, Florida. The Company operates under both the Ominto.com and DubLi.com websites.

The Company’s wholly owned operating subsidiaries are:

- Dublicom Limited (“DUBLICOM”), a Cyprus limited company, which operates DubLi Network’s white-label Cash Back shopping website, DubLi.com;
- DubLi Network Limited (“DubLi Network”), a British Virgin Islands limited company, which operates Ominto’s global network of Business Associates;
- DubLi Properties, LLC, a Delaware limited liability company, which holds certain rights to real estate in the Cayman Islands;
- DubLi India Private Limited, a Haryana, India company, which operates Ominto’s global network of Business Associates in India.
- BSP Rewards Inc., a Florida corporation, which operates Ominto’s Partner Program.
- Ominto India Private Limited, a New Delhi, India company, which operates Ominto’s Cash Back shopping website in India; and
- Ominto Limited, a limited company in Ireland, which operates Ominto’s Cash Back shopping website.

Our e-commerce Cash Back transactions throughout the world are conducted through DubLi.com’s shopping website. We have a large network of independent Business Associates (“BAs”) that sells our e-commerce Cash Back products.

In December 2016, the Company acquired a controlling interest in Lani Pixels A/S (“Lani Pixels”), an animation production company focused on feature-length films and digital marketing content. Lani Pixels is based in Billund, Denmark and has offices in Denmark and Dubai, U.A.E. As a result of the transaction, the Company owns 40.02% of the outstanding common shares and controls 50.02% of the voting rights of Lani Pixels through the execution of a voting rights agreement with a Lani Pixels shareholder who is also a shareholder of Ominto. (See *Note 5, Acquisition* in the notes to financial statements). The Company exercises control over the operations of Lani Pixels. Lani Pixels will act as Ominto’s strategic content partner in the future.

In December 2016, the Company also acquired a noncontrolling interest in Quant Systems, Inc. (“Quant”), an information technology service company in Irving, Texas. The Company owns 18.75% of the common shares of Quant and does not exercise control over the operations of Quant (see *Note 6, Investment in Unconsolidated Company* in the notes to condensed consolidated financial statements).

Mr. Michael Hansen, the Chief Executive Officer and a Director of the Company, has a direct ownership of approximately 3.3 million shares of our common stock and 185,000 shares (100%) of our issued and outstanding super voting preferred stock as of March 31, 2017. Each share of our super voting preferred votes as 40 shares of common stock. As a result, Mr. Hansen has the power to cast approximately 44% of the votes, that could be cast by our stockholders (net of treasury shares owned by our VIE Lani Pixels) as of March 31, 2017. Accordingly, he has the power to influence or control the outcome of important corporate decisions or matters submitted to a vote of our stockholders, including, but not limited to, increasing the authorized capital stock of the Company, the dissolution or merger of the Company, sale of all the Company's assets or changing the size and composition of the board of directors. However, Mr. Hansen's 185,000 shares of super voting preferred stock will convert to 185,000 shares of common stock in August 2017, which will reduce his voting control. Betina Dupont Sorensen, the Company's Chief Operating Officer, has a direct ownership of approximately 208,000 shares of our common stock or approximately 1% of the votes that could be cast by our stockholders (net of treasury shares owned by our VIE Lani Pixels) as of March 31, 2017. Ms. Sorensen and our CEO Mr. Hansen share a household.

On March 6, 2017, the Company's common stock was approved for listing on the Nasdaq Capital Market stock exchange and its first day of trading on the exchange was March 20, 2017. Prior to this, the Company's common stock was traded on the Over the Counter ("OTC") market.

Increase in Authorized Shares

During October 2016, the Company's shareholders approved the increase of its authorized shares of common stock to 200 million shares from 14 million shares and to increase its authorized shares under the 2010 Omnibus Equity Compensation Plan to 4.5 million shares from 3.0 million shares.

Liquidity and Capital Resources

As of March 31, 2017, total assets from continuing operations were approximately \$62,085,000 consisting of approximately \$32,384,000 of current assets including accounts receivable and prepaid expenses of approximately \$1,374,000, cash and cash equivalents of \$11,509,000, restricted cash of \$1,720,000, and deferred costs of \$17,781,000. Our non-current assets included Property plant and equipment of approximately \$2,066,000, Goodwill of \$19,834,636, \$4,519,000 of film costs related to our VIE Lani Pixels, \$3,214,000 of investments in an unconsolidated company, and \$67,000 of other assets.

Total liabilities associated with our continuing operations for the quarter ended March 31, 2017 are all current liabilities and totaled approximately \$48,037,000 including \$1,858,000 of debenture bonds owed by our VIE, Lani Pixels ("VIE Bonds"). Our current liabilities as of March 31, 2017 were also comprised of \$21,670,000 of deferred subscription fees, \$9,181,000 of deferred advertising revenue, \$3,961,000 of other payables and accrued liabilities, \$2,510,000 of customer deposits, \$5,447,000 payable to Business Associates, \$2,137,000 of amounts due to related parties, and \$1,272,000 of accounts payable. Our VIE Bonds have a coupon rate of 5% and mature in 2026 but have been classified as current liabilities due to Lani Pixels' not being in compliance with the Debenture covenants (See Note 10, *Debt*).

The Company's Board of Directors and Executive Management reasonably believes that the Company will continue to exist to carry out all objectives, commitments, and stated goals for the next 12 months from the date of this report as profitability and positive cash flows from operations continue to improve. There is no significant information available to the contrary, as the Company is currently able to meet all current and immediate obligations without substantial asset sales or restructuring. Also, with the introduction of the new operations platform and business model and the arrival of new Executive Management members, Management believes that the financial and business trends will continue to be positive for the foreseeable future. Furthermore, there are no denial of trade credit from suppliers, and no known adverse legal proceedings that could materially affect the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying interim condensed consolidated financial statements are unaudited. These unaudited condensed consolidated financial statements reflect all adjustments (which are of a normal recurring nature) that, in the opinion of management, are necessary to fairly present the Company's financial position, results of operations and cash flows as of and for the periods presented. The results of operations for these interim periods are not necessarily indicative of the operating results for future periods, including the fiscal year ending September 30, 2017.

These unaudited condensed consolidated financial statements and notes are presented in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) relating to interim financial statements and in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted in these unaudited condensed consolidated financial statements pursuant to SEC rules and regulations, although we believe that the disclosures made herein are adequate to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

The unaudited condensed consolidated financial statements include the accounts of Ominto, Inc. and its wholly-owned subsidiaries including a subsidiary that is consolidated under the Variable Interest Entity (“VIE”) model. All significant intercompany transactions have been eliminated in consolidation.

The Company consolidates less-than-wholly owned entities if the Company has a controlling financial interest in that entity. To determine if we hold a controlling financial interest in an entity, we first evaluate if we are required to apply the variable interest entity (“VIE”) model to the entity. Otherwise the entity will be evaluated under the voting interest model. Where we hold current or potential rights that give us the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance combined with a variable interest that gives us the right to receive potentially significant losses, we have a controlling financial interest in that VIE. Rights held by others to remove the party with power over the VIE are not considered unless one party can exercise those rights unilaterally. When changes occur to the design of an entity, we reconsider whether it is subject to the VIE model. We will continuously evaluate whether we have a controlling financial interest in a VIE.

Reclassifications

Certain amounts as reported in fiscal year 2016 have been reclassified to conform to the fiscal year 2017 financial statement presentation.

Use of Estimates and Judgments

The preparation of these unaudited condensed consolidated financial statements, in conformity with US GAAP requires us to make estimates and assumptions that affected the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

For acquisition purposes, the process for estimating the fair values of identifiable intangible assets and certain tangible assets and assumed liabilities requires the use of judgment in determining the appropriate assumptions and estimates. The fair value estimates are primarily based on Level 3 inputs including future expected cash flow, market rate assumptions and discount rates. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company’s results of operations.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). The core principle of this ASU is that a company will recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In doing so, companies will need to use judgment and make estimates when evaluating contract terms and other relevant facts and circumstances. Additionally, ASU 2014-09 requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, is effective using either the full retrospective or modified retrospective transition approach for fiscal years, and for interim periods within those years, beginning after December 15, 2017. In March, May and December 2016, the FASB issued several additional accounting standards updates to clarify certain topics within ASU 2014-09. The Company will adopt ASU 2014-09, and its related clarifying ASUs, as of October 1, 2018. The Company is continuing to assess the potential effects of these ASUs on its consolidated financial statements, business processes, systems and controls. The Company’s assessment includes a review of representative contracts at each of the Company’s locations/business units and a comparison of its historical accounting policies and practices to the new standard. Based on the Company’s progress in reviewing various types of revenue arrangements, the Company anticipates adopting the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after October 1, 2018. For existing contracts that have remaining obligations as of October 1, 2018, any difference between the recognition criteria in these ASUs and the Company’s current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. Any potential effect of adoption of these ASUs has not yet been quantified; however, based on the review of contracts at the Company’s various locations to date, the adoption of these ASUs is not expected to have a material effect on the timing or amount of revenue recognized as compared to current practices. The Company’s expectations may change as its assessment progresses.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash (Topic 230): Restricted Cash* (“ASU 2016-18”), which reduces the diversity in the treatment of Restricted cash in the Statement of Cash Flows. This ASU requires that restricted cash and restricted cash equivalents be included with unrestricted cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash and cash equivalents. Public business entities are required to adopt this ASU for fiscal years beginning after December 15, 2017, with other entities adopting it for fiscal years beginning after December 15, 2018. Early adoption is permitted. Currently the Company separates restricted cash and cash equivalents from its unrestricted cash and cash equivalents when reconciling the beginning and end of period total cash and cash equivalents and only reports the net change in restricted cash and cash equivalents in the statement of cash flows. In future, the Company’s sources and uses of restricted cash and cash equivalents will be combined with its sources and uses of unrestricted cash and cash equivalents in the statement of cash flows. The Company does not expect the adoption of this ASU to have a material effect on its statement of cash flows.

In December 2016, the FASB issued ASU 2016-19, *Technical Corrections and Improvements* (“ASU 2016-19”), which clarifies, corrects and amends various FASB Codification Subtopics. ASU 2016-19 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 and shall be applied prospectively. Early application is permitted. It clarifies that internal use software licenses purchased from third parties shall be recorded as an Intangible asset along with recording any related liabilities. It makes clarifications regarding Equity Based Payments to Non-Employees and Stock Compensation. The Company plans to adopt this ASU effective at the beginning of its next fiscal year on October 1, 2017, and the Company does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

In December 2016, the FASB issued ASU 2016-20, *Technical Corrections & Improvements to Topic 606: Revenue from Contracts with Customers* (“ASU 2016-20”), which makes minor corrections or improvements to the Codification related to ASU 2014-09 Revenue from Contracts with Customers (the new Revenue Recognition Standard). The effective date for ASU 2016-20 is the same as the effective date for ASU 2014-09 Revenue from Contracts with Customers which date was deferred by ASU 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. Public business entities are required to adopt this ASU for fiscal years beginning after December 15, 2017, with other entities adopting it for fiscal years beginning after December 15, 2018, with interim reporting periods beginning after December 15, 2019. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company has begun the process of evaluating the potential impact of adoption of this ASU and does not expect the adoption of this ASU or the adoption of the related new Revenue Recognition standard to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-03 , *Accounting Changes & Error Corrections and Investments – Equity Method and Joint Ventures: Amendments to SEC Paragraphs pursuant to Staff Announcements* (“ASU 2017-03”), which amends various FASB Codification Topics. Public business entities are required to adopt this ASU for fiscal years beginning after December 15, 2019, with other entities adopting it for fiscal years beginning after December 15, 2020. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. The Company does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 , *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which simplifies the method of testing for goodwill impairment by eliminating Step 2 (comparing the implied fair value of goodwill with the carrying amount of goodwill) for entities that have not adopted the private company alternative for goodwill impairment testing. Entities that have not adopted the private company alternative for goodwill impairment testing may use a one-step quantitative test to determine the amount, if any, of good will impairment (comparing the fair value of goodwill to the carrying amount). Under ASU 2017-03, Public business entities that are SEC filers are required to adopt this ASU for fiscal years beginning after December 15, 2019, with public business entities that are not SEC filers adopting it for fiscal years beginning after December 15, 2020 and all other filers adopting in fiscal years beginning after December 15, 2021. Early adoption is permitted as for interim and annual goodwill impairment of annual reporting periods beginning after January 1, 2017. The Company does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

Foreign Currency

Financial statements of foreign subsidiaries in India, Cyprus, Germany, Denmark, United Arab Emirates, and British Virgin Islands operating in other than highly inflationary economies are translated at period-end exchange rates for assets and liabilities and average exchange rates during the period for income and expense accounts. The resulting translation adjustments are recorded within accumulated other comprehensive income or loss. Financial statements of subsidiaries operating in highly inflationary economies are translated using a combination of current and historical exchange rates and any translation adjustments are included in current earnings. Gains or losses resulting from foreign currency transactions are recorded in operating expense. We have no subsidiaries operating in highly inflationary economies. The approximate impact of our foreign currency exchanges on transactions recognized during the three and six months ended March 31, 2017 was a loss of \$206,000 and a gain of \$596,000 respectively. For the three and six months ended March 31, 2016 the approximate impacts were a gain of \$19,000 and a loss of \$16,000 respectively, all of which was included in our unaudited consolidated condensed statement of operations as selling general and administrative expenses.

In accordance with FASB’s Accounting Standards Codification (“ASC”) 830, *Foreign Currency Matters*, companies with foreign operations or foreign currency transactions are required to prepare the statement of cash flows using the exchange rates in effect at the time of the cash flows. We use an appropriately weighted average exchange rate for the period for translation if the result is substantially the same as if the rates at the dates of the cash flows were used. The unaudited condensed consolidated statement of cash flows reports the effect of exchange rate changes on cash balances held in foreign currencies as a separate part of the reconciliation of the change in cash and cash equivalents during the period.

Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three (3) months or less at the date of transaction to be cash equivalents. We maintain our cash in bank deposit accounts in the United States, Cyprus, Germany, India and United Arab Emirates, which at times may exceed the federally insured limits in those countries. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

We have agreements with organizations that process our credit card transactions. The credit card processors have financial risk of chargebacks associated with the credit card transactions because the processor generally forwards us the cash proceeds soon after each transaction is completed but before the expiration of the time period in which the purchaser may request a refund. Our agreements with the credit card processors allow them to create and maintain a reserve account by retaining a certain portion of the cash generated from the credit card transactions that would otherwise be delivered to us, herein known as “Restricted Cash”. The reserve requirement with each card processor is set at their respective fixed percentage for all transactions to be held for their respective rolling term period from the date of the transaction.

Allowance for Doubtful Accounts

Receivables are uncollateralized obligations due under normal trade terms, typically requiring payment within 30 days from invoice date. Receivables are stated at the contractual amount billed, net of an allowance for doubtful accounts, if any. Accounts dated over 90 days old are considered past due. We estimate the allowance based on an analysis of specific accounts, taking into consideration the age of past due accounts and an assessment of the debtors’ ability to pay and any applicable allowance is included as an offset to accounts receivable. During the six and three months ended March 31, 2017, there was no allowance for doubtful accounts. Interest income is not recognized on past due accounts. Accounts receivable are included in Other Receivables and Prepaid Expenses on the accompanying unaudited condensed consolidated balance sheet.

Business Acquisitions

The Company accounts for business acquisitions under the purchase method of accounting, whereby the purchase price (defined as the total consideration transferred to acquire the business) is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair value. The excess of the purchase price over the estimated fair value of the net identifiable assets is allocated to goodwill. The determination of estimated fair value requires significant estimates and assumptions including, but not limited to, expected use of the assets acquired, the expected cost to extinguish a liability, future cash flows to be generated from intellectual property and developing appropriate discount rates and market multiples. A change in the estimated fair value of an asset or liability often has a direct impact on the amount to recognize as goodwill, which is an asset that is not an adjustment made to the allocations of the purchase price, or adjustments made as a result of changes in estimates or assumptions, could impact the amount of assets, including goodwill, and liabilities, ultimately recorded on the Company’s balance sheet and could impact its operating results subsequent to such acquisition.

Investments in unconsolidated company

The Company uses the cost method of accounting for investments in companies in which it has a 20% or less ownership interest and does not have the ability to exercise significant influence. Such investments are presented as investments in unconsolidated entities on the Company’s unaudited condensed consolidated balance sheets (refer to *Note 6, Investments in Unconsolidated Companies* for further information of such investments). Dividends received from distributions of net accumulated earnings are recognized as income. Dividends received in excess of net accumulated earnings will reduce the cost of our investment. We will record impairment of investments when we determine that there has been an other-than-temporary decline in the entity’s estimated fair value compared to its carrying value.

Film Costs

Lani Pixels capitalizes direct film production costs. Film production costs include costs to develop and produce computer animated motion pictures, which primarily consists of salaries, equipment and overhead. Production overhead, a component of film costs, includes allocable costs of individuals or departments with exclusive or significant responsibility for the production of our films. In the event a film is not set for production within three years from the time of the first capitalized transaction, all such costs will be expensed.

Once a film is released, capitalized film production costs are amortized in the proportion that the revenue during the period for each film bears to the estimated revenue to be received from all sources under the individual-film-forecast-computation method as defined in FASB's Accounting Standards Codification 926-605-25. The amount of film costs that are amortized each quarter depends on how much future revenue is expected to be received from each film. The Company makes certain estimates and judgments of future gross revenues to be received for each film based on historical results and management's knowledge of the industry. Estimates of anticipated total gross revenues are reviewed periodically and may be revised if necessary. A change to the estimate of gross revenues for an individual film may result in an increase or decrease to the percentage of amortization of capitalized film costs relative to a previous period. Unamortized film production costs are compared with net realizable value each reporting period on a film-by-film basis to assess whether there are any indicators of impairment. If estimated remaining gross revenues are not sufficient or are indicative of a potential impairment, the unamortized film production costs will be written down to fair value. There have been minimal film revenues to dates and therefore no amortization has occurred.

Property and Equipment, net

Property and equipment are recorded at cost and shown net of accumulated depreciation in the accompanying unaudited condensed consolidated balance sheet. Computers and equipment, computer software, furniture and fixtures are depreciated over its useful life of five (5) years. Leasehold improvements included in furniture and fixtures are amortized on a straight-line basis over the term of the lease. Land is not amortized. The cost of maintenance and repairs of equipment is charged to expense when incurred. When we sell, dispose of or retire property and equipment, the related gains or losses are included in operating results.

Internal-use Software and Website Development

Costs incurred to develop software for internal use are capitalized and internal-use software costs are divided into the research phase and the development phase. All research phase costs are expensed. The following development phase costs should be capitalized: External direct costs of material and services consumed in developing or obtaining internal-use software, payroll and related costs for employees who devote time to and are directly associated with the project, Interest costs incurred while developing internal-use software, costs of enhancements or upgrades of the system. These costs are amortized over the estimated useful life of the software. Costs related to design or maintenance of internal-use software and website development are expensed as incurred.

Impairment of Long-Lived Assets

In accordance with ASC 360, *Property, Plant and Equipment - Subsequent Measurement* ("ASC 360"), we review the carrying value of our long-lived assets annually or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. We assess recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. Fair value is determined using available market data, comparable asset quotes and/or discounted cash flow models.

Goodwill

The Company evaluates goodwill annually for impairment using either a quantitative or qualitative analysis. We perform a quantitative analysis using a discounted cash flow model and other valuation techniques, but may elect to perform a qualitative analysis. A qualitative analysis may be performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales, operating profit margins, discount rates, industry data and other relevant qualitative factors. These trends and factors are compared to, and based on, the assumptions used in the most recent quantitative assessment. Additionally, goodwill is evaluated for impairment whenever events or circumstances indicate there may be a possible permanent loss of value.

Fair Value of Financial Instruments

We adopted ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”) for measurement and disclosures about the fair value of its financial instruments. ASC 820 establishes a framework for measuring fair value using a three-level hierarchy which prioritizes the inputs to valuation techniques used to measure fair value.

The three levels of fair value hierarchy defined by ASC 820 are:

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 - Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life; and

Level 3 - Inputs reflect Management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Valuation of instruments includes unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. We evaluate our hierarchy disclosures each quarter.

Due to their short-term maturity, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate their fair values. Management believes the carrying values of notes and other receivables, deferred costs, deferred revenue and other assets and liabilities approximate their fair values.

Revenue Recognition

We recognize revenues in accordance with ASC 605, *Revenue Recognition* which requires that four basic criteria be met before revenues can be recognized: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the selling price is fixed and determinable; and (iv) collectability is reasonably assured. Determination of criteria (iii) and (iv) are based on Management’s judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and Cash Back to customers, commissions, estimated returns and allowances, and other adjustments are recorded in the same period the related revenues are recorded. We defer any revenues that are subject to refund, and, for which the product has not been delivered or the service has not been rendered.

DubLi Network, the Company’s wholly owned subsidiary, has a global network marketing organization with Business Associate (“BA”) representatives in many countries throughout the world. The Company offers BAs a wide variety of products and services to sell to their customers. BAs earn commissions on sales of products and services that they sell directly and indirect sales from their sales organizations.

Dublicom, the Company’s wholly owned subsidiary, offers various membership packages to customers and a program for business or non-profit clients (“Partner Program”).

Our revenue recognition policies for each of our products and services are as follows:

E-commerce and memberships

- Business license fees – Business Associates (BAs pay an initial business license fee which is renewed annually and Partner Program participants (excluding not-for-profit organizations) pay a setup fee for the marketing and training services provided by us which enables them to begin their sales of DubLi.com’s products and services. The business license fee or partner setup fee is recognized as revenue ratably over twelve (12) months.

Membership subscription fees - (i) Our Business Associates may purchase our membership subscription products for resale in the form of a VIP membership for themselves or for resale to DubLi.com’s customers as described under item (ii) below. These membership subscription products expire in twelve (12) months. Revenue is recognized ratably over the subscription period when any membership subscription product is redeemed or immediately upon expiry; and (ii) DubLi.com customers who purchase a VIP membership package pay on an annual basis which is recognized ratably over the subscription period.

At the end of the fourth quarter of fiscal year 2015, we concluded that we had accumulated a sufficient level of historical data from a large pool of homogenous transactions to allow management to reasonably and objectively determine an estimated unused and expired VIP voucher rate and the pattern of VIP voucher redemptions. Under this method, revenue is recognized and the VIP voucher liability is relieved for unredeemed VIP vouchers in proportion to actual VIP voucher redemptions. We believe this method is appropriate for recognizing revenue on expiration or use, because it better reflects the VIP voucher earnings process. In accordance with Accounting Standards Codification (ASC) Topic 250, “Accounting Changes and Error Corrections,” we concluded that this accounting change represented a change in accounting estimate effected by a change in accounting principle. Accordingly, we accounted for the change as a change in estimate utilizing the cumulative catch-up method. The impact of the cumulative catch-up recorded at the end of the fourth quarter 2015 was to reduce VIP voucher deferred revenue and increase revenue by approximately \$9.3 million. Correspondingly, the Company reduced deferred cost and increased cost of revenue by approximately \$4.6 million.

Membership Voucher Revenue is based on an analysis of estimated breakage and redemption effective rates. The breakage percentage rates are estimated based on historical trends and are adjusted periodically based on actual breakage rates. Membership Voucher Revenue and Deferred Revenue calculations are based on a ratable ‘waterfall’ method whereby the monthly purchases are allocated between redeemed vouchers and estimated breakage. This allocation is then amortized over a twelve (12) month period. The allocations are based on actual experience from inception to the current date.

We believe it is appropriate to recognize revenues on this basis in order to more closely match revenue and related costs. We believe that the use of recent historical data is reasonable and appropriate because of the relative stability of the average actual number of VIP membership’s redeemed.

Multi-element Arrangements – When Dubli Network sells business licenses, VIP membership vouchers, training and certification programs and marketing programs to BAs in bundles, the transaction price is allocated to each component of Revenue in proportion to the stand-alone selling price. Stand-alone selling price is based on vendor-specific objective evidence (“VSOE”) of fair value. VSOE of fair value is determined based on the price charged where each deliverable is sold separately or a price set by management with the relevant authority.

- Commission income – We receive varying percentages in commission income earned from merchants participating on our online shopping platform. These commissions are calculated based upon the agreed rates with the participating merchants on all customer transactions processed through our online shopping website and are recognized on an accrual basis based upon data obtained from the merchant. A percentage of the commission income is payable in the form of Cash Back to the customer for purchase transactions. This Cash Back amount due the customer is accrued as a deduction from commission income at the time the commission income is recognized. Commissions receivable from merchants are included in other receivables and prepaid expenses.

- Advertising and marketing – The Company offers advertising programs which are sold to BAs and/or Partners in advance of several advertising campaigns to generate new DubLi.com shopping customers for our BAs and/or Partners. Revenues for the respective advertising and marketing programs are recognized in accordance with the terms and obligations under the programs.
- Film production revenue - Lani Pixels recognizes film revenue from the distribution of its animated feature films and related products when earned and reasonably estimable in accordance with FASB Accounting Standards Codification 926-605-25. The following conditions are met in order to recognize revenue:
 - persuasive evidence of a sale or licensing arrangement with a customer exists;
 - the film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery;
 - the license period of the arrangement has begun and the customer can begin its marketing, exhibition or sale;
 - the arrangement fee is fixed or determinable; and
 - collection of the arrangement fee is reasonably assured.

If one or more of the preceding conditions are not met, Lani Pixels defers recognizing revenue until all of the conditions are met.

Lani Pixels recognizes revenue from its films net of distribution fees, reserves for returns, and marketing and distribution expenses. To date, minimal film revenue has been earned.

Deferred Subscription Fee Revenue

Deferred subscription fee revenue relates to unearned revenue associated with VIP memberships and business license fees. We sell memberships and payments are received in advance of customers using the memberships. We sell business licenses which are renewed annually. We amortize deferred subscription fee revenue relating to memberships and deferred business license fees over the period of the subscription, which is usually twelve months.

Deferred Advertising Revenue

Deferred advertising revenue relates to unearned revenues associated with advertising and marketing fees collected in advance from BAs that are amortized as customers are allocated to the BAs in accordance with the terms and obligations under the programs.

Deferred Business License Revenue

Deferred Business License Revenue relates to unearned revenue associated with business license fees collected in advance from BAs and setup fees collected in advance from Partners that are recognized ratably over twelve months. We report deferred business license revenue as deferred revenue subscription on our unaudited condensed consolidated balance sheet.

Cost of Revenues

Cost of revenues are principally commissions based upon each Business Associate's volume of sales, any "down-line" sales by other Business Associates under the sponsoring Business Associate, and purchase transactions through our shopping website made by customers under the sponsoring Business Associate. Commissions due to Business Associates at the time of such transaction are recorded as deferred costs until the corresponding revenues are recognized. Special incentive bonuses are recognized when the Business Associate meets the sales target goals or specific criteria, and are recorded as deferred costs which are then expensed ratably as the corresponding revenues are recognized.

Cost of revenues also includes commissions paid to Partners and Cash Back paid to customers.

Commissions and other incremental direct costs including credit card processing fees in connection with the discontinued auction program are reported as cost of revenues under discontinued operations.

Lani Pixels' currently has no costs of revenues related to our film production and animation segment are currently minimal. In the future, these costs will primarily include the amortization of capitalized costs, participation and residual costs and write-offs of amounts previously capitalized for titles not expected to be released or released titles not expected to recoup their capitalized costs. The amortization of capitalized costs is based on the amount of revenues earned from all markets.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include costs associated with advertising expenses, stock compensation, staff payroll costs, outside services, bank transaction fees, and other general administrative costs and are recorded when incurred.

Noncontrolling Interests

A noncontrolling interest represents the other equity holder's interest in an entity that the Company consolidates. Noncontrolling interests are classified as a separate component of equity in the Company's unaudited condensed consolidated balance sheets and statements of equity (deficit). Net income (loss) and comprehensive income (loss) attributable to noncontrolling interests are reflected separately from the consolidated net income (loss) and comprehensive income (loss) in the unaudited condensed consolidated statements of operations and statements of equity. Any change in ownership of a subsidiary while the controlling financial interest is retained is accounted for as an equity transaction between the controlling and noncontrolling interests.

Comprehensive Income (loss)

Comprehensive income (loss) is net earnings or loss after tax plus certain items that are recorded directly to stockholders' equity. Other than foreign currency translation adjustments, we have no other comprehensive income (loss) components.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes* ("ASC 740") under which deferred tax assets and liabilities are determined based on temporary differences between accounting and tax bases of assets and liabilities and net operating loss and credit carry forwards, using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. A provision for income tax expense is recognized for income taxes payable for the current period, plus the net changes in deferred tax amounts.

In accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*, we adopted a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

In the event of a distribution of the earnings of certain international subsidiaries, we would be subject to withholding taxes payable on those distributions to the relevant foreign taxing authorities. Since we currently intend to reinvest undistributed earnings of these international subsidiaries indefinitely, we have made no provision for income taxes that might be payable upon the remittance or repatriation of these earnings. We have also not determined the amount of tax liability associated with an unplanned distribution of these permanently reinvested earnings. If in the future we consider that there is a reasonable likelihood of the distribution of the earnings of these international subsidiaries (for example, if we intend to use those distributions to meet our liquidity needs), we will be required to make a provision for the estimated resulting tax liability, which will be subject to the evaluations and judgments of uncertainties described above.

We conduct business globally and, as a result, one or more of our subsidiaries file income tax returns in U.S. federal and state, and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities in the countries in which each respective subsidiary operates. We may be subjected to tax reviews in taxing jurisdictions where we operate. We do not currently anticipate that any such reviews would have a material adverse impact on our unaudited condensed consolidated financial statements.

Earnings (Loss) per Share

We compute basic earnings (loss) per share by dividing the income (loss) attributable to holders of common stock for the period by the weighted average number of shares of common stock outstanding during the period. The potential impact of all common stock equivalents was excluded from the number of shares outstanding used for purposes of computing net loss per share as the impact of such equivalents was anti-dilutive due to the loss from continuing operations. See Note 3, *Earnings (Loss) per Share*.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, *Share-Based Compensation*, which requires the use of the fair value method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (warrants and options). The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. Expected volatility is based on weighted average of the historical volatility of the Company's common stock and selected peer group comparable volatilities and other factors estimated over the expected term of the options. The expected term of stock options granted is derived using the "simplified method" which computes expected term as the average of the sum of the vesting term plus the contract term. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term.

Segment Policy

We derive our revenues from our e-commerce and Memberships segment which includes business license fees, membership subscription fees, commission income, and advertising and marketing programs and a Film production and Animation segment, as described in Note 15, Segment Information in the notes to the unaudited condensed consolidated financial statements.

3. Earnings/Loss Per Share

Basic earnings or loss per share is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income or loss available to common shareholders by the number of fully diluted shares, which includes the effect of dilutive potential issuances of common shares as determined using income from continuing operations, including the potential issuance of common shares upon the exercise, conversion or vesting of outstanding stock options and unvested restricted shares, as calculated under the treasury stock method, as well as shares associated with the Company's convertible debt securities, which were converted during fiscal year 2016. Furthermore, we adjust our weighted average number of common shares outstanding by eliminating all shares of our common stock held by our VIE, Lani Pixels, in effect counting those shares as treasury shares fully excluded from the calculation of weighted average shares outstanding. When the Company reports a net loss, rather than net income, from continuing operations, the computation of diluted loss per share excludes dilutive common stock equivalents as their effect would be anti-dilutive. Therefore, weighted average dilutive common shares would be excluded from the calculation. The Company reported a net loss from continuing operations for the three and six months ended March 31, 2017 and 2016 and had no dilutive common stock equivalents at March 31, 2017 and 2016 that affected diluted net loss per share for the related periods.

For the three and six months ended March 31, 2017, there were 1.2 million and 1.8 million potentially dilutive securities respectively, representing outstanding stock options and other compensation arrangements (such as restricted share awards and warrants). For the three and six months ended March 31, 2016, potential dilutive securities, which consisted of outstanding stock options, unvested restricted stock, and preferred stock not included in dilutive weighted average shares were approximately 1.2 million and 1.8 million common stock equivalents for the three months ended March 31, 2017 and 2016, respectively and 1.2 million and 1.8 million for the six months ended March 31, 2017 and 2016, respectively.

4. Restricted Cash

Restricted cash represents chargeback reserves held by the Company's credit card processor for potential chargebacks. Amounts of restricted cash held, by type of currency were as follows:

	As of	
	March 31, 2017	September 30, 2016
Euro	\$ 19,993	\$ 136,835
Australian Dollar	2,352	7,247
Indian Rupee	-	181,752
United States Dollar	1,697,742	1,672,087
Total	<u>\$ 1,720,087</u>	<u>\$ 1,997,921</u>

5. Acquisition

On December 13, 2016, the Company acquired a 40.02% economic interest in a Denmark-based company named Lani Pixels A/S ("Lani Pixels") for total consideration of \$10.2 million, reduced by approximately \$5.1 million for the value of our treasury shares issued. Lani Pixels is an animation production company focused on feature length films and digital marketing content. Lani Pixels is based in Billund, Denmark and it has offices in Denmark and Dubai, U.A.E. The Company owns 40.02% of the common shares and controls 50.02% of the voting rights of Lani Pixels. Lani Pixels is a Variable Interest Entity ("VIE") based on its governance structure, and we consolidate Lani Pixels in our unaudited condensed consolidated financial statements since we have the power to direct activities that most significantly impacts its economic performance. We have a voting rights agreement with a 10% shareholder granting us the irrevocable right to vote their shares in our favor. Additionally, the Company holds a majority of the seats on the Board of Directors of Lani Pixels (3 out of 5 board seats). There are no liquidity arrangements, guarantees or other financial commitments between the Company and Lani Pixels (except as disclosed in Note 13, *Commitments and Contingencies*), and therefore, our maximum risk of financial loss is our 40.02% interest and \$2.5 million in debt, consisting of a \$500,000 note payable and \$2.0 million debenture. Beyond its primary focus on feature length animated films, Lani Pixels plans to use its capabilities to produce animated training materials for the DubLi Network and digital marketing content for DubLi.com in the future and sales purposes as well as for product and sales training. Thus, on a going forward basis Ominto intends to work with Lani Pixels as its strategic content partner.

The transaction consisted of three parts:

- (1) The Company entered into a Share Exchange Agreement with Lani Pixels pursuant to which Lani Pixels issued and transferred to the Company, all rights, title, and interest in and to shares of Lani Pixels' common stock representing an aggregate of 20% of the issued and outstanding common stock of Lani Pixels on a fully diluted basis in exchange for the issuance of one million two hundred eighty-five thousand seven hundred fourteen (1,285,714) shares of the Company's common stock ("Common Stock"), valued at \$4.00 per share.
- (2) The Company entered into a Share Exchange Agreement with Kim Pagel ("Pagel"), pursuant to which Pagel transferred to the Company, all rights, title, and interest in and to shares of Lani Pixels' common stock that represents an aggregate of 20% of the issued and outstanding common stock of Lani Pixels on a fully diluted basis for one million one hundred forty-two thousand eight hundred fifty-seven (1,142,857) shares of the Company's common stock ("Common Stock"), valued at \$4.00 per share, and an additional cash amount of \$500,000.
- (3) The Company entered into a Share Purchase Agreement with Paseco ApS ("Paseco"), pursuant to which Paseco sold to Ominto 1,000 shares or .02% of the issued and outstanding common stock of Lani Pixels for \$4,000. The promissory note matured on February 28, 2017 and was paid on July 24, 2017.

The financial position, results of operations and cash flows of the Lani Pixels acquisition have been included in our unaudited condensed consolidated financial statements since December 13, 2016, the results below were included in our consolidated accounts since acquisition for the six months ended March 31, 2017.

Revenue \$104,140

Net Loss including noncontrolling interest \$709,512

The following reconciles the aggregate purchase price for the Lani Pixels acquisition to the cash paid for the acquisition, net of cash required:

Purchase price	\$ 5,075,428
Less: cash acquired	(1,183,401)
Purchase price, net of cash acquired	<u>3,892,027</u>
Less: common stock issued	4,571,428
Less: promissory note issued	<u>4,000</u>
Net cash inflow	<u>\$ 683,401</u>

The fair value of the Ominto, Inc. common stock issued as part of the consideration paid for Lani Pixels was determined on the basis of the closing market price of the common stock on the acquisition date.

Lani Pixels is a Variable Interest Entity (“VIE”) based on the governance structure. Therefore, we have consolidated Lani Pixels in our unaudited condensed consolidated financial statements because we have the power to direct activities that most significantly impact Lani Pixels’ economic performance. We also have a voting rights agreement with a 10% shareholder that granted us the irrevocable right to vote those shares in our favor. Additionally, Ominto and Lani Pixels signed an amendment to the Share Exchange Agreement, whereby Lani Pixels acknowledges and agrees to ensure Ominto receives a minimum of three (3) seats on the Board of Directors of Lani Pixels, which shall at all times represent a majority of the Board of Directors. Our maximum risk of financial loss is our 40.02% interest and any loans in the form of debentures and promissory notes that we have provided to Lani Pixels from time to time which are described in Note 5, *Acquisitions* and Note 10, *Debt*.

The transaction is being accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed be recognized at their respective fair values as of the acquisition date. Acquisition accounting is dependent upon certain valuations and other studies that have yet to commence or progress to a stage where there is sufficient information for a definitive measurement. The process for estimating the fair values of identifiable intangible assets and certain tangible assets and assumed liabilities requires the use of judgment in determining the appropriate assumptions and estimates. The fair value estimates are primarily based on Level 3 inputs including future expected cash flow, market rate assumptions and discount rates. The entire purchase price allocation for Lani Pixels is preliminary. As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments will be recorded during the measurement period during fiscal year 2017. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company’s results of operations. The finalization of the purchase accounting assessment may result in changes in the valuation of assets acquired and liabilities assumed and may have a material impact on the Company’s unaudited condensed consolidated financial statements as of March 31, 2017 prior to filing annual Report on Form 10-K.

The table below presents the preliminary estimated fair values of the assets acquired and liabilities assumed on the acquisition date. These preliminary estimates will be revised during the measurement period as third-party valuations are finalized, additional information becomes available and as additional analyses are performed, and these differences could have a material impact on the Company’s results of operations and financial position.

Assets acquired and liabilities assumed:

Cash and cash equivalents	\$ 1,183,401
Accounts receivable	211,606
Other receivables and prepaid expenses	137,039
Property and equipment	235,143
Identifiable intangible assets	-
Goodwill	19,559,400
Film costs	3,117,524
Accounts payable	(216,760)
Note payable, other payables and accrued liabilities	(361,115)
Due to related parties	(3,676,487)
Long term liabilities	(1,857,834)
Noncontrolling interest upon acquisition of business	<u>(13,256,489)</u>
Purchase price	<u>\$ 5,075,428</u>

Unaudited Supplemental Pro Forma Information

The following unaudited supplemental pro forma financial information includes the results of operations of Lani Pixels which we acquired on December 13, 2016 and is presented as if Lani Pixels had been included in Ominto's consolidated financial statements as of October 1, 2015. The unaudited supplemental pro forma financial information has been provided for illustrative purposes only and does not purport to be indicative of the actual results that would have been achieved by the combined companies for the periods presented, or of the results that may be achieved by the combined companies in the future. Future results may vary significantly from the results reflected in the following unaudited supplemental pro forma financial information because of future events and transactions, as well as other factors, many of which are beyond the Company's control.

The unaudited supplemental pro forma financial information presented below has been prepared by combining the historical results of the Company and Lani Pixels and does not include adjustments to reflect our transaction-related expenses. Combined proforma information related to revenues and results of operations as if the business combination occurred on October 1, 2015 are approximately as follows:

	For the three months ended March 31, 2016	For the six months ended March 31,	
		2017	2016
Revenue	\$ 4,029,839	\$ 13,788,961	\$ 9,535,569
Net loss including noncontrolling Interest	\$ 3,277,722	\$ 7,830,610	\$ 5,367,994

No proforma results for the three months ended March 31, 2017 are presented as those results are included in our unaudited condensed consolidated financial statements for the entire period.

6. Investment in Unconsolidated Company

On December 13, 2016 ("Closing Date"), the Company entered into a Share Exchange Agreement (the "Quant Agreement") with Quant Systems, Inc. ("Quant"), pursuant to which Quant acquired eight hundred three thousand five hundred seventy-one (803,571) shares (the "Ominto Shares") of the Company's common stock ("Common Stock"), valued at \$4.00 per share and in exchange, Quant issued and transferred to the Company, all rights, title, and interest in and to shares of Quant's common stock that represents an aggregate of 18.75% of the issued and outstanding common stock of Quant on a fully diluted basis. Thus, the Company accounts for this transaction under the cost method. The Company uses the cost method of accounting for investments in companies in which it has a 20% or less ownership interest and does not have the ability to exercise significant influence.

Quant Systems, Inc. is an advisory and IT solutions firm providing cutting-edge technology applications that improve and empower businesses. Quant Systems' comprehensive services include technical consulting, software implementation and re-engineering, big data and analytics, cloud infrastructure, mobile strategy and robotics. This strategic collaboration aligns Ominto with a strong IT solutions partner known for its innovative software development and emerging technologies. Combining Ominto's business model with Quant's technology proficiency allows us to deliver a world-class Cash Back experience, on a global basis, for the benefit of our Partner Program relationships and our shopping customers.

The Company has paid approximately \$1,090,000 to Quant for advisory and IT solutions services during the six months ended March 31, 2017 (see Note 9, *Related Party Transactions*). These costs were expensed and included in selling, general and administrative expenses in the accompanying statement of operations for the six months ended March 31, 2017. The Company is not aware of events or changes in circumstances that would have a significant adverse effect on the carrying values of its cost method investee.

7. Deferred Costs

Deferred costs represent commission costs which are directly related to: (i) unearned subscription fees which are expensed ratably over the subscription periods; and (ii) advertising and marketing programs which are expensed when all services and obligations are fulfilled. Deferred costs expensed are included in cost of revenues.

8. Property and Equipment

Property and equipment comprised the following:

	As of	
	March 31, 2017	September 30, 2016
Land:		
Held for sales incentives	874,748	874,748
Computers and equipment	596,645	347,765
Software development	1,193,386	1,193,386
Furniture and fixtures	171,884	176,295
	1,961,915	1,717,446
Accumulated depreciation	(771,067)	(549,878)
	1,190,848	1,167,568
Total	\$ 2,065,596	\$ 2,042,316

Land Held for Sales Incentives

We acquired a contract right to acquire a land parcel consisting of 15 lots in the Cayman Islands in March 2010. As of March 31, 2017, the land value of approximately \$0.9 million consisted of the contract price and land filled cost of approximately \$3.6 million less an impairment charge of approximately \$2.7 million that was based on our evaluation of the estimated fair value.

The investment in the land parcel in the Cayman Islands is intended to provide incentive rewards to the best performing DubLi Network Business Associates upon attaining certain performance objectives.

Depreciation

Depreciation expense totaled \$141,861 and \$13,892 for the three (3) months ended March 31, 2017 and 2016, respectively, and \$253,617 and \$33,191 for the for the six (6) months ended March 31, 2017 and 2016, respectively. The increase is primarily due to software costs associated with the launch of our new website that were capitalized during the quarter ended June 30, 2016 and are now being depreciated.

9. Related Party Transactions

As of March 31, 2017 and September 30, 2016, the Company owed \$2,137,439 and \$539,438 respectively to related parties.

As mentioned in Note 5, *Acquisitions*, and Note 10, *Debt*, the Company loaned its VIE, Lani Pixels \$500,000 on November 1, 2016 and Lani Pixels issued a promissory note in the amount of \$500,000 to the Company. The Note matures on October 31, 2017 and accrues interest at a rate of 3% per annum. The Company also purchased a senior secured debenture (the "Debenture") from Lani Pixels in the amount of \$2.0 million. These amounts are eliminated in consolidation.

Our CEO's and COO's compensation are paid to Best Invest Commercial Brokers Ltd, a UAE corporation ("Best Invest") that is owned and controlled by our CEO and COO. During the three months and six months ended March 31, 2017, the Company incurred payroll related expenses of \$173,635 and \$384,495 respectively and made payments totaling to \$172,788 and \$336,583 respectively. As of March 31, 2017, the Company had a net payable balance of \$5,912 with Best Invest. During the three months and six months ended March 31, 2016, the Company incurred expenses of \$0 and \$80,000 respectively and made payments totaling to \$20,000 and \$80,000 respectively. As of September 30, 2016, the Company had a net receivable balance of \$42,000 with Best Invest.

Best Invest also advanced \$78,527 and \$1,255,014 to Lani Pixels during the three months and six months ended March 31, 2017 respectively. These advances are uncollateralized, non-interest bearing and due on demand. As of March 31, 2017, \$1,255,014 of these advances remain outstanding.

Quant Systems, Inc. (“Quant”), provides programming support and maintenance to the Company. The Company acquired 18.75% in the capital of Quant on December 13, 2016 (see also Note 6, *Investment in unconsolidated company*) and as such is considered a related party. During the three and six months ended March 31, 2017, the Company incurred expenses of \$638,176 and \$1,444,992 respectively and made payments totaling to \$660,794 and \$1,260,794 respectively. As of March 31, 2017, the Company had a net payable balance of \$258,560 with Quant comprising programming expenses. During the three months and six months ended March 31, 2016, the Company incurred expenses of \$98,117 and \$98,117 and made payments totaling \$20,000 and \$20,000 respectively. As of September 30, 2016, the Company had a net payable balance of \$74,362 with Quant.

COC, GmbH, (“COC”) provides administrative support to the Company in Berlin, Germany, shares common ownership with Ominto, and is reimbursed for salaries, rent and other establishment expenses. COC has focused almost exclusively on work for Ominto providing outsource services for Ominto. During the three and six months ended March 31, 2017, the Company incurred expenses of \$229,734 and \$723,512 respectively and made payments totaling to \$218,934 and \$709,935 respectively. As of March 31, 2017, the Company had a net payable balance of approximately \$350,280 with COC for administrative expenses. During the three months and six months ended March 31, 2016, the Company incurred payroll related expenses of \$172,422 and \$449,151 respectively and made payments totaling \$98,232 and \$333,513 respectively. As of September 30, 2016, the Company had a net payable balance of \$336,703 with COC comprising of administrative expenses.

Agaani, UAE, provides administrative support to the Company in Dubai, UAE, and is reimbursed for salaries, rent and other establishment expenses. Agaani shares common ownership with Ominto and is thus considered a related party. Agaani has focused almost exclusively on work for Ominto providing outsource service for Ominto. During the three months and six months ended March 31, 2017, the Company incurred expenses of \$352,581 and \$954,964 respectively and made payments totaling to \$411,020 and \$751,538 respectively. As of March 31, 2017, the Company had a net payable balance of approximately \$267,673 with Agaani comprising dues for administrative expenses. During the three months and six months ended March 31, 2016, the Company incurred payroll related expenses of \$171,551 and \$375,584 respectively and made payments totaling to \$71,870 and \$284,408 respectively. As of September 30, 2016, the Company had a net payable balance of \$64,247 with Agaani comprising of administrative expenses.

As of March 31, 2017, the Company had issued approximately 15,538 shares in private placement to related parties.

On March 8, 2017 the Company awarded our CEO, Michael Hansen, a \$2,000,000 cash bonus which he utilized along with \$70,000 of his own funds to acquire 300,000 shares of common stock from the Company at the price of \$6.90 per share; and \$70,000 of which was recorded as a subscription receivable as of March 31, 2017. See Note 17, *Subsequent Events*.

As of September 30, 2016, the Company owed \$449,952, shown on our balance sheet as Other payables and accrued liabilities, to our CEO for advances, which are non-interest bearing and due on demand. These amounts were paid in full during the three months ended December 31, 2016.

As of September 30, 2016, the Company had amounts due of \$106,126 for services rendered comprising of accrued compensation due to the Officers of the Company. The amounts due for advances and services rendered are non-interest bearing and have no terms of repayment. These amounts were paid in full during the three months ended December 31, 2016.

10. Debt

During 2016, prior to Lani Pixels’ acquisition by the Company, Lani Pixels authorized up to \$12,000,000 of senior secured term bonds. As of March 31, 2017, there were a total of \$3,857,834 of debenture bonds outstanding; of which Ominto is the holder of a \$2,000,000 debenture. The Ominto debenture has been eliminated in the unaudited condensed consolidated balance sheet as of March 31, 2017. The net proceeds were used to finance the production of an animated feature film and pay any fees associated with this offering. This debenture has a coupon of 5% per annum, payable semi-annually and a running fee that entitles the holder to 3% of the gross revenues from July 1, 2017 to and including December 31, 2025, paid semi-annually on April 12, 2019 for the preceding semi-annual period from July 1 through December 31. This debenture matures on February 12, 2026 and has a call option under which the principal amount may be redeemed in whole from April 12, 2019 or on any consecutive coupon date thereafter.

Should Lani Pixels default on the debenture bonds, the holders of the debenture bonds (including Ominto) have a first priority lien and security interest in all assets, revenues, shares, accounts and rights, and any future movie productions, including but not limited to first priority pledges over all of Lani Pixels’ direct and indirect equity interests, and all other tangible and intangible personal property. Lani Pixels is not in compliance with the covenant in the Debenture to set up a debt service reserve account. Therefore, the debt is considered in default and callable. This amount is classified as current liabilities in the accompanying unaudited condensed balance sheet as of March 31, 2017.

11. Discontinued Operations

The Company discontinued all auctions activities effective March 28, 2013. As a result, the operating results for the auctions program have been reclassified to income from discontinued operations in the unaudited condensed consolidated statement of operations. During the three months ended March 31, 2017 and 2016, income from discontinued operations, net of tax, recognized from credits breakage amounted to approximately \$0 and \$28,000, respectively. Income from discontinued operations, net of tax, recognized from credits breakage amounted to \$26,000 and \$32,000 in the six months ended March 31, 2017 and 2016, respectively.

All costs associated with credits associated with the discontinued reverse auction program were fully recognized as of the effective date of the termination. All liabilities for unused credits associated with the discontinued reverse auction program were fully recognized in the six (6) months ended March 31, 2017. Liabilities for unused credits of discontinued operations at March 31, 2017 and September 30, 2016 were \$0 and \$27,000, respectively.

12. Income Taxes

We conduct business globally and operate in several foreign jurisdictions in addition to the United States. For the six (6) months ended March 31, 2017 and 2016, the Company's recorded income tax rate was lower than the US federal statutory rate primarily due to lower income tax rates in the foreign jurisdictions where we operate, and as a result of net income or losses for the periods, the utilization of net operating loss carry-forwards and the valuation allowance against deferred tax assets.

13. Commitments and Contingencies

On December 21, 2016, a subsidiary of our VIE, Lani Pixels entered into a transfer agreement to repurchase rights for the Company's feature-length, animated film from Cinemation 1, ApS, a prior provider of financing for the film project. The rights were repurchased for approximately \$922,000 plus transaction costs. As a condition of the transfer agreement, Lani Pixels pledged collateral in the form of 1,285,714 shares ("the Shares") of Ominto common stock which it received in the Share Exchange Agreement dated December 13, 2016 and which is reported as treasury stock in the Company's unaudited condensed consolidated financial statements at December 31, 2016. On March 22, 2017, The Company paid the balance of the agreement and the Shares are no longer pledged as collateral.

Employment agreements

The Company has employment agreements with certain officers, which extend to 60 months, and are renewable for successive one-year terms. These agreements provide for base levels of compensation and separation benefits. Future minimum payments under these employment agreements as of March 31, 2017 are as follows:

March 2018	\$	600,000
March 2019		600,000
March 2020		600,000
March 2021		600,000
March 2022		600,000
Total	\$	<u>3,000,000</u>

In addition to the above, the Company has committed separation benefits payable to these officers under certain events described in their employment agreements.

Operating Leases

The Company leases its office premises located in Boca Raton, Florida, Berlin, Germany and Dubai, United Arab Emirates (UAE) and Tokyo, Japan. The initial term of the Florida lease was for 39 months. During fiscal year 2016, the Company increased its leased space in Florida and extended the lease terms to 63 months until October 31, 2021. The term for the Berlin lease was for 12 months ending on December 31, 2017. The Dubai related leases all have terms of 12 months in which the latest ends on February 28, 2018 and the Tokyo related lease has a term of 6 months ending on August 31, 2017. The future minimum payments under all leases as of March 31, 2017 is as follows:

March 2018	\$	276,759
March 2019		109,169
March 2020		109,169
March 2021		109,169
March 2022		63,682
Total	\$	<u>667,947</u>

14. Equity

Common Stock

As described in *Note 5, Acquisitions* and *Note 6, Investment in Unconsolidated Company*, the Company issued 3.2 million shares of its common stock valued at \$4 per share or a total of approximately \$12.9 million to acquire 40.02% of Lani Pixels, A/S and 18.75% of Quant Systems, Inc. Our common stock shares issued to our VIE Lani Pixels in connection with our investment in that company, a total of 1,285,714 shares of our common stock, are reported in Treasury shares on our unaudited condensed consolidated balance sheet included in this report. Additionally, those shares are excluded from our calculation of weighted average shares outstanding and earnings per share on our unaudited condensed consolidated statement of operations included in this report.

The Company sold 523,161 shares of its common stock to various foreign investors totaling approximately \$2.1 million during the six (6) months ended March 31, 2017 as part of a private placement. The Company sold a total of 1,278,000 shares in the private placement and issued stock certificates for 1,059,000 shares as of March 2017.

The Company issued 113,950 shares of its common stock to employees, consultants and directors in lieu of compensation for services performed during the second quarter of fiscal year 2016.

The Company issued 60,000 vested shares of restricted common stock to three employees and consultants. These shares were valued based on the closing price of the Company's common stock on the last day of the applicable months in which the employee, consultant and directors provided their services.

The Company sold 225,000 shares of common stock to an investor and recorded a subscription receivable in the amount of \$900,000 during the six (6) months ended March 31, 2017. The subscription receivable was evidenced by a promissory note that was due to be paid in February 2017. Such promissory note was subsequently amended and the maturity date was extended to February 14, 2018. This has been recorded as a reduction to the Company's total stockholder's equity in accordance with GAAP. The amended promissory note bears interest at the rate of 3.5% per year and is secured by the 225,000 shares of stock and a mortgage on Danish real estate. Should the borrower default, the interest rate will increase to 12% per year.

During the quarter ended March 31, 2017, the Company awarded 100,000 shares of restricted common stock to the Company's CEO and accelerated the vesting of 100,000 shares of restricted common stock previously awarded to the Company's CEO. The Company originally issued the previously awarded 100,000 restricted shares using the common stock price on the vesting date of \$5.70 instead of the grant date price of \$3.05. Subsequent to issuing the original award, we adjusted the price resulting resulted in a reduction in stock compensation expense of \$265,000 in the unaudited condensed consolidated accompanying statements of operations. See *Note 18 Restatement* for details. Pursuant to an amendment to his employment agreement dated as of March 8, 2017, the 100,000 newly awarded shares fully vested on March 8, 2017. The closing price of the Company's common stock on that date was \$6.90 and was used to value such shares. The amendment also provided that the 100,000 shares previously awarded would vest on the date the Company obtained approval for the listing of the Company's common stock on the Nasdaq Capital Markets stock exchange. The grant date closing price of the Company's common stock on November 17, 2016 was \$3.05. The total value of the shares issued to the Company's CEO was \$995,000 which has been recorded as stock-based compensation during the three and six months ended March 31, 2017. Additionally, in recognition of Mr. Hansen's efforts in helping the Company obtain its approval for listing, the Company awarded him a \$2,000,000 cash bonus which he utilized along with \$70,000 of his own funds to acquire 300,000 shares of common stock from the Company at the price of \$6.90 per share; and \$70,000 of which was recorded as a subscription receivable as of March 31, 2017. See *Note 17, Subsequent Events*.

The Company's approval to list shares on the Nasdaq Capital Markets stock exchange ("Nasdaq") on March 6, 2017 resulted in several Business Associates earning 218,052 shares of the Company's common stock in connection with a prior marketing campaign called the "Hot Summer Promotion." During 2016, the Company initiated a program called the "Hot Summer Promotion" whereby, in addition to standard commissions, the Company offered an extra 20% commission to participating BAs (payable in shares of Ominto common stock subject to approval of the listing of the Company's common stock on Nasdaq), the Company deemed the shares to be fully earned under the Hot Summer Promotion. During the three months ended March 31, 2017, the Company recognized approximately \$890,000 of commission expense (out of a total of \$1,281,000) and will issue approximately 218,000 shares related to this promotion. The Company valued these shares using the closing price of the Company's common stock on March 6, 2017. As of March 31, 2017 approximately \$390,000 remains held on our unaudited condensed consolidated balance sheet as Deferred costs.

As of March 31, 2017, a total of approximately 942,000 shares of common stock were committed for issuance in two unregistered private placements to various foreign investors and to the Company's CEO. These shares are reflected as issued on the books of the Company, but stock certificates have not yet been issued due to certain administrative and documentation requirements. Certificates for these shares committed for issuance are expected to be issued during the quarter ended June 30, 2017.

As of March 31, 2017, a total of approximately 219,000 shares of common stock are committed for issuance related to our "Hot Summer Promotion". See Note 14, *Equity* for more details.

15. Stock-Based Compensation

The following table summarizes information about stock option activity under the 2010 Omnibus Equity Compensation Plan during the six months ended March 31, 2017:

Balance outstanding, September 30, 2016	440,968
Granted	414,500
Exercised	-
Forfeited	(52,468)
Balance outstanding, March 31, 2017	<u>803,000</u>

During the six months ended March 31, 2017, the Company granted 414,500 stock options to various employees and Directors under the Plan which vest over 36 to 60 months. The Company awarded 100,000 stock options to CFO, Raoul Quijada, on March 7, 2017 at an exercise price of \$5.70 (the closing price of the Company's common stock on March 7, 2017), which vest through June 2019, and expire in June 2024. In addition, during December 2016, the Company granted 100,000 stock options to Mitch Hill, a Director on the Board who also served as Interim CEO during 2016 at an exercise price of \$2.80 (subsequently modified to \$4.00 on January 17, 2017 due to an adjustment for the use of an incorrect fair value price) which vest over 2 ½ years and expire approximately 5 years after final vesting 10 years after the date of grant. Also in December 2016, the Company granted 120,000 stock options to 4 Directors on the Board and 94,500 stock options to various employees at an exercise price of \$2.80 (subsequently modified to \$4.00 per share on January 17, 2017 due to an adjustment for the use of an incorrect fair value price) that vest over 3 to 5 years and which expire approximately 10 years after the date of grant in accordance with the 2010 Omnibus Equity Compensation Plan.

The Company determines the fair value of stock option awards using the Black-Scholes option pricing model with estimates of option lives, stock price volatility and interest rates, then expensed over the periods of service. Changes in the estimated inputs or using other option valuation methods could result in materially different option values and share-based compensation expense. The Company used an 85% volatility rate (based on a peer group) to value stock options granted during the period.

Options Activity

	<u>Number of shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding as of March 31, 2017	803,000	\$ 4.92	6.25	\$ 7,134,366
Exercisable as of March 31, 2017	391,777	\$ 5.69	5.21	\$ 3,178,870

Unamortized stock option compensation expense at March 31, 2017 was approximately \$1.1 million and is expected to be recognized over a period of 2.29 years.

Restricted Stock Awards

The following table summarizes information about restricted stock award activity under the Plan for the six months ended March 31, 2017:

Balance outstanding, September 30, 2016	155,280
Granted	330,000
Vested	(255,500)
Forfeited	-
Balance outstanding, March 31, 2017	<u>229,780</u>

During the six months ended March 31, 2017, the Company granted 130,000 restricted shares of common stock to various employees, including 100,000 restricted shares to the Company's COO under the Plan which vest over 36 to 60 months. In addition, the Company granted 200,000 restricted shares of common stock to its CEO Michael Hansen which became fully vested upon the Company's common stock being approved for listing on the Nasdaq Capital Market stock exchange on March 6, 2017.

The Company determines the value of its restricted stock awards on the grant date using the intrinsic value method which is based on the number of shares granted and the quoted price of our common stock on the grant date. As of March 31, 2017, there were 229,780 unvested restricted shares outstanding with a weighted-average grant date value of \$5.03. The restricted stock awards vest over the next 4.4 years. The unamortized value of unvested restricted shares is \$1.1 million.

During the quarter ended March 31, 2017, the Board rescinded 400,000 restricted shares that had been awarded to CEO Michael Hansen in the prior quarter, 200,000 restricted shares that had been awarded to COO Betina Dupont Sorensen in the prior fiscal year and 180,000 stock options that had been awarded to Director/former Interim CEO Mitch Hill in the prior quarter. These rescissions were completed in order to be compliant with our 2010 Equity Incentive Plan.

Stock-based compensation expense for the three months ended March 31, 2017 and 2016 was \$1,381,278 and \$271,390, respectively. Stock-based compensation expense for the six (6) months ended March 31, 2017 and 2016 was \$1,681,055 and \$690,707, respectively.

16. Segment Information

We have two reportable segments: (i) e-commerce Cash Back and network marketing which includes business license fees, membership subscription fees, commission income, and, advertising and marketing programs; and (ii) Animated movie production revenue.

Information concerning our revenue, gross profit, income from operations, depreciation, capital expenditures, goodwill and total assets by segment are as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	2016	2017	2016
	Restated		Restated	
Revenue:				
e-commerce Cash Back and network marketing	\$ 7,768,110	\$ 3,996,664	\$ 13,629,472	\$ 9,428,893
Animated movie production	93,030	-	104,140	-
Total	\$ 7,861,140	\$ 3,996,664	\$ 13,733,612	\$ 9,428,893
Gross profit:				
e-commerce Cash Back and network marketing	\$ 2,491,557	\$ 981,074	\$ 4,394,178	\$ 2,522,041
Animated movie production	73,301	-	84,451	-
Total	\$ 2,564,858	\$ 981,074	\$ 4,478,629	\$ 2,522,041
Loss from operations:				
e-commerce Cash Back and network marketing	\$ (4,628,221)	\$ (3,035,316)	\$ (6,818,841)	\$ (5,293,742)
Animated movie production	(444,668)	-	(636,774)	-
Total	\$ (5,072,889)	\$ (3,035,316)	\$ (7,455,615)	\$ (5,293,742)
Depreciation:				
e-commerce Cash Back and network marketing	\$ (118,558)	\$ (13,892)	\$ (232,291)	\$ (33,191)
Animated movie production	(23,303)	-	(21,326)	-
Total	\$ (141,861)	\$ (13,892)	\$ (253,617)	\$ (33,191)
Capital expenditures:				
e-commerce Cash Back and network marketing	\$ (10,892)	\$ (130,730)	\$ (13,203)	\$ (505,630)
Animated movie production	(29,633)	-	(29,633)	-
Total	\$ (40,525)	\$ (130,730)	\$ (42,836)	\$ (505,630)

	<u>March 31,</u> <u>2017</u>	<u>September 30,</u> <u>2016</u>
Goodwill:		
e-commerce Cash Back and network marketing	\$ -	\$ -
Animated movie production	19,834,636	-
Total	<u>19,834,636</u>	<u>-</u>
Total assets:		
e-commerce Cash Back and network marketing	33,448,879	21,684,811
Animated movie production	25,421,878	-
Total	<u>\$ 58,870,757</u>	<u>\$ 21,684,811</u>

Total segment assets may be reconciled as our total assets less investment in unconsolidated company.

Total revenues recorded in our two geographic regions are summarized as follows:

Total revenues are also summarized as follows:

	<u>Three Months Ended</u> <u>March 31,</u>		<u>Six Months Ended</u> <u>March 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	Restated		Restated	
Revenues:				
Domestic	\$ 120,035	\$ 2,032,172	\$ 210,280	\$ 4,896,851
Foreign	7,740,775	1,941,552	13,549,157	4,563,950
Total	<u>\$ 7,860,910</u>	<u>\$ 4,024,724</u>	<u>\$ 13,759,437</u>	<u>\$ 9,460,851</u>
Revenues:				
Continuing operations	\$ 7,861,140	\$ 3,996,664	\$ 13,733,612	\$ 9,428,893
Discontinued operations	(230)	28,060	25,825	31,908
Total	<u>\$ 7,860,910</u>	<u>\$ 4,024,724</u>	<u>\$ 13,759,437</u>	<u>\$ 9,460,851</u>

17. Subsequent Events

On April 28, 2017, Ominto provided a short-term loan in the amount of \$250,000 to its VIE, Lani Pixels A/S, through Lani Pixels' subsidiary Lani Pixels DMCC. The loan originally matured on May 27, 2017 and has been extended, the loan now matures on April 27, 2018, bears a fixed interest rate of 12% per year and is payable in one monthly payment of principal, unpaid interest and any other amounts that are due. Should Lani Pixels default on the loan, the interest rate increases to 15% per year and Ominto reserves the right to seek a conversion of principal to senior debtor status *pari-passu* with common lenders to the extent that there are available assets.

Effective as of April 1, 2017, the Company entered into a Consulting Agreement (the "Consulting Agreement") with Mr. Gregory Newell, a Director of the Company, pursuant to which Mr. Newell will assist the Company with its further expansion efforts in Asia. The term of the Consulting Agreement is for a period of six months and provides that Mr. Newell shall be paid \$9,500 per month and be reimbursed for reasonable business expenses.

At a regularly scheduled meeting of the board of directors of the Company held on May 10, 2017, David Pollei, Chairman of the Board, informed the Company that he had decided not to stand for reelection as a director of the Company at the next annual meeting of stockholders. Such decision not to stand for reelection was not based on any disagreement with the Company.

On May 11, 2017, in connection with a \$2.0 million bonus awarded to CEO Michael Hansen for achieving the listing of the Company's common stock on the Nasdaq Capital Markets stock exchange, Mr. Hansen delivered \$70,000 to the Company as the final payment in connection with his purchase of 300,000 shares of Ominto common stock in a private placement. The \$70,000 was reported as a subscription receivable and temporarily reported as a contra-equity account in the equity section of the accompanying balance sheet as of March 31, 2017.

18. Restatement

Ominto, Inc. is restating its unaudited condensed consolidated balance sheet, statement of operations and statement of cash flows and statement of equity (deficit) as of and for the six months ended March 31, 2017. The restatement shows the as previously filed, restatement adjustment and as restated columns.

The three primary adjustments to the financial statements are:

The Company's approval to list shares on the Nasdaq Capital Markets stock exchange ("Nasdaq") on March 6, 2017 resulted in several Business Associates earning 218,052 shares of the Company's common stock in connection with a prior marketing campaign called the "Hot Summer Promotion." During 2016, the Company initiated a program called the "Hot Summer Promotion" whereby, in addition to standard commissions, the Company offered an extra 20% commission to participating BAs (payable in shares of Ominto common stock subject to approval of the listing of the Company's common stock on Nasdaq), the Company deemed the shares to be fully earned under the Hot Summer Promotion. During the three months ended March 31, 2017, the Company recognized approximately \$890,000 of commission expense (out of a total of \$1,281,000) and will issue approximately 218,052 shares related to this promotion. The Company valued these shares using the closing price of the Company's common stock on March 6, 2017. As of March 31, 2017, \$390,000 remains held on our unaudited condensed consolidated balance sheet as Deferred Cost.

The Company granted 100,000 restricted shares to the CEO in November 2016 which were contingently earned upon the approval of the Company to trade on the Nasdaq Capital Markets stock exchange. The Company previously used the price on the vesting date of \$5.70 instead of the grant date price of \$3.05. This resulted in a reduction in stock compensation expense of \$265,000 in the unaudited condensed consolidated accompanying statements of operations.

The Goodwill on the Company's VIE should have been pushed down to the VIE's books and revalued using currency exchange rates which resulted in an adjustment to Goodwill and Accumulated Other Comprehensive Income of approximately \$275,000 and a related adjustment of approximately \$187,000 to noncontrolling interest as of March 31, 2017.

In connection with the Company's acquisition of its VIE, Lani Pixels on December 13, 2016, the Company issued 1,285,714 shares of its common stock valued at \$5,142,856 to Lani Pixels as consideration but did not report the shares as Treasury stock with a corresponding decrease to Goodwill that was recorded in the transaction. Related to the same acquisition, the Company is restating the net assets acquired including an increase of cash acquired and a decrease of Goodwill. The previously reported purchase price of \$10,281,284 underwent a change and the adjusted purchase price is \$5,075,428 representing a decrease of \$5,142,856 due to treasury stock mentioned above. The net cash inflow arising out of the said purchase also underwent a change from \$25,251 as previously reported to \$683,401 representing an increase of \$658,150.

The Company has reclassified certain accounts payable and other liabilities totaling to \$2,137,439 to dues to related parties.

A summary of the adjustments reflected on the Company's statement of financial position follows:

	March 31, 2017		
	As Originally Reported	As Adjusted	Effect of Change
Deferred costs	17,391,085	17,781,106	390,021(a)
Goodwill	26,760,426	19,834,636	(6,925,790)(b)
Accounts payable	2,154,458	1,272,033	(882,425)(c)
Other payables and accrued liabilities	5,216,234	3,961,220	(1,255,014)(d)
Amounts due to related parties	-	2,137,439	2,137,439(e)
Common stock, \$.001 par value	18,040	18,259	219(f)
Treasury stock, at cost	-	(5,142,856)	(5,142,856)(g)
Additional paid-in capital	71,493,723	72,509,336	1,015,613(h)
Accumulated other comprehensive income	1,178,091	1,265,976	87,885(i)
Noncontrolling interests	14,889,094	13,018,274	(1,870,820)(j)

- (a) Increase Deferred costs \$390,021 related to the accretion of shares to be issued in connection with the "HotSummerPromotion"
- (b) Decrease Goodwill \$6,925,790 related to revaluation of the Company's goodwill on its VIE Lani Pixels and the effects of foreign currency adjustments
- (c) Decrease Accounts payable \$882,425 related to reclassification of related party payable
- (d) Decrease Other payables and accrued liabilities \$1,255,014 related to reclassification of related party payable
- (e) Increase Amounts due to related parties \$2,137,439 related to reclassification of related party payable
- (f) Increase Common stock \$219 equal to the par value of common stock issued in connection with the "Hot Summer Promotion"
- (g) Decrease Treasury stock \$5,142,856 equal to the fair value of common stock issued in connection with the "Hot Summer Promotion"
- (h) Increase Additional paid-in capital \$1,015,613 related to the fair value of common stock issued and stock amortization in connection with the "Hot Summer Promotion" net valuation reduction related to common stock issued to CEO
- (i) Increase Accumulated other comprehensive income \$87,885 related to revaluation of the Company's goodwill on its VIE Lani Pixels
- (j) Decrease Noncontrolling interests \$1,870,820 related to change in fair value assumptions and foreign currency adjustments

A summary of the adjustments reflected on the Company's statement of operations follows:

COST OF REVENUES	\$ 4,405,470	\$ 5,296,282	\$ 890,812(a)	\$ 8,364,171	\$ 9,254,983	\$ 890,812(a)
Selling, general and administrative expenses	\$ 7,902,747	\$ 7,637,745	\$ (265,002)(b)	\$ 12,199,244	\$ 11,934,242	\$ (265,002)(b)

- (a) Increase Cost of Revenues \$890,812 related to "HotSummerPromotion"
- (b) Decrease Stock compensation expense \$265,002 related to an error in the valuation at issuance of 100,000 shares of the Company's common stock issued to the CEO

19. Goodwill

Changes in the carrying amount of goodwill for the fiscal year 2017 are as follows:

Goodwill	
Beginning balance	\$ 19,559,401
Foreign currency translation impact	275,235
Ending balance	\$ 19,834,636

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

Cautionary Statement Regarding Forward-Looking Statements

The discussion contained in this Quarterly Report on Form 10-Q ("Report") under the Securities Exchange Act of 1934 as amended ("Exchange Act"), contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those discussed herein. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "believe," "projects," "could," "would," and similar expressions. You can also identify them by the fact that they do not relate strictly to historical or current facts. The forward-looking statements reflect our current view about future events and are subject to risks, uncertainties and assumptions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. Our actual results may differ materially from those indicated by our forward-looking statements as a result of various factors, including the risks and uncertainties described in the section of this report titled "Risk Factors".

Factors that could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements include, among other things:

- risks related to our ability to continue as a going concern being in doubt;
- our inability to generate enough customers or enough purchasing activity for our shopping websites;
- our inability to establish and maintain a large growing base of Business Associates;
- our failure to adapt to technological change;
- increased competition;
- increased operating costs;
- changes in legislation applicable to our business;
- our failure to improve our internal controls; and
- our inability to generate sufficient cash flows from operations or to secure capital to enable us to maintain our current operations or support our intended growth.
- our inability to successfully integrate Lani Pixels into our operations.
- our inability to secure additional financing to enable Lani Pixels to complete its current animated film production.

All forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements or other information contained herein. Stockholders and potential investors should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable, we cannot assure stockholders and potential investors that these plans, intentions and expectations will be achieved. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Information regarding market and industry statistics contained in this report is included based on information available to us that we believe is accurate. It is generally based on academic and other publications that are not produced for purpose of securities offerings or economic analysis. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. Except as required by U.S. federal securities laws, we have no obligation to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "believe," "projects," "could," "would," and similar expressions. You can also identify them by the fact that they do not relate strictly to historical or current facts. The forward-looking statements reflect our current view about future events and are subject to risks, uncertainties and assumptions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. Our actual results may differ materially from those indicated by our forward-looking statements as a result of various factors, including the risks and uncertainties described in the section of this report titled "Risk Factors".

Introduction

We are a global leader in online Cash Back shopping. The Company's shopping platform currently serves customers in more than 100 countries. Using our consumer-adaptive e-commerce sites, shoppers can browse at affiliated merchants' websites with different categories of products, featuring both international and local brands, travel, coupons, discounts and vouchers. The website is one global site that allows customers to select their country and language and serves customers with merchants that are available in their local country. Ominto's websites feature some of the world's most popular regional and international brands including Amazon.in®, Wal-Mart®, Nike®, Hotels.com®, Groupon™ and Expedia®. We receive a commission each time shoppers make a purchase on a third-party website through our shopping website. Ominto's e-commerce platform allows consumers to shop at the same online stores they normally frequent and earn Cash Back with each purchase they make through us. Our new Ominto.com shopping platform, launched in the third quarter of fiscal 2016, operates as a global site tailored to country preference depending on where in the world the shopper is logging in, as recognized by the location of the geo-IP.

We offer a free and a paid membership that allow shoppers to earn varying amounts of Cash Back from the purchases that they make online through our shopping sites. The paid VIP membership allows our members to earn a higher percentage of Cash Back on their purchases, as well as other benefits. Our BAs purchase membership subscription products in the form of VIP membership vouchers for DubLi.com's customers. We receive a commission each time shoppers make purchases through our shopping platform with our affiliated merchants. We pass a portion of those commissions to our shoppers in the form of Cash Back. Our worldwide online transactions are conducted through the DubLi.com shopping platform. We have a large international network of independent Business Associates ("BAs") that sell and use our various e-commerce Cash Back products.

During the quarter ending June 30, 2017, we intend to launch an enhanced VIP Lounge membership. The VIP Lounge offers new products and benefits, including DubLi Travel. DubLi Travel is Ominto's search engine, featuring worldwide hotel coverage and listing one of the largest hotel inventories at more than 15,000 destinations. With discounts of up to 60% on hotel bookings, DubLi Travel is backed by leading travel industry hotel accommodation partners, priceline.com, Booking.com and agoda.com, who have a global presence in North America, Europe, the Middle East and Asia-Pacific region. Ominto's new VIP Lounge offers more options for VIP members to save on travel, leisure and entertainment activities, local shopping, dining and services. VIP Lounge members can save on air travel with 10% discounted flight vouchers on round-trip flights anywhere in the world. The new VIP Lounge also offers up to 50% discounts on local retail and dining with over 400,000 offers available throughout North America.

We also own a controlling interest in Lani Pixels A/S, an animation production company focused on feature-length films and digital marketing content, located in Billund, Denmark with offices in Denmark and Dubai, U.A.E.

Business license fees are paid by our BAs and our Partner Program participants. The fees from BAs enable them to sell our products. Fees paid by our Partners allow them to receive either a white label solution or a co-branded referral program that their customers or donors can use to make Cash Back purchases through our online shopping platform. Our Partners earn commissions derived from membership subscription fees from the shoppers they refer as well as a portion of the commission income received from our affiliates. Generally, our for-profit Partner Program participants pay a monthly maintenance fee to remain as an active member.

Commission income is the amounts we receive from affiliates for purchases made on our shopping platform. We share this commission income with our customers in the form of Cash Back.

Our network marketing organization of BAs is represented in approximately 100 countries throughout the world. Our BAs market our Cash Back product to their customers, many of who become BAs themselves. BAs earn commissions both on paid membership subscriptions that they sell directly, as well as on "down line" sales of products made by BAs that they bring into the marketing network. BAs also earn commissions on purchases made on our shopping website by shoppers they have referred, or that have been referred by their downline BAs.

Trends in Our Business

We continue to focus our resources on potentially more profitable programs related to our e-commerce shopping platform. We believe that shopping transactions continue to shift from traditional to online retailers as the digital economy evolves. However, our revenue growth rate to date may not be sustainable due to factors, including increasing competition, and increasing maturity of the online shopping market. We plan to continue to invest in our shopping platform and increase our customer base through Partner Programs, our BAs and advertising campaigns, but cannot provide any assurance that such investments will result in increased revenues or net income.

In order to increase the sale of our Cash Back product, we have dedicated white-label Cash Back shopping websites through Partners, which we believe will increase the number of shoppers purchasing products and services through our shopping platform. Our new global Cash Back shopping website launched during the third quarter of 2016.

Traditional retail seasonality has affected our results of operations, and is likely to continue to do so. Online shopping generally slows during the summer months, and shopping (whether traditional or e-commerce) typically increases significantly during the holiday season in the fourth quarter of each calendar year. These seasonal trends have caused, and will likely continue to cause, fluctuations in our quarterly results.

Increasing our revenue involves investment in our information technology infrastructure and human resources. We expect our Partner Program to be an important component in our business strategy. We expect that the gross cost of revenue will increase and may also increase as a percentage of revenues in future periods, primarily due to forecasted increases in costs, including customer acquisition costs, data center costs, credit card and other transaction fees, and content acquisition costs.

As we expand our shopping programs and other products in international markets, we continue to increase our exposure to fluctuations in foreign currency to US dollar exchange rates.

We plan to continue to develop Ominto's capabilities with marketing services and view Lani Pixels as a strategic content partner in this effort. Lani Pixels has bandwidth to assist Ominto through the development of animated, short training videos for the DubLi Network. Lani Pixels can also produce marketing videos and other creative content for the DubLi.com Cash Back shopping platform.

Quant Systems, Inc. is an advisory and IT solutions firm providing cutting-edge technology applications that improve and empower businesses. Quant Systems' comprehensive services include technical consulting, software implementation and re-engineering, big data and analytics, cloud infrastructure, mobile strategy and robotics. This strategic collaboration aligns Ominto with a strong IT solutions partner known for its innovative software development and emerging technologies. Combining Ominto's business model with Quant's technology proficiency allows us to deliver a world-class Cash Back experience, on a global basis, for the benefit of our Partner Program relationships and our shopping customers.

Results of Operations

THREE (3) MONTHS ENDED MARCH 31, 2017 COMPARED TO THREE (3) MONTHS ENDED MARCH 31, 2016

Consolidated Results

Net loss including noncontrolling interests totaled approximately \$5.1 million and \$3.0 million for the three (3) months ended March 31, 2017 and 2016, respectively. The increase in the net loss consisted of an increase in selling, general and administrative expenses of approximately \$3.6 million offset by an increase in gross income of approximately \$1.6 million. The loss from operations increased \$2.0 million in the three (3) months ended March 31, 2017 compared to the three (3) months ended March 31, 2016. Further discussions on the results from continuing operations and discontinued operations are provided below.

Continuing Operations

Revenues totaled approximately \$7.9 million and \$4.0 million for the three (3) months ended March 31, 2017 and 2016, respectively. The increase was primarily due to an increase in: (i) business license fees from Business Associates as a result of a higher volume of registrations under the program; and (ii) membership subscription fees from increased sales of VIP memberships.

Gross income was approximately \$2.6 million and \$1.0 million for the three (3) months ended March 31, 2017 and 2016, respectively. The \$1.6 million increase consisted of an increase in revenues of \$3.9 million partially offset by an increase in cost of revenues of \$1.4 million. Gross margin as a percentage of revenues was approximately 33% and 25% during the three months ended March 31, 2017 and 2016, respectively. The Company experienced growth in new markets which resulted in an increase in certain revenue streams upon which the Company did not have to pay any commissions to BAs.

Selling, general and administrative (“SGA”) expenses were approximately \$7.6 million and \$4.0 million for the three (3) months ended March 31, 2017 and 2016, respectively. The increase primarily consisted of increases in payroll costs mostly attributed to a \$2.0 million bonus awarded to the CEO and \$1.0 million of stock compensation to the CEO in connection with the successful listing of the Company’s common stock on the Nasdaq Capital Markets stock exchange, and increases in rent and office expenses, outside services fees, travel expenses, and net foreign exchange losses partially offset by a decrease in banking and processing fees. Details of our SGA expenses are summarized as follows:

<i>(All amounts in \$ thousands)</i>	For the three months ended March 31,		Change
	2017 (restated)	2016	
Advertising and marketing costs	\$ 74	\$ 26	\$ 48
Depreciation	140	14	126
Outside service fees	2,032	1,486	546
Payroll costs	4,100	1,943	2,157
Rent and office expenses	669	162	507
Banking and processing fees	89	235	(146)
Foreign exchange	206	(19)	225
Travel expenses and others	328	169	159
Total	<u>\$ 7,638</u>	<u>\$ 4,016</u>	<u>\$ 3,622</u>

Discontinued Operations

Income from discontinued operations was approximately \$0 for three (3) months ended March 31, 2017, compared to \$28,000, for the three (3) months ended March 31, 2016. All liabilities for unused credits associated with the discontinued reverse auction program that we closed in 2013 were fully recognized in the three months ended December 31, 2016.

SIX (6) MONTHS ENDED MARCH 31, 2017 COMPARED TO SIX (6) MONTHS ENDED MARCH 31, 2016

Consolidated Results

Net loss including noncontrolling interests totaled approximately \$7.5 million for the six (6) months ended March 31, 2017 compared to a net loss of \$5.0 million for the six (6) months ended March 31, 2016. The increase in net loss including noncontrolling interests primarily consisted of an increase in selling, general, and administrative expenses of approximately \$4.1 million partially offset by an increase in gross income of approximately \$2.0 million. Further discussions on the results from continuing operations and discontinued operations are provided below:

Continuing Operations

Revenue totaled approximately \$13.7 million and \$9.4 million for the six (6) months ended March 31, 2017 and 2016, respectively. The increase was primarily due to an increase in: (i) business license fees from BAs as a result of a higher volume of registrations under the program; and (ii) membership subscription fees from increased sales of VIP memberships.

Gross income totaled approximately \$4.5 million and \$2.5 million for the six (6) months ended March 31, 2017 and 2016, respectively. The \$2.0 million increase primarily consisted of an increase of \$4.3 million in revenues partially offset by a \$2.3 million increase in costs of revenue during the six (6) months ended March 31, 2017. During the six (6) months ended March 31, 2017 and 2016, gross margin as a percentage of revenues was approximately 33% and 27%, respectively. The Company experienced growth in new markets which resulted in an increase in certain revenue streams upon which the Company did not have to pay any commissions to BAs.

SGA expenses were approximately \$11.9 million and \$7.8 million for the six (6) months ended March 31, 2017 and 2016, respectively. The increase was primarily due to approximately: \$5.3 million in payroll costs that included a \$2.0 million bonus awarded to the CEO and \$1.0 million of stock compensation to the CEO in connection with the successful listing of the Company's common stock on the Nasdaq National Capital Markets stock exchange. Details of our SGA expenses are summarized as follows:

<i>(All amounts in \$ thousands)</i>	For the six months ended		Change
	2017	2016	
	(restated)		
Advertising and marketing costs	\$ 279	\$ 46	\$ 233
Depreciation	254	33	221
Outside service fees	3,768	1,563	2,205
Payroll costs	5,310	5,056	254
Rent and office expenses	1,547	306	1,241
Banking and processing fees	864	438	426
Foreign exchange	(596)	16	(612)
Travel expenses and others	508	358	150
Total	\$ 11,934	\$ 7,816	\$ 4,118

Discontinued Operations

Income from discontinued operations was approximately \$26,000 and \$32,000 for the six (6) months ended March 31, 2017 and 2016, respectively. The decrease was primarily due to lower revenues in the final recognition of credits breakage associated with inactive BAs from our previous reverse auction business that was closed in 2013.

Foreign Exchange Gain/Losses and the Foreign Currency Translation Adjustment

The Company measures and translates the effects of foreign currency fluctuations in accordance with Accounting Standards Codification (“ASC”) 830, Foreign Currency Matters.

Our operations are conducted in multiple currencies and are exposed to foreign exchange rate fluctuations. Our net revenues and related expenses generated from international locations are denominated in the functional currencies of the local countries, primarily in Euros and the Krone and AED in the case of our VIE Lani Pixels. Our results of operations and certain of our intercompany balances associated with our international locations are exposed to foreign exchange rate fluctuations. Transactions settled in a currency other than the functional currency; primarily the Euro, are measured at that day’s exchange rate. Changes in functional currency amounts that result from the daily measurement process are considered transaction gains or losses and are included in foreign exchange gains /losses in the statements of operations.

Our assets and liabilities of foreign subsidiaries with a functional currency other than the U.S. dollar are translated into U.S. dollars at period-end exchange rates, with resulting translation gains or losses. Revenue and expenses are translated into U.S. dollars at average rates of exchange during the applicable period. Stockholders’ equity transactions are measured at the exchange rates at the date of each transaction. The net effect of these translations is the foreign currency translation adjustment that is included in accumulated other comprehensive income (loss) on the balance sheets. The foreign currency translation adjustment represented a gain of approximately \$1 million for the three (3) months ended March 31, 2017 and \$340,000 for the three months ended March 31, 2016. The foreign currency translation adjustment for the six (6) months ended March 31, 2017 represented a gain of approximately \$329,000 compared to a loss of 143,000 for the six (6) months ended March 31, 2016.

To the extent that the US dollar weakens against foreign currencies, this translation methodology results in these foreign currency translations increasing accumulated other comprehensive income or decreasing accumulated other comprehensive loss on the balance sheets. Similarly, when the U.S. dollar strengthens against foreign currencies, foreign currency translations decrease accumulated other comprehensive income or increase accumulated other comprehensive loss on the balance sheets. Our exposure to foreign currency risks could increase in the future as we continue to expand our operations outside of the U.S.

Non-U.S. GAAP Financial Measures

We believe these non-U.S. GAAP financial measures provide meaningful information and help investors understand our financial results and assess our prospects for future performance. Because non-U.S. GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-U.S. GAAP financial measures having the same or similar names. These financial measures should not be considered in isolation from, as substitutes for, or alternative measures of, reported net income (loss) from continuing operations, diluted earnings (loss) per share from continuing operations and net cash provided by operating activities, and should be viewed in conjunction with the most comparable U.S. GAAP financial measures and the provided reconciliations thereto. We believe these non-U.S. GAAP financial measures, when viewed together with our U.S. GAAP results and related reconciliations, provide a more complete understanding of our business. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety and not rely on any single financial measure.

Current liabilities include \$21.7 million of deferred subscription fee revenue and \$9.2 million of deferred advertising revenue which are amortized over a twelve month period based on the terms of the underlying advertising programs. Current assets include deferred costs of \$17.8 million which are being amortized over a twelve month period and represent about \$1.5 million of expense per month. As shown above, excluding deferred costs from current assets and deferred subscription fee revenue and deferred advertising revenue from current liabilities, we had a working capital deficit of approximately \$2.6 million (non-U.S. GAAP basis) at March 31, 2017. For terms of the deferred subscription fee program and deferred advertising revenue program, refer to "Note 2, Summary of Significant Accounting Policies — E-commerce and memberships, in the Notes to unaudited condensed consolidated financial statements.

Liquidity and Capital Resources

Liquidity

During the six (6) months ended March 31, 2017, we incurred a loss from continuing operations including noncontrolling interest of \$7.5 million. We have an accumulated deficit for the period from our inception through March 31, 2017 of approximately \$66.6 million.

Ominto's stockholders' deficit of approximately \$7.5 million at September 30, 2016 improved to Ominto stockholders' equity of approximately \$1.0 million at March 31, 2017 as a result of our financing of the acquisition of 40.02% interest in Lani Pixels; our investment in 18.75% of the common stock of Quant Systems, Inc. through issuances of our common stock totaling approximately \$12.9 million; our private placement sale of common stock to foreign investors totaling approximately \$2.1 million; issuance and private placement sale of common stock to the CEO totaling \$2.0 million, and stock compensation of \$1.7 million.

We had a working capital (defined as current assets less current liabilities) deficit of approximately \$15.7 million as of March 31, 2017.

Total cash and cash equivalents of approximately \$11.5 million at March 31, 2017 increased \$1.9 million from total cash and cash equivalents of approximately \$9.6 million at September 30, 2016. In addition, we had restricted cash balances of approximately \$1.7 million at March 31, 2017 and approximately \$2.0 million at September 30, 2016.

Our primary sources of liquidity are cash flows from operations and funds raised through debt and/or equity. Our primary liquidity needs are for working capital, capital expenditures and acquisition requirements.

We generated net cash flows from operating activities of approximately \$1.3 million during the six months ended March 31, 2017 consisting primarily of the positive effect of net changes in assets and liabilities. We used cash flows from operations totaling \$4.3 million during the six (6) months ended March 31, 2016 consisting primarily of the negative effect of net changes in assets and liabilities.

We used net cash flows from investing activities of approximately \$3.0 million during the six months ended March 31, 2017 due to the purchase of a \$2.0 million debenture of Lani Pixels, a \$500,000 loan to Lani Pixels, \$1.1 million to acquire movie rights partially offset by \$683,000 of cash from acquisition of Lani Pixels. We used cash flows from investing activities of approximately \$506,000 for capital expenditures during the six months ended March 31, 2016.

We generated net cash flows from financing activities of \$4.2 million during the six months ended March 31, 2017 from the sale of approximately 523,000 shares of our common stock to various investors for cash consideration of \$2.1 million and \$2.0 million from the sale of restricted common stock to our CEO and \$78,000 of proceeds from advances from related parties. We generated cash flows from financing activities totaling \$2.0 million during the six months ended March 31, 2016 from \$1.4 million of proceeds from convertible loan, \$362,260 of proceeds from the sale of common stock and \$250,000 of proceeds from the exercise of a warrant for shares of common stock.

The Company's Board of Directors and Executive Management reasonably believes that the Company will continue to exist to carry out all objectives, commitments, and stated goals for the immediate future as profitability and positive cash flows from operations continue to improve. There is no significant information available to the contrary, as the company is currently able to meet all current and immediate obligations without substantial asset sales or restructuring. Also, with the introduction of the new operations platform and business model and the arrival of new Executive Management members, Management believes that the financial and business trends will continue to be positive for the foreseeable future. Furthermore, there are no denial of trade credit from suppliers, and no known adverse legal proceedings that could materially affect the Company.

Debt

As described in Note 10, *Debt* in the Notes to unaudited condensed consolidated financial statements, Lani Pixels owes \$1,857,834 of a senior secured term Debenture bond (“Debenture”); the net proceeds of which were used to finance the production of an animated feature film and to pay any fees associated with this offering. The Debenture has a coupon of 5% per annum, payable semi-annually and a running fee that entitles the holder to 3% of the gross revenues from July 1, 2017 to and including December 31, 2025, paid semi-annually on April 12, 2019 for the preceding semi-annual period from July 1 through December 31. The Debenture matures on February 12, 2026 and has a call option under which the principal amount may be redeemed in whole on April 12, 2019 or on any consecutive coupon date thereafter. Lani Pixels is currently not in compliance with the covenants of the debenture to set up a debt service reserve account. Therefore, Lani Pixels’ debt has been classified as current liabilities in the accompanying balance sheet at March 31, 2017.

We continue to update our product offerings which places additional demands on future cash flows. Our future cash flow and capital requirements will depend on numerous factors including market acceptance of our future products, revenues generated from operations, the impact of competitive product offerings, and whether we are successful in acquiring additional customers on a large scale through partners. We intend to increase our marketing efforts in order to grow our network of BAs which we expect will improve sales of our e-commerce products. The marketing efforts will place additional demands on our cash flows. We cannot offer any assurance that we will be successful in generating revenue from operations; adequately dealing with competitive pressures; acquiring complementary products, technologies or business; or increasing our marketing efforts. Our plans for the long-term include generating cash flows from the profitable operation of our business and financing our operations through sales of our common stock and/or debt.

Beginning in January 2016, we implemented a series of changes to streamline our organization and reduce monthly operating expenses. Our efforts focused on reducing staffing costs, transferring certain functions to lower cost locations, consolidating our operations to fewer locations, and reducing our efforts on activities not related to our core operations. These changes were designed to conserve our resources and allow for continued investment in the completion and launch of our new Ominto.com and its related DubLi.com technology platform.

Cash in Foreign Subsidiaries

We have significant operations outside the United States. As a result, cash generated by and used in our foreign operations is used only in amounts sufficient to pay general and administrative expenses in the U.S. or to fund certain US operational costs. As of March 31, 2017, we held approximately \$11.5 million of unrestricted and approximately \$1.7 million of restricted cash in foreign subsidiaries. Certain of the Company’s foreign subsidiaries have cash balances that are denominated in U.S. dollars.

Our foreign cash is permanently reinvested, however, should it be repatriated, we will be subject to U.S. tax at the applicable U.S. federal statutory rate on the amount treated as a dividend for U.S. income tax purposes. Dividend treatment will largely be the result of the collective financial position of the foreign subsidiaries at the time of repatriation. Any U.S. income tax attributable to repatriated earnings may be offset by foreign income taxes paid on such earnings. Due to the significance of our foreign operations, we do not presently foresee a need to repatriate foreign cash in excess of our U.S. funding needs.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). The core principle of this ASU is that a company will recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In doing so, companies will need to use judgment and make estimates when evaluating contract terms and other relevant facts and circumstances. Additionally, ASU 2014-09 requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, is effective using either the full retrospective or modified retrospective transition approach for fiscal years, and for interim periods within those years, beginning after December 15, 2017. In March, May and December 2016, the FASB issued several additional accounting standards updates to clarify certain topics within ASU 2014-09. The Company will adopt ASU 2014-09, and its related clarifying ASUs, as of October 1, 2018. The Company is continuing to assess the potential effects of these ASUs on its consolidated financial statements, business processes, systems and controls. The Company’s assessment includes a review of representative contracts at each of the Company’s locations/business units and a comparison of its historical accounting policies and practices to the new standard. Based on the Company’s progress in reviewing various types of revenue arrangements, the Company anticipates adopting the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after October 1, 2018. For existing contracts that have remaining obligations as of October 1, 2018, any difference between the recognition criteria in these ASUs and the Company’s current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. Any potential effect of adoption of these ASUs has not yet been quantified; however, based on the review of contracts at the Company’s various locations to date, the adoption of these ASUs is not expected to have a material effect on the timing or amount of revenue recognized as compared to current practices. The Company’s expectations may change as its assessment progresses.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash (Topic 230): Restricted Cash* (“ASU 2016-18”), which reduces the diversity in the treatment of Restricted cash in the Statement of Cash Flows. This ASU requires that restricted cash and restricted cash equivalents be included with unrestricted cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash and cash equivalents. Public business entities are required to adopt this ASU for fiscal years beginning after December 15, 2017, with other entities adopting it for fiscal years beginning after December 15, 2018. Early adoption is permitted. Currently the Company separates restricted cash and cash equivalents from its unrestricted cash and cash equivalents when reconciling the beginning and end of period total cash and cash equivalents and only reports the net change in restricted cash and cash equivalents in the statement of cash flows. In the future, the Company’s sources and uses of restricted cash and cash equivalents will be combined with its sources and uses of unrestricted cash and cash equivalents in the statement of cash flows. The Company does not expect the adoption of this ASU to have a material effect on its statement of cash flows.

In December 2016, the FASB issued ASU 2016-19, *Technical Corrections and Improvements* (“ASU 2016-19”), which clarifies, corrects and amends various FASB Codification Subtopics. ASU 2016-19 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016 and shall be applied prospectively. It clarifies that internal use software licenses purchased from third parties shall be recorded as an Intangible asset along with recording any related liabilities. It adds definitions of the terms Issued, Issuing and Issued for use with Equity Based Payments to Non-Employees and Stock Compensation. The Company plans to adopt this ASU effective at the beginning of its next fiscal year on October 1, 2017 and does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes & Error Corrections and Investments – Equity Method and Joint Ventures: Amendments to SEC Paragraphs pursuant to Staff Announcements* (“ASU 2017-03”), which amends various FASB Codification Topics. Public business entities are required to adopt this ASU for fiscal years beginning after December 15, 2019, with other entities adopting it for fiscal years beginning after December 15, 2020. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. The Company does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which simplifies the method of testing for goodwill impairment by eliminating Step 2 (comparing the implied fair value of goodwill with the carrying amount of goodwill) for entities that have not adopted the private company alternative for goodwill impairment testing. Entities that have not adopted the private company alternative for goodwill impairment testing may use a one-step quantitative test to determine the amount, if any, of good will impairment (comparing the fair value of goodwill to the carrying amount). Under ASU 2017-03, Public business entities that are SEC filers are required to adopt this ASU for fiscal years beginning after December 15, 2019, with public business entities that are not SEC filers adopting it for fiscal years beginning after December 15, 2020 and all other filers adopting in fiscal years beginning after December 15, 2021. Early adoption is permitted as for interim and annual goodwill impairment of annual reporting periods beginning after January 1, 2017. The Company does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

Subsequent Events

On April 28, 2017, Ominto provided a short-term loan in the amount of \$250,000 to its VIE, Lani Pixels A/S, through Lani Pixels’ subsidiary Lani Pixels DMCC. The loan matures on May 27, 2017, bears a fixed interest rate of 12% per year and is payable in one monthly payment of principal, unpaid interest and any other amounts that are due. Should Lani Pixels default on the loan, the interest rate increases to 15% per year and Ominto reserves the right to seek a conversion of principal to senior debtor status *pari-passu* with common lenders to the extent that there are available assets.

Effective as of April 1, 2017, the Company entered into a Consulting Agreement (the “Consulting Agreement”) with Mr. Gregory Newell, a Director of the Company, pursuant to which Mr. Newell will assist the Company with its further expansion efforts in Asia. The term of the Consulting Agreement is for a period of six months and provides that Mr. Newell shall be paid \$9,500 per month and be reimbursed for reasonable business expenses.

At a regularly scheduled meeting of the board of directors of the Company held on May 10, 2017, David Pollei, Chairman of the Board, informed the Company that he had decided not to stand for reelection as a director of the Company at the next annual meeting of stockholders. Such decision not to stand for reelection was not based on any disagreement with the Company.

On May 11, 2017, CEO Michael Hansen delivered the amount of \$70,000 to the Company to complete the purchase of 300,000 shares of Ominto common stock in a private placement that is reported as a subscription receivable in the accompanying balance sheet at March 31, 2017.

Off-Balance Sheet Arrangements

Our significant off-balance sheet transactions include liabilities associated with non-cancellable operating leases, employment contracts, and liabilities associated with certain indemnification and guarantee arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15 (e) under the Exchange Act) as of the end of the period covered by this Report. Based on the foregoing, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

As previously reported in our annual report Form 10-K for the year ended September 30, 2016, as a result of our principal executive officer's and principal financial officer's assessment of the effectiveness of our internal control over financial reporting as of September 30, 2016, we continued to identify material weaknesses in internal control over financial reporting as of March 31, 2017. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. These material weaknesses have not been remediated as of March 31, 2017.

There were modest improvements in our internal control over financial reporting that occurred during the (3) months ended March 31, 2017. These changes however did not affect, or were not reasonably likely to materially affect, our internal control over financial reporting.

In connection with the preparation of this report, under the supervision and with the participation of our management, our principal executive officer and our principal financial officer conducted an evaluation of the effectiveness of our internal control over financial reporting and noted several other control deficiencies that constituted a material weakness (details of these will form part of management's assessment of ICFR at fiscal year-end):

We did not design and maintain effective controls to ensure that appropriate adjustments associated with non-routine events were identified to mitigate the event of a misstatement and our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act.

These material weaknesses resulted in the restatement of our interim financial statements as of and for the periods ended December 31, 2016 and March 31, 2017.

Remediation Plans

To address the identified material weaknesses discussed in our annual report on Form 10-K for the fiscal year ended September 30, 2016, we have taken the following measures. Beginning in the second quarter of our 2017 fiscal year, Management believes that there have been modest improvements in the level of internal control but is aware that there are still multiple unaddressed risks to date. Consistent with the Sarbanes Oxley framework, we are engaged in the process of completing and documenting each of the Company's key information technology and business-related processes necessary to improve our internal controls. We have undertaken this assessment and have made an initial determination of our significant processes. We are currently engaged in the next step in this process which is to document these significant processes and design key controls for each significant financial reporting process.

The remedial steps we have taken to date are as follows:

1. We continue to improve work flow and enhance internal controls. Management has recognized the need for documented policies and procedures and established such documents outlining processes, procedures, levels of authorization and approval, and other transactional related requirements in order to be disseminated for accountability and oversight. Management is also aware that the entity will need to review its policies and procedures periodically to determine whether they continue to be appropriate for the entity's activities and refresh them when needed.

2. We continue to take remedial measures to correct our internal control deficiencies and decided to devote significant resources to improving our internal controls. We have added additional resources in our accounting department which we believe will continue to improve our internal controls. With the additional resources, we will be able to focus on providing additional training, as well as provide adequate time for our staff to complete the control procedures which have been or will be assigned to them.

- (1) We hired a new CFO and additional qualified and experienced finance department personnel to enhance period end financial close and reporting;
- (2) We hired a Senior Manager of SEC and Financial Reporting;
- (3) Retained a Director of Internal Controls & Compliance placeholder to evaluate and implement corrective action on our material weaknesses;
- (4) Continued the search for a Vice President of Information Technology to oversee and implement proper internal control over IT and our business operating systems; and
- (5) Continued the search for a Controller with extensive experience in financial reporting and technical accounting

We will also continue the reorganization of our finance, accounting and other support staff to improve work flow and enhance internal controls.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There were no material legal proceedings during the three (3) months ended March 31, 2017.

ITEM 1A. RISK FACTORS

There has been no material change to the risk factors relating to our business as disclosed in our annual report on Form 10-K for the fiscal year ended September 30, 2016 filed on December 29, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company sold 7,771 shares of its common stock as part of an unregistered \$5.1 million private placement to foreign investors totaling approximately \$31,000 during the three (3) months ended March 31, 2017; the proceeds of which are being used for general operating needs and acquisitions.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. We believe that the offers, sales and issuances of the above securities were exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act or Regulation D promulgated thereunder as transactions by an issuer not involving any public offering, or in reliance on Regulation S promulgated under the Securities Act as a transaction conducted outside of the United States with non-U.S. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. We believe all recipients had adequate information about us or had adequate access, through their relationships with us, to information about us.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

No.	Description
4.1	Amendment to Promissory Note dated February 13, 2017 between Business Across APS, a Danish entity and the Company*
10.1	Amendment to Employment Agreement between Michael Hansen and the Company dated March 8, 2017*
10.2	Consulting Agreement between Gregory Newell and the Company dated April 1, 2017.*
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Incorporated by reference from the Company's Quarterly Report on Form 10-Q filed with the SEC on May 16, 2017.

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, there unto duly authorized.

Date: November 17, 2017

Ominto, Inc.

By: /s/ Michael Hansen
Michael Hansen
Chief Executive Officer
(Principal Executive Officer)

Date: November 17, 2017

Ominto, Inc.

By: /s/ Raoul Quijada
Raoul Quijada
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Hansen, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Ominto, Inc.;
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 consolidated 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. I am 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 have 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 controls 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 consolidated 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 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. 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 function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

DATE: November 17, 2017

By: /s/ Michael Hansen
Name: Michael Hansen
Titles: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Raoul Quijada, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Ominto, Inc.;
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 consolidated 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. I am 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 have 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 controls 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 consolidated 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 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. 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 function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

DATE: November 17, 2017

By: /s/ Raoul Quijada
Name: Raoul Quijada
Titles: Interim Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Ominto, Inc. (the "Company") on Form 10-Q/A for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Hansen, Chief Executive Officer of the Company and Principal Executive Officer and Principal Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of 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.

DATE: November 17, 2017

By: /s/ Michael Hansen
Name: Michael Hansen
Titles: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Ominto, Inc. (the "Company") on Form 10-Q/A for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Hansen, Chief Financial Officer of the Company and Principal Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of 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.

DATE: November 17, 2017

By: /s/ Raoul Quijada
Name: Raoul Quijada
Titles: Interim Chief Financial Officer
(Principal Financial Officer)