

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 001-37535



SITO MOBILE LTD.

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-4122844

(IRS Employer
Identification No.)

100 Town Square Place, Suite 204
Jersey City, NJ 07310
(Address of principal executive offices)

(201) 275-0555

(Registrants 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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company; as defined within Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of each of the issuer's classes of common equity as of November 14, 2016: 20,681,047 shares of common stock.

Contents

	<u>Page Number</u>
PART I FINANCIAL INFORMATION	1
Item 1 Financial Statements	1
Condensed Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015	1
Condensed Consolidated Statement of Operations for the Three and Nine Months Ended September 30, 2016 and 2015 (unaudited)	3
Condensed Consolidated Statement of Stockholder's Equity for the Nine Months Ended September 30, 2016 (unaudited) and December 31, 2015	4
Condensed Consolidated Statement of Cash Flows for the Three and Nine Months Ended September 30, 2016 and 2015 (unaudited)	5
Notes to Condensed Consolidated Unaudited Financial Statements September 30, 2016	7
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3 Quantitative and Qualitative Disclosures About Market Risk	
Item 4 Controls and Procedures	30
PART II OTHER INFORMATION	
Item 1 Legal Proceedings	31
Item 1A Risk Factors	31
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3 Defaults Upon Senior Securities	31
Item 4 Mine Safety Disclosures	31
Item 5 Other Information	31
Item 6 Exhibits	31
SIGNATURES	32

PART I - FINANCIAL INFORMATION

Item 1 – Financial Statements

SITO Mobile, Ltd.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016	December 31, 2015
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 9,836,888	\$ 2,615,184
Accounts receivable, net	9,813,623	6,167,816
Other prepaid expenses	<u>287,707</u>	<u>123,692</u>
Total current assets	<u>19,938,218</u>	<u>8,906,692</u>
Property and equipment, net	<u>458,348</u>	<u>585,356</u>
Other assets		
Capitalized software development costs, net	1,858,921	1,600,813
Intangible assets:		
Patents	514,327	445,473
Patent applications cost	811,248	897,087
Other intangible assets, net	1,506,757	1,714,477
Goodwill	6,444,225	6,444,225
Deferred loan costs, net	47,023	78,116
Other assets including security deposits	<u>108,938</u>	<u>84,829</u>
Total other assets	<u>11,291,439</u>	<u>11,265,020</u>
Total assets	<u>\$ 31,688,005</u>	<u>\$ 20,757,068</u>

See accompanying notes.

SITO Mobile, Ltd.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30,	December 31,
	2016	2015
	(Unaudited)	
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 4,412,043	\$ 4,828,600
Accrued expenses	1,953,505	1,277,896
Deferred revenue	431,780	532,909
Current obligations under capital lease	3,402	11,699
Note payable, net - current portion	<u>2,475,304</u>	<u>3,984,219</u>
Total current liabilities	<u>9,276,034</u>	<u>10,635,323</u>
Long-term liabilities		
Obligations under capital lease	3,622	6,201
Note payable, net	<u>4,644,983</u>	<u>4,934,966</u>
Total long-term liabilities	<u>4,648,605</u>	<u>4,941,167</u>
Total liabilities	<u>13,924,639</u>	<u>15,576,490</u>
Commitments and contingencies - See notes 15		
Stockholders' Equity		
Preferred stock, \$.0001 par value, 5,000,000 shares authorized; none outstanding	-	-
Common stock, \$.001 par value; 100,000,000 shares authorized, 20,587,770 shares issued and outstanding as of September 30, 2016 and \$.001 par value; 300,000,000 shares authorized, 17,157,520 shares issued and outstanding as of December 31, 2015	20,587	17,156
Additional paid-in capital	157,061,545	144,538,247
Accumulated deficit	<u>(139,318,766)</u>	<u>(139,374,825)</u>
Total stockholders' equity	<u>17,763,366</u>	<u>5,180,578</u>
Total liabilities and stockholders' equity	<u>\$ 31,688,005</u>	<u>\$ 20,757,068</u>

See accompanying notes.

SITO Mobile, Ltd.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue				
Media placement	\$ 8,424,099	\$ 3,023,222	\$ 21,583,479	\$ 6,804,752
Wireless applications	1,790,135	1,346,642	4,735,213	4,738,271
Licensing and royalties	127,196	144,469	388,561	419,008
Total revenue	<u>10,341,430</u>	<u>4,514,333</u>	<u>26,707,253</u>	<u>11,962,031</u>
Costs and Expenses				
Cost of revenue	4,648,156	2,163,333	12,135,274	5,614,836
Sales and marketing	2,798,283	1,198,469	7,561,188	2,951,750
General and administrative	1,792,440	2,253,446	5,143,764	4,892,354
Loss on impairment of long-lived asset	-	831,000	-	831,000
Depreciation and amortization	164,269	208,891	489,073	354,333
Total costs and expenses	<u>9,403,148</u>	<u>6,655,139</u>	<u>25,329,299</u>	<u>14,644,273</u>
Income (loss) from operations	938,282	(2,140,806)	1,377,954	(2,682,242)
Other Income (Expense)				
Interest expense	<u>(436,782)</u>	<u>(475,265)</u>	<u>(1,321,895)</u>	<u>(1,309,700)</u>
Net income (loss) before income taxes	501,500	(2,616,071)	56,059	(3,991,942)
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ 501,500</u>	<u>\$ (2,616,071)</u>	<u>\$ 56,059</u>	<u>\$ (3,991,942)</u>
Basic earnings (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.16)</u>	<u>\$ 0.00</u>	<u>\$ (0.25)</u>
Basic weighted average shares outstanding	<u>17,433,011</u>	<u>16,422,988</u>	<u>17,714,960</u>	<u>15,735,226</u>
Diluted earnings (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.16)</u>	<u>\$ 0.00</u>	<u>\$ (0.25)</u>
Diluted weighted average shares outstanding	<u>19,573,308</u>	<u>16,422,988</u>	<u>19,762,037</u>	<u>15,735,226</u>

See accompanying notes.

SITO Mobile, Ltd.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND FOR THE YEAR ENDED DECEMBER 31, 2015**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance - December 31, 2014	15,334,817	\$ 15,335	\$ 138,006,669	\$(134,945,782)	\$ 3,076,222
Shares issued on exercise of stock warrants	833,700	834	2,108,221	-	2,109,055
Shares issued for payment of services	70,000	70	209,930	-	210,000
Effect of reverse stock split	2,042	-	138,013	-	138,013
Additional shares issued in acquisition of DoubleVision	296,401	296	1,066,748	-	1,067,044
Additional shares issued in acquisition of intangible assets	620,560	621	2,543,676	-	2,544,297
Compensation recognized on option grants	-	-	539,990	-	539,990
Stock issuance costs	-	-	(75,000)	-	(75,000)
Net (loss) for the year ended December 31, 2015	-	-	-	(4,429,043)	(4,429,043)
Balance - December 31, 2015	17,157,520	17,156	144,538,247	(139,374,825)	5,180,578
Shares issued on exercise of stock options	163,583	164	703,441	-	703,605
Compensation recognized on option grants	-	-	935,123	-	935,123
Issuance of stock for restructuring of debt	200,000	200	567,800	-	568,000
Issuance of common stock	3,066,667	3,067	10,316,934	-	10,320,001
Net income for the nine months ended September 30, 2016	-	-	-	56,059	56,059
Balance - September 30, 2016	<u>20,587,770</u>	<u>\$ 20,587</u>	<u>\$ 157,061,545</u>	<u>\$(139,318,766)</u>	<u>\$ 17,763,366</u>

See accompanying notes.

SITO Mobile, Ltd.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Cash Flows from Operating Activities				
Net income (loss)	\$ 501,500	\$ (2,616,071)	\$ 56,059	\$ (3,991,942)
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:				
Depreciation expense	43,774	47,117	130,489	107,665
Amortization expense - software development costs	292,956	230,689	816,649	557,101
Amortization expense - patents	52,744	49,001	150,863	133,895
Amortization expense - discount of debt	200,281	165,681	570,267	458,646
Amortization expense - deferred costs	9,497	14,478	31,093	40,078
Amortization expense - intangible assets	67,750	112,773	207,720	112,773
Provision for bad debt	(10,673)	240,000	336,204	245,500
Loss on disposition of assets	237	-	4,868	-
Loss on impairment of long-lived asset	-	831,000	-	831,000
Stock based compensation	375,689	336,835	935,123	634,100
Changes in operating assets and liabilities:				
(Increase) in accounts receivable, net	(983,224)	(298,682)	(3,982,011)	(1,122,025)
(Increase) in prepaid expenses	(196,655)	(98,008)	(164,015)	(202,690)
Decrease (increase) in other assets	-	50,000	(9,965)	50,370
(Decrease) increase in accounts payable	(2,425,512)	545,993	(418,040)	(50,524)
Increase in accrued expenses	158,268	72,511	675,608	38,693
(Decrease) in deferred revenue	(132,195)	(280,214)	(101,129)	(156,655)
Increase in accrued interest	60,567	87,116	190,502	250,738
Net cash (used in) operating activities	(1,984,996)	(509,781)	(569,715)	(2,063,277)
Cash Flows from Investing Activities				
Patents and patent applications costs	(42,803)	(119,869)	(133,877)	(319,441)
Purchase of property and equipment	(11,050)	(140,922)	(23,197)	(473,243)
Proceeds from sale of property and equipment	700	-	700	-
Capitalized software development costs	(305,546)	(541,592)	(1,074,756)	(1,197,837)
Purchase of intangible assets	-	(1,300,000)	-	(1,300,000)
Net cash (used in) investing activities	\$ (358,699)	\$ (2,102,383)	\$ (1,231,130)	\$ (3,290,521)

See accompanying notes.

SITO Mobile, Ltd.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Cash Flows from Financing Activities				
Proceeds from issuance of common stock	\$ 12,203,605	\$ 1,909,000	\$ 12,203,605	\$ 1,959,000
Stock issuance costs	(1,180,000)	(75,000)	(1,180,000)	(75,000)
Restructuring of debt	-	-	(100,000)	-
Principal reduction on obligation under capital lease	(807)	(4,946)	(9,388)	(14,734)
Principal reduction on repayment of debt	(525,000)	-	(1,891,668)	-
Net cash provided by financing activities	10,497,798	1,829,054	9,022,549	1,869,266
Net increase (decrease) in cash and cash equivalents	8,154,103	(783,110)	7,221,704	(3,484,532)
Cash and cash equivalents - beginning of period	1,682,785	2,787,250	2,615,184	5,488,672
Cash and cash equivalents - ending of period	\$ 9,836,888	\$ 2,004,140	\$ 9,836,888	\$ 2,004,140
Supplemental Information:				
Interest expense paid	\$ 232,238	\$ 208,161	\$ 529,895	\$ 614,727
Income taxes paid	\$ 16,900	\$ 4,600	\$ 34,629	\$ 4,600

Non-cash investing and financing activities:**For the nine months ended September 30, 2016**

During the nine months ended September 30, 2016, the Company issued 200,000 shares of its common stock to Fortress Credit Co LLC at \$2.84 per share for an aggregate amount \$568,000, in consideration for the amendment of the Note Purchase Agreement.

During the nine months ended September 30, 2016, the Company recognized stock-based compensation expense totaling \$935,123, through the vesting of 700,138 common stock options.

For the nine months ended September 30, 2015

During the nine months ended September 30, 2015, the Company issued 35,000 shares of its common stock at \$3.40 per share for an aggregate amount of \$119,000, in exchange for consulting services.

During the nine months ended September 30, 2015, the Company issued 35,000 shares of its common stock at \$2.60 per share for an aggregate amount of \$91,000, in exchange for consulting services.

During the nine months ended September 30, 2015, the Company issued 296,402 of its common stock at \$3.60 per share for an aggregate amount of \$1,067,044 in connection with the acquisition of DoubleVision Networks Inc. ("DoubleVision") that represents a noncash increase in goodwill. Under the terms of the Purchase and Sale Agreement, the earn-out provision could cause the Company to issue additional shares of the Company's common stock to the former DoubleVision shareholders if the Company's media placement revenues for the twelve-month period from August 1, 2014 to July 31, 2015 are at least \$3,000,000, subject to certain conditions such as receipt of customer payments and achievement of a gross margin threshold.

During the nine months ended September 30, 2015, the Company issued 620,560 of its common stock at \$4.10 per share for an aggregate amount of \$2,544,297 in connection with the acquisition of Hipcricket, Inc.'s ("Hipcricket") intangible assets.

See accompanying notes.

SITO Mobile, Ltd.
Notes to Condensed Consolidated Unaudited Financial Statements

1. Organization, History and Business

SITO Mobile, Ltd. (“the Company”) was incorporated in Delaware on May 31, 2000, under its original name, Hosting Site Network, Inc. On May 12, 2008, the Company changed its name to Single Touch Systems, Inc. and on September 26, 2014, it changed its name to SITO Mobile, Ltd.

The Company provides a mobile engagement platform that enables brands to increase awareness, loyalty, and ultimately sales.

Reverse Stock Split

On July 29, 2015, the Company filed an amendment to its Restated Certificate of Incorporation to effect a 1-for-10 reverse split of its issued and outstanding common stock. The reverse split became effective in the market on July 30, 2015. Unless otherwise noted, all references herein to the number of common shares, price per common share or weighted average number of common shares outstanding have been adjusted to reflect this reverse stock split on a retroactive basis.

Amendments to Articles of Incorporation or Bylaws

On March 1, 2016, the Company amended its Certificate of Incorporation to reduce the number of authorized shares of common stock from 300,000,000 to 100,000,000 shares.

Change in Fiscal Year

On May 5, 2016, the Company elected to transition from a September 30 year-end to a December 31 year-end effective immediately.

2. Summary of Significant Accounting Policies

Our consolidated financial statements include our accounts, as well as those of our wholly-owned subsidiaries. Our accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnote disclosures required by U.S. GAAP for complete financial statements. The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K/A for the year ended September 30, 2015 and the audited financial statements and notes to the consolidated financial statements contained in our Transition Report on Form 10-KT for the transition period from September 30, 2015 to December 31, 2015.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the three months and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 31, 2016.

Reclassification

Certain reclassifications have been made to conform the 2015 amounts to the 2016 classifications for comparative purposes.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of SITO Mobile, Ltd. and its wholly-owned subsidiaries, SITO Mobile Solutions Inc., SITO Mobile R&D IP, LLC, SITO Mobile Media Inc. and DoubleVision Networks Inc. (“DoubleVision”). Intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers cash and cash equivalents to include all stable, highly liquid investments with maturities of three months or less.

Accounts Receivable, net

Accounts receivable are reported at the customers’ outstanding balances, less any allowance for doubtful accounts. Interest is not accrued on overdue accounts receivable.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

Allowance for Doubtful Accounts

An allowance for doubtful accounts on accounts receivable is charged to operations in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers. Accounts receivable are charged off against the allowance when collectability is determined to be permanently impaired.

Property and Equipment, net

Property and equipment are stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed. At the time property and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

Depreciation is computed on the straight-line and accelerated methods for financial reporting and income tax reporting purposes based upon the following estimated useful lives:

Software development	2- 3 years
Equipment and computer hardware	5 years
Office furniture	7 years
Leasehold Improvements	5 years

Long-Lived Assets

The Company accounts for its long-lived assets in accordance with Accounting Standards Codification (“ASC”) Topic 360-10-05, “Accounting for the Impairment or Disposal of Long-Lived Assets.” ASC Topic 360-10-05 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset’s carrying value and fair value or disposable value.

Capitalized Software Development Costs

The Company accounts for costs incurred to develop or purchase computer software for internal use in accordance with ASC Topic 350-40 “Internal-Use Software.” As required by ASC 350-40, the Company capitalizes the costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, installation, and testing.

Costs incurred during the preliminary project stage along with post-implementation stages of internal use computer software are expensed as incurred. Capitalized development costs are amortized over a period of two to three years. Costs incurred to maintain existing product offerings are expensed as incurred. The capitalization and ongoing assessment of recoverability of development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

Capital Leases

Assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of the assets under capital leases is included in depreciation expense.

Debt Issuance Costs

Deferred debt issuance costs are amortized using the effective interest method over the related term of the debt and are presented on the balance sheet as a direct deduction from the debt liability. The amortization of deferred debt issuance costs is included in interest expense.

Income Taxes

The Company accounts for its income taxes under the provisions of ASC Topic 740, "Income Taxes." The method of accounting for income taxes under ASC 740 is an asset and liability method. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities. The Company had no material unrecognized income tax assets or liabilities for the nine months ended September 30, 2016 or for the nine months ended September 30, 2015. The Company recognizes income tax interest and penalties as a separately identified component of general and administrative expense.

Issuances Involving Non-cash Consideration

All issuances of the Company's stock for non-cash consideration have been assigned a dollar amount equaling the market value of the shares issued on the date the shares were issued for such services and property. The non-cash consideration paid pertains to consulting services, the acquisition of a software license, the acquisition of DoubleVision Networks Inc. and assets purchased from Hipcricket, Inc.

Revenue Recognition

The Company recognizes media placement revenue based on the activity of mobile users viewing ads through developer applications and mobile websites. Media placement revenues are recognized when the Company's advertising services are delivered based on the specific terms of the advertising contract, which are commonly based on the number of ads delivered, or views, clicks or actions by users on mobile advertisements. At such time, the Company's services have been provided, the fees charged are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured.

The Company evaluates whether it is appropriate to recognize media placement revenue based on the gross amount billed to the customers or the net amount earned as revenue. When the Company is directly engaged with an advertising agency or brand, the Company is primarily obligated in a transaction, has latitude in establishing prices, is responsible for fulfillment of the transaction, has credit risk, or has several but not all of these indicators, revenue is recorded on a gross basis. While none of the factors individually are considered presumptive or determinative, in reaching conclusions on gross versus net revenue recognition, the Company places the most weight on the analysis of whether or not it is the primary obligor in the arrangement. When the Company is engaged with a sales partner who deals directly with an agency or brand, the Company records the net amounts as media placement revenue earned if it is not primarily obligated or does not have latitude in establishing prices or credit risk.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

The Company recognizes wireless applications revenue based on the delivery of Short Message Service (SMS) text messages and voice messages and messaging program management services. Wireless applications revenues are recognized when the Company's services are delivered based on the specific terms of the Company's contracts with customers, which are commonly based on the number of messages delivered. At such time, the Company's services have been provided, the fees charged are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured.

In general, licensing and royalty revenue arrangements provide for the payment of contractually determined fees in consideration for the patented technologies owned by or controlled by the Company's operating subsidiary. The intellectual property rights granted may be perpetual in nature, extending until the expiration of the related patents, or can be granted for a defined, relatively short period of time, with the licensee possessing the right to renew the agreement at the end of each contractual term for an additional minimum upfront payment. Pursuant to the terms of these agreements, the Company's operating subsidiary may have no further obligation with respect to the grant of the non-exclusive retroactive and future licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on the Company's operating subsidiary's part to maintain or upgrade the technology, or provide future support or services. Generally, the agreements provide for the grant of licenses, covenants-not-to-sue, releases, and other significant deliverables upon the execution of the agreement, or upon the receipt off the minimum upfront payment for term agreement renewals. As such, when the Company has no further obligation under the agreement, the earnings process is complete and revenue is recognized upon the execution of the agreement, when collectability is reasonably assured, or upon receipt of the minimum upfront fee for term agreement renewals, and when all the other revenue recognition criteria have been met, otherwise the Company recognizes revenue on a straight-line basis over the life of the agreement based on the contractually determined fees.

Deferred revenue arises as a result of differences between the timing of revenue recognition and receipt of cash from the Company's customers.

Stock Based Compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment topic of ASC Topic 718 which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The Financial Accounting Standards Board ("FASB") also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date." The expense is recognized over the vesting period of the award. The Company records compensation expense based on the fair value of the award at the reporting date.

The value of the stock-based award is determined using the Binomial or Black-Scholes option-pricing models, whereby compensation cost is the excess of the fair value of the award as determined by the pricing model at the grant date or other measurement date over the amount that must be paid to acquire the stock. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive the benefit, which is generally the vesting period.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

Earnings (Loss) per Share

The Company reports earnings (loss) per share in accordance with ASC Topic 260-10, "Earnings per Share." Basic earnings (loss) per share are computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings per share has been presented for the three months ended September 30, 2016 due to the Company's net income position for the three months ended September 30, 2016.

On July 29, 2015, the Company filed an amendment to the Certificate of Incorporation to effect a 1-for-10 reverse split of its issued and outstanding common stock the reverse split became effective in the market on July 30, 2015. Following the reverse split, every ten shares of the Company's issued and outstanding common stock were automatically combined and converted into one issued and outstanding share of common stock with a par value of \$0.001 per share. No fractional shares are to be issued. As a result, all prior per share calculations reflect the effects of this reverse stock split.

Concentrations of Credit Risk

The Company primarily transacts its business with one financial institution. The amount on deposit in that one institution may from time to time exceed the federally-insured limit.

Of the Company's revenue earned during the nine months ended September 30, 2016, approximately 17% was generated from contracts with five customers covered under the Company's master services agreement with AT&T and approximately 16% was generated from contracts with an advertising agency. Of the Company's revenue earned during the nine months ended September 30, 2015, approximately 38% was generated from contracts with six customers covered under the Company's master services agreement with AT&T and approximately 6% was generated from contracts with an advertising agency.

The Company's accounts receivable is typically unsecured and are derived from U.S. customers in different industries. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Historically, such losses have been within management's expectations. As of September 30, 2016, and 2015, two customers accounted for 36% and 41%, respectively, of the Company's net accounts receivable balance, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Business Combinations

The Company accounts for all business combinations using the acquisition method of accounting. Under this method, assets and liabilities are recognized at fair value at the date of acquisition. The excess of the purchase price over the fair value of assets acquired, net of liabilities assumed is recognized as goodwill. Certain adjustments to the assessed fair values of the assets, liabilities made subsequent to the acquisition date, but within the measurement period, which is up to one year, are recorded as adjustments to goodwill. Any adjustments subsequent to the measurement period are recorded in income. Results of operations of the acquired entity are included in the Company's results from the date of the acquisition onward and include amortization expense arising from acquired tangible and intangible assets. The Company expenses all costs as incurred related to an acquisition under general and administrative in the consolidated statements of operations.

Recent Accounting Pronouncements

There are no new recent accounting pronouncements not previously disclosed.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

3. Accounts Receivable, net

Accounts receivable consist of the following:

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Accounts receivable	\$ 10,073,575	\$ 6,212,600
Less allowance for bad debts	(259,952)	(44,784)
Accounts receivable, net	<u>\$ 9,813,623</u>	<u>\$ 6,167,816</u>

4. Property and Equipment, net

The following is a summary of property and equipment:

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Equipment and computer hardware	\$ 673,773	\$ 727,289
Office furniture	202,586	233,219
Leasehold improvements	186,902	186,902
Equipment held under capital lease	66,272	66,272
	<u>1,129,533</u>	<u>1,213,682</u>
Less: accumulated depreciation	(671,185)	(628,326)
	<u>\$ 458,348</u>	<u>\$ 585,356</u>

Depreciation expense for the three and nine months ended September 30, 2016 was \$43,774 and \$130,489, respectively. Depreciation expense for the three and nine months ended September 30, 2015 was \$47,117 and \$107,665, respectively.

5. Capitalized Software Development Costs, net

The following is a summary of capitalized software development costs:

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Beginning balance	\$ 1,600,813	\$ 762,661
Additions	1,074,757	1,615,029
Less: accumulated amortization	(816,649)	(776,877)
Ending balance	<u>\$ 1,858,921</u>	<u>\$ 1,600,813</u>

Amortization expense for the three and nine months ended September 30, 2016 was \$292,956 and \$816,649, respectively. Amortization expense for the three and nine months ended September 30, 2015 was \$230,689 and \$557,101, respectively.

As of September 30, 2016, amortization expense for the remaining estimated lives of these costs is as follows:

Year Ending September 30,	
2017	\$ 915,391
2018	722,100
2019	221,430
	<u>\$ 1,858,921</u>

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

6. Intangible Assets

Patents

The following is a summary of capitalized patent costs:

	September 30, 2016	December 31, 2015
Patent costs	\$ 1,577,122	\$ 1,357,407
Less: accumulated amortization	(1,062,795)	(911,934)
	<u>\$ 514,327</u>	<u>\$ 445,473</u>

Amortization expenses for the three and nine months ended September 30, 2016 was \$52,744 and \$150,863, respectively. Amortization expenses for the three and nine months ended September 30, 2015 was \$49,001 and \$133,895, respectively.

A schedule of amortization expense over the estimated remaining lives of the patents is as follows:

Year Ending September 30,	
2017	\$ 143,883
2018	79,431
2019	73,268
2020	73,268
Thereafter	144,477
	<u>\$ 514,327</u>

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

Other Intangible Assets, net

The following is a summary of other intangible asset costs:

	September 30, 2016	December 31, 2015
Technology	\$ 970,000	\$ 970,000
Customer relationships	870,000	870,000
Backlog	-	110,000
Less: accumulated amortization	(333,243)	(235,523)
	<u>\$ 1,506,757</u>	<u>\$ 1,714,477</u>

Amortization expenses for the three and nine months ended September 30, 2016 was \$67,750 and \$207,720, respectively. Amortization expenses for the three and nine months ended September 30, 2015 was \$112,773 and \$112,773, respectively. The intangible asset for backlog was fully amortized as of February 2016.

A schedule of amortization expense over the estimated remaining lives of the other intangible assets is as follows:

<u>Year Ending September 30,</u>	
2017	\$ 271,000
2018	271,000
2019	271,000
2020	231,036
2021	97,000
Thereafter	365,721
	<u>\$ 1,506,757</u>

7. Accrued Expenses

The following is a summary of accrued expenses:

	September 30, 2016	December 31, 2015
Accrued cost of revenues	\$ 757,146	\$ 168,983
Accrued payroll and related expenses	1,089,358	380,943
Accrued professional fees	31,651	627,124
Other accrued expenses	75,350	100,846
	<u>\$ 1,953,505</u>	<u>\$ 1,277,896</u>

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

8. Capital Leases

The Company leases various office equipment under multiple capital leases that expire in 2016 and 2018. The equipment has a cost of \$66,272.

Minimum future lease payments under the capital leases at September 30, 2016 for each of the next four years and in the aggregate are as follows:

Year Ending September 30,	
2017	\$ 3,790
2018	3,790
2019	-
2020	-
Total minimum lease payments	<u>7,580</u>
Less amount representing interest	(556)
Present value of net minimum lease payments	<u>\$ 7,024</u>

The effective interest rate charged on the capital leases range from approximately 2.25% to 7.428% per annum. The leases provide for a \$1 purchase option. Interest charged to operations for the three and nine months ended September 30, 2016 was \$140 and \$515, respectively. Interest charged to operations for the three and nine months ended September 30, 2015 was \$276 and \$931, respectively. Depreciation charged to operations for the three and nine months ended September 30, 2016 was \$3,314 and \$9,941, respectively. Depreciation charged to operations for the three and nine months ended September 30, 2015 was \$3,314 and \$9,941, respectively.

9. Income Taxes

As of September 30, 2016, the Company has a net operating loss carryover of approximately \$39,600,000 available to offset future income for income tax reporting purposes, which will expire in various years through 2035, if not previously utilized. However, the Company's ability to use the carryover net operating loss may be substantially limited or eliminated pursuant to Internal Revenue Code Section 382. We adopted the provisions of ASC 740-10-50. We had no material unrecognized income tax assets or liabilities for the nine months ended September 30, 2016 or for the nine months ended September 30, 2015.

Our policy regarding income tax interest and penalties is to expense those items as general and administrative expense but to identify them for tax purposes. During the three and nine months ended September 30, 2016 and 2015, there were no federal income tax, or related interest and penalty items in the income statement, or liability on the balance sheet. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years ending on or before September 30, 2012 or California state income tax examination by tax authorities for years ending on or before September 30, 2011. We are not currently involved in any income tax examinations.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

10. Note Payable

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Notes Payable:		
Principal outstanding	\$ 7,441,664	\$ 9,333,332
Accrued Interest	434,443	319,418
Accrued Termination Fee	235,853	160,376
	<u>8,111,960</u>	<u>9,813,126</u>
Less: discount on note payable	<u>(991,673)</u>	<u>(893,941)</u>
	7,120,287	8,919,185
Less: current portion, net	<u>(2,475,304)</u>	<u>(3,984,219)</u>
Long-term portion, net	<u>\$ 4,644,983</u>	<u>\$ 4,934,966</u>

Scheduled maturities on long-term debt are as follows:

<u>Years ending September 30,</u>	<u>Principal</u>	<u>Discount</u> <u>Amortization</u>	<u>Accrued</u> <u>Interest</u>	<u>Accrued</u> <u>Termination</u> <u>Fee</u>	<u>Total</u>
2017	\$ 3,150,000	\$ (726,769)	\$ 52,073	\$ -	\$ 2,475,304
2018	4,291,664	(264,904)	382,370	235,853	4,644,983
	<u>\$ 7,441,664</u>	<u>\$ (991,673)</u>	<u>\$ 434,443</u>	<u>\$ 235,853</u>	<u>\$ 7,120,287</u>

On October 3, 2014, the Company and its wholly owned subsidiaries, SITO Mobile Solutions, Inc. and SITO Mobile R&D IP, LLC, entered into a Revenue Sharing and Note Purchase Agreement (the "Fortress Agreement") with Fortress Credit Co LLC, as collateral agent (the "Collateral Agent"), and CF DB EZ LLC (the "Revenue Participant") and Fortress Credit Co LLC (the "Note Purchaser" and together with the Revenue Participant, the "Investors").

At the closing of the Fortress Agreement, the Company issued and sold a senior secured note (the "Note") with an aggregate original principal amount of \$10,000,000 (the "Original Principal Amount") and issued, pursuant to a Subscription Agreement, 261,954 new shares of common stock to Fortress at \$3.817 per share (which represents the trailing 30-day average closing price) for an aggregate amount of \$1,000,000. After deducting original issue discount of 10% on the Notes and a structuring fee to the Investors, the Company received \$8,850,000 before paying legal and due diligence expenses.

The principal amount of the Note bears interest at a rate equal to LIBOR plus 9% per annum. Such interest is payable in cash except that 2% per annum of the interest shall be paid-in-kind, by increasing the principal amount of the Note by the amount of such interest. The term of the Note is 42 months and the Company must make, beginning in October 2015, monthly amortization payments on the Note, each in a principal amount equal to \$333,334 until the Note is paid in full. The Company shall also apply 85% of Monetization Revenues (as defined in the Agreement) from the Company's patents to the payment of accrued and unpaid interest on, and then to repay outstanding principal (at par) of, the Note until all amounts due with respect to the Note have been paid in full. After the repayment of the Note, in addition to interest, the Company shall pay the Revenue Participants up to 50% of Monetization Revenues totaling (i) \$5,000,000, if paid in full prior to March 31, 2018 and (ii) \$7,500,000 thereafter (the "Revenue Stream"). The Company must also pay \$350,000 to the Note Purchaser upon repayment of the Note.

The Company may prepay the Note in whole or in part, without penalty or premium, except that any optional prepayments of the Note prior to the first anniversary of the Effective Date shall be accompanied by a prepayment premium equal to 5% of the principal amount prepaid.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

The Agreement contains certain standard Events of Default. The Company granted to the Collateral Agent, for the benefit of the Secured Parties, a non-exclusive, royalty free, license (including the right to grant sublicenses) with respect to the Patents, which shall be evidenced by, and reflected in, the Patent License Agreement. The Collateral Agent and the Investors agree that the Collateral Agent shall only use such license following an Event of Default. Pursuant to a Security Agreement among the parties, the Company granted the Investors a first priority senior security interest in all of the Company's assets. The Company and the Investors assigned a value of \$500,000 to the revenue sharing terms of the Agreement and in accordance with ASC 470-10-25 "Debt Recognition", the Company recognized \$500,000 as deferred revenue and a discount on the Note that is amortized over the 42-month term of the Note using the effective interest method. For the three and nine months ended September 30, 2016, the Company recognized \$32,934 and \$107,823, respectively, in licensing revenue and interest expense from amortization of the deferred revenue. For the three and nine months ended September 30, 2015, the Company recognized \$50,207 and \$138,984, respectively, in licensing revenue and interest expense from amortization of the deferred revenue.

On March 1, 2016, the Company entered into Amendment No.1 (the "Amendment") of the Fortress Agreement. Pursuant to the terms of the Amendment, principal payment on the Notes issued pursuant to the Agreement were reduced from \$333,333 to \$175,000 for the period commencing on the last business day of February 2016 through the last business day of February 2017 and from \$333,333 to \$300,000 for the period commencing on the last business day of March 2017 to the last day of business on February 2018, with the final payment on the last business day on March 2018 increased to repay the remaining principal in full. In consideration for the Amendment, the Company agreed to pay a restructuring fee of \$100,000 and issue 200,000 shares of its common stock with an aggregate value of \$568,000 to the Investors.

Interest expense on the Note for the three and nine months ended September 30, 2016 was \$203,681 and \$644,405, respectively. Amortization of the discounts for the three and nine months ended September 30, 2016 totaled \$200,281 and \$570,267, respectively, which was charged to interest expense. Accrual of termination fees for the three and nine months ended September 30, 2016 was \$23,054 and \$75,476, respectively, which was charged to interest expense.

Interest expense on the Note for the three and nine months ended September 30, 2015 was \$259,857 and \$767,245, respectively. Amortization of the discounts for the three and nine months ended September 30, 2015 totaled \$165,681 and \$458,646, respectively, which was charged to interest expense. Accrual of termination fees for the three and nine months ended September 30, 2015 was \$35,145 and \$97,289, respectively, which was charged to interest expense.

11. Stock Based Compensation

During the nine months ended September 30, 2016, the Company recognized stock-based compensation expense totaling \$935,123, through the vesting of 700,138 common stock options. Of the \$935,123 in stock compensation expense, \$715,033 is included in general and administrative expense and \$220,090 is included in sales and marketing expense. During the nine months ended September 30, 2015, the Company recognized stock-based compensation expense totaling \$634,100, which \$210,000 was for payment of consulting services through the issuance of 70,000 common shares, and \$386,061 was recognized through the vesting of 55,945 common stock options. Of the \$386,061 in stock compensation expense, \$319,540 is included in general and administrative expense and \$66,521 is included in sales and marketing expense.

12. Related Party Transactions

On April 21, 2014 (the "Effective Date"), SITO Mobile R&D IP, LLC, the Company's wholly-owned subsidiary, through a joint venture arrangement organized as a limited liability company (the "JV") with Personalized Media Communications, LLC ("PMC"), entered into a Joint Licensing Program Agreement (the "Agreement") with a national broadcasting entity ("Licensee") pursuant to which the JV granted the Licensee a term-limited license (the "License") to all patents licensable by the JV ("Patents"), including an exclusive license to assert the Patents against certain infringing parties in the media distribution industry. In exchange for the License, the Licensee will pay an annual fee of \$1,250,000 for a minimum of three years ("Annual Fee"). Commencing three years from the Effective Date, the Licensee may each year, at its sole option, pay a \$1,250,000 license fee to renew the License for every year for four additional years. Once the Licensee has paid a total of \$8,750,000 in license fees, either in one lump sum or after paying \$1,250,000 annually for seven years, the License is deemed to be perpetual. For Patents infringement actions provided for under the License, the Licensee will pay 20% of the gross proceeds from settlements received less any Annual Fee amounts paid and litigation costs incurred ("Share of Proceeds"). SITO Mobile R&D IP, LLC and its joint venture partner will serve as co-plaintiffs with the Licensee in infringement actions under the License and the Licensee will be responsible for any out-of-pocket costs of the JV associated with being a co-plaintiff in supporting Licensee in such litigation, including attorneys' fees. The Licensee will pay the Annual Fee and any Share of Proceeds to the JV. Proceeds received by the JV are shared by SITO Mobile R&D IP, LLC and PMC on a 30% and 70% basis, respectively. In the event that the Licensee does not assert any infringement actions under its rights in the License within five years of the Effective Date, the JV may, at its sole option, choose to terminate Licensee's exclusive right to assert infringement claims with no reduction or adjustment to the Annual Fee. For the three and nine months ended September 30, 2016, the Company amortized \$94,262 and \$280,738, respectively, in revenue. As of September 30, 2016, the Company has \$209,016 in deferred revenue under the Licensing Agreement.

13. Fair Value

The Company's balance sheet includes certain financial instruments. The carrying amounts of current assets and current liabilities approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization. The Company determines the fair value of obligations under capital lease, notes payable and convertible debentures based on the effective yields of similar obligations (Level 2).

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions, about market participant assumptions, which are developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

The Company did not identify any assets and liabilities that are required to be presented on the consolidated balance sheets at fair value. The Company does not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2016. The Company did not have any fair value adjustments for assets and liabilities measured at fair value on a nonrecurring basis during the nine months ended September 30, 2016.

14. Stockholders' Equity

Common Stock

The holders of the Company's common stock are entitled to one vote per share of common stock held.

During the nine months ended September 30, 2016, the Company issued 3,430,250 shares of its common stock of which 200,000 shares were issued to Fortress Credit Co LLC at \$2.84 per share for an aggregate amount \$568,000, in consideration for the amendment of the Fortress Agreement, 163,583 shares were issued for options exercised for which the Company received \$703,604 in gross proceeds, and the Company received \$10,320,001 in proceeds net of legal and accounting services in connection with the registration and issuance of 3,066,667 shares of common stock.

During the nine months ended September 30, 2015, the Company issued 1,820,662 shares of common stock of which 833,700 shares were issued for warrants exercised for which the Company received \$2,109,055 in gross proceeds, issued 70,000 shares for which the Company received consulting services valued at \$210,000, issued 296,402 in connection with the purchase agreement with DoubleVision Networks, Inc. and issued 620,560 shares in connection with the asset purchase agreement with Hipcricquet, Inc.

Warrants

During the nine months ended September 30, 2016, no warrants were granted or exercised.

During the nine months ended September 30, 2015, no warrants were granted, 729,100 warrants exercised to purchase 729,100 shares of the Company's common stock of which 684,000 at an exercise price of \$2.50, and 45,100 warrants had an exercise price of \$3.40 per share, and no warrants expired.

Options

During the nine months ended September 30, 2016, the Company granted options to its directors and employees as follows:

<u>Grant Date</u>	<u>Options Granted</u>	<u>Exercise Price</u>	<u>Expiration</u>	<u>Vesting</u>	<u>Total Value</u>	<u>Risk Free Interest Rate</u>	<u>Volatility</u>
February 18, 2016	30,000	\$ 2.58	February 18, 2021	Immediately	\$ 52,560	1.15%	103.90%
February 18, 2016	20,000	\$ 2.58	February 18, 2021	Immediately	\$ 35,040	1.15%	103.90%
February 18, 2016	25,000	\$ 2.58	February 18, 2021	Immediately	\$ 43,800	1.15%	103.90%
February 18, 2016	20,000	\$ 2.58	February 18, 2021	3-years	\$ 35,040	1.15%	103.90%
February 18, 2016	20,000	\$ 2.58	February 18, 2021	Immediately	\$ 35,040	1.15%	103.90%
February 18, 2016	25,000	\$ 2.58	February 18, 2021	Immediately	\$ 43,800	1.15%	103.90%
May 5, 2016	125,000	\$ 2.95	May 5, 2019	3-years	\$ 283,500	1.26%	91.52%
May 5, 2016	21,704	\$ 2.95	May 5, 2019	3-years	\$ 49,225	1.26%	91.52%
May 5, 2016	12,000	\$ 2.95	May 5, 2019	3-years	\$ 27,216	1.26%	91.52%
August 9, 2016	20,000	\$ 4.00	August 9, 2023	Immediately	\$ 59,800	1.35%	92.34%
August 9, 2016	300,000	\$ 4.00	August 9, 2023	3-years	\$ 897,000	1.35%	92.34%
August 9, 2016	75,000	\$ 4.00	August 9, 2023	3-years	\$ 224,250	1.35%	92.34%
	<u>693,704</u>						

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

The Company values options under the Binomial Option Model. The full value of option grants is charged to operations over the vesting period with option grants that vest immediately being fully charged on the date of grant.

A summary of outstanding stock warrants and common stock options is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding – December 31, 2014	3,448,726	\$ 4.90
Granted	474,281	3.60
Exercised	(833,700)	2.50
Cancelled	(496,050)	(8.10)
Outstanding – December 31, 2015	2,593,257	\$ 4.80
Granted	693,704	1.30
Exercised	(163,583)	(4.30)
Cancelled	(1,266,510)	(5.40)
Outstanding – September 30, 2016	<u>1,856,868</u>	<u>\$ 3.10</u>

Of the 1,856,868 common stock options outstanding, 700,138 options are fully vested and currently available for exercise. Of the common stock options outstanding, 70,000 options will be cancelled if not exercised during the three months ended December 31, 2016.

15. Commitments and Contingencies

Operating Leases

The Company leases office space in Jersey City, New Jersey; Boise, Idaho; Chicago, Illinois; and Sylvan Lake, Michigan. The Company's Boise office space is subject to a 38-month lease that commenced on May 1, 2014. The Jersey City office lease, amended on November 6, 2014, expires on November 30, 2018 and the Company has the option to extend the term for an additional five years. In addition to paying rent, under the terms of the Jersey City office lease the Company is also required to pay its pro rata share of the property's operating expenses. The Company entered into a sub-lease agreement on June 24, 2016 for an office in Michigan. The term for the office space is month to month. Rent expense for the three months ended September 30, 2016 and 2015 was \$80,307 and \$95,925, respectively. Rent expense for the nine months ended September 30, 2016 and 2015 was \$292,521 and \$275,783, respectively. Minimum future rental payments under non-cancellable operating leases with terms in excess of one year as of September 30, 2016 for the next five years and in the aggregate are:

2017	\$ 276,669
2018	256,608
2019	42,768
2020	-
2021	-
	<u>\$ 576,045</u>

Incentive Compensation

On November 18, 2015, the Company approved a compensation plan for its executive officers which provides for the payment of a cash bonus and an equity grant of performance options to the Company's Chief Executive Officer and its Chief Financial Officer (the "Executives"). Each Executive was eligible for an annual cash bonus, based upon net revenue, gross margins, and individual key performance indicators, set annually by the Company's Compensation Committee (the "Target Performance"). For the period ended September 30, 2016, the target bonus for the Chief Executive Officer was 50% of his base salary and for the Chief Financial Officer, the target bonus was 40% of his base salary. The cash bonus was based upon the target net revenues and gross margins of the Company. 70% of the target cash bonus was payable if threshold performance of 70% of the Target Performance is achieved, 100% of the target cash bonus was payable if the Target Performance is reached, with 120% of the cash bonus paid if 120% of the Target Performance is achieved. As of September 30, 2016, there were no cash payouts for the incentive compensation plan. The equity grant component of the compensation plan provided for the grant of 110,000 performance options to purchase shares of common stock to the Chief Executive Officer and 50,000 performance options to purchase shares of common stock to the Chief Financial Officer, with the number of performance options to be received by each of the Executives based upon the achievement by the Company of certain net revenues and gross margins targets. The performance options vest in annual increments over three years commencing on the grant date and are exercisable at a price of \$3.51. During the three and nine months ended September 30, 2016, the Company recognized \$55,098 and \$165,294, respectively, in stock compensation expense for the performance options.

On November 18, 2015, the Company approved a compensation plan for three employees of the Company which provides for the payment of a cash bonus and an equity grant of performance options. Two of the Employees are eligible for an annual cash bonus, based upon net revenue, and gross margins, set annually by the Company's Compensation Committee (the "Target Performance"). For the period ended September 30, 2016, the target bonus ranges from 20-30% of their base salary. 70% percent of the cash bonus is based upon the target net revenues and 30% of the cash bonus is based upon gross margins of the Company. Seventy percent of the target cash bonus will be paid if threshold performance of 70% of the Target Performance is achieved, 100% of the target cash bonus will be paid if the Target Performance is reached, with 120% of the cash bonus paid if 120% of the Target Performance is achieved. As of September 30, 2016, the Company has accrued \$91,287 in compensation expense for the potential incentive cash bonuses. The equity grant component of the compensation plan provides for the grant of 28,000 performance options to purchase shares of Company common stock to each of the three Employees, with the number of performance options to be received by each of the Employees based upon the achievement by the Company of certain net revenues and gross margins targets. The performance options will vest in three year increments commencing on the grant date and are exercisable at a price of \$3.51. During the three and nine months ended September 30, 2016, the Company recognized \$25,827 and \$77,481, respectively, in stock compensation expense for the performance options.

On February 18, 2016, the Company granted 120,000 options to directors of the Company with an exercise price of \$2.58, which automatically vested. For the three and nine months ended September 30, 2016, the Company recognized \$0 and \$210,240, respectively, in expense for the options.

On May 5, 2016, the Company granted 158,704 options to three employees of the Company. The options will vest in three year increments commencing on the grant date and are exercisable at a price of \$2.95. During the three and nine months ended September 30, 2016, the Company recognized \$68,698 and \$88,695, respectively, in stock compensation expense for the performance of options.

On August 9, 2016, the Company granted 20,000 options to a director of the Company with an exercise price of \$4.00, which automatically vested. For the three and nine months ended September 30, 2016, the Company recognized \$59,800 and \$59,800, respectively, in expense for the options.

SITO Mobile, Ltd.
Notes to Unaudited Condensed Consolidated Financial Statements

On August 9, 2016, the Company granted 375,000 options to the Executives. The options will vest in three year increments commencing on the grant date and are exercisable at a price of \$4.00. During the three and nine months ended September 30, 2016, the Company recognized \$97,624 and \$97,624, respectively, in stock compensation expense for the options.

On August 9, 2016, the Company approved a compensation plan for the quarter ending December 31, 2016 for the Executives which provides for the payment of a cash bonus and an equity grant of performance options to the Company's Chief Executive Officer and its Chief Financial Officer (the "Executives"). Each Executive was eligible for a quarterly cash bonus, based upon net revenue, gross margins, and individual key performance indicators, set by the Company's Compensation Committee (the "Target Performance"). The target bonus for the Chief Executive Officer was 50% of his base salary and for the Chief Financial Officer, the target bonus was 40% of his base salary. The cash bonus was based upon the target net revenues and gross margins of the Company. 70% of the target cash bonus was payable if threshold performance of 70% of the Target Performance is achieved, 100% of the target cash bonus was payable if the Target Performance is reached, with 140% of the cash bonus paid if 140% of the Target Performance is achieved. As of September 30, 2016, there were no cash payouts for this incentive compensation plan. The equity grant component of the compensation plan provided for the grant of 27,500 performance options to purchase shares of common stock to the Chief Executive Officer and 12,500 performance options to purchase shares of common stock to the Chief Financial Officer, with the number of performance options to be received by each of the Executives based upon the achievement by the Company of certain net revenues and gross margins targets.

On August 9, 2016, the Company approved a compensation plan for the quarter ended December 31, 2016 for four employees of the Company which provides for the payment of a cash bonus and an equity grant of performance options. Three of the employees are eligible for a quarterly cash bonus, based upon net revenue, and gross margins, set by the Company's Compensation Committee (the "Target Performance"). The target bonus ranges from 20-30% of their base salary. Seventy percent of the cash bonus is based upon the target net revenues and 30% of the cash bonus is based upon gross margins of the Company. 70% of the target cash bonus will be paid if threshold performance of 70% of the Target Performance is achieved, 100% of the target cash bonus will be paid if the Target Performance is reached, with 140% of the cash bonus paid if 140% of the Target Performance is achieved. As of September 30, 2016, the Company has not accrued compensation expense for the potential incentive cash bonuses. The equity grant component of the compensation plan provides for the grant of 6,250 performance options to purchase shares of Company common stock to each of the four Employees, with the number of performance options to be received by each of the Employees based upon the achievement by the Company of certain net revenues and gross margins targets.

16. Subsequent Events

Since September 30, 2016, 93,277 shares of stock option grants were exercised at grant prices ranging from \$2.25 to \$4.69 per share for aggregate purchase proceeds of \$365,469.

On November 9, 2016, the Company's Board of Directors approved an increase in the base salary of the Company's Chief Executive Officer from \$300,000 to \$350,000 and an increase in the base salary of its Chief Financial Officer from \$225,000 to \$275,000. The Board of Directors also approved an increase in the target bonus of the Chief Executive Officer to 60% of his base salary and an increase in the target bonus to 50% of the base salary of the Chief Financial Officer.

On November 9, 2016, the Company's Board of Directors approved the grant of three-year options to purchase 85,296 total shares of common stock with an exercise price of \$4.74 per share to certain employees. The options shall expire upon the earlier of November 9, 2023 or three months after the cessation of service, whichever is sooner.

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

This report contains forward-looking statements. These forward-looking statements include, without limitation, statements containing the words “believes,” “anticipates,” “expects,” “intends,” “projects,” “will,” and other words of similar import or the negative of those terms or expressions. Forward-looking statements in this report include, but are not limited to, expectations of future levels of research and development spending, general and administrative spending, levels of capital expenditures and operating results, sufficiency of our capital resources, our intention to pursue and consummate strategic opportunities available to us, including sales of certain of our assets. Forward-looking statements subject to certain known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to those described in “Risk Factors” of the reports filed with the Securities and Exchange Commission.

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere herein.

Overview

We provide a mobile engagement platform that enables brands to increase awareness, loyalty, and ultimately sales.

Our business has focused on leveraging our solution in the areas of messaging/notifications and media placement on mobile devices. Our Verified Walk-In platform is a proprietary attribution technology that utilizes geo-fencing to reach customers within a certain radius of location and uses technology to push coupons, advertisements, and promotions to mobile apps and mobile websites in real-time, allowing for a more accurate advertising approach. This technology identifies consumers who visit physical storefronts after seeing advertisements that we distribute. This platform allows our clients to assess mobile-to-offline attribution allowing the ability to quantify and measure the impact of campaigns on in-store visits, leveraging real-time insights on campaign performance through key metrics such as user demographics, psychographics, visitation rates, click-through and time of engagement. Our Real-time Verified Walk-In feature enables us and our customers to see advertising campaign results in real time, providing intelligence that is quicker and more impactful than competitive offerings.

Our portfolio of intellectual property represents our many years' of innovation in the wireless industry through patented technology that we developed, as well as patented technology we purchased from Microsoft and others. We are dedicated to the monetization of our patents.

Results of Operations

Results of Operations for the Three Months Ended September 30, 2016 and 2015

During the three months ended September 30, 2016, our revenue increased by \$5.8M, or 129%, to \$10.3M for the three months ended September 30, 2016 as compared to \$4.5M for the three months ended September 30, 2015. Our revenue growth was primarily comprised of a \$5.4M or 179% increase in media placement revenue and a \$0.4M or 33% increase in wireless application revenue. Media placement revenue increased as a result of expanding our direct sales force and acquiring the mobile advertising business of Hipcricket, Inc. in July 2015. In connection with transferring the management of text and voice messaging program of our largest customer under the master services agreement with AT&T back to the customer, we expect to receive \$1.0M, of which we recognized \$0.4M in the three months ended September 30, 2016 and we will recognize \$0.5M in the three months ending December 31, 2016

During the three months ended September 30, 2016, two customers accounted for 34% of the Company's revenue, which comprised of 17% from contracts with five customers covered under the Company's master services agreement with AT&T, and 17% from multiple advertising contracts under one media placement customer. Of our revenue earned during the quarter ended September 30, 2015, approximately 29% of the Company's revenue was generated from contracts with six customers covered under our agreements with AT&T.

Our cost of revenue, which represents the costs associated with wireless applications and media placement revenues, increased by \$2.4M or 115% to \$4.6M for the three months ended September 30, 2016 as compared to \$2.2M for the three months ended September 30, 2015. Our cost of revenue is substantially in line with media placement and wireless application revenues, and includes depreciation and amortization expense of our mobile engagement technology platforms that we use to operate our wireless applications and media placement business. This increase in our cost of revenue is primarily the result of a 129% increase in revenue over the same period. Our technology investment in revenue growth is focused on our mobile engagement platform through software development efforts. We capitalize the cost of developing our mobile engagement platform and amortize our investment over three years. For the three-month periods ended September 30, 2016 and 2015, we recognized \$0.3M and \$0.2M, respectively, in amortization of software development costs due to the increase investment in developing our platform.

General and administrative expense, excluding stock based compensation, decreased by \$0.6M, or 28%, to \$1.5M for the three months ended September 30, 2016 as compared to \$2.0M during the same period in 2015. This decrease is primarily due to non-recurring fees related to the HipCricket acquisition in July 2015, in addition to continued streamlining of the business.

Sales and marketing expense, which excludes stock based compensation, increased by \$1.5M, or 134%, to \$2.7M for the three months ended September 30, 2016 as compared to \$1.2M for the three months ended September 30, 2015. This increase is primarily attributable to the expansion of our direct sales force and customer management personnel in connection with our media placement business which launched in December 2013 and expanded by acquiring Hipcricket's mobile advertising business in July 2015. As a percentage of revenue, sales and marketing expense was 27% for the three months ended September 30, 2016 and the same period ended in 2015. Our media placement revenues have carried relatively higher spending levels than our wireless application revenue. Sales and marketing expense has increased as media placement revenue has grown, but has decreased to 33% of total media placement revenue for the three months ended September 30, 2016 as compared to 40% during the same period in 2015. We anticipate that sales and marketing expense as a percentage of media placement revenue will continue to decrease as our expanded sales force generates more sales.

For the three months ended September 30, 2016, total stock based compensation expense increased by \$0.2M, or 83% to \$0.4M as compared to \$0.2M for the three months ended September 30, 2015, excluding stock-based compensation issued to vendors for services. This is due to the grants of options to additional members of management in 2016 and the non-recurring stock based compensation for vendor services in 2015.

Interest expense for the three months ended September 30, 2016 decreased by approximately \$0.1M, or 8% to approximately \$0.4M as compared to approximately \$0.5M for the three months ended September 30, 2015. In October 2014, we sold a secured \$10,000,000 42-month note having an interest rate of 9% plus the greater of LIBOR, which was 0.52% as of September 30, 2016, rounded to 1%. Included in interest expense for the three months ended September 30, 2016 is \$0.2M in amortization of discounts on the debt for a structuring fee, termination fees, and the rights assigned to Fortress to share in our potential future new intellectual property monetization revenue streams.

Our net income for the three months ended September 30, 2016 was \$0.5M as compared to a net loss of \$2.6M for the three months ended September 30, 2015, primarily attributable to the \$3.3M increase in gross profits and a non-recurring \$0.8M impairment expense for the three months ended September 30, 2015. These were offset by an increase of \$1.6M in sales and marketing expense. Excluding stock based compensation, our net income for the three-month period ended September 30, 2016 was \$0.9M as compared to a net loss of \$2.4M for the three months ended September 30, 2015.

Our net income was \$0.03 per basic share for the three months ended September 30, 2016 based on our weighted average shares outstanding of 17.4M on September 30, 2016 as compared to a net loss of \$0.16 per share for the three months ended September 30, 2015 based on our weighted average shares outstanding of 16.4M for the three months ended September 30, 2015. Our net income on a fully diluted basis was \$0.03 per share for the three months ended September 30, 2016 based on our weighted average shares outstanding of 19.5M on September 30, 2016. The increase in the number of weighted shares outstanding primarily reflects the issuance of shares of common stock, of which 3.1M shares were issued in connection with a new shelf registration, 0.8M shares were issued for warrants which were exercised, and 0.2M shares were issued to Fortress for the restructuring of debt.

Results of Operations for the Nine Months Ended September 30, 2016 and 2015

During the nine months ended September 30, 2016, our revenue increased by \$14.8M or 123%, to \$26.7M as compared to \$12M during the nine months ended September 30, 2015. Our revenue growth was primarily comprised of a \$14.8M or 217 % increase in media placement revenue. Media placement revenue increased as a result of expanding our direct sales force and acquiring Hipcricket's mobile advertising business in July 2015. During the first half of fiscal 2015, one of our largest customers under our master services agreement with AT&T transitioned its database of customers who receive our messages to a new standard rate messaging program and the transition caused a decline in the number of customers who elected to continue to receive messages.

During the nine months ended September 30, 2016, two customers accounted for 33% of the Company's revenue, which comprised of 17% from contracts with five customers covered under the Company's master services agreement with AT&T, and 16% from multiple advertising contracts under one media placement customer. Of our revenue earned during the nine months ended September 31, 2015, approximately 38% was generated from contracts with six customers covered under our agreements with AT&T.

Our cost of revenue, which represents the costs associated with wireless applications and media placement revenues, increased by \$6.5M or 116 % to \$12.1M for the nine months ended September 30, 2016 as compared to \$5.6M for the nine months ended September 30, 2015. Our cost of revenue varies substantially in line with wireless applications and media placement revenues and includes depreciation and amortization expense of our mobile engagement technology platforms that we use to operate our wireless applications and media placement business. Cost of revenue for the nine months ended September 30, 2016 increased as compared to the nine months ended September 30, 2015 primarily as result of the 123% increase in revenue over the same comparable periods and a \$0.3M increase in software development amortization expense. Our technology investment in revenue growth is focused on our mobile engagement platform through software development efforts. We capitalize the cost of developing our mobile engagement platform and amortize our investment over three years. For the nine-month periods ended September 30, 2016 and 2015, we recognized \$0.8M and \$0.5M, respectively, in amortization of software development costs, with the increased amortization attributable to the increased investment in developing our platform.

General and administrative expense, excluding stock based compensation, remained consistent at \$4.4M for the nine months ended September 30, 2016 as compared to \$4.4M for the nine months ended September 30, 2015.

Sales and marketing expense, excluding stock based compensation, increased by \$4.4M, or 154%, to \$7.3M for the nine months ended September 30, 2016 as compared to \$2.9M for the nine months ended September 30, 2015. This increase is primarily attributable to the expansion of our direct sales force and customer management personnel in connection with our media placement business that we launched in December 2013 and expanded by acquiring Hipcricket's mobile advertising business in July 2015. As a percentage of revenue, sales and marketing expense was 28% and 25% for the nine months ended September 30, 2016 and 2015, respectively. Our media placement revenues have carried relatively higher spending levels than our wireless application revenues. Sales and marketing expense has increased as media placement revenue has grown, but has decreased to 35% of total media placement revenue in the current quarter as compared to 43% during the same period in 2015. We anticipate that sales and marketing expense as a percentage of media placement revenue will continue to decrease as our newly expanded direct sales force generates more sales.

For the nine months ended September 30, 2016, total stock based compensation expense increased by \$0.5M or 142% to \$0.9M from \$0.4M for the nine months ended September 30, 2015, excluding stock-based compensation issued for vendor services. The increase is primarily attributable to our granting directors their annual option grants at our February 2016 annual meeting of shareholders rather than on their respective anniversary dates as was done previously, the addition of a new director and his grant of options, in addition to options granted to management.

Interest expense for the nine months ended September 30, 2016 and 2015 remained consistent at \$1.3M and \$1.3M, respectively. In October 2014, we sold a secured \$10,000,000 42-month note having an interest rate of 9% plus the greater of LIBOR, which was 0.52% as of September 30, 2016, rounded to 1%. Included in interest expense for the nine months ended September 30, 2016 and 2015 are \$0.6M and \$0.5M, respectively, in amortization of discounts on the debt for a structuring fee, termination fees and the rights assigned to Fortress to share in our potential future new intellectual property monetization revenue streams.

Our net loss for the nine months ended September 30, 2015 of \$4.0M decreased by \$4.0M, or 101% to a net income of \$0.1M for the nine months ended September 30, 2016. This decrease is primarily attributable to the \$4.4M increase in sales and marketing expense and \$0.5M increase in stock compensation expense that was offset by the \$8.2M increase in gross profits and a \$0.8M non-recurring impairment expense for the nine months ended September 30, 2015. Excluding stock based compensation, our net income for the nine-month period ended September 30, 2016 was \$1.0M and net loss of \$3.6M for the nine-month period ended September 30, 2015. Our net income on a basic and fully diluted basis was \$0.00 per share for the nine months ended September 30, 2016 based on our weighted average shares outstanding of 17.7M and 19.7M respectively, as compared to a net loss of \$0.25 per share for the nine months ended September 30, 2015 based on our weighted average shares outstanding of 15.7M. The increase in the number of weighted shares outstanding primarily reflects the issuance of shares of common stock, of which 3.1M shares were issued in connection with an underwritten public offering, 0.8M shares were issued for warrants which were exercised, 0.2M shares were issued to Fortress, 0.3M were issued to DoubleVision in satisfaction of the earnout provision, 0.6M shares were issued for the acquisition of Hipcricket's mobile advertising business.

Liquidity and Capital Resources

At September 30, 2016, we had total assets of \$31.7M including \$19.9M in current assets, and total liabilities of \$13.9M, including \$9.3M in current liabilities. At December 31, 2015, we had total assets of \$20.8M, including \$8.9M in current assets, and total liabilities of \$15.6M, including \$10.6M in current liabilities. The \$10.9M or 53% increase in assets consisted of a \$7.2M increase in cash due to the sale and issuance of 3.1M shares of common stock in September 2016 in an underwritten public offering. Additionally, increased revenues led to an increase of \$3.6M in receivables. The \$1.6M or 11% decrease in liabilities is primarily attributable to the decrease in current liabilities that largely consisted of a \$1.8M decrease for the Fortress Loan, a \$0.4M decrease in accounts payable due to use of cash proceeds for operations, offset by an increase in accrued expense of \$0.7M attributable to the growth in our costs of revenue and operations that resulted from the expansion of our business.

During the three months ended September 30, 2016, we used \$2.0M in cash for operating activities, of which \$1.5M is the net positive result of our noncash expenses primarily consisting of \$0.7M in depreciation and amortization expense, \$0.4M in stock compensation expense, and \$0.1 of bad debt expense. In addition, we used \$1.0M in cash for growth in our accounts receivable in the three-month period which has resulted from increased media placement revenue that typically remains outstanding in accounts receivable longer than our wireless applications revenue. \$2.4M was also used in accounts payable for the three month-month period that reflected our plan to strategically reduce outstanding balances with our advertising inventory suppliers to create more buying capacity and flexibility in anticipation of media placement revenue growth.

Cash used in investing activities for the three months ended September 30, 2016 was \$0.4M, of which \$0.3M primarily represents capitalized internal costs of our software development for our advertising technology platform. \$0.1M was attributable to investments in our intellectual property which is designed to strengthen our intellectual property portfolio and purchases of property and equipment in connection with our personnel expansion.

Cash provided in financing activities for the three months ended September 30, 2016 was \$10.5M which is primarily comprised of \$11.0M net proceeds from the issuance of common stock in September 2016 and \$0.5M in principal repayment our Note to Fortress. On March 1, 2016, we amended our Revenue Sharing and Note Purchase Agreement with Fortress to reduce monthly principal payments from \$333,333 to \$175,000 for February 2016 through February 2017 and from \$333,333 to \$300,000 for March 2017 to February 2018, with the final payment in March 2018 increased to repay the remaining principal in full. In consideration for the Amendment, we paid a restructuring fee and issued shares of our common stock to Fortress as described in the discussion of the cash provided by financing activities for the nine months ended September 30, 2016 below.

During the nine months ended September 30, 2016, we used \$0.6M in cash for operating activities, of which \$3.2M is the net positive result of our noncash expenses of \$1.9M in depreciation and amortization expense, \$0.9M in stock compensation expense, and \$0.3M of bad debt expense. In addition, we used \$4.0M in cash for growth in our accounts receivable in the nine-month period which has resulted from increased media placement revenue, which typically remains outstanding in accounts receivable longer than our wireless applications revenue and we used \$0.4M in cash for our accounts payable in the nine-month period that reflects operating cost growth in line with our revenue growth and an increase in accounts payable aging that brings our vendor and customer balance aging into better alignment. These were offset by an increase of \$0.7M in accrued expenses due primarily to annual incentive plans ending September 30, 2016.

Cash used in investing activities for the nine months ended September 30, 2016 was \$1.2M, of which \$1.1M primarily represents capitalized internal costs of our software development for our advertising technology platform. The remaining \$0.1M was attributable to investments in our intellectual property which is designed to strengthen our intellectual property portfolio and for purchases of property and equipment in connection with our personnel expansion.

Cash provided by financing activities for the nine months ended September 30, 2016 totaled \$9.0M, which primarily consisted of \$11.0M net proceeds from the issuance of common stock in September 2016 and \$1.9M in principal repayments on our Note to Fortress. On March 1, 2016, we amended our Revenue Sharing and Note Purchase Agreement with Fortress to reduce monthly principal payments from \$333,333 to \$175,000 for February 2016 through February 2017 and from \$333,333 to \$300,000 for March 2017 to February 2018, with the final payment in March 2018 increased to repay the remaining principal in full. In consideration for the Amendment, we paid a restructuring fee of \$100,000 and issued 200,000 shares of our common stock, with an aggregate value of \$0.6M, to Fortress.

The principal amount of our Note to Fortress bears interest at a rate equal to LIBOR plus 9% per annum. Such interest is payable monthly in cash except that 2% per annum of the interest shall be paid-in-kind, by increasing the principal amount of the Note by the amount of such interest. The term of the Note is 42 months and we began making monthly interest payments in October 2014. In October 2015, we began making monthly amortization payments on the Note, each in the amount of \$333,334. We agreed to apply 85% of any revenues from new licensing and royalty arrangements that we generate using our patents ("Monetization Revenues") to the payment of accrued and unpaid interest on, and then to repay outstanding principal (at par) of, the Note until all amounts due with respect to the Note has been paid in full. After the repayment of the Note, we will pay Fortress up to 50% of Monetization Revenues totaling (i) \$5,000,000, if paid in full prior to March 31, 2018 and (ii) \$7,500,000 thereafter. In addition, we must also pay \$350,000 to Fortress upon repayment of the Note.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements or financing activities with special purpose entities.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We have identified the following accounting policies that we believe are key to an understanding of our financial statements. These are important accounting policies that require management's most difficult, subjective judgments.

Revenue Recognition and Deferred Revenue

The Company recognizes media placement revenue based on the activity of mobile users viewing ads through developer applications and mobile websites. Media placement revenues are recognized when the Company's advertising services are delivered based on the specific terms of the advertising contract, which are commonly based on the number of ads delivered, or views, clicks or actions by users on mobile advertisements. At such time, the Company's services have been provided, the fees charged are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured.

The Company evaluates whether it is appropriate to recognize media placement revenue based on the gross amount billed to the customers or the net amount earned as revenue. When the Company is directly engaged with an advertising agency or brand, the Company is primarily obligated in a transaction, has latitude in establishing prices, is responsible for fulfillment of the transaction, has credit risk, or has several but not all of these indicators, revenue is recorded on a gross basis. While none of the factors individually are considered presumptive or determinative, in reaching conclusions on gross versus net revenue recognition, the Company places the most weight on the analysis of whether or not it is the primary obligor in the arrangement. When the Company is engaged with a sales partner who deals directly with an agency or brand, the Company records the net amounts as media placement revenue earned if it is not primarily obligated or does not have latitude in establishing prices or credit risk.

The Company recognizes wireless applications revenue based on the delivery of Short Message Service (SMS) text messages and voice messages and messaging program management services. Wireless applications revenues are recognized when the Company's services are delivered based on the specific terms of the Company's contracts with customers, which are commonly based on the number of messages delivered. At such time, the Company's services have been provided, the fees charged are fixed or determinable, persuasive evidence of an arrangement exists, and collectability is reasonably assured.

In general, licensing and royalty revenue arrangements provide for the payment of contractually determined fees in consideration for the patented technologies owned by or controlled by the Company's operating subsidiary. The intellectual property rights granted may be perpetual in nature, extending until the expiration of the related patents, or can be granted for a defined, relatively short period of time, with the licensee possessing the right to renew the agreement at the end of each contractual term for an additional minimum upfront payment. Pursuant to the terms of these agreements, the Company's operating subsidiary may have no further obligation with respect to the grant of the non-exclusive retroactive and future licenses, covenants-not-to-sue, releases, and other deliverables, including no express or implied obligation on the Company's operating subsidiary's part to maintain or upgrade the technology, or provide future support or services. Generally, the agreements provide for the grant of licenses, covenants-not-to-sue, releases, and other significant deliverables upon the execution of the agreement, or upon the receipt of the minimum upfront payment for term agreement renewals. As such, when the Company has no further obligation under the agreement, the earnings process is complete and revenue is recognized upon the execution of the agreement, when collectability is reasonably assured, or upon receipt of the minimum upfront fee for term agreement renewals, and when all the other revenue recognition criteria have been met, otherwise the Company recognizes revenue on a straight-line basis over the life of the agreement based on the contractually determined fees.

Deferred revenue arises as a result of differences between the timing of revenue recognition and receipt of cash from the Company's customers.

Software Development Costs

The Company accounts for costs incurred to develop or purchase computer software for internal use in accordance with ASC Topic 350-40 "Internal-Use Software." As required by ASC 350-40, the Company capitalizes the costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, installation, and testing.

Costs incurred during the preliminary project stage along with post-implementation stages of internal use computer software are expensed as incurred. Capitalized development costs are amortized over a period of two to three years. Costs incurred to maintain existing product offerings are expensed as incurred. The capitalization and ongoing assessment of recoverability of development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life.

Long-Lived Assets

We account for our long-lived assets in accordance with Accounting Standards Codification ("ASC") Topic 360-10-05, "Accounting for the Impairment or Disposal of Long-Lived Assets." ASC Topic 360-10-05 requires that long-lived assets be reviewed for impairment 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 an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. During the year ended December 31, 2015, we recognized an impairment loss of \$831,000 on our "Anywhere" Software License.

Fair Value Measurement

The Company complies with the provisions of ASC No. 820-10 (ASC 820-10), "Fair Value Measurements and Disclosures." ASC 820-10 relates to financial assets and financial liabilities. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (GAAP), and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements and are to be applied prospectively with limited exceptions.

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820-10 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions that are developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820-10 are described below:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Principal Executive Officer and Principal Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the periods specified in the Commission's rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

We have not made a change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even a system which is determined to be effective cannot provide absolute assurance that all control issues have been detected or prevented. Our systems of internal controls are designed to provide reasonable assurance with respect to financial statement preparation and presentation.

Under the oversight of the Audit Committee, Management will continue to review and make any changes it deems necessary to the overall design of the Company's internal control over financial reporting, including implementing improvements in policies and procedures. We are committed to a proper internal control environment and will continue to implement measures to improve the Company's internal control over financial reporting in response to our continued operational development.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

To the best of our knowledge, we are not a party to any legal proceedings that, individually or in the aggregate, are deemed to be material to our financial condition or results of operations.

Item 1A - Risk Factors

Our Transition Report on Form 10-KT for the transition period from September 30, 2015 to December 31, 2015 (the "Transition Report"), Part I –Item 1A, Risk Factors, describes important risk factors that could cause our business, financial condition, results of operations and growth prospects to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time to time.

There have been no material changes in our risk factors since the filing of our Transition Report on Form 10-KT.

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

No disclosure required.

Item 3 - Defaults Upon Senior Securities

No disclosure required.

Item 4 - Mine Safety Disclosures

No disclosure required.

Item 5 - Other Information

On November 9, 2016, the Company's Board of Directors approved an increase in the base salary of the Company's Chief Executive Officer from \$300,000 to \$350,000 and an increase in the base salary of its Chief Financial Officer from \$225,000 to \$275,000. The Board of Directors also approved an increase in the target bonus of the Chief Executive Officer to 60% of his base salary and an increase in the target bonus to 50% of the base salary of the Chief Financial Officer.

Item 6 - Exhibits

Index to Exhibits

Exhibit No.	Description
1.1	Underwriting Agreement dated September 16, 2016 between SITO Mobile, Ltd. and Cowen and Company, LLC, as representative of the several underwriters (Incorporated by reference to the Company's current report on Form 8-K filed with the SEC on September 21, 2016)
31.1*	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1*	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer, 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.

* Filed herewith

** Furnished herewith

SIGNATURES

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

SITO Mobile Ltd.

Date: November 14, 2016

By: /s/ Jerry Hug
Jerry Hug, Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2016

By: /s/ Kurt Streams
Kurt Streams, Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OR RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

I, Jerry Hug, certify that:

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

Date: November 14, 2016

/s/ Jerry Hug

Jerry Hug, Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OR RULE 15d-14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

I, Kurt Streams, certify that:

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

Date: November 14, 2016

/s/ Kurt Streams
Kurt Streams, Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jerry Hug, the Chief Executive Officer of SITO Mobile, Ltd. (the "Company"), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (the "Report") of the Company fully complies with the requirements of Section 13(a) or Section 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 14, 2016

/s/ Jerry Hug

Jerry Hug, Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Kurt Streams, the Chief Financial Officer of SITO Mobile, Ltd. (the "Company"), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (the "Report") of the Company fully complies with the requirements of Section 13(a) or Section 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 14, 2016

/s/ Kurt Streams

Kurt Streams, Chief Financial Officer
(Principal Financial & Accounting Officer)