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Initial Research Report

Investors should consider this report as only a single factor in making their investment decision.

Single Touch Systems, Inc.

Speculative Buy

John Nobile

March 25, 2014

SITO $0.39 — (OTC BB)

	2012A	2013A	2014E	2015E
Revenues (millions)	$6.3	$7.8	$9.6	$11.5
Earnings (loss) per share	$(0.02)	$(0.04)	$(0.03)	$(0.03)

52-Week range	$0.76 – $0.36	Fiscal year ends:	September
Common shares out as of 2/10/14	142.8 million	Revenue per share (TTM)	$0.06
Approximate float	90.7 million	Price/Sales (TTM)	6.5X
Market capitalization	$56 million	Price/Sales (FY2015)E	4.9X
Tangible book value/share	$0.00	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2015)E	NMF

Single Touch Systems Inc., headquartered in Jersey City, New Jersey, is a mobile media technology company that enables marketers to reach consumers on all types of mobile devices. Communication might be in the form of a reminder message in voice or text (Short Message Service or SMS), an abbreviated dial code, or a coupon, promotion, or advertisement. (www.singletouch.net)

Key investment considerations:

Initiating coverage of Single Touch Systems, Inc. (SITO) with a Speculative Buy rating and twelve-month price target of $0.70 per share.

In December 2013, eMarketer projected US mobile advertising spending to grow 56% in 2014 and 42% in 2015. A rapidly growing industry and Single Touch's unique offering of SMS services across all US carriers on a Free to End User (FTEU) basis should help in driving sales going forward.

In November 2013, the advertising research and advisory firm BIA/Kelsey projected location targeted mobile ad revenues to reach $10.8 billion by 2017 for a compound annual growth rate of approximately 40%.

Single Touch's FollowMe® technology targets consumers based on their precise location by placing "geo-fences", a virtual perimeter within a radius of a store or point location. Ads are delivered based on specific demographic profiles.

1Q14 revenue increased 49% to $2.9 million and the company lost $(0.01) per share versus a loss of $$(0.02) per share in 1Q13. Growth in 1Q14 was primarily due to one-time licensing revenue of $0.75 million from Zoove Corporation. Excluding the licensing revenue, revenue increased 11% to $2.2 million. 1Q14 revenue was adversely affected by a new Telephone Consumer Protection Act (TCPA) rule (effective October 2013) requiring written consent from customers for marketing messages sent via SMS. Approximately 90% of the revenue that was lost in 1Q14 due to the new regulation was restored in 2Q14.

For FY14 we project revenue of $9.6 million, up 23% from FY13, and a net loss of $(0.03) per share. For FY15 we project revenue of $11.5 million, up 20% from FY14, and a net loss of $(0.03) per share. Increased messaging volume will be the primary driver of this growth.

****Please view our disclosures on pages 14 - 16.***

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Recommendation and Valuation

We are initiating coverage of Single Touch Systems, Inc. (SITO) with a **Speculative Buy** rating and **twelve-month price target of $0.70 per share.**

Over the past twelve months shares of SITO traded as high as 15X TTM sales and as low as 7X, where they currently trade. We believe the current multiple reflects the recent quarter's messaging growth rate (13% compared to 20% in FY13) which was adversely affected by a new text marketing regulation which went into effect during the quarter. We view this as temporary as approximately 90% of the revenue that was lost in 1Q14 due to the new regulation was restored in 2Q14. We believe the market will accord the stock a multiple of 9X sales given the growth in sales we project. Applying a multiple of 9X to our FY15 sales estimate of $0.08 per share values the stock at approximately $0.70 per share.

A comparison group of 29 companies in the business services industry are currently trading at an average multiple of 7X TTM sales (excluding outliers). The software industry also trades at an average multiple of 7X TTM sales. We believe SITO's higher multiple compared the industry is due to the company's strong sales growth (35% CAGR for SITO over the past five years versus 6% for the industry).

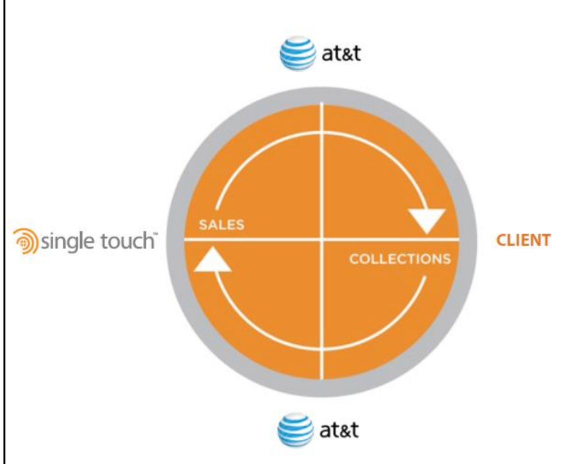
Business

Single Touch Systems Inc., incorporated in 2000 and headquartered in Jersey City, New Jersey, is a mobile media technology company that enables marketers to reach consumers on all types of mobile devices. Communication might be in the form of a reminder message in voice or text (Short Message Service or SMS), an abbreviated dial code, or a coupon, promotion, or advertisement.

Messaging and Notifications – Single Touch's short message service enables retailers to send targeted mobile coupons and transactional messages based on a shopper's profile. Targeted mobile coupons can be sent based on past purchase behaviors making the content relevant and timely to a shopper. Transactional messages send shipping and order pick-up alerts, as well as notifications for reorders, layaway and new product releases.

Abbreviated Dial Codes – Abbreviated dial codes are easy to remember short phone numbers to download content to mobile devices. In 2013 Single Touch announced the national launch of #TAXI in partnership with MADD (Mothers Against Drunk Driving). #TAXI is a mobile cab ordering service available to virtually every mobile phone user in the US. Mobile phone users who need a taxi anywhere, anytime, may simply dial #TAXI or #8294 to get connected to the first available taxi company serving their local calling area.

Campaign Management and Analytics – Single Touch's management platform is a web interface that allows clients to manage and segment messaging campaigns with customized reporting tools. The message management system enables the user to create a message, schedule its delivery time and frequency, segment audience groups for distribution, and create message responders.



Source: Single Touch March 2014 Presentation

FollowMe® – FollowMe is Single Touch's location based mobile ad targeting software application (app). FollowMe enables advertisers to deliver targeted ads to the smartphones of people within close proximity of a specific location (i.e. roofing ad when customer enters Home Depot).

Single Touch's offerings are packaged and sold through AT&T's Network Integration Division which enables the media to be sent via all US mobile carriers including AT&T,

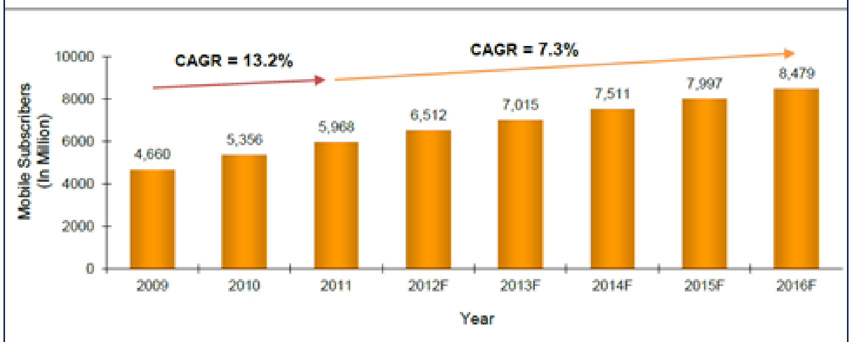
Verizon, Sprint, and T-Mobile to name a few. AT&T packages and marks up Single Touch's offering which is sold through the AT&T national sales force. Single Touch also pursues sales directly. The company receives electronic payment from AT&T on the 20th of every month. Single Touch's clients include Walmart and its affiliates (Sam's Club, Walmart Express, and Walmart.com), Hibbett Sporting Goods, HyVee Grocery Stores, and LDS Church among others. The chart at bottom right on previous page illustrates Single Touch's sales and collection cycle.

The bulk of the company's revenue (over 90% in FY13) comes from notifications sent for a single client (Walmart). Messaging volume is a key metric for the company. In FY13, Single Touch averaged approximately $0.025 per message on volume of over 303 million messages.

Mobile Industry Market and Forecast

More than 90% of mobile phone owners use text messaging. Knowing this, marketers have jumped into text messaging as a way to reach customers and clients. Text message marketing, also known as mobile marketing and SMS marketing, has become an effective way for businesses to alert customers and clients about special promotions and deals, send them coupons, and keep them informed about company news. As with email marketing, text-message marketing requires customers and clients to opt into the service. Once they sign up and provide their mobile phone number, businesses have the right to send them text messages.

Figure 1: Mobile Subscribers – Worldwide (In Million, End 2009 – End 2016F)

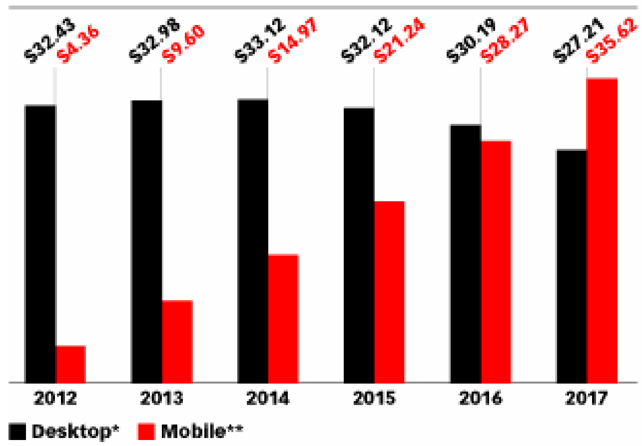


Source: Portio Research Ltd.

F – Forecasted

The worldwide mobile market has enjoyed significant growth over the past few years. According to the mobile industry research firm Portio Research, the overall mobile industry should continue growing over the next three years. In its Mobile Factbook 2013, Portio Research projects the mobile subscriber base to grow at a compound annual growth rate (CAGR) of 7.3% from 2012 to 2016 reaching 8.5 billion by the end of 2016 (see chart above right). While this growth will be driven primarily by markets in Asia and Africa, the US market is projected to grow at a 4% CAGR during this time.

US Digital Ad Spending, by Channel, 2012-2017
billions



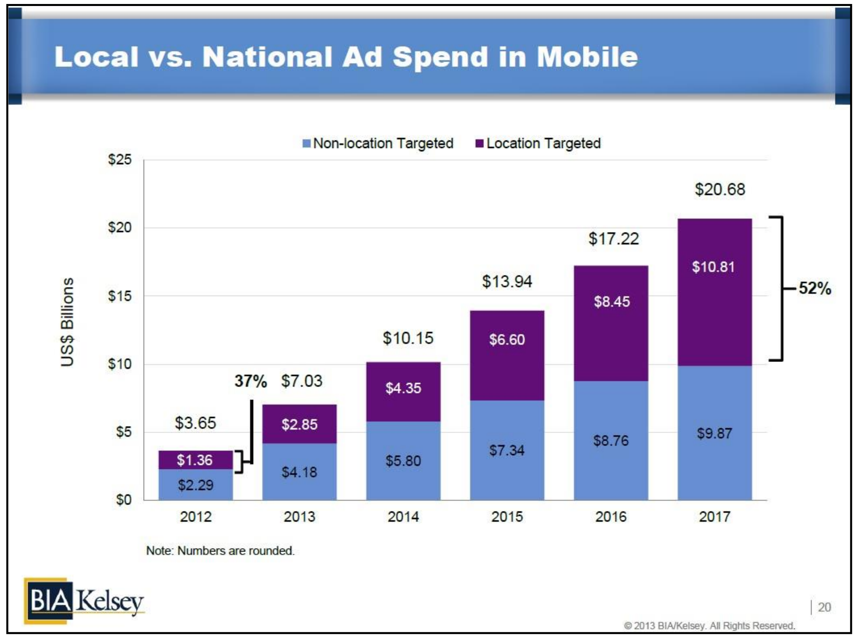
*Note: *includes spending primarily on desktop-based ads; **includes classified, display (banners and other, rich media and video), email, lead generation, messaging-based and search advertising; ad spending on tablets is included*
Source: eMarketer, Dec 2013
166074 www.eMarketer.com

One area that we believe promises strong growth for the company is in mobile ad spending. In December 2013, eMarketer projected US mobile advertising spending to reach $14.97 billion in 2014, up 56% from $9.6 billion in 2013. For 2015, eMarketer projects spending to further increase by approximately 42% to $21.24 billion. Virtually all growth in US digital ad spending will come from mobile channels. This growth will come at the expense of desktop spending which is projected to peak in 2014 (see chart at right).

In October 2013, The Wall Street Journal reported[1] that advertisers were increasing spending on mobile ads as consumers spend more time on their mobile devices. The Wall Street Journal said that spending on mobile advertising more than doubled in the first half of 2013.

In December 2013, global media services network firm ZenithOptimedia said that advertising was set to see the strongest sustained period of growth in ten years. The principle driver of this growth will be mobile technology.

Single Touch's FollowMe technology targets consumers based on their precise location by placing "geo-fences", a virtual perimeter within a radius of a store or point location. Ads are delivered based on specific demographic profiles. In November 2013, the advertising research and advisory firm BIA/Kelsey projected location targeted mobile ad revenues to reach $10.8 billion by 2017 growing to 52% of overall mobile revenues (see chart at right). This rate of growth equates to a compound annual growth rate of approximately 40% from 2013 to 2017. Some of the factors driving this rate of growth include increased advertiser demand and higher ad performance from location targeted ad campaigns.



Strategy

The company's strategy is to expand within the fast growing mobile marketing space. Single Touch plans to do this by investing in seasoned sales and business development people to establish a direct sales channel, diversifying its revenue mix beyond SMS to media buys (mobile ads) through its FollowMe product, and focusing on monetizing its patents (see Intellectual Property section).

An area that promises strong growth for the company is mobile ad placements. Single Touch's FollowMe product enables strategic mobile ad placements. The company has just begun to realize revenue from this product. The company has already received purchase orders for 12 million media impressions (number of mobile ads) from which we project revenue to be realized in 2Q14 and 3Q14. The price for these media impressions will range from $8 to $12 per 1,000 impressions ($0.008 to $0.012 per impression) depending on various factors such as the duration and geography of the campaign.

With the strong growth projected for mobile ad placements, the company is off to a good start in this area, and its focus on growing location based mobile ad placements, we believe this is an area that should grow rapidly for the company.

1. Vranica, Suzanne; Stewart, Christopher S. Wall Street Journal, Eastern edition (New York, N.Y.) 10 Oct 2013: A.1.

Competition / Competitive Advantage

With the rapid growth and adoption of mobile data services, the mobile media and data communications market remains highly competitive. New market entrants and existing competitors are expected to introduce new products and services that compete with Single Touch's.

Single Touch competes with publicly traded companies providing similar service offerings including Voltari Corporation, Hipcricket, Inc., and Mobivity Holdings Corp. Voltari Corporation provides mobile data solutions for mobile operators, consumer brands and enterprises, and advertising agencies. Its software-as-a-service (SaaS) platform enables customers to implement marketing, merchandising, commerce, and advertising to target customers and prospects through mobile devices. Hipcricket, Inc. provides mobile marketing and advertising technology and services. Hipcricket offers AD LIFE, an interactive software-as-a-service platform to provide clients a suite of mobile marketing and advertising solutions. Mobivity Holdings Corp. provides mobile marketing technology. Mobivity offers C-4, a mobile marketing and customer relationship management platform that facilitates short messaging service, multi-media messaging, and interactive voice response interactions.

As trailing twelve month financial result comparisons were not available for Voltari at the time of publication, we are providing the most recent quarter's sales and growth rates for Single Touch and its public competitors (shown at right).

Company	Sales MRQ	% Change
Voltari	$3.6M (9/13)	-13%
Hipcricket	$6.4M (11/13)	-14%
Mobivity	$1.0M (9/13)	3%
Single Touch (wireless apps)	$2.1M (12/13)	10%

Source: Company filings

Single Touch is the only company in the US that offers a nationwide suite of SMS services across all US carriers on a Free to End User (FTEU) basis, a significant competitive advantage. FTEU messaging allows end users receive messages and content without being charged by their mobile carrier. By offering value added services at no cost to their customers, SITO's clients enhance their consumer relationships. This can be seen in what currently makes up the bulk of SITO's current revenue, reminder messages. An example of a reminder message is where a customer receives a message to his mobile device that reminds him that his pharmacy order is ready to be picked up. This helps reduce calls into the pharmacy and the costs associated with returning inventory to stock.

Intellectual Property

Single Touch owns a portfolio of patents related to mobile search, commerce, advertising and streaming media. The patents cover three broad categories: digital video and audio streaming and advertising, sending information to and between mobile devices, and accessing information on a mobile device. The company seeks to monetize its patents primarily through licensing and ensuring their enforcement. Single Touch has sent letters of notification to several companies to alert them that they are infringing on Single Touch's patents. In November 2013, the company settled its first patent infringement case.

On November 12, 2013, Single Touch entered into a patent license and settlement agreement with Zoove Corporation. Pursuant to the terms of the settlement agreement, each party was granted a non-exclusive, non-transferrable, royalty free, fully paid-up, worldwide license to certain of the other party's technology. Zoove agreed to pay Single Touch a cash fee of $0.75 million which was realized in 1Q14.

There can be no assurance that Single Touch will be able to effectively protect or monetize its patents. To prosecute patent infringement actions would require the company to incur substantial legal fees and costs. The outcome of litigation is never certain.

A summary of some of the companies that Single Touch has sent letters of notification to can be seen in the table at right.

Patent Enforcement Summary

Company	Date	Action
Zoove	6/14/2010	Letter of notification sent
	2/21/2012	Court complaint filed
	11/12/2013	Settlement agreement reached
Hulu	8/21/2011	Letter of notification sent
Netflix	8/31/2011	Letter of notification sent
Apple	9/6/2011	Letter of notification sent
Google	9/4/2012	Letter of notification sent
	9/15/2012	Positive response received
Turner Broadcasting System	9/5/2012	Letter of notification sent
Yahoo!	9/7/2012	Letter of notification sent
Viacom	9/7/2012	Letter of notification sent
Brightcove	9/7/2012	Letter of notification sent
Dish Network	9/7/2012	Letter of notification sent
Amazon.com	11/15/2012	Letter of notification sent
Facebook	1/14/2013	Letter of notification sent

Source: Single Touch Systems, Inc.

Although the settlement with Zoove proved to be accretive to 1Q14 earnings ($0.75 million realized in licensing and royalties revenue), we will be conservative in our approach to recognizing revenue from the company's efforts to monetize its patents and not project revenue from this category until realized.

1Q14 Financial Results

1Q14 - Revenue increased 49% to $2.9 million. Single Touch lost $1.1 million or $(0.01) per share versus a loss of $2.2 million or $(0.02) per share in 1Q13.

Growth in 1Q14 was primarily due to one-time licensing revenue of $0.75 million from Zoove Corporation. Excluding the $0.75 licensing revenue, revenue increased 11% to $2.2 million. Revenues were adversely affected by a new Telephone Consumer Protection Act (TCPA) consent rule which became effective October 16, 2013. The new rule requires mandatory written consent from customers prior to allowing businesses and marketers to send marketing messages via SMS. Despite the adverse effects of the TCPA, message volume grew 13% to 87 million messages.

Gross margins improved to 70.1% from 54.6%. Excluding the one-time licensing revenue which has no royalties and application costs, gross margins from messaging were 59.8%. The increase in gross margins was attributable to vendor re-negotiations and taking in-house a number of formerly outsourced services.

SG&A expenses (excluding stock-based compensation) remained relatively flat at $0.8 million. Compensation expense (excluding stock-based compensation) increased to $1.1 million from $0.6 million due primarily to expenses associated with the termination of the former executive chairman in December 2013. Total stock-based compensation decreased to $0.8 million from $1.4 million as the company seeks to reduce the number of issued and potentially issued common stock.

Liquidity

As of December 31, 2013, the company had $2.3 million cash, a current ratio of 0.9X versus 3.6X for the software industry, and a debt/equity ratio of 1.7X versus 10.1X for the industry. By our forecasts, the company should have sufficient capital to meets its operational needs for the next twelve months.

Cash used in operations for the first three months of FY14 was $358,000 consisting of a $396,000 increase in working capital offset in part by cash earnings of $38,000. The change in working capital was primarily due to a $0.8 million increase in accounts receivable and a $320,000 decrease in accounts payable, offset in part by a $0.7 million increase in accrued expenses. Cash used in investing of $168,000 consisted of $97,000 of capitalized software development costs, $46,000 of capital expenditures, and $25,000 in patent related expenditures. Cash provided by financing of $1.7 million consisted primarily of proceeds from the issuance of common stock. Cash increased by $1.1 million to $2.3 million at December 31, 2013.

Economic Outlook

In January 2014, the International Monetary Fund (IMF) raised its global economic growth forecast to 3.7% in 2014, up from an earlier (October 2013) growth forecast of 3.6%. Global growth is projected to further increase to 3.9% in 2015. Driving this growth will be a recovery in the advanced economies. The IMF said that global economic activity picked up in the second half of 2013 at a somewhat stronger pace than previously anticipated.

In February 2014, the Bureau of Economic Analysis revised US GDP growth downward to 2.4% from an earlier estimate of 3.2%. Some of the factors contributing to the downward revision were a deceleration in private investment and a large decrease in federal spending. However, the estimate did reflect positive contributions from personal consumption expenditures and exports.

The IMF's economic growth estimate for the US was revised upward to 2.8% in 2014 from an earlier (October 2013) growth forecast of 2.6%. The IMF said that growth in 2014 will be driven by domestic demand. However, 2015 US growth projections have been lowered to 3% from an earlier (October 2013) growth forecast of 3.4% due to a tighter fiscal stance as the recent budget agreement implies that most of the sequester cuts will remain in place in 2015 instead of being reversed as previously assumed.

The Federal Reserve's (Fed) latest economic projection for the US economy in 2014 is in sync with the IMF's. In March 2014, the Fed projected the US economy to grow at a slightly slower but steady pace in 2014. The Fed projects US growth of 2.8% to 3% this year, a bit lower than its December 2013 projection of between 2.8% and 3.2%.

Projections

In 1Q14 the company began to realize three distinct areas of revenue, wireless application revenue (realized since inception), licensing and royalty revenue (from the Zoove settlement), and media placement revenue (from the newly launched FollowMe app).

FY13 messaging volume increased over 20%, however, growth fell to 13% in 1Q14. The decline in messaging volume growth was primarily due to a new text-messaging law which went into effect in October 2013. The new law required businesses to get permission before sending out text marketing messages to current or prospective customers. This resulted in Single Touch's messaging volume growing by only 13% in 1Q14 as it took time to conform to the new law.

Growth could have been adversely affected to a greater degree had a majority of the company's business required compliance with the new law, however, the company's business is predominantly generated from reminder messages, which are not deemed marketing messages.

Approximately 90% of the revenue that was lost in 1Q14 due to the new regulation was restored in 2Q14. We project messaging volume growth of 14% in FY14 (due to the adverse effect the new law had on messaging volume in 1Q14) and 15% in FY15. We project $0.025 per message (in line with historic pricing).

	FY13A	12/13A	3/14E	6/14E	9/14E	FY14E	12/14E	3/15E	6/15E	9/15E	FY15E
Est. message volume (thousands)	303,000	87,000	76,000	88,000	94,000	345,000	100,000	88,000	101,000	108,000	397,000
Est. price per message	$ 0.026	$ 0.025	$ 0.025	$ 0.025	$ 0.025	$ 0.025	$ 0.025	$ 0.025	$ 0.025	$ 0.025	$ 0.025
Wireless app revenue (in thousands)	$ 7,784	$ 2,147	$ 1,900	$ 2,200	$ 2,350	$ 8,597	$ 2,500	$ 2,200	$ 2,525	$ 2,700	$ 9,925

Source: Company filings and Taglich Brothers estimates

Besides operating in a rapidly growing industry, Single Touch's unique offering of SMS services across all US carriers on a Free to End User (FTEU) basis should help in driving sales going forward. Also, new programs such as tire & lube reminders for Walmart's customers should be accretive to existing sales.

For FY14 we project revenue of $9.6 million, up 23% from $7.8 million in FY13, and a net loss of $4.2 million or $(0.03) per share. Excluding the one-time licensing revenue from the settlement with Zoove, revenue should increase 14% to $8.9 million driven primarily by increased messaging volume to 345 million from 303 million.

We project gross margins will improve to 63.1% from 57.2% primarily due to the licensing revenue from Zoove for which there is no royalties and application cost. Excluding the Zoove revenue, we project gross margins of approximately 60%, consistent with 1Q14 margins (excluding Zoove) in which the company realized cost savings from taking in-house a number of formerly outsourced services.

Compensation expense for FY14 is projected to increase to $4.2 million from $3.8 million primarily due to $423,000 in compensation expense related to the termination of the former executive chairman. SG&A expenses are projected to increase to $4.6 million from $3.9 million primarily due to increased legal fees as the company continues to make efforts in monetizing its IP portfolio.

We project Single Touch will use $0.7 million cash from operations in FY14 primarily from a $0.7 million cash loss. Capital expenditures of $100,000, patent and application costs of $100,000, and capitalized software development costs of $0.5 million should result in $0.7 million cash used in investing. Cash of $2.1 million provided by financing should come primarily from the issuance of common stock. Cash should increase by $0.7 million to $1.9 million at September 30, 2014.

For FY15 we project revenue of $11.5 million, up 20% from $9.6 million in FY14, and a net loss of $3.9 million or $(0.03) per share. The increase in revenue will be driven by a 15% increase in messaging volume to 397 million from 345 million, and continued increases in media placement revenue as the company focuses its efforts in the fast growing location targeted mobile ad industry.

We project gross margins of 60%, in line with our FY14 projection (excluding Zoove). Compensation expense is projected to decrease to $4 million from $4.2 million primarily due to the absence of the $423,000 in compensation expense related to the termination of the former executive chairman in FY14. SG&A expenses are projected to increase to $5.3 million from $4.6 million primarily due to the continuation of legal fees associated with monetizing the company's IP portfolio.

We project Single Touch will generate $242,000 cash from operations in FY15 primarily from cash earnings of $21,000 and a $220,000 decrease in working capital. Capital expenditures of $100,000, patent and application costs of $100,000, and capitalized software development costs of $0.5 million should result in $0.7 million cash used in investing. Cash of $1.3 million provided by financing should come primarily from the issuance of common stock. Cash should increase by $0.8 million to $2.7 million at September 30, 2015.

Management

James Orsini, President and Chief Executive Officer, Director – Orsini joined Single Touch on May 16, 2011 as president, CEO, CFO, and director. On September 26, 2011, Orsini stepped down as CFO but continued as president, CEO, and Director. From February 2006 to May 2011, Orsini served as Executive VP and director of Finance and Operations at Saatchi & Saatchi New York, a marketing/advertising agency unit of Publicis Groupe S.A. BS Business Administration from Seton Hall University, magna cum laude (1985). CPA.

Kurt Streams, Chief Financial Officer - Streams joined Single Touch on November 1, 2013 as CFO. From 2009 through 2013, Streams was a partner at GBM LLC, a business management firm. From 2008 through 2009, Streams was a principal at RBSM LLP, a CPA firm. Served as CFO at various companies including IGIA, Inc. and The Deal, LLC. Streams started his career at Deloitte & Touche where he served in several positions which culminated in his role as senior audit manager in Connecticut and The Netherlands. BA Economics from University of Massachusetts at Amherst. CPA.

Risks

In our view, these are the principal risks underlying the stock.

Reliance on a single client – Single Touch's present and future business depends heavily on a single client (Walmart). The loss of business with this client will have a detrimental effect on Single Touch's revenue.

Carrier agreement – Single Touch relies on wireless carriers, primarily AT&T, to market the company's products and services and generate revenue. Should AT&T choose to promote another vendor's products and services over Single Touch's, the company's current and future business could be negatively impacted.

History of operating losses – Single Touch has a history of losses since its inception in 2000 and has not achieved profitability on an annual basis. If revenues grow slower than anticipated, or if operating expenses exceed expectations, the company may not be able to achieve profitability in the near future or at all.

Potential need for additional financing – Single Touch may require additional funds in the future to fund its business plans, either through additional equity or debt financings or other sources. Any additional capital raised through the sale of equity or equity-backed securities may be dilutive to current stockholders. If the company is unable to obtain additional financing, it may be unable to implement its business plan.

Competition – Single Touch has many actual and potential competitors, many of whom may have more financial resources than the company. If Single Touch does not grow larger, it may not be able to enjoy the brand power and economies of scale that many of its competitors do.

Rapid technological change – It is likely that Single Touch's industry will be subject to rapid technological changes. The company's competitors may have more resources to react to such changes than Single Touch.

Liquidity risk - Shares of Single Touch have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 90.7 million shares in the float and the average daily volume is approximately 122,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	FY11A	FY12A	FY13A	12/13A	FY14E	FY15E
Cash and cash equivalents	524	2,158	1,147	2,292	1,883	2,675
Accounts receivable	907	1,086	1,348	1,737	1,664	1,996
Prepaid consulting	-	-	1,082	891	746	345
Other prepaid expenses	94	129	150	120	120	120
Total current assets	1,525	3,373	3,727	5,040	4,413	5,136
Net property, plant and equipment	303	229	239	262	246	252
Accounts receivable	-	-	-	450	-	-
Prepaid consulting - long-term portion	-	-	82	-	-	-
Capitalized software development costs	395	383	343	347	347	277
Intangible assets	1,259	1,346	2,067	2,059	2,059	1,654
Deposit - related party	155	155	-	-	-	-
Other assets	100	84	65	65	65	65
Total assets	**3,737**	**5,570**	**6,523**	**8,223**	**7,130**	**7,384**
Accounts payable	1,178	768	1,352	1,032	1,441	1,872
Accrued expenses	176	200	209	465	258	309
Accrued compensation - related party	37	73	73	481	481	481
Current obligation under capital lease	-	-	16	16	16	16
Current obligation under patent acquisitions	164	88	-	-	-	-
Convertible debentures	-	294	3,279	3,887	3,887	-
Total current liabilities	1,555	1,423	4,929	5,881	6,083	2,679
Deferred revenue	-	25	-	-	-	-
Obligation under capital lease	-	-	29	25	25	25
Convertible debentures	-	3,213	441	-	-	3,887
Total liabilities	**1,555**	**4,661**	**5,399**	**5,906**	**6,108**	**6,591**
Total stockholders' equity	**2,182**	**909**	**1,124**	**2,317**	**1,022**	**793**
Total liabilities & stockholders' equity	**3,737**	**5,570**	**6,523**	**8,223**	**7,130**	**7,384**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	FY11A	FY12A	FY13A	FY14E	FY15E
Wireless applications	4,580	6,347	7,784	8,597	9,925
Licensing and royalties	-	-	-	750	-
Media placement	-	-	-	260	1,600
Total revenue	4,580	6,347	7,784	9,607	11,525
Royalties and application costs	2,544	2,907	3,329	3,548	4,610
Research and development	79	85	66	99	120
Compensation expense	5,469	3,044	3,808	4,231	4,000
Depreciation and amortization	633	690	662	600	600
SG&A	3,162	2,387	3,898	4,559	5,302
Operating income (loss)	(7,307)	(2,766)	(3,979)	(3,430)	(3,107)
Interest and other expense	(677)	(488)	(1,271)	(772)	(772)
Income (loss) before taxes	(7,984)	(3,254)	(5,250)	(4,202)	(3,879)
Income tax	(1)	(1)	-	-	-
Net Income / (Loss)	(7,985)	(3,255)	(5,250)	(4,202)	(3,879)
EPS	(0.06)	(0.02)	(0.04)	(0.03)	(0.03)
Shares Outstanding	127,817	131,193	133,296	142,404	145,000
Margin Analysis					
Gross margin	44.5%	54.2%	57.2%	63.1%	60.0%
Royalties and application costs	55.5%	45.8%	42.8%	36.9%	40.0%
Compensation expense	119.4%	48.0%	48.9%	44.0%	34.7%
SG&A	69.0%	37.6%	50.1%	47.5%	46.0%
Operating margin	(159.5)%	(43.6)%	(51.1)%	(35.7)%	(27.0)%
Net margin	(174.3)%	(51.3)%	(67.4)%	(43.7)%	(33.7)%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth					
Total Revenues		38.6%	22.6%	23.4%	20.0%
Net Income		NMF	NMF	NMF	NMF
EPS		NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements FY13A - FY15E
(in thousands $)

	12/12A	3/13A	6/13A	9/13A	FY13A	12/13A	3/14E	6/14E	9/14E	FY14E	12/14E	3/15E	6/15E	9/15E	FY15E
Wireless applications	1,947	1,809	1,924	2,104	7,784	2,147	1,900	2,200	2,350	8,597	2,500	2,200	2,525	2,700	9,925
Licensing and royalties	-	-	-	-	-	750	-	-	-	750	-	-	-	-	-
Media placement	-	-	-	-	-	10	25	75	150	260	250	350	450	550	1,600
Total revenue	1,947	1,809	1,924	2,104	7,784	2,907	1,925	2,275	2,500	9,607	2,750	2,550	2,975	3,250	11,525
Royalties and application costs	884	777	805	863	3,329	868	770	910	1,000	3,548	1,100	1,020	1,190	1,300	4,610
Research and development	9	24	13	20	66	24	25	25	25	99	30	30	30	30	120
Compensation expense	1,755	635	765	653	3,808	1,381	950	950	950	4,231	1,000	1,000	1,000	1,000	4,000
Depreciation and amortization	155	160	163	184	662	150	150	150	150	600	150	150	150	150	600
SG&A	1,068	1,006	950	874	3,898	1,343	924	1,092	1,200	4,559	1,265	1,173	1,369	1,495	5,302
Operating income (loss)	(1,924)	(793)	(772)	(490)	(3,979)	(859)	(894)	(852)	(825)	(3,430)	(795)	(823)	(764)	(725)	(3,107)
Interest and other expense	(308)	(279)	(491)	(193)	(1,271)	(193)	(193)	(193)	(193)	(772)	(193)	(193)	(193)	(193)	(772)
Income (loss) before taxes	(2,232)	(1,072)	(1,263)	(683)	(5,250)	(1,052)	(1,087)	(1,045)	(1,018)	(4,202)	(988)	(1,016)	(957)	(918)	(3,879)
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income / (Loss)	(2,232)	(1,072)	(1,263)	(683)	(5,250)	(1,052)	(1,087)	(1,045)	(1,018)	(4,202)	(988)	(1,016)	(957)	(918)	(3,879)
EPS	(0.02)	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)
Shares Outstanding	132,472	132,647	134,186	133,879	133,296	140,816	142,800	143,000	143,000	142,404	145,000	145,000	145,000	145,000	145,000
Margin Analysis															
Gross margin	54.6%	57.0%	58.2%	59.0%	57.2%	70.1%	60.0%	60.0%	60.0%	63.1%	60.0%	60.0%	60.0%	60.0%	60.0%
Royalties and application costs	45.4%	43.0%	41.8%	41.0%	42.8%	29.9%	40.0%	40.0%	40.0%	36.9%	40.0%	40.0%	40.0%	40.0%	40.0%
Compensation expense	90.1%	35.1%	39.8%	31.0%	48.9%	47.5%	49.4%	41.8%	38.0%	44.0%	36.4%	39.2%	33.6%	30.8%	34.7%
SG&A	54.9%	55.6%	49.4%	41.5%	50.1%	46.2%	48.0%	48.0%	48.0%	47.5%	46.0%	46.0%	46.0%	46.0%	46.0%
Operating margin	(98.8)%	(43.8)%	(40.1)%	(23.3)%	(51.1)%	(29.5)%	(46.4)%	(37.5)%	(33.0)%	(35.7)%	(28.9)%	(32.3)%	(25.7)%	(22.3)%	(27.0)%
Net margin	(114.6)%	(59.3)%	(65.6)%	(32.5)%	(67.4)%	(36.2)%	(56.5)%	(45.9)%	(40.7)%	(43.7)%	(35.9)%	(39.8)%	(32.2)%	(28.2)%	(33.7)%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth															
Total Revenues					22.6%	49.3%	6.4%	18.2%	18.8%	23.4%	-5.4%	32.5%	30.8%	30.0%	20.0%
Net Income					NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF
EPS					NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF

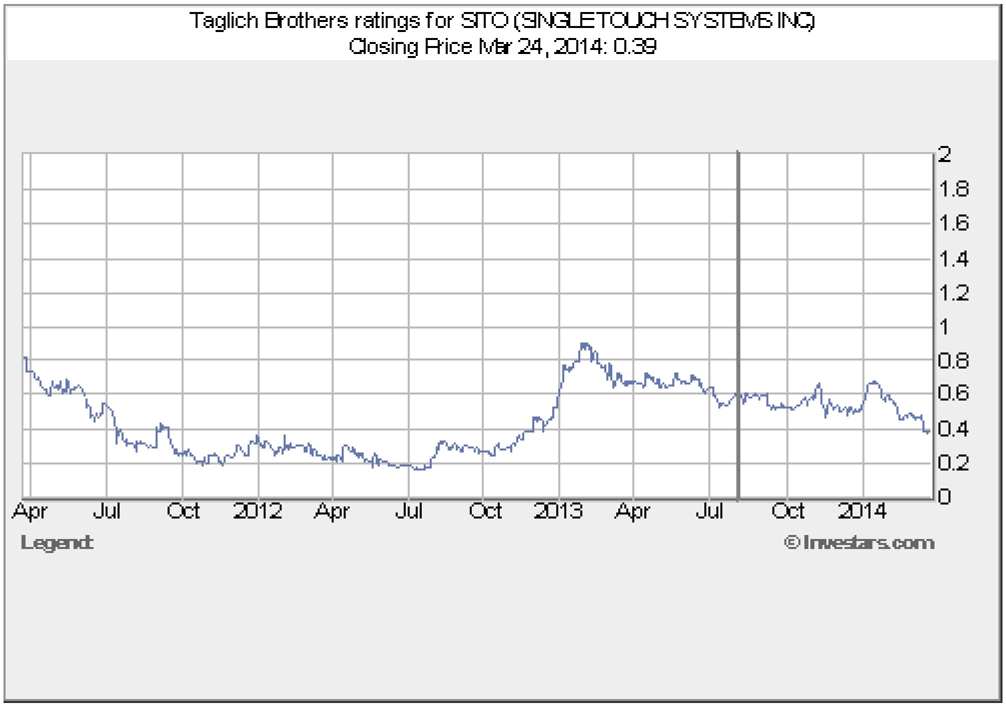
Source: Company filings and Taglich Brothers' estimates

Statement of Cash Flows for the Periods Ended
(in thousands $)

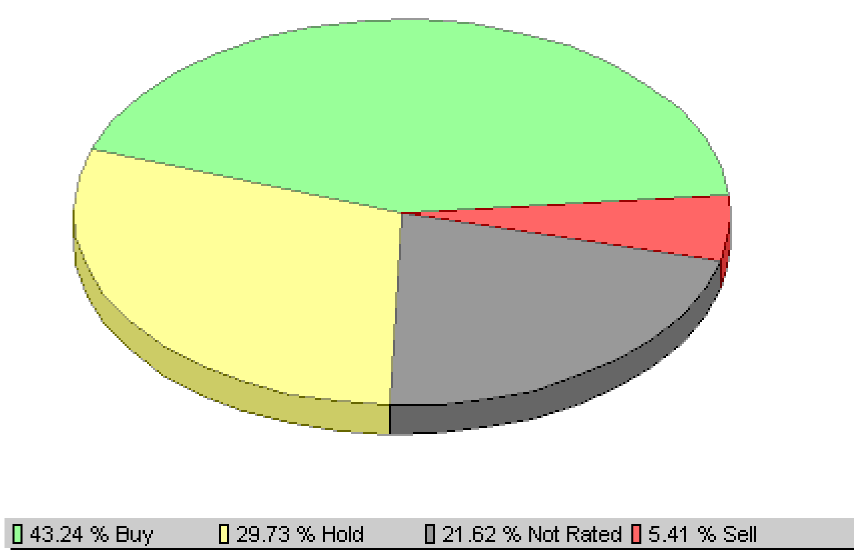
	FY11A	FY12A	FY13A	3mos14	FY14E	FY15E
Net income (loss)	(7,985)	(3,255)	(5,250)	(1,052)	(4,202)	(3,879)
Depreciation & amortization	634	1,001	1,488	248	1,495	1,500
Stock-based compensation	4,592	503	2,243	842	2,000	2,400
Bad debts	106	18	-	-	-	-
Loss on settlement of debt	651	-	-	-	-	-
Changes in assets and liabilities						
Accounts receivable	(462)	(197)	(262)	(840)	(578)	(332)
Prepaid expenses	142	8	(21)	32	9	-
Other assets	11	(4)	-	(2)	-	-
Accounts payable	684	(410)	584	(320)	89	431
Accrued expenses	110	61	9	664	457	51
Deferred revenue	-	25	(25)	-	-	-
Accrued interest	12	166	182	70	70	70
Net cash provided by (used in) operations	**(1,505)**	**(2,084)**	**(1,052)**	**(358)**	**(660)**	**242**
Option paid to related party regarding Soapbox Mobil	(155)	-	-	-	-	-
Investment in certificate of deposit	(96)	-	-	-	-	-
Redemption of certificate of deposits	-	19	19	-	-	-
Patents and patent application costs	(111)	(147)	(101)	(25)	(100)	(100)
Purchase of property and equipment	(196)	(33)	(46)	(46)	(100)	(100)
Capitalized software development costs	(502)	(435)	(400)	(97)	(500)	(500)
Payment on settlement regarding Anywhere software license	-	(30)	(600)	-	-	-
Net cash provided by (used in) investing	**(1,060)**	**(626)**	**(1,128)**	**(168)**	**(700)**	**(700)**
Proceeds from issuance of common stock	17	318	824	1,825	2,250	1,250
Purchase of company's common stock	-	-	-	(150)	(150)	-
Proceeds (principal payments) from issuance of conv. debt	-	4,312	688	-	-	-
Loan advances received from related parties	18	-	-	-	-	-
Repayments on related party loans	(791)	-	-	-	-	-
Principal reduction on obligation under capital lease	-	-	(7)	(4)	(4)	-
Principle reduction on convertible debt	-	-	(200)	-	-	-
Expenditures relating to private offerings	(30)	(210)	(48)	-	-	-
Principal reduction on obligation on patent purchases	(165)	(76)	(88)	-	-	-
Net cash provided by (used in) financing	**(951)**	**4,344**	**1,169**	**1,671**	**2,096**	**1,250**
Net change in cash	**(3,516)**	**1,634**	**(1,011)**	**1,145**	**736**	**792**
Cash - beginning of period	**4,040**	**524**	**2,158**	**1,147**	**1,147**	**1,883**
Cash - end of period	**524**	**2,158**	**1,147**	**2,292**	**1,883**	**2,675**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**2**	**8**
Hold	**1**	**13**
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in a $125,000 SITO convertible promissory note and 359,100 SITO warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 106,000 shares of SITO common stock, a $125,000 SITO convertible promissory note, and 359,100 SITO warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 45,000 SITO warrants. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in a $25,000 SITO convertible promissory note and 137,800 SITO warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 30,000 SITO warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 70,000 SITO warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In September 2012 and October 2012, Taglich Brothers Inc. served as the exclusive placement agent in private placements of SITO convertible debt and warrants.

All research issued by Taglich Brothers, Inc. is based on public information. Single Touch Systems, Inc. is not paying Taglich Brothers, Inc. for the creation and dissemination of research reports.

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Amazon.com (NASDAQ: AMZN)
Apple ((NASDAQ: AAPL)
Brightcove (NASADAQ: BCOV)
Dish Network (NASDAQ: DISH)
Facebook (NASDAQ: FB)
Google (NASDAQ: GOOG)
Hipcricket (OTC: HIPP)
Mobivity (OTC: MFON)
Netflix (NASDAQ: NFLX)
Viacom (NASDAQ: VIA)
Voltari (NASDAQ: VLTC)
Yahoo! (NASDAQ: YHOO)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.