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Research Report – Update

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

Single Touch Systems, Inc.

Speculative Buy

John Nobile
July 8, 2014

SITO $0.38 — (OTC BB)

	2012A	2013A	2014E	2015E
Revenues (millions)	$6.3	$7.8	$9.9	$11.9
Earnings (loss) per share	$(0.02)	$(0.04)	$(0.03)	$(0.03)

52-Week range	$0.70 – $0.29	Fiscal year ends:	September
Common shares out as of 5/12/14	142.7 million	Revenue per share (TTM)	$0.06
Approximate float	96.6 million	Price/Sales (TTM)	6.3X
Market capitalization	$54 million	Price/Sales (FY2015)E	4.8X
Tangible book value/share	NMF	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:

Reiterating Speculative Buy rating and maintaining twelve-month price target of $0.70 per share.

In December 2013, eMarketer projected US mobile advertising spending growth of 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 underlie sector growth.

In April 2014, the advertising research and advisory firm BIA/Kelsey projected 2018 location targeted mobile ad revenues of $15.7 billion, a compound annual growth rate of approximately 40%.

Recent developments in April 2014 include the formation of a joint venture to license intellectual property in digital TV broadcast markets, and a joint licensing agreement with an undisclosed national broadcasting entity.

We have increased our projections due mainly to the April 2014 licensing agreement which should be accretive to SITO's revenue by $375,000 annually. For FY14 we project revenue of $9.9 million and a net loss of $4 million or $(0.03) per share, up from previous projections of $9.6 million revenue and a net loss of $4.2 million or $(0.03) per share.

For FY15 we project revenue of $11.9 million and a net loss of $3.7 million or $(0.03) per share, up from previous projections of $11.5 million revenue and a net loss of $3.9 million or $(0.03) per share.

2Q14 revenue (results reported 5/13/14) was flat at $1.8 million and the company lost $1.1 million or $(0.01) per share, unchanged from 2Q13. Growth in 2Q14 was adversely affected by multiple store closings stemming from an unusually harsh winter. We projected 2Q14 revenue of $1.9 million and a net loss of $1.1 million or $(0.01) per share.

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

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Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on shares of Single Touch Systems, Inc. (SITO) and maintaining our **twelve-month price target of $0.70 per share.**

In the past year, shares of SITO have traded as high as 15X TTM sales and as low as 5X. SITO currently trades at a P/S multiple of 6X. We believe the current multiple reflects the reduced growth rates in 1H14 stemming from a new regulation effective in 1Q14 and adverse weather conditions in 2Q14. We view these shortfalls as temporary as approximately 90% of the sales that were lost due to the regulation in 1Q14 were restored in 2Q14 and the weather conditions in 2Q14 were unusual. 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 is currently trading at an average multiple of 6X TTM sales (excluding outliers). The software industry trades at an average multiple of 5X TTM sales. We believe SITO's higher multiple is due to the company's strong sales growth (35% CAGR for SITO over the past five years versus 6% for the industry).

Recent Developments

Formation of Joint Venture to License Intellectual Property in Digital TV Broadcast Markets – In April 2014, Single Touch announced the formation of VideoStar LLC, a joint venture with Personalized Media Communications (PMC). The VideoStar joint venture will target new licensing opportunities that utilize Single Touch's video streaming and PMC's pioneering digital broadcast, delivery, and payment patents.

Joint Licensing Agreement – In April 2014, VideoStar announced it entered into an agreement with an undisclosed national broadcasting entity which grants a term-limited license to all licensable patents by VideoStar. In exchange for the license, the licensee will pay an annual fee of $1.25 million for a minimum of three years and may, at its option, pay a $1.25 million license fee to renew the license annually for four additional years. Once the licensee has paid a total of $8.75 million in license fees, either in one lump sum or after paying $1.25 million annually for seven years, the license is deemed to be perpetual.

Proceeds received by VideoStar are shared by Single Touch and PMC on a 30% and 70% basis, respectively.

FreshDirect Adopts Single Touch's Mobile Messaging Technology – In April 2014, Single Touch announced it signed on FreshDirect, a leading online fresh food grocer, for its reminder messaging product. The messaging program includes implementing order status, delivery status and service notifications.

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 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 – Mobile devices can use abbreviated dial codes to download specific content. They are typically prefixed with # followed by short (usually four or less), easy to remember text characters or numbers. 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 contact 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.

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. 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 the Church of Latter-Day Saints. The chart at right illustrates Single Touch's sales and collection cycle.

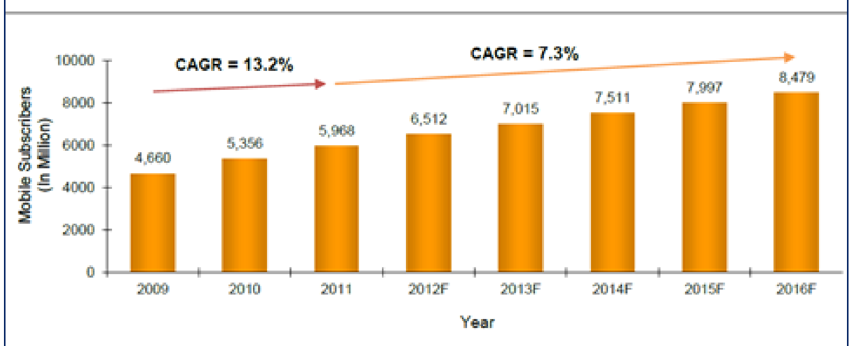
Source: Single Touch March 2014 Presentation

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, 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.

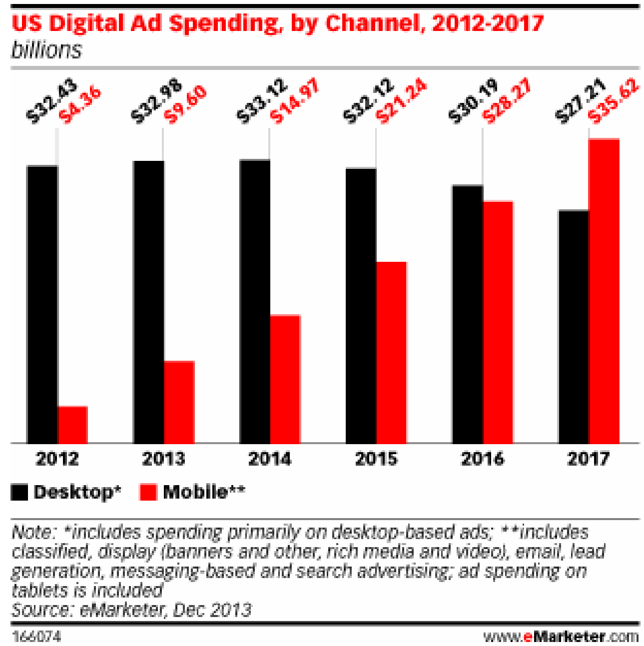
Figure 1: Mobile Subscribers – Worldwide (In Million, End 2009 – End 2016F)



Source: Portio Research Ltd.

F – Forecasted

The worldwide mobile market has grown significantly over the past few years. According to the mobile industry research firm Portio Research, the overall mobile industry (includes mobile phones, smartphones, tablet computers) 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 at lower right on previous page). 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.



Mobile ad spending should underlie strong growth for Single Touch. 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 be centered on mobile devices. This growth will come at the expense of desktop spending which is projected to peak in 2014 (see chart at top right).

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 April 2014, the advertising research and advisory firm BIA/Kelsey projected location targeted mobile ad revenues to more than triple over the next five years, reaching $15.7 billion by 2018 (see chart at right) and accounting for 52% of overall US mobile ad spending by 2018. This rate of growth equates to a compound annual growth rate of approximately 40% from 2013 to 2018. Some of the factors driving this rate of growth include increased adoption of mobile advertising tactics (i.e. geo-fencing) by national advertisers, who currently account for most US mobile ad spending.

Strategy

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

Single Touch's FollowMe product enables strategic mobile ad placements. The strong growth projected for mobile ad placements should underlie strong growth for the company's FollowMe product.

Competition / Competitive Advantage

With the rapid growth and adoption of mobile data services, the mobile media and data communications market remains highly competitive. There are a large number of small developers creating products for this market. The market exhibits low barriers to entry as most developers have the ability to perform a majority of the tasks needed (i.e. programming, project management, and distribution) keeping costs relatively low. 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.

Company	Quarter Ending	YoY % Change
Voltari	$2.6M (3/14)	29%
Hipcricket	$6.8M (2/14)	-9%
Mobivity	$0.9M (3/14)	-12%
Single Touch	$1.8M (3/14)	0%

Source: Company filings

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).

Single Touch is the only company in the US that offers a nationwide suite of voice and SMS services across all US carriers on a Free to End User (FTEU) basis, a significant competitive advantage. There are a few competitors that offer SMS services on a FTEU basis nationwide, however, they do not offer voice services. FTEU messaging allows end users receive messages and content without being charged by their mobile carrier. By offering value added services (such as copywriting and strategic mobile advice) 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.

Q2 and 1H 2014 Financial Results

2Q14 – Total revenue was flat at $1.8 million. Single Touch lost $1.1 million or $(0.01) per share, unchanged from 2Q13. We projected 2Q14 revenue of $1.9 million and a net loss of $1.1 million or $(0.01) per share.

Wireless application revenue decreased $52,000 to $1.76 million and media placement revenue was $60,000 versus nil in 1Q13. Revenue was adversely affected by an unusually harsh winter with multiple retail store closings.

Gross margins improved to 57.7% from 57% as the media placement business that started in December 2013 has a higher gross margin than wireless applications.

SG&A expenses remained relatively flat at $1 million. Compensation expense increased to $0.8 million from $0.6 million due primarily to expenses associated with the termination of the former executive chairman in December 2013. Research and development expense decreased to $11,000 from $24,000, a level that is consistent with past quarters.

1H14 – Total revenue increased 26% to $4.7 million. Single Touch lost $2.2 million or $(0.02) per share versus a loss of $3.3 million or $(0.02) per share in 1H13.

Wireless application revenue increased 4% to $3.9 million, licensing and royalties revenue was $0.75 million versus nil in 1H13, and media placement revenue was $70,000 versus nil in 1H13. Growth in 1H14 was primarily due to one-time licensing revenue from Zoove Corporation. Excluding the $0.75 million licensing revenue, revenue increased 6% to $4 million.

Gross margins improved to 65.4% from 55.8%. Excluding the one-time licensing revenue which has no royalties and application costs, gross margins improved to 58.8% as the media placement business that started in December 2013 has a higher gross margin than wireless applications.

SG&A expenses increased to $2.3 million from $2.1 million primarily due to increased stock-based compensation. Compensation expense (including stock-based compensation) decreased to $2.2 million from $2.4 million as the company focuses on reducing the number of issued and potentially issuable shares of its common stock. Stock-based compensation decreased to $1.1 million from $1.6 million. Research and development expense remained relatively flat at $36,000.

	Six Months Ended	
	3/14A	3/13A
Wireless applications	3,904	3,756
Licensing and royalties	750	-
Media placement	70	-
Total revenue	4,724	3,756
Royalties and application costs	1,636	1,660
Research and development	36	33
Compensation expense	2,192	2,391
Depreciation and amortization	302	315
SG&A	2,335	2,074
Operating income (loss)	(1,777)	(2,717)
Interest and other expense	(383)	(587)
Income (loss) before taxes	(2,160)	(3,304)
Income tax	-	-
Net Income / (Loss)	(2,160)	(3,304)
EPS	(0.02)	(0.02)
Shares Outstanding	141,787	132,559
Margin Analysis		
Gross margin	65.4%	55.8%
Royalties and application costs	34.6%	44.2%
Compensation expense	46.4%	63.7%
SG&A	49.4%	55.2%
Operating margin	(37.6)%	(72.3)%
Net margin	(45.7)%	(88.0)%
Tax rate	0.0%	0.0%
Year / Year Growth		
Total Revenues	25.8%	
Source: Company filings		

Liquidity

As of March 31, 2014, the company had $2.3 million cash, a current ratio of 0.7X versus 4X for the software industry, and a debt/equity ratio of 3.1X versus 12.3X for the industry. By our forecasts, the company should have sufficient capital to meets its operational needs through the end of our forecast period.

Cash used in operations for the first six months of FY14 was $134,000 consisting of a cash loss of $554,000 offset in part by a $421,000 decrease in working capital. The change in working capital was primarily due to a $1.1 million increase in accrued expenses offset in part by a $0.5 million decrease in accounts payable. Cash used in investing of $392,000 consisted of $192,000 of capitalized software development costs, $55,000 of capital expenditures, and $145,000 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 $1.2 million to $2.3 million at March 31, 2014.

Economic Outlook

In June 2014, The IMF lowered its 2014 economic growth estimate for the US to 2.0%, down from its April 2014 estimate of 2.8% and the US Bureau of Economic Analysis (BEA) released its final estimate showing the US economy contracted 2.9% in 1Q14. The IMF's projections predate the latest GDP revision.

The IMF and US economists attributed the 1Q14 contraction to a severe winter and slowing housing gains. However, the IMF and economists said that recent figures (new home sales up 17% in May 2014 versus May 2013 and new car sales up 11% in the same time frame) suggest a meaningful rebound will propel US economic growth for the rest of 2014. The IMF's growth estimate for 2015 remained unchanged at 3.0%. US growth could be driven in part by accommodative monetary conditions and higher household wealth.

Projections

In FY14 the company began to realize three distinct areas of revenue, wireless application revenue (realized since inception), licensing and royalty revenue, and media placement revenue (from the newly launched FollowMe app).

FY13 messaging volume increased over 20%, however, growth fell to 14% in 1H14. The decline in messaging volume growth was primarily due to a new text-messaging law which went into effect in October 2013 which required businesses to get recipients' 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 (over 90%), which are not deemed marketing messages. Estimates are that 1Q14 revenue would have grown approximately 15% to 17% had the new regulation not been in effect.

Messaging volume growth slowed to 15% in 2Q14 due to an unusually harsh winter which resulted in multiple retail store closings.

We project messaging volume growth of 14% in FY14 (due to the adverse effects described above) and 15% in FY15. We project $0.025 per message (in line with historic pricing).

	FY13A	12/13A	3/14A	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	$ 0.023	$ 0.025	$ 0.025	$ 0.024	$ 0.025	$ 0.025	$ 0.025	$ 0.025	$ 0.025
Wireless app revenue (in thousands)	$ 7,784	$ 2,147	$ 1,757	$ 2,200	$ 2,350	$ 8,454	$ 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, recent signups for SITO's messaging and FollowMe technologies should be accretive to existing sales by $320,000 in FY14 and $1.6 million in FY15.

For FY14 we project revenue of $9.9 million and a net loss of $4 million or $(0.03) per share, up from previous projections of $9.6 million revenue and a net loss of $4.2 million or $(0.03) per share. The increase is primarily due to the April 2014 licensing agreement which should be accretive to SITO's revenue by $375,000 at a 30% revenue share rate (discussed in recent development section).

We project gross margins will improve to 62.6% from 57.2% primarily due to the licensing and royalty revenues for which there are no royalties and application cost. Excluding the licensing and royalties revenue, we project gross margins of approximately 58%, consistent with 2013 margins.

Compensation expense for FY14 is projected to increase to $4.1 million from $3.8 million primarily due to 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 licensing its IP portfolio.

We project Single Touch will use $43,000 cash from operations in FY14 primarily from a $289,000 cash loss and a $146,000 decrease in working capital. Capital expenditures of $100,000, patent and application costs of $145,000, and capitalized software development costs of $400,000 million should result in $0.6 million cash used in investing. Cash of $1.7 million provided by financing should come primarily from the issuance of common stock. Cash should increase by $1 million to $2.2 million at September 30, 2014.

For FY15 we project revenue of $11.9 million and a net loss of $3.7 million or $(0.03) per share, up from previous projections of $11.5 million revenue and a net loss of $3.9 million or $(0.03) per share. The increase is primarily due to the April 2014 licensing agreement which should be accretive to SITO's revenue by $375,000 at a 30% revenue share rate. 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%, down from our FY14 projection due to lower licensing and royalty revenue which have no royalties and application costs. Compensation expense is projected to decrease to $4 million from $4.1 million primarily due to the absence of 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 $0.6 million cash from operations in FY15 primarily from cash earnings of $246,000 and a $318,000 decrease in working capital. Capital expenditures of $100,000, patent and application costs of $145,000, and capitalized software development costs of $400,000 should result in $0.6 million cash used in investing. Cash from financing should be minimal. Cash should decrease by $85,000 to $2.1 million at September 30, 2015.

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. New market entrants are expected and existing competitors are expected to introduce new products and services that compete with Single Touch.

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 96.6 million shares in the float and the average daily volume is approximately 63,000 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	3/14A	FY14E	FY15E
Cash and cash equivalents	524	2,158	1,147	2,312	2,150	1,965
Accounts receivable	907	1,086	1,348	1,349	1,714	2,061
Prepaid consulting	-	-	1,082	624	624	624
Other prepaid expenses	94	129	150	79	150	150
Total current assets	1,525	3,373	3,727	4,364	4,638	4,800
Net property, plant and equipment	303	229	239	248	246	252
Accounts receivable	-	-	-	450	450	-
Prepaid consulting - long-term portion	-	-	82	-	-	-
Capitalized software development costs	395	383	343	346	346	258
Intangible assets	1,259	1,346	2,067	2,146	1,625	1,219
Deposit - related party	155	155	-	-	-	-
Other assets	100	84	65	66	66	66
Total assets	**3,737**	**5,570**	**6,523**	**7,620**	**7,371**	**6,595**
Accounts payable	1,178	768	1,352	984	1,505	1,933
Accrued expenses	176	200	209	793	266	320
Accrued compensation - related party	37	73	73	575	575	575
Current obligation under capital lease	-	-	16	17	17	17
Current obligation under patent acquisitions	164	88	-	-	-	-
Convertible debentures	-	294	3,279	3,948	3,948	3,948
Total current liabilities	1,555	1,423	4,929	6,317	6,311	6,793
Deferred revenue	-	25	-	-	-	-
Obligation under capital lease	-	-	29	21	21	17
Convertible debentures	-	3,213	441	-	-	-
Total liabilities	**1,555**	**4,661**	**5,399**	**6,338**	**6,332**	**6,810**
Total stockholders' equity / (deficit)	**2,182**	**909**	**1,124**	**1,282**	**1,039**	**(215)**
Total liabilities & stockholders' equity	**3,737**	**5,570**	**6,523**	**7,620**	**7,371**	**6,595**

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	8,454	9,925
Licensing and royalties	-	-	-	1,125	375
Media placement	-	-	-	320	1,600
Total revenue	4,580	6,347	7,784	9,899	11,900
Royalties and application costs	2,544	2,907	3,329	3,706	4,760
Research and development	79	85	66	85	120
Compensation expense	5,469	3,044	3,808	4,092	4,000
Depreciation and amortization	633	690	662	602	600
SG&A	3,162	2,387	3,898	4,628	5,302
Operating income (loss)	(7,307)	(2,766)	(3,979)	(3,214)	(2,882)
Interest and other expense	(677)	(488)	(1,271)	(770)	(772)
Income (loss) before taxes	(7,984)	(3,254)	(5,250)	(3,984)	(3,654)
Income tax	(1)	(1)	-	-	-
Net Income / (Loss)	(7,985)	(3,255)	(5,250)	(3,984)	(3,654)
EPS	(0.06)	(0.02)	(0.04)	(0.03)	(0.03)
Shares Outstanding	127,817	131,193	133,296	142,381	143,000
Margin Analysis					
Gross margin	44.5%	54.2%	57.2%	62.6%	60.0%
Royalties and application costs	55.5%	45.8%	42.8%	37.4%	40.0%
Compensation expense	119.4%	48.0%	48.9%	41.3%	33.6%
SG&A	69.0%	37.6%	50.1%	46.8%	44.6%
Operating margin	(159.5)%	(43.6)%	(51.1)%	(32.5)%	(24.2)%
Net margin	(174.3)%	(51.3)%	(67.4)%	(40.2)%	(30.7)%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth					
Total Revenues		38.6%	22.6%	27.2%	20.2%
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	3/14A	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	1,757	2,200	2,350	8,454	2,500	2,200	2,525	2,700	9,925
Licensing and royalties	-	-	-	-	-	750	-	375	-	1,125	-	-	375	-	375
Media placement	-	-	-	-	-	10	60	100	150	320	250	350	450	550	1,600
Total revenue	1,947	1,809	1,924	2,104	7,784	2,907	1,817	2,675	2,500	9,899	2,750	2,550	3,350	3,250	11,900
Royalties and application costs	884	777	805	863	3,329	868	768	1,070	1,000	3,706	1,100	1,020	1,340	1,300	4,760
Research and development	9	24	13	20	66	24	11	25	25	85	30	30	30	30	120
Compensation expense	1,755	635	765	653	3,808	1,381	811	950	950	4,092	1,000	1,000	1,000	1,000	4,000
Depreciation and amortization	155	160	163	184	662	150	152	150	150	602	150	150	150	150	600
SG&A	1,068	1,006	950	874	3,898	1,343	993	1,092	1,200	4,628	1,265	1,173	1,369	1,495	5,302
Operating income (loss)	(1,924)	(793)	(772)	(490)	(3,979)	(859)	(918)	(612)	(825)	(3,214)	(795)	(823)	(539)	(725)	(2,882)
Interest and other expense	(308)	(279)	(491)	(193)	(1,271)	(193)	(191)	(193)	(193)	(770)	(193)	(193)	(193)	(193)	(772)
Income (loss) before taxes	(2,232)	(1,072)	(1,263)	(683)	(5,250)	(1,052)	(1,109)	(805)	(1,018)	(3,984)	(988)	(1,016)	(732)	(918)	(3,654)
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income / (Loss)	(2,232)	(1,072)	(1,263)	(683)	(5,250)	(1,052)	(1,109)	(805)	(1,018)	(3,984)	(988)	(1,016)	(732)	(918)	(3,654)
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	142,706	143,000	143,000	142,381	143,000	143,000	143,000	143,000	143,000
Margin Analysis															
Gross margin	54.6%	57.0%	58.2%	59.0%	57.2%	70.1%	57.7%	60.0%	60.0%	62.6%	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%	42.3%	40.0%	40.0%	37.4%	40.0%	40.0%	40.0%	40.0%	40.0%
Compensation expense	90.1%	35.1%	39.8%	31.0%	48.9%	47.5%	44.6%	35.5%	38.0%	41.3%	36.4%	39.2%	29.9%	30.8%	33.6%
SG&A	54.9%	55.6%	49.4%	41.5%	50.1%	46.2%	54.7%	40.8%	48.0%	46.8%	46.0%	46.0%	40.9%	46.0%	44.6%
Operating margin	(98.8)%	(43.8)%	(40.1)%	(23.3)%	(51.1)%	(29.5)%	(50.5)%	(22.9)%	(33.0)%	(32.5)%	(28.9)%	(32.3)%	(16.1)%	(22.3)%	(24.2)%
Net margin	(114.6)%	(59.3)%	(65.6)%	(32.5)%	(67.4)%	(36.2)%	(61.0)%	(30.1)%	(40.7)%	(40.2)%	(35.9)%	(39.8)%	(21.9)%	(28.2)%	(30.7)%
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%	0.4%	39.0%	18.8%	27.2%	-5.4%	40.3%	25.2%	30.0%	20.2%
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

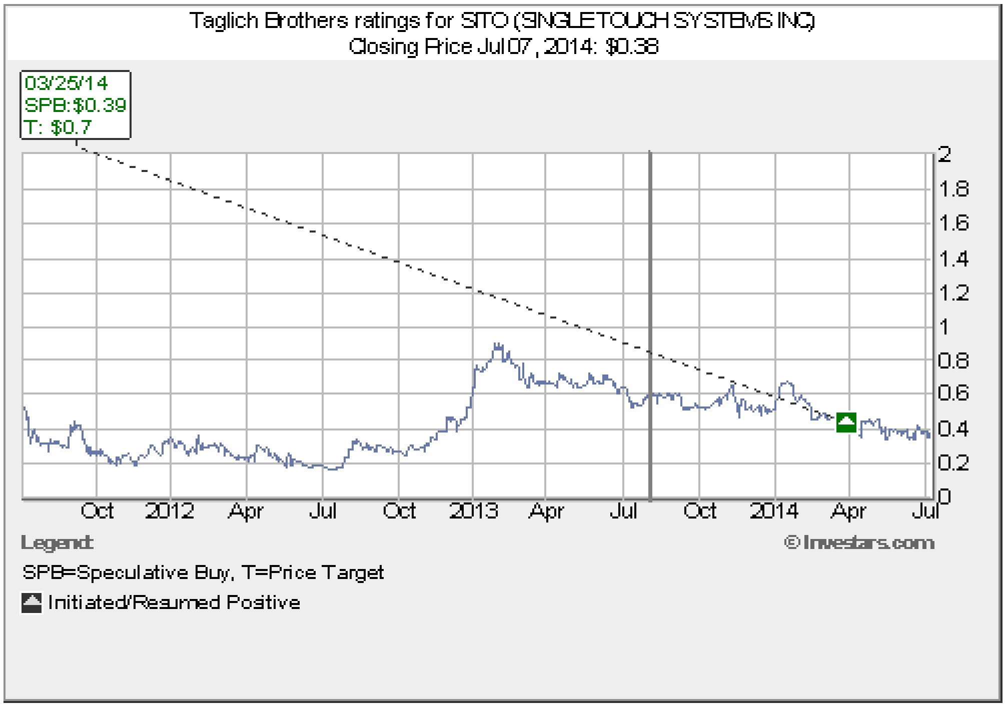
Source: Company filings and Taglich Brothers' estimates

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

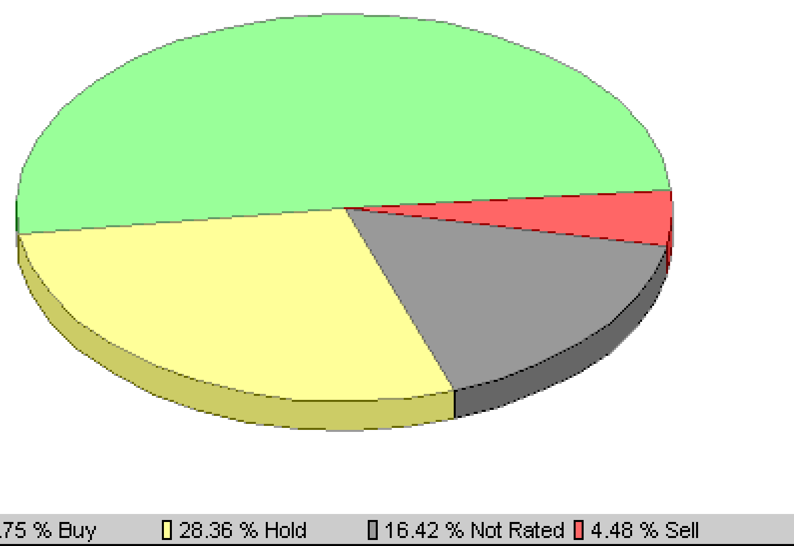
	FY11A	FY12A	FY13A	6mos14	FY14E	FY15E
Net income (loss)	(7,985)	(3,255)	(5,250)	(2,161)	(3,984)	(3,654)
Depreciation & amortization	634	1,001	1,488	498	1,495	1,500
Stock-based compensation	4,592	503	2,243	1,108	2,200	2,400
Bad debts	106	18	-	-	-	-
Loss on settlement of debt	651	-	-	-	-	-
Changes in assets and liabilities						
Accounts receivable	(462)	(197)	(262)	(451)	(628)	(347)
Prepaid expenses	142	8	(21)	69	(21)	-
Other assets	11	(4)	-	2	-	-
Accounts payable	684	(410)	584	(368)	153	428
Accrued expenses	110	61	9	1,086	559	54
Deferred revenue	-	25	(25)	-	-	-
Accrued interest	12	166	182	83	183	83
Net cash provided by (used in) operations	**(1,505)**	**(2,084)**	**(1,052)**	**(134)**	**(43)**	**464**
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)	(145)	(145)	(145)
Purchase of property and equipment	(196)	(33)	(46)	(55)	(100)	(100)
Capitalized software development costs	(502)	(435)	(400)	(192)	(400)	(400)
Payment on settlement regarding Anywhere software license	-	(30)	(600)	-	-	-
Net cash provided by (used in) investing	**(1,060)**	**(626)**	**(1,128)**	**(392)**	**(645)**	**(645)**
Proceeds from issuance of common stock	17	318	824	1,901	1,901	-
Purchase of company's common stock	-	-	-	(202)	(202)	-
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)	(8)	(8)	(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**	**1,691**	**1,691**	**(4)**
Net change in cash	**(3,516)**	**1,634**	**(1,011)**	**1,165**	**1,003**	**(185)**
Cash - beginning of period	**4,040**	**524**	**2,158**	**1,147**	**1,147**	**2,150**
Cash - end of period	**524**	**2,158**	**1,147**	**2,312**	**2,150**	**1,965**

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**	**7**
Hold	**1**	**14**
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 111,000 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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Analyst Certification

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.