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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

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September 4, 2014

SITO $0.39 — (OTC BB)

	2012A	2013A	2014E	2015E
Revenues (millions)	$6.3	$7.8	$9.5	$11.6
Earnings (loss) per share	$(0.02)	$(0.04)	$(0.03)	$(0.02)

52-Week range	$0.70 – $0.29	Fiscal year ends:	September
Common shares out as of 8/12/14	150.7 million	Revenue per share (TTM)	$0.06
Approximate float	104.5 million	Price/Sales (TTM)	6.5X
Market capitalization	$59 million	Price/Sales (FY2015)E	4.9X
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 July 2014, research firm eMarketer projected US mobile advertising spending growth of 83% in 2014 and 50% in 2015. A rapidly growing industry should bode well for Single Touch's sales.

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%.

In July 2014 Single Touch acquired technology partner DoubleVision Networks for $3.6 million in SITO common stock. Single Touch will now realize 100% of its FollowMe revenue, as opposed to a 50/50 revenue split with DoubleVision prior to the acquisition. With this acquisition, we project Single Touch's media placement revenue will grow to approximately $3 million in FY15.

For FY14 we project revenue of $9.5 million and a net loss of $3.7 million or ($0.03), down from our earlier estimate of $9.7 million revenue and a loss of $4.1 million or ($0.03) per share. Our revised estimate reflects 3Q14 results.

For FY15 we project revenue of $11.6 million and a net loss of $3.1 million or ($0.02) per share, down from $11.9 million revenue and a loss of $3.7 million or ($0.03) per share previously. The change in our projections stems primarily from reduced expectations for wireless application revenue offset in part by increased media placement revenue from the acquisition of DoubleVision.

3Q14 revenue (released 8/12/14) increased 11% to $2.1 million. The company reported a net loss of $0.8 million or ($0.01) per share. We projected 3Q14 revenue of $2.4 million and a net loss of $1 million or ($0.01) per share.

****Please view our disclosures on pages 13 - 15.***

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, in line with a comparison group of 24 companies in the business services industry. We believe the drop in SITO's multiple reflects a substantially diminished (from 22% to 8% excluding one-time Zoove revenue of $0.75 million) 9-month revenue growth rate. We believe SITO will regain revenue growth momentum, as the company's media placement revenue should benefit from the recent acquisition of DoubleVision and a strong growing location-targeted mobile ad industry. With renewed growth momentum, the company should achieve revenue growth of 22% for FY15. With better growth, we believe the market should value SITO at 9X our discounted FY15 sales estimate of $0.08 per share, or approximately $0.70 per share.

Recent Developments

Management Change - On August 27, 2014, Single Touch announced that Jerry Hug has been appointed interim chief executive officer. Hug, previously Single Touch's executive vice president of corporate development, replaces James Orsini, who departs on September 19, 2014.

Prior to his role as VP of corporate development at Single Touch, Hug was executive VP and chief strategy officer of Wireless Retail Inc., a wireless services company. Hug served as interim CFO prior to Wireless Retail's eventual sale to the Radio Shack Corporation. Prior to Wireless Retail, Hug was managing partner at Redwood Partners, an early-stage merchant bank and advisory firm.

Acquisition of DoubleVision Networks - On July 24, 2014, Single Touch acquired DoubleVision Networks, a privately held mobile audience buying and targeting platform.

Single Touch paid $3.6 million for DoubleVision by issuing eight million of the company's common stock to the sellers at $0.45 per share. The Company also agreed to pay $400,000 to one of DoubleVision's creditors.

Single Touch has partnered with DoubleVision and utilized this technology for its "FollowMe" product. DoubleVision Networks provides software that programmatically chooses the optimal targeted advertising campaign, thereby driving a higher return on investment for its marketing clients.

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.

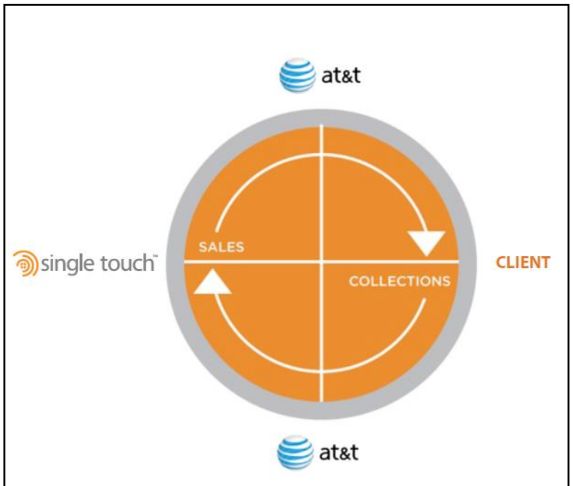
Messaging and Notifications – Single Touch's short message service enables retailers to send targeted mobile coupons and transactional messages based on a shopper's profile. Targeted mobile coupons can be sent based on past purchase behaviors making the content relevant and timely to a shopper. Transactional 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.



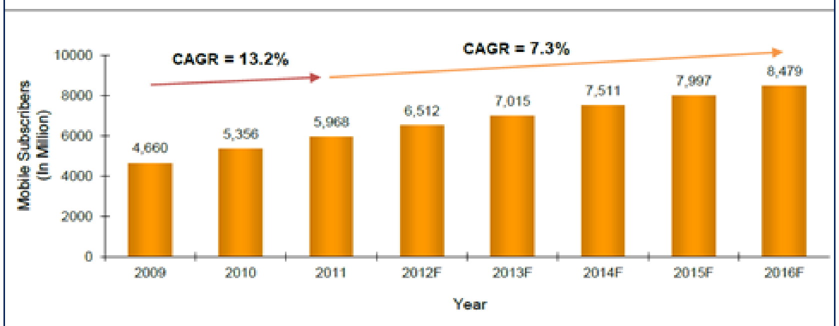
Source: Single Touch March 2014 Presentation

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 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, 2012-2018
billions and % change

	2012	2013	2014	2015	2016	2017	2018
Desktop*	$32.43	$33.40	$32.99	$32.01	$29.00	$26.68	$23.90
—% change	6.6%	3.0%	-1.2%	-3.0%	-9.4%	-8.0%	-10.4%
Mobile**	$4.36	$9.69	$17.73	$26.59	$37.49	$47.43	$58.33
—% change	178.3%	122.0%	83.0%	50.0%	41.0%	26.5%	23.0%
Total	$36.80	$43.08	$50.71	$58.60	$66.49	$74.11	$82.24
—% change	15.0%	17.1%	17.7%	15.6%	13.5%	11.5%	11.0%

*Note: *includes spending primarily on desktop- and laptop-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, June 2014

174313 www.eMarketer.com

Mobile ad spending should underlie strong growth for Single Touch. In July 2014, eMarketer projected US mobile advertising spending to reach $17.73 billion in 2014, up 83% from $9.69 billion in 2013. For 2015, eMarketer projects spending to further increase by approximately 50% to $26.59 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 have peaked in 2013 (see table at bottom right previous page).

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 increase 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. Sales and growth rates for Single Touch and its public competitors are shown at right.

Company	TTM ended	YoY Change
Voltari	$11.7M (6/14)	NMF
Hipcricket	$28.2M (5/14)	4%
Mobivity	$4.0M (6/14)	0%
Single Touch	$9.0M (6/14)	34%

Source: MSN Money

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.

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.

Q3 and Nine Months 2014 Financial Results

3Q14 – Total revenue increased 11% to $2.1 million. Single Touch lost $0.8 million or ($0.01) per share compared to a loss of $1.3 million or ($0.01) per share in 3Q13. We projected 3Q14 revenue of $2.4 million and a net loss of $1 million or ($0.01) per share.

Wireless application revenue was up 1% at $1.9 million, licensing and royalty revenue was $72,000 versus nil, and media placement revenue was $132,000 versus nil in 3Q13.

Gross margins improved to 61.8% from 58.2% as the media placement business that started in December 2013 has a higher gross margin than wireless applications and licensing and royalty revenues have no underlying costs.

Compensation expense (excluding $71,000 stock-based compensation) was flat at $0.6 million. SG&A expense (excluding $270,000 stock-based compensation) increased 3% to $0.8 million largely due to increased marketing activities. Total stock-based compensation decreased to $340,000 from $354,000. Research and development expense remained flat at $13,000, a level that is consistent with past quarters. Interest expense decreased to $185,000 from $491,000 due to a decrease in the outstanding principal balance on convertible debentures.

Nine months 2014 – Total revenue increased 21% to $6.9 million. Single Touch lost $2.9 million or ($0.02) per share versus a loss of $4.6 million or ($0.03) per share in the comparable period in 2013.

Wireless application revenue increased 3% to $5.8 million, licensing and royalty revenue was $0.8 million versus nil in 2013, and media placement revenue was $202,000 versus nil in 2013. Licensing and royalties growth was primarily due to one-time licensing revenue of $0.75 million from Zoove Corporation.

Gross margins improved to 64.3% from 56.6% as the media placement business that started in December 2013 has a higher gross margin than wireless applications, and licensing and royalty revenues have no underlying costs.

	Nine Months Ended	
	6/14A	6/13A
Wireless applications	5,844	5,680
Licensing and royalties	822	-
Media placement	202	-
Total revenue	6,868	5,680
Royalties and application costs	2,453	2,465
Research and development	48	46
Compensation expense	2,887	3,155
Depreciation and amortization	454	478
SG&A	3,370	3,025
Operating income (loss)	(2,344)	(3,489)
Interest and other expense	(569)	(1,078)
Income (loss) before taxes	(2,913)	(4,567)
Income tax	-	-
Net Income / (Loss)	(2,913)	(4,567)
EPS	(0.02)	(0.03)
Shares Outstanding	142,101	133,101
Margin Analysis		
Gross margin	64.3%	56.6%
Royalties and application costs	35.7%	43.4%
Compensation expense	42.0%	55.5%
SG&A	49.1%	53.3%
Operating margin	(34.1)%	(61.4)%
Net margin	(42.4)%	(80.4)%
Tax rate	0.0%	0.0%
Year / Year Growth		
Total Revenues	20.9%	
Source: Company filings		

Compensation expense (excluding $389,000 stock-based compensation) increased 31% to $2.5 million primarily due to the termination of the former chairman. SG&A expense (excluding $1.1 million stock-based compensation) was flat at $2.3 million. Total stock-based compensation decreased to $1.4 million from $2 million as the company focuses on reducing the number of issued shares of its common stock. Research and development expense remained relatively flat at $48,000. Interest expense decreased to $0.6 million from $1.1 million due to a decrease in the outstanding principal balance on convertible debentures.

Liquidity

As of June 30, 2014, the company had $2 million cash, a current ratio of 0.6X versus 4X for the software industry, and a debt/equity ratio of 6.8X versus 0.1X 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 nine months of FY14 was $246,000 consisting of a cash loss of $0.7 million offset in part by a $477,000 decrease in working capital. The change in working capital was primarily due to a $0.7 million increase in accrued expenses and a $303,000 increase in deferred licensing revenue, offset in part by a $0.7 million increase in accounts receivable. Cash used in investing of $0.6 million consisted of $290,000 of capitalized software development costs, $63,000 of capital expenditures, and $259,000 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 $0.8 million to $2 million at June 30, 2014.

Economic Outlook

In July 2014, The International Monetary Fund (IMF) lowered its 2014 economic growth estimate for the US to 1.7%, down from its April 2014 estimate of 2.8%. The IMF said the US inventory overhang at the end of 2013 turned out to be larger than expected, leading to a stronger correction. Further, a harsh winter dampened demand, exports declined sharply after a strong fourth quarter, and output contracted in 1Q14. The IMF's growth estimate for 2015 remained unchanged at 3.0%.

In August 2014, the US Bureau of Economic Analysis (BEA) revised its GDP estimate showing the US economy expanded 4.2% in 2Q14, up from its previous estimate of 4%. Part of the reason for the upturn was stronger business investment.

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).

While wireless application revenue increased over 20% in FY13, growth has tapered to just 3% in the first nine months of 2014. The company's plans to increase revenue in this area include bolstering its direct sales force and focusing on marketing messages beyond the typical functional (reminder) messaging the company has provided in the past. We are forecasting growth in wireless application revenue at the current rate of 3% as we wait to see how successful the company's efforts in this area prove.

The most recent quarter's (3Q14) media placement revenue was $132,000, half of SITO's share under a sharing agreement between Single Touch and its technology partner DoubleVision. With the recent acquisition of Double Vision, Single Touch will now realize 100% of its FollowMe revenue. Annualizing 3Q14 FollowMe revenue on an undivided basis implies an annual run rate of over $2 million for Media Placement revenue. We project this to grow to approximately $3 million in FY15 using the current industry growth projection for location-targeted mobile ad spending.

For FY14 we project revenue of $9.5 million and a net loss of $3.7 million or ($0.03), down from $9.7 million revenue and a loss of $4.1 million or ($0.03) per share previously to reflect 3Q14 results. We project gross margins will improve to 63.1% from 57.2% primarily due to the licensing and royalty revenues for which there are no royalties and application cost.

Compensation expense for FY14 is projected to decrease to $3.7 million from $3.8 million as the company reduces stock-based compensation. 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 its efforts in licensing its IP portfolio.

We project Single Touch will generate $233,000 cash from operations in FY14 primarily from a $280,000 cash loss and a $0.5 million decrease in working capital. Capital expenditures of $100,000, patent and application costs of $259,000, and capitalized software development costs of $400,000 million should result in $0.8 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 $1.2 million to $2.3 million at September 30, 2014.

For FY15 we project revenue of $11.6 million and a net loss of $3.1 million or ($0.02) per share, down from $11.9 million revenue and a loss of $3.7 million or ($0.03) per share previously. The change in our projections stems primarily from reduced expectations for wireless application revenue offset in part by increased media placement revenue from the acquisition of DoubleVision.

We project gross margins of 60%, down from our FY14 projection due to lower licensing and royalty revenue which have no royalty and application costs. Compensation expense is projected to decrease to $3.4 million from $3.7 million primarily due to the termination of the former executive chairman in FY14. SG&A expenses are projected to increase to $5.2 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 $382,000 cash from operations in FY15 primarily from cash earnings of $276,000 and a $105,000 decrease in working capital. Capital expenditures of $100,000, patent and application costs of $259,000, and capitalized software development costs of $400,000 should result in $0.8 million cash used in investing. Cash from financing should consist of $0.8 million proceeds from the issuance of common stock. Cash should increase by $373,000 to $2.7 million at September 30, 2015.

Risks

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

<u>*Reliance on a single client*</u> – 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.

<u>*Carrier agreement*</u> – 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.

<u>*History of operating losses*</u> – 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.

<u>*Potential need for additional financing*</u> – 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 104.5 million shares in the float and the average daily volume is approximately 39,000 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	6/14A	FY14E	FY15E
Cash and cash equivalents	524	2,158	1,147	1,976	2,308	2,681
Accounts receivable	907	1,086	1,348	1,603	1,643	2,005
Prepaid consulting	-	-	1,082	354	354	354
Other prepaid expenses	94	129	150	230	230	230
Total current assets	1,525	3,373	3,727	4,163	4,535	5,270
Net property, plant and equipment	303	229	239	231	268	268
Accounts receivable	-	-	-	450	450	250
Prepaid consulting - long-term portion	-	-	82	-	-	-
Capitalized software development costs	395	383	343	351	346	258
Intangible assets	1,259	1,346	2,067	2,227	1,625	1,219
Deposit - related party	155	155	-	-	-	-
Other assets	100	84	65	116	116	116
Total assets	**3,737**	**5,570**	**6,523**	**7,538**	**7,340**	**7,381**
Accounts payable	1,178	768	1,352	1,498	1,422	1,880
Accrued expenses	176	200	209	726	255	311
Accrued compensation - related party	37	73	73	266	266	266
Deferred licensing revenue	-	-	-	303	209	209
Current obligation under capital lease	-	-	16	17	17	17
Current obligation under patent acquisitions	164	88	-	-	-	-
Convertible debentures	-	294	3,279	4,111	4,111	4,111
Total current liabilities	1,555	1,423	4,929	6,921	6,280	6,794
Deferred revenue	-	25	-	-	-	-
Obligation under capital lease	-	-	29	17	17	17
Convertible debentures	-	3,213	441	-	-	-
Total liabilities	**1,555**	**4,661**	**5,399**	**6,938**	**6,297**	**6,811**
Total stockholders' equity / (deficit)	**2,182**	**909**	**1,124**	**600**	**1,043**	**569**
Total liabilities & stockholders' equity	**3,737**	**5,570**	**6,523**	**7,538**	**7,340**	**7,381**

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	7,994	8,200
Licensing and royalties	-	-	-	916	375
Media placement	-	-	-	577	3,000
Total revenue	4,580	6,347	7,784	9,487	11,575
Royalties and application costs	2,544	2,907	3,329	3,502	4,630
Research and development	79	85	66	73	120
Compensation expense	5,469	3,044	3,808	3,687	3,400
Depreciation and amortization	633	690	662	604	600
SG&A	3,162	2,387	3,898	4,547	5,209
Operating income (loss)	(7,307)	(2,766)	(3,979)	(2,926)	(2,384)
Interest and other expense	(677)	(488)	(1,271)	(754)	(740)
Income (loss) before taxes	(7,984)	(3,254)	(5,250)	(3,680)	(3,124)
Income tax	(1)	(1)	-	-	-
Net Income / (Loss)	(7,985)	(3,255)	(5,250)	(3,680)	(3,124)
EPS	(0.06)	(0.02)	(0.04)	(0.03)	(0.02)
Shares Outstanding	127,817	131,193	133,296	144,313	151,000
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%	38.9%	29.4%
SG&A	69.0%	37.6%	50.1%	47.9%	45.0%
Operating margin	(159.5)%	(43.6)%	(51.1)%	(30.8)%	(20.6)%
Net margin	(174.3)%	(51.3)%	(67.4)%	(38.8)%	(27.0)%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth					
Total Revenues		38.6%	22.6%	21.9%	22.0%
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	3/14A	6/14A	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	1,940	2,150	7,994	2,200	1,800	2,000	2,200	8,200
Licensing and royalties	-	-	-	-	-	750	-	72	94	916	93	94	94	94	375
Media placement	-	-	-	-	-	10	60	132	375	577	525	675	825	975	3,000
Total revenue	1,947	1,809	1,924	2,104	7,784	2,907	1,817	2,144	2,619	9,487	2,818	2,569	2,919	3,269	11,575
Royalties and application costs	884	777	805	863	3,329	868	768	818	1,048	3,502	1,127	1,028	1,168	1,308	4,630
Research and development	9	24	13	20	66	24	11	13	25	73	30	30	30	30	120
Compensation expense	1,755	635	765	653	3,808	1,381	811	695	800	3,687	850	850	850	850	3,400
Depreciation and amortization	155	160	163	184	662	150	152	152	150	604	150	150	150	150	600
SG&A	1,068	1,006	950	874	3,898	1,343	993	1,033	1,178	4,547	1,268	1,156	1,314	1,471	5,209
Operating income (loss)	(1,924)	(793)	(772)	(490)	(3,979)	(859)	(918)	(567)	(582)	(2,926)	(607)	(645)	(593)	(540)	(2,384)
Interest and other expense	(308)	(279)	(491)	(193)	(1,271)	(193)	(191)	(185)	(185)	(754)	(185)	(185)	(185)	(185)	(740)
Income (loss) before taxes	(2,232)	(1,072)	(1,263)	(683)	(5,250)	(1,052)	(1,109)	(752)	(767)	(3,680)	(792)	(830)	(778)	(725)	(3,124)
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income / (Loss)	(2,232)	(1,072)	(1,263)	(683)	(5,250)	(1,052)	(1,109)	(752)	(767)	(3,680)	(792)	(830)	(778)	(725)	(3,124)
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)	(0.00)	(0.02)
Shares Outstanding	132,472	132,647	134,186	133,879	133,296	140,816	142,706	142,729	151,000	144,313	151,000	151,000	151,000	151,000	151,000
Margin Analysis															
Gross margin	54.6%	57.0%	58.2%	59.0%	57.2%	70.1%	57.7%	61.8%	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%	42.3%	38.2%	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%	44.6%	32.4%	30.5%	38.9%	30.2%	33.1%	29.1%	26.0%	29.4%
SG&A	54.9%	55.6%	49.4%	41.5%	50.1%	46.2%	54.7%	48.2%	45.0%	47.9%	45.0%	45.0%	45.0%	45.0%	45.0%
Operating margin	(98.8)%	(43.8)%	(40.1)%	(23.3)%	(51.1)%	(29.5)%	(50.5)%	(26.4)%	(22.2)%	(30.8)%	(21.5)%	(25.1)%	(20.3)%	(16.5)%	(20.6)%
Net margin	(114.6)%	(59.3)%	(65.6)%	(32.5)%	(67.4)%	(36.2)%	(61.0)%	(35.1)%	(29.3)%	(38.8)%	(28.1)%	(32.3)%	(26.6)%	(22.2)%	(27.0)%
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%	11.4%	24.5%	21.9%	-3.1%	41.4%	36.1%	24.8%	22.0%
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

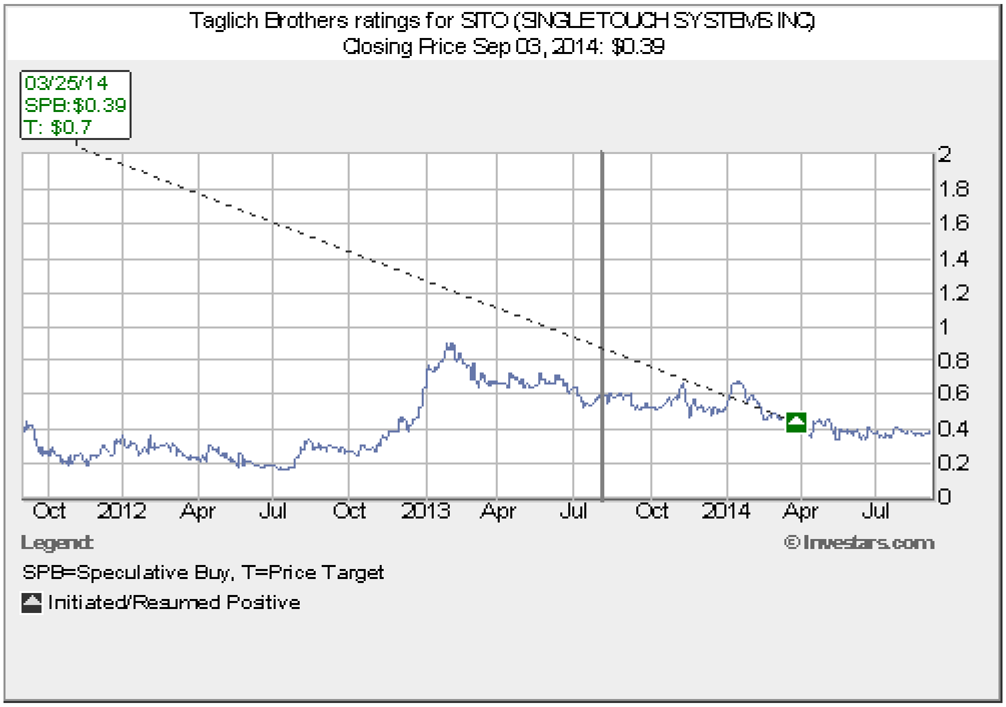
Source: Company filings and Taglich Brothers' estimates

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

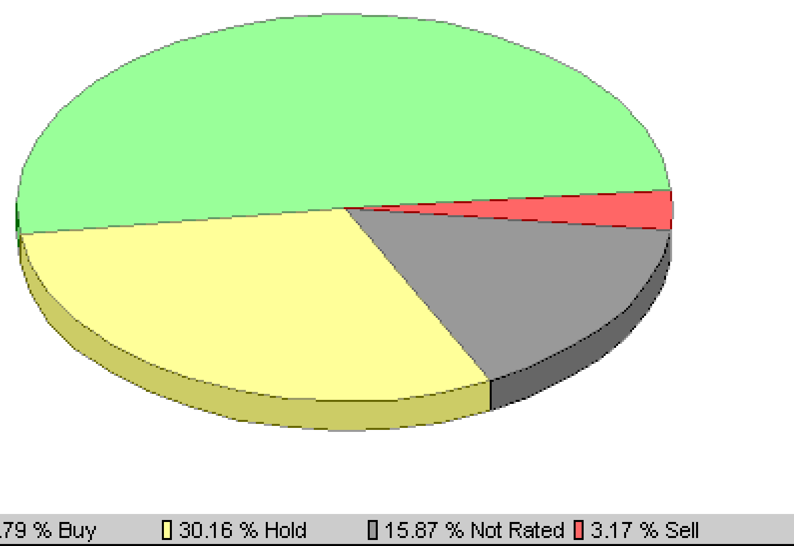
	FY11A	FY12A	FY13A	9mos14	FY14E	FY15E
Net income (loss)	(7,985)	(3,255)	(5,250)	(2,913)	(3,680)	(3,124)
Depreciation & amortization	634	1,001	1,488	742	1,500	1,500
Stock-based compensation	4,592	503	2,243	1,449	1,900	1,900
Bad debts	106	18	-	-	-	-
Loss on settlement of debt	651	-	-	-	-	-
Changes in assets and liabilities						
Accounts receivable	(462)	(197)	(262)	(705)	(557)	(362)
Prepaid expenses	142	8	(21)	(82)	(101)	-
Other assets	11	(4)	-	(49)	274	(315)
Accounts payable	684	(410)	584	146	70	458
Accrued expenses	110	61	9	710	239	56
Deferred revenue	-	25	(25)	303	209	209
Accrued interest	12	166	182	153	379	59
Net cash provided by (used in) operations	**(1,505)**	**(2,084)**	**(1,052)**	**(246)**	**233**	**382**
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)	(259)	(259)	(259)
Purchase of property and equipment	(196)	(33)	(46)	(63)	(100)	(100)
Capitalized software development costs	(502)	(435)	(400)	(290)	(400)	(400)
Payment on settlement regarding Anywhere software license	-	(30)	(600)	-	-	-
Net cash provided by (used in) investing	**(1,060)**	**(626)**	**(1,128)**	**(612)**	**(759)**	**(759)**
Proceeds from issuance of common stock	17	318	824	1,901	1,901	750
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)	(12)	(12)	-
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**	**1,687**	**1,687**	**750**
Net change in cash	**(3,516)**	**1,634**	**(1,011)**	**829**	**1,161**	**373**
Cash - beginning of period	**4,040**	**524**	**2,158**	**1,147**	**1,147**	**2,308**
Cash - end of period	**524**	**2,158**	**1,147**	**1,976**	**2,308**	**2,681**

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	17
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)	Hipcricket (OTC: HIPP)
Apple ((NASDAQ: AAPL)	Mobivity (OTC: MFON)
Brightcove (NASADAQ: BCOV)	Netflix (NASDAQ: NFLX)
Dish Network (NASDAQ: DISH)	Viacom (NASDAQ: VIA)
Facebook (NASDAQ: FB)	Voltari (NASDAQ: VLTC)
Google (NASDAQ: GOOG)	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.