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INITIATING COVERAGE

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LOCATION BASED TECHNOLOGIES INC. (OTC BB: LBAS)

INDUSTRY: COMMUNICATIONS

DISCLOSURES: 1, 4D, 5

RATING: BUY

RISK: HIGH

CLOSING PRICE 03/13/09	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET
\$0.82	NM	87.4	\$71.7	N/A	\$4.25

ANNUAL DATA – AUG YEAR END			
	2008A	2009E	2010E
EPS	N/A	\$ (0.05)	\$ 0.10
P/E	N/A	N/M	8.2
REVENUE (MIL.)	N/A	\$12.7	\$93.4
P/S	N/A	5.6	0.8

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2010E	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.03	\$ 0.10
2009E	\$ (0.04)	\$ (0.00)	\$(0.01)	\$ 0.00	\$ (0.05)

Imagine being spellbound over technology before computers, cellular phones or video games!

The Seattle World’s Fair in 1962 really signaled the beginning of the end of the mechanized era—it was the closing curtain for a time when technology almost always included machinery and solutions indicated the addition of more complicating gears, levers and screws. At this Fair, *Solid State* solutions were on the scene, even in common household items, truly signaling the answer to future’s problems.

That World’s Fair was a most exciting time for me as a kid. The four of us--my parents, younger brother and me--traveled north to Boeing City (Seattle), that World War II built, and we saw that grandiose exhibit of modern know-how first hand.

There was cable TV: We watched in the hotel lobby a black and white television that had more than the perfunctory CBS, NBC, local independent station and possibly that upstart renegade operation (ABC). Here, there were 10 or 15 different stations. I remember “Professional Wrestling” was on almost 24 hours, as well as a raft of other, boring adult channels. But hey, it wasn’t the same thing as our broadcast TV at home.

The Monorail snaked around the City, elevated above the streets of Seattle. This is how the hoi polloi were going to travel to and from work from this time forward. No more trolleys or busses. No more breathing the fumes of autos or mingling amongst the trash on the streets. But instead, there would be quiet, neat and clean, single rail, elevated transportation from the suburbs to the center of town delivering modern, everyday office workers fresh from their homes. It was convenient, safe and the very thing needed to commute into 21st century.

Most glorious of all was the Space Needle. Right out of the Jetsons was this awe-inspiring icon of the whole Fair. Still there today, the structure towers over the North-End of the City like a symbol beckoning the future. Even though many buildings in the City’s downtown core loom over it and many newcomers may wonder what purpose the spindly structure served in the past. But to us as kids 46 years ago, it was magnificent. We waited for George and Astro to fly up and dock in their space-pod. We so badly wanted to dine (at \$19.95 per) at the top of the Needle. Remember in 1962 a fancy, Sunday restaurant meal out was \$2.95 for baked chicken, and a steak with all the fix’ns was just \$6.95. (“But Dad, the dining room spins and you get a 360° view!!!”)

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Despite the excitement of the rides, the competing, creature comforts of living rooms from various countries, a Mercury Space Capsule, the PanAm Exhibit, the "Bubbleator," the RCA exhibit, a commuter gyrocopter, and all the rest, the most memorable event of the entire show was the incident of losing my little brother, Tommy.

The family was waiting for the Monorail to pick us up at the Fair and take us back toward the Hotel. We were together and the Monorail arrived at the station. My Dad, Mom and I all grabbed hold of a little boy in a brown jacket wearing a red hat. Each of us entered the commuter cabin with a tyke in tow. Together in unison, we looked down to check our charge that we had a hold of...NOT ONE OF US HAD TOM!!! We had all grabbed a kid. With a red cap! None of them were Tom Robins! He had disappeared! Gone!!!

A shout of panic escaped from all three family members. Instantaneously, a shriek of insanity came from three other traveling mothers on the monorail after each realized that whomever they were holding wasn't their kid with red cap either. Obviously, the children's fashion world stressed red caps too doggone much that year...not to mention there were way too many four-year-olds that were too rambunctious at the Seattle's World Fair being herded around by a parent or sibling.

As you can imagine, a frantic exchange occurred. And the how-ever-many couples of parents...accompanied with the right number of red-capped, four-year-olds...got off at the next station and headed straight to the bars for a quick nerve settler before a nap and dinner.

Pocketfinder and Location Based Technologies to the Rescue

The "miss-placing" of my brother, of course, could have turned-out a lot worse in the end.... Today, the risk of a kidnapping, or worse, may have made this worrisome annoyance truly tragic. And with today's greater levels of confusion, congestion and the more populous conditions that we endure, we need more help not only to keep track of our kids, but in monitoring the where-abouts of our loved-ones, pets, travel bags and even automobiles.

In 1962, the technology didn't really exist to handle such demands. The transistor had just been commercialized. (The device was about the size of a pencil point but required a pencil eraser-sized can housing to shield it.) But even with this feat in miniaturization as an electronic realization, it would have required a large, laptop-sized device to send a proper homing signal for detection. Forget the convenience of power savings capability, messaging, real portability, low cost, etc.... Forget having the ability of tracking a pet, or suitcase, or a teenager or anything much other than a car....

We may not have the Space Needle, or, the Monorail, or, the gyrocopter, and, PanAm may be gone; but, we can now have Pocketfinder. And, it gets cooler and more useful with every passing day.

Pocketfinder was developed, designed, made, and is sponsored by Location Based Technologies of Anaheim, CA. Think of a golf ball shaped and sized unit, but one that is as flat as an Oreo cookie. It weighs about 1½ozs. The device is usually covered with a soft, comfortably touchable, sheathing made of brightly colored silicone. The Pocketfinder itself is watertight and element resistant but the covering encloses the actual Pocketfinder that includes a hasp so that it may be attached to a dog's collar, a person's purse, belt, snowsuit, swimsuit, etc. But, more on Pocketfinder's construction and operating features in a later section.



Although the device is becoming more and more discrete, portable and distinctive, it is Pocketfinder's versatility and its ease-of-use that has grabbed the attention of name-brand electronic "gadget marketers" that have come to understand the device as well as its market potential. The commercial communication network operators'



desire to become LBAS partners and will greatly help propel Pocketfinder's market acceptance. Pocketfinder is just plain ingenious in its design, handy to use, and easy to employ. This is attractive to all parties involved: the consumer, the marketer, and the communication system operator.

The management of Location Based Technology, and particularly the designers of the electronic and operating systems, really sat down and thought out many of the niggling little details to make this product user-friendly

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from the “get-go!” This attention to creative design details - from packaging and the internet homesite to the implementation of security zones (one of the most difficult aspects of the system,) - are all worked-out simply, directly and required “programmable” operations are done so in three steps.

When one opens the triangular packaging, charges the Pocketfinder homing device, attaches it to the child or places it in the teen daughter’s purse and sits down at the home computer console, one simply logs onto your account and enters the Pin Code. Registering, launching the device and operating the Pocketfinder are a snap. It’s almost easier than accessing your bank account via the web. Yet, it provides households, businesses and the military a location device that one could only have dreamed about not too many years ago by watching a hot, new, *007, James Bond* theatrical release.

Registering your family members requires a little upfront investment in time. Once online, each homing Pocketfinder or “phone” (more on that option below!) device is assigned a name and registration and they are labeled with a photo or icon to correspond with your family member. Once the choice is made of how each of the various family members’, pets’, lost luggage items’ or cars’ devices are represented, they are displayed on a map of the total landscape over which they are dispersed.

One last thing. For the humans (children, oldsters) and pets, there is a separate “Identification Setting” menu for the parent to include ‘General Device Information’ (the normal name, nickname, etc. regarding the Pocketfinder owner); ‘Medical Profile’ information (more detailed info like birthday, blood type, medication allergies, special medical conditions, the physician’s name, etc... that might be really important in an emergency); and the ‘Missing Person/Pet Flyer menu (a specially designed screen of information arranged well in advance of a missing person event.) The point here is that the designers at Pocketfinder have really thought out many of the items and questions that need to be filled-out or answered in an actual emergency. Often when the situation arises, parents or owners are too distraught to remember details or haven’t previously located particular items (say, decent, recent, photos). This permits an opportunity to not only have all the details pre-assembled, but will allow the Pocketfinder member to pop-out a poster or flyer when the need is most critical and the help the most timely.

So finding or tracking a pet or person is now made really easy. If you were living in the Los Angeles, CA region and your family ranged from Newport Beach to Pasadena, the map would actually span the territory from the Southern LA arena to Pasadena. On the other hand, if your family was based in the NE United States Corridor, the map displayed might range from NYC to Wilmington, DE. The “Dashboard” sizes itself to fit the range over which your homing devices are spread. Additionally, the Dashboard provides users whatever mapping source platform provides the best, most up-to-date photo and data available at the time of customer access.

You can zero in on the person carrying the Pocketfinder as noted by their personal icon and locate that person (pet, lost bag, car or other item) within essentially 3 meters of their precise position on the Dashboard map. By reading the Dashboard data outputs, it provides the person’s address, its longitude and latitude, how fast the Pocketfinder is moving in MPH or Km/h, heading if moving, altitude if applicable and a trip-meter just like your car’s with a reset button. The Dashboard has a variety of other features that provide an array of features with commensurate benefits. They include:

- A ‘History’ feature that provides members an ability to track movement over the past 30 days of the person carrying the Pocketfinder. Suppose your teenage son has been grounded for a month. This feature would allow Dad to monitor and “confirm” that junior hadn’t broken his bounded and approved daily destinations (school, violin lessons, home, and his job at the malt shop but not the pool hall or that tart’s house.)

- “Speed Limit” permits the member to set maximum speed levels for the Pocketfinder’s owner to travel or warning signals (SMS or email notifications) are sent to the member. Teenage driver’s warnings or kids out on dates could use this as a deterrent from hazardous driving behavior.
- “Zones” are permissible areas for the Pocketfinder owner to be in or warnings are sent if they travel outside the boundary. Car rental companies could use this for cars that go where they shouldn’t. Or, these could be used for oldsters who may wander from their care home.
- The “Power” menu item allows the member to control the number of signal beacons sent per period thus extending the life of the battery.

Again, the advantage of this system is not that it just tracks the device but all of these features with their additive benefits can be set and adjusted with simply three steps to completion...everything with Pocketfinder is so simple!

Pocketfinder means Peace of Mind

I like to use historical events or little family stories to exemplify how novel, “discovery companies” may benefit our American experience or add a helpful dimension to daily existence. If I don’t get too original, I can actually draw on past investment experiences and draw parallels to new venture opportunities. With Pocketfinder, the advantage to one’s family, communities or businesses are patently obvious.

If my younger brother was lost in Seattle today rather than 1962, he certainly would have been kidnapped at 4 o’clock, not just “misplaced!” Within a day or two, his missing person information would have been on the Amber Alert electronic screens (a Daktronics product, another “discovery” company of ours but uncovered and promulgated under another entity!), a photo of his face would have been plastered on milk cartons, but unfortunately he most likely would have become a tabloid feature article and a FBI statistic. The point is so many rambunctious kiddies wander off despite watchful eyes and restraining hands.

With Pocketfinder, the rascal would not have had a chance to get further away than just a few yards!

Other purposes are brought to mind with my son, Bryant. He is normally a responsible, quite mature young man of 15. Almost an Eagle Scout...although he has never offered to assist me across the street! But behind the wheel of a car?! Oy Vey!! (and when an Episcopalian uses the expression, I know the potential influences of BAD genes could be at hand turning this good kid into a maniac!) Anyway, Bry is not going out without either an activated Pocketfinder, or a cell phone with the application loaded on the outfit¹. The reason? It will not only track his whereabouts on an instant-by-instant basis, the Pocketfinder software can monitor his rate of speed. If he wants to use a family car or have Mom or Dad pick-up insurance, he’s not driving over 65 mph in the vehicle! (I suggest this from experience. There is a summer of stories about me driving my 1964 Chev Pick-up the 210 miles between Portland and Pendleton in 2 hours! in 1974 despite the gas rationing.)

In our household the first weekend of January is reserved for Boy Scout Christmas Tree Recycling (Yes dear, this is my last year!!!! (*No, dear it isn’t. Your last son is not finished with scouts-editor.* Ha! That’s where you are wrong! I already have tickets for Hawaii!!!-MR) A Pocketfinder in each pick-up truck out on rounds would have been very helpful with dispatch. We were always getting additional calls from folks who hadn’t taken a moment in the preceding three weeks to instruct us of their pick-up. So, on-the-fly dispatch would have been very helpful. This is obviously true for commercial situations as well. Think of businesses from local business

¹ We have yet to mention that the Pocketfinder software App can be had via downloads for the Apple iPhone, the Google Android Smartphone, the Blackberry Bold and Curve, and for various Windows Mobile units such as the LG Incite. Indeed, LBAS just announced that more than 10,000 Pocketfinder service Apps have been downloaded since its introduction just two months ago. Now that Wal*Mart will be selling both the iPhone and the G1, the Company expects the pace of downloads to increase at a faster clip than that experienced to date.

document delivery persons (you know, they use to be characterized by tattooed young people on bikes) to cement truck operators.

Oh, one more thing, regarding the cement truck operator. Think about the contractor that believes that Clumsy Cement Carriers, Co. drove over some forms, linoleum, prized Italian Marble (caps included because of the inflated price), whatever...last December 8th. My response now that I have my trucks equipped with Pocketfinder, or the cell phone, or the hard-wired device is, "Well, Mr. Contractor, you're out of luck. According to my Pocketfinder records, my truck #22 was nowhere near that site on Dec. 7th, 8th or 9th. The homing device shows that it was not in Arcadia but Lompoc! See!" The point here is Pocketfinder can provide a precise, historical record of location of a person's, pet's or truck's whereabouts.

By the way back to the Scouts, if one of those Scouts gets lost in the forest collecting Christmas Trees, or spelunking, or hang gliding, or whatever they do and they fall out of the range of cell phone coverage, there is still a way to track them. The Company has designed a "backpack-sized" transmitter which when lifted via helicopter just off the ground, will provide nearly 40 square miles of Pocketfinder locating coverage. Those armed with the device (or phones with the app) shouldn't now be found just by chance. But now, they can be found via Pocketfinder! Think of the more relaxed, less-worried parents whose Scouts, Camp Fire Persons or Wallowa Beavers that are now 'fully equipped' for their respective outdoor ventures with Pocketfinder.

Nothing would be more fun than to delineate the various uses of the Pocketfinder and the Dashboard technology and how it would provide greater security and a feeling of "peace of mind" because you have the ability to check, with nearly instantaneous ability and incredible accuracy, on where your family members or possessions are - at anytime and from almost anywhere. But, the uses and opportunities are almost limitless. Every time I think that I've come up with a reasonable and complete list, some other affiliated group or commercial application arises with a "must-have" need.



A definitive short list of start-off users include medical and elder-care providers, campers, hikers and backpackers, rough country adventure seekers, freight and cargo carriers, delivery services, vehicle finance companies, auto dealerships, law enforcement agencies, and military organizations. And, market penetration in the primary markets—tracking young children and pets—should provide a substantial, stand alone opportunity. For example, in the USA there are 38 million children between the ages of 5 and 13 years of age and 70 million pets. One could project a similar sized market for the EU. A mere 10% penetration means, at the \$4.95 monthly base rate (that charged a cell phone user) monitoring services, translates into nearly a \$600 million revenue business domestically alone for LBAS.

Just out of “Q” Lab and His Technology Talk

As explained, there are a lot of novel and helpful capabilities that have been created or added into the operating design of the Pocketfinder device and the overall system. LBAS’ own development team lead by Joseph F. Scalisi, who is Co-President and Chief Development Officer, is responsible for the conception as well as establishment of many of its handy design and system’s ease-of-use features. Another benefit is the compactness of the Pocketfinder itself, particularly given the array of capabilities. As mentioned above, the Oreo-cookie-sized form of Pocketfinder permits the device an increasingly wider array of usability options and benefits many of which would be unimaginable until now.

This did not occur by chance. The form-factor and electronic capability of the Pocketfinder was a goal from the start and plans for accomplishing these feats were real tasks. Some efforts were made easier by the advancement in integrated circuit and mobile phone technology: other tasks really made demands on the Pocketfinder team. A significant advance came from the engineering team’s ability to collapse three different circuits, the battery and the two antennae into the Pocketfinder’s unitary form factor. For example, they have combined both the capability of GPS as well as the cellular ID network into the same form factor. Another of the major problems with all of the prior and competing commercial “homing devices” was that they were not as successful as Pocketfinder at maximizing the battery life into the design. Ditto with the Antennae! With LBAS, these two design factors were paramount. The diminutive size of the device itself not only made it more appealing from a cost, a personal appeal and an attractiveness standpoint but all three attributes allowed the markets to expand well beyond what might be considered the normal markets (think of the pet market here) and into vertical and branded markets (think: Theme park day rentals, Refrigerated trucking, Kids with autism or Downs) while permitting a greater number of operating features, as well.

Other features that have been designed in include:

- The Pocketfinder’s Power Management capability, which permits the extending the battery life up to 7 days, and it also has a “low power” auto-alert notification warning.
- The system’s 24/7-tracking ability from multiple access points, which can either be from a computer linked to the Internet or from a phone for location requests.
- For its second generation device, an added circuit which includes an accelerometer that generates an electronic signal for the “High Impact Alert” system: this measures force and generates an indicator warning when the Pocketfinder’s owner has had a high impact incident.

At this time, LBAS has sixteen patents that have been issued and has fourteen that are pending. In addition, there are several additional patents that are in process of being explored. One could safely surmise that it is one of the most well protected consumer devices ever to hit the market.

Its technology partners are several and impressive. From NXP (now ST-Micro Erickson), they are supplying Pocketfinder their wireless 5210 GSM / GPRS phone chipset. The GPS antenna was one of the trickiest components to source and place in the Pocketfinder. The Company is getting their supply from Sarantel. Its “P2” antenna is a market leader in the “Omni Directional” GPS arena and is currently used by leading satellite

navigation manufacturers including TomTom™. If you look closely at a photo of the Pocketfinder, you will notice the “nubbin” protruding out of the “Oreo Cookie.” That is the P2. It is separate and apart from the rest of the apparatus so that it can create a “ball-like” receiving sphere out of the top of the nubbin to receive GPS signals.

Pulse is the GSM Antenna Design Partner. This Company is one of the worlds leading GSM antenna developers and manufacturers. In addition, Pulse is a major supplier to leading cellular handset manufacturers. To help LBAS with its GPS processing software and AGPS service, it depended on Geotate. Formerly part of NXP, Geotate is now focused exclusively on the provision of GPS processing software and AGPS services using data licensed from NASA.

Manufacturing of the Pocketfinder device is all prepared and ready to launch by Jabil Circuits, one of the world’s largest electronic circuit manufacturers. This Company has 75,000 employees spanning 55 facilities in 20 countries. Their customers include IBM, BMW, Tyco, Chrysler, and Porsche. Jabil’s French facility has the capability to have six lines up and running in short order: Monthly quantity of the Pocketfinder homing device is all set to run at a 150,000 devices per month per line. As demand increases, LBAS is really looking forward to expanding to Jabil’s other operations, such as those in Arizona. This is because the Company believes they will be able to better supply product for the US, Canada and Mexico markets from Tempe.

Roll-out Into Unchartered Territory

As I talked to CEO and Co-President Dave Morse, I could feel myself getting more and more excited about the opportunity Pocketfinder presents as a new consumer product and LBAS represents as an investment. Part of the thrill comes from the countless uses Pocketfinder can be used to help with solving various location problems and needs and that help drives the exhilaration about the possibilities the investment just may bring. But part of the problem for the Company stems from the need for capital to launch the actual device into all the possible markets at a pace which meets the adoption curve....one that seems fairly certain and substantial.

The First Step: The Company has provided Apps to the likes of Apple iPhone and G1 Google phone users since December, 2008, as well as providing Blackberry Phone users the App since February. Regarding the App for those phones powered by the Windows Mobile system, LBAS just started supplying the App for those devices. All in all, there have been about 15,000 of the Apps downloaded in just December and January.

Now there is a little good and bad news mixed in with this success. None of the phone system or back-end purveyors have been able to properly monitor or account for LBAS’ App sales given their on-going, monthly, fee payment system. That means that the on-going monitoring fees that are supposed to be paid by the new customers and collected by Apple, Google and Blackberry, etc. have not been processed and collected. Hence, LBAS has been unable to receive the trailer of fees and these early adopters have gotten an unbelievable deal!

I guess most all other Apps are one-time sales where you download the application software, pay the purchase price and merrily enjoy the merits of the new capability forever-after. With LBAS and Pocketfinder, part of the allure of the Company and its business plan is that the tracking system has an on-going signal that needs to be tracked (duh!) and monitored: this is very similar to the home and alarm monitoring business.² For the initial

² As an example, Brinks Home Security Holdings, Inc. has a ticker of “CFL” priced at \$20.83 (market cap of \$950 million on sales \$532 million, \$1.25 reported EPS for 2008.) This stands for “Customers For Life!” The home and business security industry is hallmarked with characteristics that include very strong customer loyalty, high cash flow even during economic downturns, strong ability to borrow against that cash flow, and ultimately a valuation that can be directly derived off of the monthly revenue rate. Although LBAS is creating a new facet to the industry component, it is our opinion that it may be valued just like the other home and business security entities when some drop-out experience is had. Please consider, what is more valuable to a family than its children, oldster parents who may suffer from forgetfulness, pets, prized-cars,

stages of the launch, new purchasers are paying just \$9.95 as a one-time fee to sign-up during the first month as an initial offer (such a deal!!!), and then for new subscribers its goes to \$24.95 thereafter. (If you think about it, it is an incredible deal since it goes to \$4.95 a month when Apple, Google and the rest of the gang get their collective acts together and charge the monthly fees.) Anyway, retention has been 57%, which is a fair indication of sell-in and adoption.

The good news for LBAS is that they are getting some pretty respectable cash flow out of the box and on the backs of the new phone purveyors as well as that folks are testing the system from the get-go. Also, the word is getting out there as to Pocketfinder's ease of use and versatility. Viral marketing can't help but spread the word.

Second Step: LBAS's next substantial move is to introduce the Pocketfinder and the location detection system into Europe via two, Tier 1 carriers located there. The Company is "white labeling" their device, Apps and System over to the two carriers. They will name it under their own name, say, "FinnFinder" for the Finnish phone system...just a guess. The Pocketfinder will be entirely customized to have the look and feel of the local phone company's brand. It will be sold though the Tier1 company's own marketing effort and channel and all sales receipts, accounting, etc will also be provided by the overseas provider. LBAS is expecting a royalty payment which approximates the profit that the Company would receive if they operated the Pocketfinder system in that phone company's own territory. Some numbers to think about are sales price of the Pocketfinder device and the monthly monitoring fee: At retail, a Pocketfinder would sell at \$130 to start and the monthly monitoring fee is \$12.95 to start, which includes the phone company's service and signal fee. As I think about numbers, I think that LBAS would get \$30 on the sale of each Pocketfinder sold and somewhere around \$3.00 for each month of providing mapping and location based services and for licensing.

Third Step: Commercial sales here in the USA are probably going to be a real boon to the Company and that's an easy bet since they have started with a premier provider of truck transportation and load matching services company. LBAS and LoadRack™ have signed a professional services agreement initially valued at \$1.2 million for customization of software and hardware. This agreement will allow LBAS to provide the load matching services firm the ability to not only track its trucks, trailers and shipments, but help its supply load position, speed, condition (say due to refrigerant levels), route changes, etc all due to Pocketfinder technology adapted to relay more than just location data provided by the consumer Pocketfinder data set. Estimated to produce as much as \$12 million in revenues in the first twelve months of service for LBAS, this shows how versatile and adaptable the technology can be and how it can be placed into use for distinctive purposes.

Some other commercial opportunities that have been suggested but have not yet been inked as to real deals:

- At last count, three auto companies want to incorporate a more permanent version of the tracking device into the electronic systems of their cars, essentially replacing the "Lo-jack" car security system for stolen vehicle recovery. A permanently attached Pocketfinder, powered off the car's electrical system, would have obvious advantages over the LoJack since the latter has to be within a relatively close distance to the detecting receiver before it can be placed and located by police. Of course, the Pocketfinder sends out pings that are detected nearly all over the earth: you are able to check on the location of your vehicle at any time – including when it is being stolen!
- A similar situation would be useful for both the car rental agencies where they would be able to track the vehicle if it had gone over non-designated or permissible roads or the where-abouts of miss-delivered autos. Same thing is true for high-end auto dealerships. They would buy the Pocketfinder for tracking their vehicles out on loan or test drives.
- Large theme parks operators (for instance, Disney, Six Flags and Knotts) have real interest in having a supply of the devices for rent. It seems there is a ready market of parents who have rambunctious

etc. I think that it may take a while for the security industry to understand that this represents a way for its staid operations to expand, but they may actually consider LBAS a new and vibrant growth option in the near future.

youngsters—remember Tommy(?)--that want to be prepared so that they can track and find errant tykes in case they run-off and are lost.

Fourth Step: Branded sales through the normal channels, such as web, big-box retailers and affiliate programs, will come in time. The Company's constrained capital situation is limiting the pace in which these programs will be rolled-out and ramp. Two other opportunities are the pet arena (there is an entrepreneur that is ready to launch the Petfinder® into the major pet supply chain retailers) and the medical and elder care arena. With the demographic rise in oldsters, specifically those with Alzheimer's, it makes so much sense that either care facilities or families themselves taking care of an elder would wish to have the tracking capability of elderly that have a tendency of getting confused and wandering off. In the same marketing vertical, it includes affiliate programs and this may take a little explaining to help clarify the opportunity. It so happens that there are a whole number of sub-groups that would like access to the Pocketfinder and they can be tied or marketed to by Google...It is something akin to crossing multi-level marketing and affinity programs that Visa/MasterCharge have done with the airlines, college alum societies, etc. Groups that have expressed interest in being tapped include private airplane pilots, hunting dog owners, parents of Downs and Autistic children, PTAs, etc.

These are the beginning steps that we think the Company will make. Of course, as its resources grow it will expand in the world markets with affiliated and branded opportunities as well as promote its own in-house efforts.

A Cross between “Gilding the Crowbar” and IRONMAN: Income and Valuation Thoughts

Nothing better depicts the process of performing an entirely new task by trial and error than Robert Downey Jr.'s experiences of learning to fly in his lab. As you remember, he has just created and donned his first prototype, IRONMAN suit...more accurately, his first assembly mock-ups...and his attempts at flying are cumbersome, if not just plain hilarious!

Let me state from the start that any effort to create a perfect economic picture of a new company's income statement in a wholly new industry will be just full of pratfalls and goof-ups. It has all the appearances of elegance and refinement of real authority—that's just the Excel spreadsheet's dressiness and sophistication (My favorite description of the representation of the numbers is really, “gilding the crowbar” ala Andre Meyer of Lazard Frères.), but a pencil and yellow pad would work just as well for the first couple of quarters.

The real important news is that we are at the inflection point for the LBAS: It is now becoming a company with sales and margins, and there is potentially a bottom line...a bottom line that is actually within sight. Best of all, I may not be able to stand in front of you and say, like the all-knowing Oz that, numbers will be precisely “X” within scientific accuracy, but I should be able to say that sales for the fiscal year ending August, 2009 is that the top-line ought to approach \$10 million (given what I know right now and there are no hitches in Pocketfinder shipments). Even more exciting, they are going into the 2009 Christmas season with something totally new that, I think, consumers could go crazy over. If I'm right about the consumer sentiment, the desperate need for a new consumer gadget for this year's holiday season and shopper readiness for a busting-out of the doldrums and a splurge, LBAS could see really strong demand for the Pocketfinder and subsequent follow-through boosting 2010 top-line to a figure that is even healthier than planned. We have not included this alternative into our thoughts for next year.

I've hinted at LBAS' No. 1 problem a couple of times—the skinny balance sheet—and despite this predicament, the Company seems to have the situation kind of patched-together: Best described, they are muddling through. It would be a real wonder to observe...something I imagine like a “Warp Drive” or “Jump Drive”...if management didn't have to attend to problems like resources at Location Based Technologies. But, that is why Small- and Micro-cap stocks are what they are and why they are challengingly fun investments.

Despite the hurdles, the Company is making headway and it is this very quarter that is the transition between a company that is a dream and a business. For example, they announced early in the first calendar quarter that Pocketfinder “Apps” were being sold to both Apple iPhone and G-1 Google phone owners. And now, the Blackberry folks are making it available for some of their handheld offerings. This helped to generate some very immediate and quick cashflow but it didn’t really launch the Pocketfinder system: It placed a stop-gap scheme into place to seed the market and tease technology enthusiasts.

By the end of the March, the necessary systems to monetize the monitoring fees will be in place so that LBAS should be able to switch to the on-going, monthly service fee that makes this device so very valuable to both LBAS shareholders and the mobile phone service providers.

Here is a short list of projects, operators and dealers that are chomping at the bit to get started marketing or representing Pocketfinder. The best news is that by the end of March, the Company will have received, tested and processed a shipment of 1,000 Oreo-sized, electronic homing prototypes from Jabil to share among their prospective, client fans. This should start busting the log-jam of business. In the meantime, there are some other projects that have come in that are helping also cover expenses this quarter.

As I said above, this is the pivotal quarter.

- We mentioned LoadRack’s \$1.2 million development and \$12 million, long-term contract and that has already started.
- The military is very interested in Pocketfinder’s ability to track personnel—the above mentioned prototypes will start to “seed” this interest.
- There are established interests in selling Petfinder™ through the pet supplies retail channel...again, we are waiting for samples and real shipments of supplies.
- We mentioned two, overseas tier-1 mobile networks that are initiating sales and service of Pocketfinder this quarter. The same is true with several western hemisphere operators...all of which want to get their respective programs well launched before mid-to late summer. The advantage of this is that equipment sales by the cellular networks can be financed off the credit of the utility’s balance sheet, therefore helping stretch LBAS credit needs.
- We believe there are other commercial offers being negotiated as we write the report.

We have approached the model as if only the LoadRack, the Apps sales, and the Petfinder sale come into play for this year and some affiliated sales and a beginning of the foreign, and tier 1 cellular operators have begun to retail the product in 2010. This rather restrained approach to the roll-out was taken because of the constrained balance sheet. If LBAS were to have a much larger cash-wad within a month or two, the pace of expansion could race ahead at a faster clip given the couple month delay required for the necessary wind-up of French production.

Our model shows the really rather modest revenue start for the February quarter, but then in the May period there is a significant ramp as App sales continue for the various mobile phones, LoadRack engineering and modest device sales start in the period, and very small Petfinder sales begin to take off.

The August quarter in 2009 shows progressive improvement...nothing spectacular, but a stepwise pick-up. The Company can receive more consistent deliveries of the device, some of the mobile operators begin to get initial orders and the Company’s branded retail effort begins to spread out.

We show how gross margin’s unrealistic mix starts to begin and transforms to a more typical margin in the 30% region. Once LBAS begins to have more regular sales of both product and regular monitoring sales, it should level out in the low 30 % range.

Valuation: Paradise Found

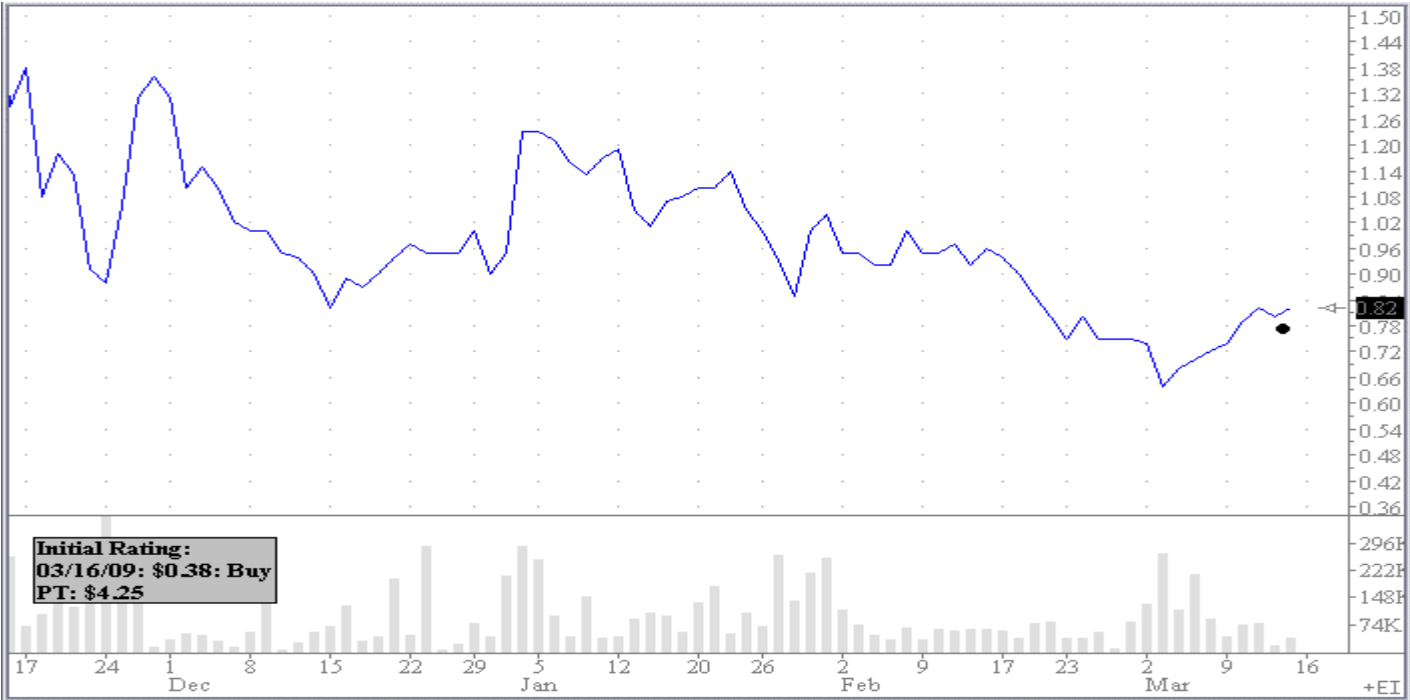
There are actually two ways to really view LBAS' valuation: the traditional approach discounting of future earnings given an appropriate risk adjusted rate and eventually a more appropriate approach given that there will be a growing and ever-more-more-important monitoring and royalty revenue/income stream. In a few years and given the rate of adoption the latter will have a greater impact and degree of importance on valuation. For the time being, we stick to the former given the nascent stage of the operation.

I really need to make one more assumption to complete this exercise. We need to hone-up 2010's earnings projection to as close to a calendar year estimate as possible to make the valuation forecast as valid as we can. Given that parameter, I'm extrapolating LBAS' fourth quarter from our table out one more period to November: This provides us with \$37.5 million in revenues for the period ending November and just about \$0.05 for the quarter. For the twelve months ending that same month, we get about \$0.13 per share, fully taxed and counting for most all the shares outstanding (we did not include warrants for a proposed deal that might occur later this year.)

For a company that is growing as fast as LBAS with a product as exciting as the Pocketfinder, a multiple of 25-times to 40-times current earnings is reasonable. This places the stock value in 2010 (somewhere in the late first to third quarter of 2010) in the \$3.25 to \$5.20 range. Because we are a year ahead of the investment time frame, we need to discount the projected target price by one year. Using a 35% discount rate, that places the target range today (when there are less questions about the supply of Pocketfinders, the sales ramp is better established and we can be less concerned about the balance sheet problems) between \$2.40 and \$3.85.

Risk Factors: Pocketfinder Staying Lost

- As we have mentioned, the real risk to the Company near-term is the Balance sheet. If a fair slice of equity could be secured (say, \$3 to \$5 million) the business would be in really fair shape and off to the races. Barring an infusion, it depends on the management's ability to make ends meet while balancing various exciting options. However there are so many opportunities availing themselves, we believe LBAS will get through but have placed the "High Risk" label on the rating as a warning.
- The Company may have margin degradation if more marketing expenditures have to be made by the Company to propel sell-through. We actually believe that the product will do a good job of selling itself, or will have a marketing wind in its sales via publicity. So for the first few years, marketing may be kept limited.
- A real problem as we view it is supplies from Jabil of Europe. Although they are competent at manufacturing, the distance and differences in customer services could give LBAS in the USA fits and cause them customer/client concerns...in the very near-term, it could cost them dearly from a financial standpoint.
- There is always the off chance of government intervention regarding invasion of privacy: although seemingly crazy at this time, the precise knowledge of someone's whereabouts could be considered being too personal inviting legal ramifications. So far there have been no challenges for a parent to know the location of a minor child or for a business to know the location of an employee during working hours.



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	Q1 2009		Q2 2009		Q3 2009		Q4 2009		2009		Q1 2010		Q2 2010		Q3 2010		Q4 2010		2010		
	Nov., 08	Feb, 09Est	May, 09Est	Aug, 09Est	Year, 09Est	Nov, 09Est	Feb, 10Est	May, 10Est	Aug, 10Est	Year, 10Est	Nov, 09Est	Feb, 10Est	May, 10Est	Aug, 10Est	Year, 10Est	Nov, 09Est	Feb, 10Est	May, 10Est	Aug, 10Est	Year, 10Est	
Revenues Sources																					
Apps	\$0.000	\$0.225	\$0.045	\$0.090	\$0.360	\$0.135	\$0.189	\$0.189	\$0.189	\$0.702	\$0.135	\$0.189	\$0.189	\$0.189	\$0.702	\$0.135	\$0.189	\$0.189	\$0.189	\$0.702	\$0.702
Monitoring fees	\$0.000	\$0.000	\$0.015	\$0.040	\$0.055	\$0.030	\$0.030	\$0.050	\$0.060	\$0.170	\$0.030	\$0.030	\$0.050	\$0.060	\$0.170	\$0.030	\$0.030	\$0.050	\$0.060	\$0.170	\$0.170
Commercial Contracts	\$0.000	\$0.150	\$0.500	\$0.350	\$1.000	\$0.250	\$0.250	\$0.500	\$0.500	\$1.500	\$0.250	\$0.250	\$0.500	\$0.500	\$1.500	\$0.250	\$0.250	\$0.500	\$0.500	\$1.500	\$1.500
Moni	\$0.000	\$0.000	\$0.500	\$1.500	\$2.000	\$3.500	\$4.500	\$5.000	\$5.000	\$11.000	\$3.500	\$4.500	\$5.000	\$5.000	\$11.000	\$3.500	\$4.500	\$5.000	\$5.000	\$11.000	\$11.000
Branded sales	\$0.000	\$0.000	\$1.083	\$3.250	\$4.333	\$2.166	\$4.333	\$6.499	\$7.583	\$20.581	\$2.166	\$4.333	\$6.499	\$7.583	\$20.581	\$2.166	\$4.333	\$6.499	\$7.583	\$20.581	\$20.581
Monitoring fees	\$0.000	\$0.000	\$0.667	\$1.533	\$2.200	\$4.666	\$5.333	\$6.666	\$7.333	\$23.998	\$4.666	\$5.333	\$6.666	\$7.333	\$23.998	\$4.666	\$5.333	\$6.666	\$7.333	\$23.998	\$23.998
Affiliated	\$0.000	\$0.000	\$0.000	\$1.083	\$1.083	\$2.166	\$3.250	\$5.416	\$6.499	\$17.332	\$2.166	\$3.250	\$5.416	\$6.499	\$17.332	\$2.166	\$3.250	\$5.416	\$6.499	\$17.332	\$17.332
Monitoring fees	\$0.000	\$0.000	\$0.000	\$0.200	\$0.200	\$1.333	\$2.000	\$2.666	\$3.333	\$9.332	\$1.333	\$2.000	\$2.666	\$3.333	\$9.332	\$1.333	\$2.000	\$2.666	\$3.333	\$9.332	\$9.332
Overseas Tier 1 (a)	\$0.000	\$0.000	\$0.400	\$0.700	\$1.100	\$1.100	\$1.100	\$1.100	\$1.100	\$4.400	\$1.100	\$1.100	\$1.100	\$1.100	\$4.400	\$1.100	\$1.100	\$1.100	\$1.100	\$4.400	\$4.400
Overseas Tier 1 (b)	\$0.000	\$0.000	\$0.005	\$0.400	\$0.405	\$1.100	\$1.100	\$1.100	\$1.100	\$4.400	\$1.100	\$1.100	\$1.100	\$1.100	\$4.400	\$1.100	\$1.100	\$1.100	\$1.100	\$4.400	\$4.400
Total Revenue	\$0.000	% of Rev	\$0.375	% of Rev	\$3.215	% of Rev	\$9.146	% of Rev	\$12.736	% of Rev	\$16.447	% of Rev	\$20.984	% of Rev	\$25.687	% of Rev	\$29.197	% of Rev	\$93.415	% of Rev	% of Rev
Cost of goods	\$0.000	nm	\$0.113	30.00%	\$2.191	68.15%	\$6.187	67.65%	\$8.491	66.67%	\$10.798	65.65%	\$13.566	64.65%	\$16.940	65.95%	\$19.226	65.85%	\$60.530	64.80%	64.80%
Gross Profit	\$0.000	nm	\$0.263	70.00%	\$1.024	31.85%	\$2.959	32.35%	\$4.245	33.33%	\$5.650	34.35%	\$7.418	35.35%	\$8.746	34.05%	\$9.971	34.15%	\$31.785	34.03%	34.03%
Operating Costs																					
S, G, & A	\$0.654	nm	\$0.655	174.67%	\$0.775	24.11%	\$1.325	14.49%	\$3.409	26.77%	\$1.445	8.79%	\$1.860	8.86%	\$2.335	9.09%	\$2.645	9.06%	\$8.285	8.87%	8.87%
R & D	\$0.576	nm	\$0.615	164.00%	\$0.675	21.00%	\$0.975	10.66%	\$2.841	22.31%	\$1.245	7.57%	\$1.565	7.46%	\$1.850	7.20%	\$2.115	7.24%	\$6.775	7.25%	7.25%
Total Operating Costs	\$1.230	nm	\$1.270	338.67%	\$1.450	45.10%	\$2.300	25.15%	\$6.250	49.07%	\$2.690	16.36%	\$3.425	16.32%	\$4.185	16.29%	\$4.760	16.30%	\$15.060	16.12%	16.12%
Operating Profit/ (loss)	(\$1.230)	nm	(\$0.895)	-238.67%	(\$0.426)	-13.25%	\$0.659	7.20%	-\$1.892	-14.86%	\$2.960	17.99%	\$3.993	19.03%	\$4.561	17.76%	\$5.211	17.85%	\$16.725	17.90%	17.90%
Total other Exp/Income	(\$1.842)	nm	(\$0.350)	-93.33%	(\$0.075)	-2.33%	(\$0.045)	-0.49%	-\$2.312	-18.15%	(\$0.025)	-0.15%	(\$0.015)	-0.07%	(\$0.075)	-0.29%	(\$0.045)	-0.15%	-\$0.160	-0.17%	-0.17%
Earnings before Interest & Taxes	(\$3.072)	nm	(\$1.245)	-332.00%	(\$0.501)	-15.59%	\$0.614	6.71%	-\$4.204	-33.01%	\$2.935	17.84%	\$3.978	18.96%	\$4.486	17.47%	\$5.166	17.69%	\$16.565	17.73%	17.73%
Interest cost/(income)	\$0.019	nm	\$0.030	8.00%	\$0.015	0.47%	(\$0.010)	-0.11%	\$0.054	0.42%	(\$0.015)	-0.09%	(\$0.050)	-0.24%	(\$0.085)	-0.33%	(\$0.100)	-0.34%	-\$0.250	-0.27%	-0.27%
Earnings before Taxes	(\$3.091)	nm	(\$1.275)	-340.00%	(\$0.516)	-16.05%	\$0.624	6.82%	-\$4.258	-33.44%	\$2.950	17.93%	\$4.028	19.19%	\$4.571	17.80%	\$5.266	18.04%	\$16.815	18.00%	18.00%
Income Tax Expense	\$0.001	nm	\$0.000	0.00%	\$0.000	0.00%	\$0.281	45.00%	\$0.282	2.21%	\$1.327	45.00%	\$1.813	45.00%	\$2.057	45.00%	\$2.370	45.00%	\$7.567	45.00%	45.00%
Net Income from Cont Oper	(\$3.092)	nm	(\$1.275)	-340.00%	(\$0.516)	-16.05%	\$0.343	3.75%	-\$4.540	-35.65%	\$1.622	9.86%	\$2.215	10.56%	\$2.514	9.79%	\$2.896	9.92%	\$9.248	9.90%	9.90%
Net Income	(\$3.092)	nm	(\$1.275)	-340.00%	(\$0.516)	-16.05%	\$0.343	3.75%	(\$4.540)	-35.65%	\$1.622	9.86%	\$2.215	10.56%	\$2.514	9.79%	\$2.896	9.92%	\$9.248	9.90%	9.90%
Net Income applied to Shares	(\$3.092)	(\$1.275)	(\$0.516)	\$0.343	(\$4.540)	\$1.622	\$2.215	\$2.514	\$2.896	\$9.248	\$1.622	\$2.215	\$2.514	\$2.896	\$9.248	\$1.622	\$2.215	\$2.514	\$2.896	\$9.248	\$9.248
Shares outstanding	87.376	87.550	97.750	97.910	92.647	98.185	98.265	98.335	98.415	98.300	98.185	98.265	98.335	98.415	98.300	98.185	98.265	98.335	98.415	98.300	98.300
EPS	(\$0.04)	(\$0.01)	(\$0.01)	\$0.00	(\$0.05)	\$0.02	\$0.02	\$0.03	\$0.03	\$0.10	\$0.02	\$0.02	\$0.03	\$0.03	\$0.10	\$0.02	\$0.02	\$0.03	\$0.03	\$0.10	\$0.10

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