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INITIATING COVERAGE

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SINGLE TOUCH SYSTEMS INC. (OTC BB: SITO)

INDUSTRY: WIRELESS SERVICES

DISCLOSURES: 1, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 06/18/10	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET (Est)
\$1.30	NM	77.2	\$100.4	N/A	\$1.65

ANNUAL DATA – SEPT YEAR END			
	2009A	2010E	2011E
EPS	N/A	N/A	\$ 0.06
P/E	N/M	N/M	21.7
REVENUE (MIL.)	N/A	\$2.6	\$16.3
P/S	N/A	38.6	6.2

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2011E	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.06
2010E	N/A	N/A	\$ (0.01)	\$ 0.00	N/A

OPENING INVESTMENT PREAMBLE

The Unknown

As we know,
 There are known knowns.
 There are things we know we know.
 We also know
 There are known unknowns.
 That is to say
 We know there are some things
 We do not know.
 But there are also unknown unknowns,
 The ones we don't know
 We don't know.

—Donald H. Rumsfeld

Feb. 12, 2002, Department of Defense news briefing

This “BUY” recommendation of Single Touch Systems, Inc. is based on several “known unknowns” that we have used to draw-out our conclusion. To the typical Wall Street Analyst or Manager, they will summarily dismiss our work as a matter of course because it seems those in the position of managing portfolios find it either very hard to “anticipate change” or to logically derive a result. Since we cannot blatantly appear and announce that Wal-Mart is installing a consumer text messaging system based on SITO’s data backbone, those investors in the first category just may have a very tough time reading any further. But for the remainder who like to read a good mystery, or can use both sides of their brains’, or can be purely dazzled by the numerous and varied array of sources (including the SMS messages announcing “Wal-Mart Rollbacks,” see Appendix #2) that we have discovered during our two-year discovery process of this operation, the report points to a conclusion that indicates SITO’s role in a very important advancement by the retailer.

SITO provisions and provides businesses with mobile dialing codes or “#Business Name acronyms” abbreviated dialing codes. It’s a “free” way to communicate with companies for service, sales, directions, alerts, music,

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news, money info, videos, etc. SMS text messaging is nothing new: two-thirds of mobile phone users are already active users of SMS texting which points to almost 1.8 billion text messengers glued to their phones and not the roads, work or whatever else might be more important. The market is already far more substantial than email and more vital and it is growing at a more rapid pace. Today, it is estimated that there are twice as many text messengers than emailers globally and that in the U.S. alone 300 billion text messages were sent in 2007. By 2011, it is estimated that 2.3 trillion text messages will be sent and delivered globally.

There are two more important facts to remember when it comes to text messages as a marketing tool: SMS messages are read within an average of 15 minutes after receipt and responded to within 60 minutes. Second, 65% of emails are considered SPAM when received compared to only 10% of SMS messages as they are received.

SITO is on the cusp of helping not only the retail industry, but the commercial services arena and even manufacturing, more adeptly connecting with their customers, establishing awareness with prospects and motivating time-honored accounts to purchase more. SITO is the direct and purest play in mobile marketing. Mmobile marketing will swell at a pace far greater than the growth of mobile handsets to exceed the number of desktop computers. Simply put, it's the investor's approach of investing in the unbelievable growth of Apples i-Phones, Droids, HTC Desire's or Evo's (essentially, the mobile networking) and apps and eCommerce and mobile demographic marketing and many other aspects of the mobile economy all wrapped into one investment vehicle.

The best news is that the inauguration of this service has already been tested by the toughest customer the world has ever seen and the service has been made available to the largest customer possible over the last several of months. A steady stream of "monthly growth updates" has announced that acceptance has occurred and adoption is occurring now by this "mystery" client. Once Oz's proverbial curtain is pulled-aside, there should be an avalanche of additional customers and businesses adding demand for SITO's "#Caller" services.

We believe that SITO should be purchased for those investors willing to tolerate "above average businessman's risk" but who are seeking capital appreciation over a several year horizon. Currently, our near-term target is \$1.65: This is based on Company per-share earnings of \$0.06 but with a cash EPS growth rate that should expand substantially after the next nine months. We are basing our cash earnings estimate more on what seems present and available but have left many a door open for other opportunities that we believe will availing themselves within the same 9-month period.

COMPANY BACKGROUND AND DESCRIPTION

Investing in Single Touch Systems, Inc. is similar to investing in a small-cap phone company were it to have owned every "1-800" number back when "watts" numbers first appeared in the mid-1960's. Of course, that was impossible since it was the international telephone behemoth, American Telephone & Telegraph (so distantly related to the AT&T we know of today), that created and controlled all "toll-free calls" on land-lines and over the seas. SITO also adds to this simply wonderful dialing feature the back-end, computer ability where consumer decisions and logic can help navigate calls and make decisions to find advice, choose products, buy items, and even receive personal banking services. Lastly, imagine a firm earning a fee every time this "1-800" is dialed on a cell phone call that is free to you the retail user, but costs the sponsoring company customer for the call. Pretty neat: no?!

If you had had the chance to invest in this idea in 1965, you would no doubt have made a substantial fortune on that investment. Now Single Touch Systems, Inc. has even added another, more favorable feature that provides another valuable benefit to its growing list of customers: Its "toll free" numbers come with handy customer call "handles." So instead of dialing 1-800-FLOWERS like you might use with the toll-free land line, here you

might dial “#Meals” (for KRAFT) or “#WMT” (Wal-Mart), “#Sears,” or “#147” (the 3 numbers on the left-side of the phone for Chase Bank), #MTV, #BET, etc. To date, SITO has 100+ of these easy to dial and remember numbers ordered for major US companies, (such as Hertz, Proctor & Gamble, Yahoo!, etc.) to maintain or even build their brand names, loyalty and corporate identities.

The calling number system advanced by Single Touch is known as Abbreviated Dial Codes, or “Mobile Dialing Codes,” and they are the new “1-800” numbers for cell phones. But they are even simpler to use and to understand and over time will be adopted by most businesses as an alternative method for consumers to call for help, seek assistance or directions, redeem coupons and even perform banking functions from a mobile telephones. Yes, we realize that Smartphones are the wave of the future...but, a large majority of operating phones will remain “dumbphones” (it’s still over 65% of the market) and having a simpler and direct approach to getting answers is best.

The best aspect about ADCs is that they are an easy and convenient way for businesses to further ingrain top-of-mind awareness with consumers and add nearly painless, mobile connectivity with their customers. Despite the rising tide of Smartphone ownership, nothing is less uncomplicated than hitting “#SEARS” for help regarding Craftsman Tools, “#147” to reach “mobile Chase” banking services, or “#MTV” to download a music ringtone or video. Then imagine being able to redeem coupons you neither need to collect, inventory, nor present at the right retailer to receive credit (just enter you cellphone number and PIN), receive reminders about prescription refills, parcel pick-up notifications, new music releases, even ready cash/debit services. It’s all coming faster than you think. It’s all thanks to the ADC.

The origins of Mobile Dialing Codes and Single Touch actually date back to before the development of those much dreaded (by adults) cellular “ring tones.” The founder of SITO, Tony Macaluso, was in his car driving and heard on the radio an advertisement for a product in which he was interested. The advertisement included a “1-800” number for convenience. But by the time Macaluso found paper and a pen and was ready to jot-down the note, he had forgotten the number. It came to the radio listener that if an easier system for remembering and deploying more direct response/sales calls on cell phones could be established, he would be responsible for a great advance in response marketing and brand building. Furthermore, it would a great boon to cell phone usage.

By this time, “911” and “411” call had been established by the cellular operators. Macaluso understood that if a derivation of the ADCs were adopted by the cellular industry, it would greatly increase operating usage of cellphones and in particular long distance service charges! But, three things were required for his firm to be at the center of the ADC revolution and to help make this new service adopted and successful for the wireless phone operators. Those structural foundations for ADC service included:

- 1) That cellular operators must make the ADC dial service free for the retail customer (and the user fees would be paid by the commercial accounts that sponsor the ADC numbers—much like the “free usage of a “911” call for emergency help);
- 2) That all carriers must recognize one code and permit cross-delivery of calls to the receiving sponsor from the retail customer; and
- 3) One entity, and that must be SITO, needs to be the registrar of the mobile dialing codes so that there is no confusion as to what sponsor gets which code.

Armed with these rules of engagement and several patents, SITO launched their first serious effort in the mobile dialing code arena: Ring tone music distribution could be used both to test ad response and market penetration. MTV and BET music television stations used the top-of-mind familiarity of their brands to introduce the simple and memorable, brand-building commercial cellular dialing codes to deliver ringtone subscriptions. Top of Chart bands and tunes would be played on the two music networks and then introduced as available ringtones as well. The stations then, with the help of SITO, made “special sales” pitches to sell and deliver the ringtones via

their ADC.

Single Touch worked to not only originate the ringtone delivery/billing fulfillment backend, but helped with the marketing, ad creation/response and delivery processing as well. Ultimately, the San Diego “start-up” processed more than 19 million sales calls and subsequent downloads in response to the music stations “call-to-action.” Most importantly, the Company began to better understand the ultimate “sell-through” marketing power of cellular phone response when it was used as a call-to-action tool, how it could be used to build brand awareness, and how it could bring the customer closer to merchants or businesses by furthering stronger ties between the two.

Indeed, this award winning technology caught the attention of the largest business in the world, Wal-Mart. The super-retailer grasped SITO’s value proposition in connecting with customers and decided to run the Company through some “fact finding” marketing and operational tests to help prove-up just how effective ADC’s would be at tying their customers to Wal-Mart stores as well as motivating them to various actions.

This has not been an easy process. Nor did it involve a one-step contract that moved directly to the ultimate goal of tying Wal-Mart customers to the retailing giant’s customers via cell phone. Like everything this kind of companies does, every step has been measured, tested, and weighed for possible acceptance by their customer base and passed upon ultimately by the top-tier management team and the “family.” What is interesting is that “a trail of bread crumbs has been left behind” and if followed, there is definitely a real indication of where the retailer is going with its plans.

As a start, Wal-Mart first tested Mobile Dialing Codes functionality nearly two years ago. It involved a short program to investigate their own customer response rates to cellphone advertising compared to other ADC examples that they had heard about from Single Touch. Testing began during the Summer and Fall of 2008 and was also designed to increase cellphone interaction between consumers and the giant retailer as well as to propel consumers to respond by buying more food goods. How so? The test program partnering WMT, AT&T, KRAFT and SITO was called “#meals” and was released July 15, 2008. It supplied working Moms with simple, “easy-to-make,” mealtime recipes that could be suggested over a short cellphone call: Dinner meal recipes learned via phone on the way home from work. Essentially, Kraft paid for the development of the program; AT&T and SITO produced the end-to-end ADC capability and the “fixin’s and sponsorship” was made available by Wal-Mart.

What occurred was that helpful dinner solutions were made available to Moms by touching “#meals.” They were changed often and made readily available via cellphone and “advertised” to a limited number of Wal-Mart shoppers. The delicious sounding, appealing “looking” meals—like “Chicken L’italiano” (a media photo could also be delivered via one’s cell phone) could be quickly whipped together by picking-up a few “Kraft ingredients” at your local Wal-Mart.” An action was also suggested that this could be accomplished “on the way home.”

Consider these aspects of the test:

- Would busy moms listen to free meal/recipe ideas on their cellphone during their busy day or on their commute home?
- Would a significant portion of the moms stop at Wal-Mart, shop, and buy the necessary ingredients to complete the meal?
- Would they dial the “#meals” ADC program and its various capabilities enough to pay for the program

(Txt, voice and media functions)?

- Would the “Sell-though” rate of groceries be sufficient to finance the cost of the program?
- Would a sponsor pick-up the price-tag of the program?

Yep! The program, although involving a very small test, proved to be extraordinarily successful.

Later during the 2008 Christmas shopping rush, Wal-Mart introduced without fanfare SITO’s ADC driven mobile effort using “Txt messages” or SMS advertising. They called it “Wal-Mart’s Holiday Mobile Alerts” with a promise to deliver “tuned-in” customers early news of in-store bargains or on-line specials during the pre-holiday weeks. This opt-in program was essentially the promulgation of “Super Specials” three times a week.

Consumers wanting to participate needed to enter their mobile phone number and check a box agreeing to the terms and conditions of the program on the Walmart.com site. Once confirmed, shoppers received a text message from the short code 63257. The text read, “**FREE MSG: WMT Holiday Alerts. You’re now enrolled & will rec up to 3 msgs/wk. Reply HELP for help or call 866-569-0347 then 0.**”

Once enrolled, Wal-Mart sent all kinds of offers, such as the one delivered at 8:20PM, Saturday, November 29th, 2009: “**FREE MSG: WALMART HOLIDAY MESSAGE! Samsung Blu-ray player for \$248. Was \$298. Click for all specials <http://m.walmart.com/1> or go to walmart.com/savings.**”¹ These alerts were made available to AT&T, Alltel, Sprint, T-Mobile, and Verizon Wireless compared to now where SITO is a Tier #1 carrier and makes its messages available to all the carriers.

The purpose here was to test the sell-through response to cellphone directed, merchandize advertising. When delivered, very specific, personally delivered cellphone ads, such as the examples above, product sell-through increased between 30% to 40% for the specific advertised the specials. Speaking directly to this point, “Wal-Mart was particularly successful with SMS Advertising last holiday season. . . . As a base-line example, the Yankee Group estimates that mobile couponing/advertising can deliver redemption rates of 10 percent versus 1.2 percent for paper-based coupons. In fact, some of our clients have seen 40 percent redemption rates.”² Rarely has there been such positive and direct customer correlation to such specific advertising investment dollars as this.

Wal-Mart followed-up this test with a Dallas, Texas test of “#WMT” a way of passing more product information, sales specials, and service information to customers by using its own ADC code. Attached is the newlink created by the local Dallas NBC affiliate that explains the service. It also confirms the existence of the test and how it works:

<http://www.nbcdfw.com/news/business/Wal-Mart-Shoppers-Save-With-Cellphones.html>

To further paraphrase Ms. Shah, SMS advertising programs like that tested by SITO/AT&T/WMT last year can be extraordinarily flexible and do not require much advance planning. So, a retailer can use its SMS texting capability to quickly slash inventories (say, send text messages out on Thursday about a special, 25% price reduction on green jeans for Friday/Saturday and a 40% clearance Sale for Sunday) as opposed to print or TV ads that takes real time to produce and aren’t nearly as effective. This is as close to real-time inventory management for retailers as it gets. Conversely for a hot item—such as an iPhone, Wii, Razor scooter or the next fashionably-in item—it could be broadcast that the store nearest you has “it” available.

¹ “Walmart Launches Holiday Mobile Alert Program”; **Mobile Marketer**; by Mickey Khan; December 1, 2008

² “Key SMS Marketing Tips for Retailers’ Holiday Campaigns”; **Mobile Marketer**; Sonali Shah; October 22, 2009

To reiterate, SITO's ability to simply link Wal-Mart with its clients not only helps to improve customer satisfaction and loyalty; it helps to lower internal customer care calls.

BACKGROUND CONTINUED: "THE GAME, METHINKS, IS A FOOT!:" A MASTER SERVICES AGREEMENT WITH AT&T/WMT

From here, the bread crumbs trail markers left by Wal-Mart become sketchier. There have been very few announcements regarding any other or new corporate deals. Yet turning to the SITO's 2009 10-K, there is a plethora of follow-up information about Wal-Mart, AT&T and Single Touch and what looks to be the next step. Indeed, the 10-K includes a **MASTER SERVICES AGREEMENT** between AT&T and SITO and including its amendments the **document encompasses nearly 410 pages with the agreement taking almost two-thirds of the pages:**

Although not outwardly expressed in the document, all of these activities are implied in the language of the 10-K's appendices. Here are some of the "breadcrumbs" that lead us to that conclusion (Text from the 10-k in *bold italics*):

- *"notifying pharmacy customers that a prescription is ready for pick-up"* From pg 20.
- **AMENDMENT NO., 1 1.2 Scope of Agreement, c. Supplier (Single Touch) will provide, implement and maintain, and allow AT&T and/or AT&T's customers ("Customers", "Customer" for singular) to utilize, promote and support an Abbreviated Dial Code ("ADC") Registry Program (patent pending), which Registry Program facilitates wireless and landline communication between Customer and its End Users concerning the End Users' pharmacy orders and other pharmacy-related business.** From pg. 390.
- **Appendix B - Price(s), Supplier shall provide the Services, including any applicable deliverables, for the following: (a) ADC Setup and Registry Fee: Supplier shall waive all ADC setup and registration fees. Supplier shall charge AT&T and AT&T shall pay STI [Omitted] per month for each ADC for Wal-Mart, Inc. and any of its entities.** From Page 369.
- **6. Appendix B - Price(s), shall be amended to include section (i) as follows:...** This section goes on to describe the ADC of (#XXX) and explain pricing that ranges up to and beyond 50,000,000 text messages, voice messages or media messages with undisclosed pricing terms. From page 4.
- **"The Parties acknowledge that information transmitted between Customers (WMT) and End Users utilizing the ADC registry program ("ADC Data") may be protected health information,...."** (This section goes on to describe the normal communication security as well as required security needed to adhere to HIPAA Regulations. Appendix M—pg 6.
- **"Supplier (Single Touch) will accept transmission of XHTML data from Customer for transmission to its End User. Supplier will compile an SMS, IVR, or email message according to Customer's pre-established guidelines and transmit this message to Customer's End Users as directed by Customer."** Appendix M—pg 6.

This is what we think is happening from the trail of information we have gleaned.

Because Wal-Mart's Pharmacy Department is so important to the Retailer, as it is for every major retailer, it is probable this department is where strengthening the bond between Wal-Mart and its customer would prove to be

most valuable to the operation initially. To improve/facilitate WMT's pharmacy customer relations, Wal-Mart may be helping its clientele learn more about their prescription status or help them with refill and pick-up times. It also isn't a bad thing that the Company helps "patients" with additional information such as "drug-drug" interaction information, new data releases, or even to spur additional merchandise sales transactions for the department and possibly the store as a whole. How better to do this than via text messaging capabilities of the cellphone... (Remember the 30% to 40% sell-through data?!).

By way of background, Wal-Mart fills some number approaching 1 million prescriptions each day across their 4,250 store system. Separately, there are not a lot of differences these days between pharmacies located in all the super-shopping centers whether they are Wal-Marts, Walgreens, Safeway's, Kroger's, Albertson's or whatever. (They all put pills in bottles; they all now have \$4.00 pricing opportunities; they are all very impersonal; and other than location, there is very little to differentiate outlets.) So, why choose one-from-another? Parking? Other merchandise?

For example, I take warfarin (Coumadin) to stop my blood from clotting too easily and have taken this drug for six years. Every six to eight weeks I go in for an INR test. (The compound is also used as rat poison since its purpose is to cause the critters to bleed to death and it works. That said, the pharmaceutical use of the drug is pretty good too, but doctors want the level in the blood stream to remain within pretty tight tolerances to lessen the chances of patients meeting the same fate as rats. To that end, stopping the bleeding if one cuts oneself shaving in the morning is a real bastard!) If on the otherhand I forget a dose or happen to double-up, then when they catch the screw-up with the INR test, I have to go in more frequently for a damn finger prick. It's a terrible waste of time and interruption during the day. The healthcare plan we have only provides for 24 or 26 pills, per monthly refill, given the \$4.00 super discount, "pay at the counter," plan. This super-smart program actually bites them back because the patients tend to frequently forget to get the refills and thus they miss that last dose. With Fred Meyer (Kroger), you run out of the pills (It always seems to be Sunday night at 10:00PM.) and you call in with the prescription number and secret ID code. The IVR tells you that it's for Tuesday pick-up and you've missed the Monday dose unless you call in and beg to be made an exception for their daily "filling" allotment. So as I said, I miss the dose, screw-up the test, and have to go in more frequently for the INR finger-prick...hence more charges. Extra help would be great!

What we are extrapolating from the 10-K information above is that Wal-Mart/ATT/SITO are creating a messaging service provided by SITO's ADC capability to help their customers get better "reminder" services about their prescription refills and orders. It should inform "patients" of multiple messages that their "scripts" are filled within minutes of their drugs hitting the fill-shelf. Another message should be sent to the customer based on customer preferences for a "refill" reminder a few days before the script expires. (Hooray! What a relief!!!! This for me would be a wonderful alternative to the absence of anything other than an empty bottle in the middle of Sunday nights and the invariably missed dose.) If WMT/AT&T and SITO are thinking that far ahead (and I'm sure they are!) they would arm the message service with a "Thank you for using Wal-Mart" message as well as a message ("Get in and get it!") when the customer has forgotten to pick-up the filled and ready prescription. (I've done that innumerable times too!) Also, what's stopping WMT from sending retailing advertisements like they did during Christmas in 2008? If you are picking-up something for sinusitis from behind the counter, why not recommend Tylenol Nighttime™ for a better night's rest, which ought to help you through the disease anyway. This is certainly a proven way for the Company to get the suppliers to advertise their products to expand their own sales.

Lastly, as noted above, the use of the Pharmacy Reminder system allows WMT's "patient" customers to quickly become accustomed to the SMS approach to retrieving information either about their prescriptions or other pharmacy related data or possibly advice and use of SMS texting can help to lower internal customer care calls. For instance, "the average cost of a call to a customer care agent is \$5.00 and to an IVR (Interactive Voice

Response) system is \$0.40. In comparison, SMS texting costs approximately \$0.01 to \$0.02 per message.”³ This example uses call center employees that are typically minimum wage earners. Super-store retail employees—those with a pharmacy—have a union scale that is considerably greater than minimum wage. Lastly as we stated above, those employees of the pharmacy alone have to be employed at a superior rate as well. So, one can assume that the savings for WMT would be a multiple of the \$5.00 savings.

AN ALL-SEASON APP

Already, we have forgotten that this is a master services contract. Yes, there is discussion surrounding the “*pharmacy orders and pharmacy related business*”, that some of the information conveyed maybe “*protected health information*” and require security needed to adhere to HIPAA Regulations, but Single Touch’s #ADC program has already been used and established for other programs like #MEALS, and for merchandize promotion in the electronics and home entertainment area. If it is being used for Pharmacy (their most valuable in-store operation), it should be used for a veritable host of other departments.

To encapsulate the #ADC program that “modern terms” may make more relevant sense to today’s minds, Single Touch has created a system-wide Mobile Phone App that can be connected, beneficial and additive to every retail department in the store. Moreover, SITO’s “APP” has operational applicability for every retailer out there—particularly where important brand centric/large customer-base relationships are paramount. Only a modest modification of the customer interface is required with each new retailer. And once the Wal-Mart Pharmacy-Alert system is up and operating, what retailer would ever challenge SITO’s ability to complete a project with a lesser retail operation or interface with a client’s mission-critical MRP systems.

As an example, think about Wal-Mart’s in-store, Auto Departments and the opportunity #WMT would provide its customers there. You take your car in for a new set of snow tires on a snowy, December Saturday. At 9:30AM you go to the Wood Village store, select and buy the tires. Instead of waiting in the car center lounge until maybe 2:30 PM for the installation process to be completed, you decide to go with your wife and shop for craftsmen tools at Sears. At 3:35PM while you’re asleep on the TV room couch with the football game on, “#TIRES” buzzes-off and lets you know that the installation is completed and the car can be picked-up. “How Sweet It Is!”

Oh and by the way... *buzzt*...your phone reads, “Your old, Montgomery-Ward, lead-acid battery is almost shot Mr. Robins. With these cold-morning starts, that just might be enough to make it fail. And for \$169.95, the Wal-Mart technicians can install an Ultra-High Performance Optima RedTop Battery before you arrive? Press 1 for Yes and 3 for No.”

The same scenario works for the Photo Center. Yet, this adds a different dimension to the whole opportunity. If I download my photos to Wal-Mart to be processed at the store, I could have the message that the “photo finishing job is completed” delivered back to me on my computer or I could have the same message delivered to me on my phone. That actually makes more sense for me since the phone is nearly always with me where as my computer is not.

The photo message above points to the next step regarding the SITO/ATT relationship that is not mentioned in the MSA but makes substantial sense. There are many products that are bought by Wal-Mart shoppers via the website and picked-up at the store. A text message, as well as an email, is certainly an easy way, and actually more effective way, to inform a company’s retail customers that the customer’s goods are ready to be retrieved from the loading dock. So, we believe there is much more going on with this ADC program than that which is obvious from the MSA.

³ “Key SMS Marketing Tips for Retailers’ Holiday Campaigns”; **Mobile Marketer**; Sonali Shah; October 22, 2009

One more item that demonstrates the potential size of the overall project. When we dissected the 10-K and the Master Services Agreement, there is pricing discussion about what AT&T would pay SITO for their services provided. There are hints of the potential nuggets included in these sections. For instance, there was considerable discussion, with the dollar figures missing, as to what WMT (NYSE: WMT-\$53.90) will pay SITO for each of the various #ADC codes that it might use over the course of time. There is also considerable discussion given to the pricing, per text message sent out, and voice as well as media message delivered.

If we go back to the numbers used for the #MEALS test, the per message billing rate SITO was charging ATT that was charged to WMT for the delivery of the message service was 3¢ (for a txt message), 7¢ (phone voice message), and 22½¢ (for photo or media message). Now, it must be remembered that this was for a very limited test that lasted only a couple of months and that WMT had a fairly willing major supplier (Kraft) that was going to pick-up most of the tab. (Remember, the beauty of this #ADC program is that you and me, Mr. and Mrs. Retail customer, don't pay for the cellular phone call!)

Obviously, we can't assume the original pricing used two summers ago still holds. Given the kinds of volumes that are quoted in the MSA addendum, one can readily assume that there is going to be some sort of heady discount of SITO's per Txt/voicemail/media message charge. Remember, this is Wal-Mart. Also remember, this is a fixed-cost business for Single Touch and since they are also a Tier 1 Long-Distance provider, they should be able to pass along some of the cost crunching pressures to the downstream providers as well. My best guess is that SITO's beating down of cost pressures and economies of scale will allow them to still expand gross margin in the middle.

During the summer, #meals exercise, one has to assume that the cost of the cellphone charges went to the "End Users" (WMT's retail customer—Kraft) and the development costs resided at SITO. SITO did get to pick up the "incremental call traffic," which was nominal. The other factor that needs to be stressed here, and frequently emphasized is that much of the remaining work to facilitate the deployment and operation of additional programs and particularly volume(!) is "fixed." That said, SITO has invested considerable resources in building up the capability to tackle the additional capabilities and aspects of whatever WMT has asked and required over the last 18-months. To tackle this project, we are assuming that SITO has not only invested by developing software that sits both on their site to manage messaging, IVR tasks, routing and communication but the Company has been working to hook into WMT's enterprise software to understand its inventory, communications, etc. This seems to be outlined in the AT&T contract as well.

To say the least, SITO would now have an extensive understanding of WMT's MRP systems. It would also have needed considerable physical investment to fulfill this contract. We understand that SITO has added two, carrier-class data centers—one in Los Angeles and one in Chicago (in addition to the original facility in Anaheim)—boosting the Company's transmitting capacity to over 6 billion messages per year, as well as the dedicated internet and datalines to connect SITO to WMT. This investment now allows SITO to support more than just WMT's marketing program; it gives the capacity to facilitate several other customers and their programs.

Although not confirmed, we assume that roll-out is underway as we speak.

MOBILE COUPONING: SAME SMS CAPABILITY, DIFFERENT APP

On a different front, let's discuss another major opportunity that should be added to SITO's existing WMT initiative. On October 10, 2009, *The NBR Blog*⁴ published an article touching on a cellphone-based test regarding mobile couponing at Wal-Mart Inc.'s Sam's Clubs warehouse stores. In the article, it described how the program would extend to "higher-end-membership" customers the ability to receive discount offers on their

⁴ Please refer to the Appendix #1 to read the copy of the mentioned article.

favorite items through text messages. The program gained considerable business-press notice because of the super-retailer raising the profile of this avant-garde approach to advertising, and/or promotion, compared to the difficult times had by the more traditional press and broadcast media channels for couponing in the face of the weak economy.

This WSJ announcement, the above discussion regarding the Pharmacy Reminder program plus Wal-Mart's own well publicized proclamation regarding the Company's "Green initiative as another way to lessen deforestation caused by the use of paper coupons" and of course to sell the Company's "eco-friendly" way to its customers, all lead to the broad and ubiquitous idea that text couponing is a option that is on its way. When one considers that Wal-Mart processes something approaching 8 billion coupons annually, there's sufficient reason for the super-retailer to go with mobile couponing as quickly as possible. But, there are enumerable reasons and means for SMS couponing to be deployed by the Super-Retailer in their near-term. Here are some more major points that should be added into the mix of considerations:

- Mobile SMS texting (and for that reason, couponing) translates into urgent and time-sensitive communications.
- SMS alerts for new products on sale and sneak-peak offers make customers feel engaged—a mobile loyalty campaign, if your will—it will make them want to come back to retail outlets.
- Mobile coupons ensure that customers have the coupons when they need them versus print coupons that are: 1) ineffective and inefficient and 2) not targeted to a population and surely not to a certain demographic.
- Mobile coupons have a 10% to 20% higher conversion rate than print coupons.

In addition to better sell-through rates from a marketing stand-point and less use of paper by Wal-Mart, there are these operating advantages: paperless coupons mean far less "shrinkage" within the store operation, fewer forgeries and auditing problems, as well as faster reimbursement times from manufacturer to retailer. So from the retailers operating perspective, mobile coupons should be a perfect alternative to paper coupons.

What is it that keeps retailers in general, and WMT specifically, from making the switch to a mobile coupon system?

Without what is thought to be the staggering investment capital equipment and IT-infrastructure, it is very likely the increased wait for consumers to "check out" that's been the kiss of death in most situations. According to Phuc Truong, managing director of mobile marketing in the U.S. at Motext, which supports customers, such as Sears, Kmart and Autozone, "if you can make it past operations, you need to sell it to the technology group, and it's their job to say no, no matter what you have to tell them." Truong says the company typically will have an infrastructure in place. Mobile coupons will likely require the retail chain to rip out the old and install new. IT will want to know the cost of the new system and the return on investment. Trying to convince three groups within a retail company can make the deployment cycle long and tedious.⁵

The positive point here is that SITO and its #WMT ADC codes provide Wal-Mart the capability to proceed with mobile couponing without all the fuss and cost of installing new POS equipment, the backbone of the software package has been installed (vis-à-vis the installation of the Pharmacy Reminder program) and only some POS software and couponing codes from WMTs suppliers have to be provisioned to make the system work.

⁵ "What Keeps Brands From Mobile Coupons?"; Laurie Sullivan, *Media Post News*; September 24, 2009.

Think about the purchase of gasoline at many super-retail chains: You as a “valued customer” have a frequent-buyer customer number, which is essentially your home phone number. As you are paying for the gas at the pump, you insert your credit/debit card and to get the “frequent customer discount” you add your phone number. Voilà!, before your eyes the 3¢- to-10¢ per gallon discount registers on the meter, the price per gallon drops appropriately and as you start pumping gas, the tally sums-up at the discounted rate. This is essentially a mobile coupon.

The SITO solution is quite similar. There is no need for an Rf chip or a scanner or any special equipment or even a fancy Smartphone owned by the consumer. Coupons can be “loaded” to the consumers phone account from say, “Yahoo!’s” website, Google, newspapers, etc. When the customer is checking out at Wal-Mart’s POS stand, a combination of the cellphone number and an ID code can relay the mobile coupons against the tally...Poof! Like the gas pump situation.

Again, SITO and its ADC codes and data capability are right in the center of the whole operation. And, this opportunity could actually be a more profitable venture for SITO than the Pharmacy Reminder. As we have examined some of the competing alternative payment packages, it appears that SITO would receive a percentage fee based on the face value of the coupon redeemed or a straight base processing fee per coupon. For this, SITO provides the audit of all coupons processed and is paid audit fees. It also gets another source of revenue, that being the market measurement fee. Since each phone owner has a “known” demographic there can then be accurate consumer data collection tied to each phone. That information and the data it creates also generates fees about what demographic is buying which products over what timeframe. This is absolutely a “first” for the coupon/data mining experience.

The best thing that comes from this work to date, is that whatever is produced for Wal-Mart can be replicated and sold to Rite-Aide, Home Depot, K-mart, etc.

#ADC FOR DIRECT ADVERTIZING OF PROGRAMS, EVENTS AND SHOWS

Other companies that have agreed to work with Single Touch include Yahoo!, P&G, Sears, Chase Bank, Nextel de Mexico, Qualcomm and enumerable others are lined-up.

One of the more exciting ventures that is being developed near-term is the effort with Nextel de Mexico. This is where there is a joint partnership between SITO and Nextel of Mexico where the latter Company is woefully behind the competition in providing cellular data services to its client base and has sought out SITO to help bolster its position to build this very profitable share of business. In doing so, Nextel asked SITO to help develop this aspect of the market with a 2/3 vs. 1/3 revenue share (2/3 SITO). After many months of work, it is about to get launched.

Like mobile advertizing and promotion, Nextel de Mexico would start by having SITO blast out SMS messages prompting customers to pay attention to entertainment opportunities such as concerts, fights or games...they may even announce the availability to promote and deliver the events via the phone system. The point is that customers are: 1) more likely to pay attention to the advertizing when it is delivered over the cellphone than other modes of media advertizing and 2) once they become accustomed to the channel, the customers will try other data service alternatives such as mobile TV, GPS, other messaging signals, etc.

Nextel generates about \$2.4 billion in revenues and data services should be about 27% of total top line revenues. If SITO could boost revenues by 8% to 10%, it would be a very meaningful addition to SITO’s operating line since their margin is 20% to 30%, typically. For example if SITO could help boost Nextel’s data services activity to 3% in 2010, it would contribute almost \$50 million to SITO and drop \$15 million to the operating line.

PATENTS ARE PLAYING A LARGER ROLE IN SITO'S VALUE PROPOSITION

SITO has formulated the official “registry” of ADC codes. The Company has filed multiple patents and on this technology and is represented by Fish and Richardson who make this statement about the strength of SITO’s ADC IP position; “Single Touch is exclusive licensee to a patent portfolio that includes at least four patent applications that are pending worldwide and which we believe are seminal in the field of ADC technology. The following three applications have been published and thus are open for public inspection, although we have attached copies for your convenience:

- “Automatic Provisioning of Abbreviated Dialing Codes”
US Patent Application Publication No. US-2008-0232572
- “Content Selection and Delivery of Complementary Information”
US Patent Application Publication No. US 2006-0223576
- “Pushing Coupon Values”
US Patent Application Publication No. US-2008-0243616

A fourth pending application relating to ADC technology, entitled “Searchable Coupon Values,” has not yet been published but if you are interested in reviewing it, we may be able to facilitate you, provided a suitable non-disclosure agreement is first put in place.

A recently issued International Search Report suggests that Single Touch will have the benefit of broad patent claims that will issue in the near future and which will establish Single Touch as the pioneering patent holder in the field of ADC. When that happens, we believe that any company performing under the contract will necessarily have to practice Single Touch’s issued patent claims, and thus infringe Single Touch’s intellectual property. In addition, we note that, because Single Touch’s ADC patent applications have been published, upon patent issuance Single Touch will be entitled not only to an injunction prohibiting others from practicing Single Touch’s patented technology, but also will be entitled to money damages going back as far as the date of application publication. See 35 U.S.C. 154(d).”

OUR EARNINGS MODEL

The Company announced a raise of \$3 million in straight common equity which was completed in January. This financing was to start the cleaning-up of the balance sheet, possibly allow for the addition of board members, provide sufficient capital to launch of the Nextel de Mexico project, to start work on several other major projects (possibly International Hotels, Hertz, Yahoo!, Dillard’s, Microsoft to name a few) and to provide sufficient working capital to immediate working capital needs. We believe another raise is in the offing but its size and immediacy depends on the timing and the success of the Wal-Mart SMS ramp. Right now, given the dearth of information, we can only expect a need for another round until whatever WMT is doing is in full swing, which may be as soon as third quarter but can’t be too late given the cash burn rate of the Company.

We provide this earnings exercise more to show the leverage of the operating structure with which SITO has to work than to actually provide really valid, bottom-line numbers that it will produce over the next year-and-a-half. Indeed, we believe the actual earnings number for the fourth quarter of this year and the quarterly numbers for FY2011 may be a multiple of our original estimates. The reasons are several (as we have mentioned already)...

- SITO, via its announcements, and WMT’s participation, have only given investors a glimmer of the extent to which this relationship is really proceeding. Just yesterday did we really witness the true “roll-out” pace of the Pharmacy Alert program? Separately, we have never really heard an official

announcement regarding WMT's "Rollback Pricing" messaging efforts and yet messaging counts spiked 800%!!! Also in yesterday's announcement, we heard about the messaging opportunity regarding photo-finishing and the potential start-up there. Now that the dam has been broken, there has to be at least a half dozen other similar messaging opportunities which are in the offing and not part of our model. Remember, the master service agreement notes a quote for 50 million messages a month in the pricing schedule.

- Once WMT officially recognizes SITO's work, the little San Diego company is going to have to stand-back and watch the business storm through the doors: If it's good enough for the Goliath of retailing, do you not think Home Depot's going to be calling, or Sears, or Costco (who made its name in unofficial, one-off bargains) or Macy's, or any other major retailer. What about the deal with Microsoft or BestBuy, Hertz, Netflix, Walgreens....
- What about the different services that we've mentioned: There's couponing--which has its own set of unique economics, the delivery of media ads, banking, entertainment and probably the most distinctive and attractive is the patent infringement settlement opportunity. As we have observed SITO and worked with the Company—that is also to mean that we DO NOT WHOLLY UNDERSTAND THE ENTIRE LEGAL RAMIFICATIONS OF THE PATENT PORTFOLIO, we have come to learn that there is a genuinely an unassailable competitive stance regarding their market position. Management has been considering how best to capitalize on this opportunity.

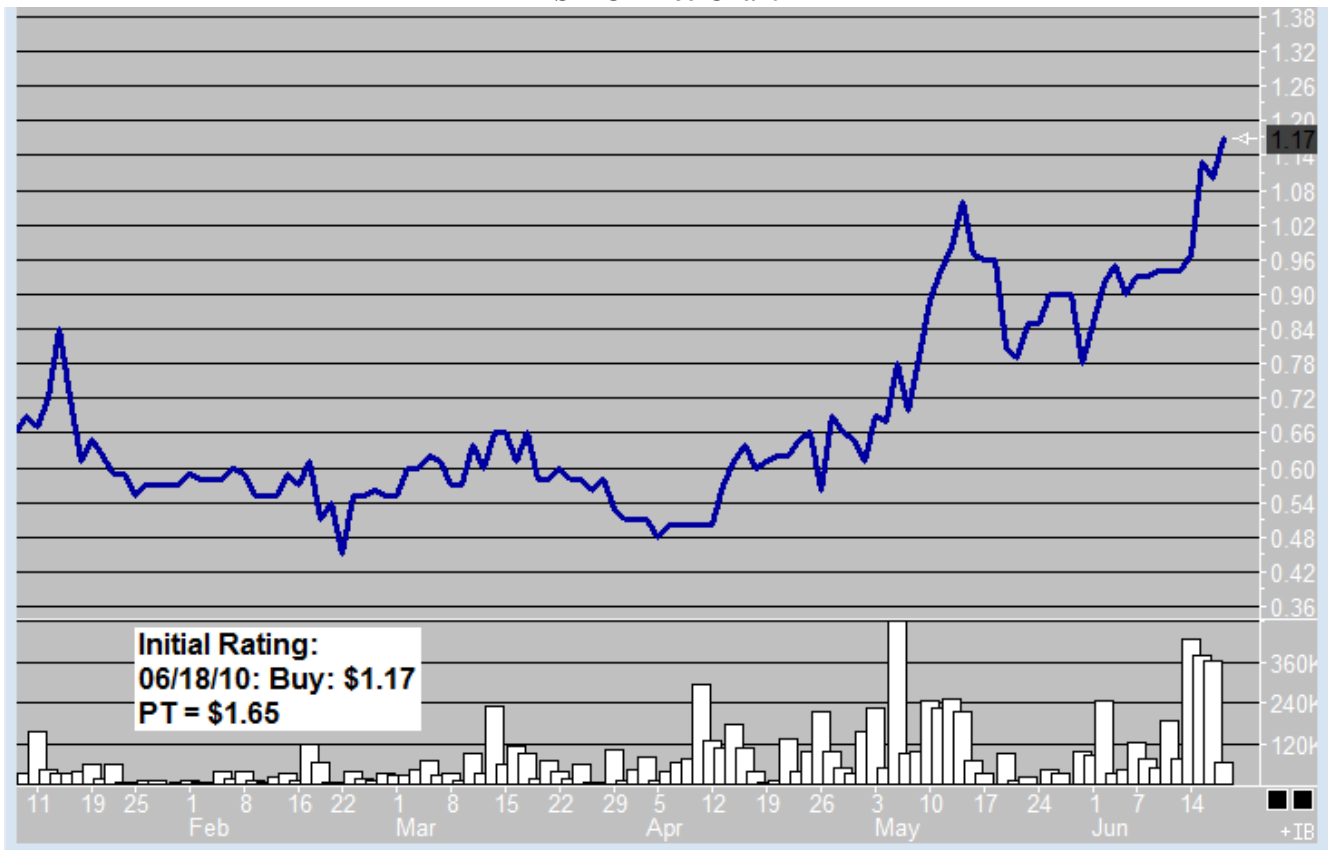
Regarding our own "guesstimate" of progress—since there is very little in the way of guidance, one has to really use financial telemetry to construct an earnings model for SITO. Ours is based on five major assumptions:

1. Beginning with the September initiation, as reported, of the SMS test, we are assuming that 250 of WMT's 4,250 were used and that the Pharmacy Reminder started with a little more than fifteen outgoing SMS alerts each day on average to start.
2. We "jammed" our models numbers to fit the reported revenue numbers for the first two quarters using the 260% growth number for the six month start-up ramp and the first monthly "progress reports" as announced by SITO. Then we adjusted growth in SMS messages accounting for:
 - a. The addition of the "Rollback Messages" that started in late April.
 - b. The split in SMS Message growth between Alerts and Rollback messages.
 - c. The June 17th announcement of the 1700 additional stores added to the Pharmacy Alert "system" averaging the addition of the new stores.
 - d. Lastly, we assumed that all 4250 stores were added to the Pharmacy Reminder system by the end of June.
3. We adjusted down our projection of revenues because we believe that WMT—known as the "king of cost crushers" would want some sort of price concession now that it appears the program is well underway. Hence, our guess is that SITO's price per SMS was cut from our guess of \$0.035 to \$0.025 per message. However, the gross margin would, and will stay, the same as more advertisement messages are included in the mix as that variation to the messaging opportunity is added later in the summer.
4. We only included the two programs that we can witness in progress at this time.
5. The first two quarters as reported are wholly confusing due to non-cash compensation items. The reality should be boiled down to cash burn reality as we have done with the third quarter. Our feeling is "who knows what's going on with 'non-cash comp, etc' how many more time does SITO have to return to the market for equity?" That's the real question!!!

OK, Ready?! We are using \$1.65 as our "first blush" target for SITO. This is based on our fiscal September, 2011 annual earnings figure of \$0.06 and a 26.5 PE multiple. Now, many investors may believe that the PE multiple to be pretty generous. I would concur given most normal situations. Here, it is backed-up with not only the ramp in the SMS message rate but the roll-out of other message opportunities within WMT, with other businesses that would want to piggy-back onto WMT's success. I believe that we may have the luxury of being

able to increase the guesstimate a couple of times as the months roll by. The other major point that is important to note is that the need for cash by the Company is greatly diminished after the June quarter, if growth is managed properly and the business is operated with an eye toward profitability. This should greatly lessen the need for multiple trips to the capital markets after the current quarter.

SITO Price Chart



Catalyst Financial Research

Introductory Research Report

Single Touch	Q1 FY2010A				Q2 FY2010A			Q3 FY2010E			Q4 FY2010E		2010 yearE	
	Sept. '09	Oct. '09	Nov. '09	Dec. '09	Jan. '10	Feb. '10	Mar. '10	Apr. '10	May. '10	Jun. '10	Jul. '10	Aug. '10		Sep. '10
Pharmacy Alert														
number of stores		250	250	250	250	250	250	250	250	2250	4250	4250	4250	
Average "c" per SMS		\$0.055	\$0.055	\$0.055	\$0.055	\$0.055	\$0.055	\$0.035	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	
Report'd mnthly ▲ in Text SMS	17.5%	17.5%	17.5%	17.5%	179.0%	22.0%	21.0%	40.0%	50.0%	nm	75.0%	33.0%	25.0%	
Ave. # of SMS per day/store	15.625	18	22	25	71	86	104	146	219	43	75	100	125	
# of SMS per day w/intotal stores in system		4,588	5,388	6,329	17,657	21,542	26,066	36,492	54,738	96,750	319,813	425,351	531,688	
# of SMS per month/ system		137,637	161,654	189,863	529,718	646,256	781,969	1,094,757	1,642,136	2,902,500	9,594,375	12,760,519	15,950,648	46,092,741
Gross Revs to SITO at \$0.035or\$0.025/SMS		\$7,570	\$8,891	\$10,442	\$29,134	\$35,544	\$43,008	\$38,317	\$41,053	\$72,563	\$239,859	\$319,013	\$398,766	\$1,227,700
Quarterly segment revenue				\$26,903			\$107,687			\$151,932			\$957,639	\$1,217,258
Rollback Alerts														
Report'd mnthly ▲ in Text SMS								17.0%	5600.0%	6.1%	34.2%	12.1%	10.8%	
# of SMS Rollback SMS per month								146,645	8,300,000	8,806,125	11,817,469	13,242,233	14,677,792	56,990,264
Gross Revs to SITO at \$0.035or\$0.025/SMS								\$5,133	\$207,500	\$220,153	\$295,437	\$331,056	\$366,945	\$1,426,223
Quarterly segment revenue										\$432,786			\$993,437	\$1,426,223
Combined segment statistics														
Total SMS messages	nm	137,637	161,654	189,863	529,718	646,256	781,969	1,241,402	9,942,136	11,708,625	21,411,844	26,002,752	30,628,440	
Percentage change		nm	17.5%	17.5%	179.0%	22.0%	21.0%	58.8%	700.9%	17.8%	82.9%	21.4%	17.8%	
Total Revenue Dollars	nm	\$7,570	\$8,891	\$10,442	\$29,134	\$35,544	\$43,008	\$43,449	\$248,553	\$292,716	\$535,296	\$650,069	\$765,711	
Quarterly Rev Rollup				\$26,903			\$107,687			\$584,718			\$1,951,076	\$2,643,481
Cost of Long Distance Phone Service										\$197,086			\$386,284	\$583,371
Gross Profit										\$387,632			\$1,564,792	\$2,060,110
Gross margin										66.29%			80.20%	77.93%
Operating costs (Cash)														
R&D										\$40,000			\$25,000	
Advice & Consult										\$100,000			\$30,000	
Professional fees										\$45,000			\$100,000	
Salaries & Wages										\$450,000			\$550,000	
Officers Compensation										\$70,000			\$110,000	
Travel expenses										\$50,000			\$60,000	
Rent										\$30,000			\$30,000	
G & A										\$60,000			\$60,000	
Total operating costs										\$845,000			\$965,000	
Profit from operations (cash)										\$ (457,368)			\$ 599,792	
										-78.22%			30.74%	
Interest Expense										175,000			165,000	
Earnings before taxes										\$ (632,368)			\$434,792	
Taxes (implied rate of 45%)										\$ -			\$195,656	
Net income - non-GAAP cash										\$ (632,368)			\$239,135	
										(\$0.01)			\$0.00	
										77,177,000			80,350,000	

This report was prepared from data and information believed reliable but not guaranteed by us as to its accuracy and does not purport to be complete. It is not to be considered as an offer to sell or a solicitation of an offer to buy the securities of the companies covered by this report. Opinions expressed are subject to change without notice. Catalyst Financial Resources LLC, its affiliates and other associates may have positions and may effect transactions in securities of companies mentioned herein. ©Catalyst Financial Resources LLC. Suite 201, 3220 SW 1st Ave. Portland, Or. 97239; (503) 241-1880.

Catalyst Financial Research

Introductory Research Report

Single Touch	Q1 FY2011E			Q2 FY2011E			Q3 FY2011E			Q4 FY2011E		2011 yearE	
	Oct. '10	Nov. '10	Dec. '10	Jan. '11	Feb. '11	Mar. '11	Apr. '11	May. '11	Jun. '11	Jul. '11	Aug. '11	Sep. '11	Sep. '11
Pharmacy Alert													
number of stores	4250	4250	4250	4250	4250	4250	4250	4250	4250	4250	4250	4250	
Average "c" per SMS	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	\$0.025	
Report'd mnthly ▲ in Text SMS	20.0%	17.0%	14.0%	13.0%	11.0%	9.0%	9.0%	8.3%	7.5%	5.0%	5.0%	5.0%	
Ave. # of SMS per day/store	150	176	200	226	251	274	298	323	347	365	383	402	
# of SMS per day w/intotal stores in system	638,026	746,490	850,999	961,629	1,067,408	1,163,475	1,268,187	1,373,447	1,476,456	1,550,278	1,627,792	1,709,182	
# of SMS per month/ system	19,140,778	22,394,710	25,529,970	28,848,866	32,022,241	34,904,243	38,045,625	41,203,412	44,293,667	46,508,351	48,833,768	51,275,457	391,465,600
Gross Revs to SITO at \$0.035or\$0.025/SMS	\$478,519	\$559,868	\$638,249	\$721,222	\$800,556	\$872,606	\$951,141	\$1,030,085	\$1,107,342	\$1,162,709	\$1,220,844	\$1,281,886	\$9,786,640
Quarterly segment revenue			\$1,676,636			\$2,394,384			\$3,088,568			\$3,665,439	\$9,148,391
Rollback Alerts													
Report'd mnthly ▲ in Text SMS	9.8%	9.1%	8.0%	7.9%	7.0%	5.9%	6.1%	5.8%	5.3%	3.6%	3.7%	3.7%	
# of SMS Rollback SMS per month	16,113,350	17,577,620	18,988,486	20,481,990	21,910,009	23,206,909	24,620,531	26,041,535	27,432,150	28,428,758	29,475,196	30,573,956	251,159,520
Gross Revs to SITO at \$0.035or\$0.025/SMS	\$402,834	\$439,440	\$474,712	\$512,050	\$547,750	\$580,173	\$615,513	\$651,038	\$685,804	\$710,719	\$736,880	\$764,349	\$6,278,988
Quarterly segment revenue			\$1,316,986			\$1,639,973			\$1,952,355			\$2,211,948	\$7,121,262
Combined segment statistics													
Total SMS messages	35,254,128	39,972,330	44,518,456	49,330,856	53,932,250	58,111,152	62,666,156	67,244,947	71,725,818	74,937,109	78,308,964	81,849,412	
Percentage change	15.1%	13.4%	11.4%	10.8%	9.3%	7.7%	7.8%	7.3%	6.7%	4.5%	4.5%	4.5%	
Total Revenue Dollars	\$881,353	\$999,308	\$1,112,961	\$1,233,271	\$1,348,306	\$1,452,779	\$1,566,654	\$1,681,124	\$1,793,145	\$1,873,428	\$1,957,724	\$2,046,235	
Quarterly Rev Rollup			\$2,993,623			\$4,034,356			\$5,040,923			\$5,877,387	\$16,269,653
Cost of Long Distance Phone Service			\$525,185			\$661,112			\$797,258			\$898,494	\$2,882,048
Gross Profit			\$2,468,438			\$3,373,245			\$4,243,665			\$4,978,893	\$13,387,605
Gross margin			82.46%			83.61%			84.18%			84.71%	82.29%
Operating costs (Cash)													
R&D			\$40,000			\$40,000			\$40,000			\$40,000	\$160,000
Advice & Consult			\$150,000			\$45,000			\$45,000			\$60,000	\$300,000
Professional fees			\$150,000			\$40,000			\$40,000			\$40,000	\$270,000
Salaries & Wages			\$700,000			\$700,000			\$800,000			\$1,000,000	\$3,200,000
Officers Compensation			\$150,000			\$170,000			\$200,000			\$200,000	\$720,000
Travel expenses			\$75,000			\$100,000			\$115,000			\$125,000	\$415,000
Rent			\$30,000			\$30,000			\$45,000			\$45,000	\$150,000
G & A			\$75,000			\$100,000			\$100,000			\$120,000	\$395,000
Total operating costs			\$1,370,000			\$1,225,000			\$1,385,000			\$1,630,000	5,610,000
Profit from operations (cash)			\$1,098,438			\$2,148,245			\$2,858,665			\$3,348,893	7,777,605
			36.69%			53.25%			56.71%			56.98%	0
Interest Expense			175,000			175,000			175,000			175,000	\$700,000
Earnings before taxes			\$ 923,438			\$1,973,245			\$2,683,665			\$3,173,893	7,077,605
Taxes (implied rate of 45%)			\$415,547			\$887,960			\$1,207,649			\$1,428,252	3,184,922
Net income - non-GAAP cash			\$507,891			\$1,085,285			\$1,476,016			\$1,745,641	3,892,683
			\$0.01			\$0.01			\$0.02			\$0.02	\$0.06
			82,150,000			83,500,000			83,700,000			83,900,000	83,312,500

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Appendix #1



Moving Towards Mobile Coupons?

posted by Jeff Yastine, Senior Correspondent at 5:31 PM on 10/12/09



My story tonight on NBR is about a trend called 'mobile coupons' - coupons you receive, not on paper, but on your cellphone. These coupons are typically sent via SMS (text-messaging), or by email (if you have a net-connected mobile phone). But it's not spam. You have to 'opt-in' to receive mobile coupons. This marketing tool is still quite new - JC Penney announced last month it would try out mobile coupons with some of its Houston-area stores. Sam's Club, the wholesale-club division of Wal-Mart, is also looking into mobile coupons. Eric Holmen, the president of mobile marketing firm SmartReply told me on the phone that only about 30 percent of the nation's national retailers have any kind of 'mobile coupon' strategy.

The question I kept asking as I researched this story is "why now?" After all, "texting" on cellphones has been around since the early 1990s. What took retailers (and marketers, for that matter) so long to see the value of mobile coupons? The answer, it seems, is a little more complex. Consumers - and businesses - have to be ready to accept a new technology, or a new delivery mechanism driven by technology. Even now, users of mobile-coupons tell us, it's not uncommon to show a coupon-bearing cellphone screen to a store's cashier, and find that the cashier may not have received the company memo on 'mobile coupons.' And there's the notion of consumer 'critical mass.' It doesn't make sense for a national retailer to plunge headlong into developing a mobile coupon marketing strategy, if the number of consumers who use them are in the hundreds.

While you'll still draw a blank from many people about 'mobile coupons' - I suspect that won't remain the case for very long. As retailers adopt this new marketing tool, so will consumers. Marketers mentioned one statistic to me which I thought was interesting. The redemption rate of paper coupons has always been low - one to two percent, by most accounts. On the other hand, we were told the redemption rate for mobile coupons is significantly higher - on the order of 10 to 20 percent. Perhaps that's hyperbole on the part of mobile marketers. If even 3 or 4 percent turns out to be correct, that's still double what paper coupons receive, and another reason why the use of mobile coupons may rise sharply in years to come.

Appendix #2

FINAL TRANSCRIPT

Jun. 04. 2010 / 6:30PM, WMT - Wal-Mart Stores, Inc. Analyst & Investor Webcast

Carol Schumacher - *Wal-Mart Stores - VP - IR*

Eduardo, the second part of that question was for Stephen about the marketing.

ANSWER:

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Oh. I'm sorry.

ANSWER:

Stephen Quinn - *Walmart US - EVP, Chief Marketing Officer*

We're communicating a couple of things. First of all, we're making sure that customers know about the most dramatic rollbacks that we've had. In addition to that, we're talking about our productivity cycle. And we found a really customer-friendly way to do that. You may have seen ads where we've talked about things that we've done in transportation and sourcing and how we actually lower costs and then pass those cost savings on to our customers. And our customers have responded really well to that. And we're seeing that in our data, not just on the testing of the ads, but also in terms of the impression that they have about Walmart, price impression, that type of thing.

The other thing that's really important to keep in mind in terms of how we communicate is we have to communicate across a whole number of mediums. You know, we do search where the in-store is critically important. Clearly, if you've walked in our stores lately you've seen a big visual impact from rollbacks in the stores. That's been really important to us. We're communicating that seasonally as the various items that are important to customers roll through the stores. And we're even doing things like mobile.

For example, you can type in right now "**pound wmt**" (***Bold, underscore and quotes added, MR***) into your phone, answer a couple of questions, and you'll start to be informed on your mobile device around the rollbacks that are available. You'll get three of those a day. And they're pretty sweet text messages to get, actually. So, we're on television. We're on radio. Obviously, digital is really important right now. And I think we're really seeing that customers are very aware that it's rollback time at Walmart right now.

QUESTION:

Jaison Blair - *Rochdale Research - Analyst*

Thank you. Jaison Blair, Rochdale Research. So, 30 or 40 years ago we shopped on Main Street. And then we moved to malls and big box stores. And Walmart was really a first mover in going from the five and dime to the big box. Over the last decade, Amazon has grabbed a commanding lead in product search. And you are chasing that lead, chasing that primary player. Mike mentioned in his shareholder presentation remarks about price transparency. It seems as though the next wave of retailing or merchandising innovation will be mobile devices. Do you need to be the first mover in mobile devices? And how do you maintain your relevance in this brave new world where we're all walking around and we know prices of everything?

ANSWER:

Eduardo Castro-Wright - *Wal-Mart Stores, Inc. - Vice Chairman*

Wan Ling is with me. So, I will also ask her to pitch in. But let me just state what might be obvious to you, but maybe not to everyone else. And that is because of who we are, we enjoy a special opportunity to partner and do things with key players in that space. All the big companies that are not retailers, as you can imagine, have a vested interest in participating, right? So, that opportunity exists to us probably more than anyone else because it provides access to other brands into that space. That's a reality, and something we are currently exploiting as we develop our platforms to be able to compete there. And the first decision we made was to create a global initiative, Global.com, where Wan Ling Martello, previously Senior Vice President for the International Business, was promoted to EVP. And then she took responsibility for that initiative. And she has been running quickly to get us there. So, Wan Ling?

Wan Ling Martello - *Wal-Mart Stores, Inc. - Head - Global.com*

Thank you, Eduardo. You're exactly right. Mobile would be the biggest disruptor, not just in general but for retail. And if you think about what's going on and changes in customer behavior, there are three elements that's going on. There is the query, the search -- you know, what are customers looking for? There's the element of some kind of a social graph that's now available online. And so I saw statistics not too long ago. 40% of people 12 years and older have some kind of personal information online. And then there's the element of location, which the mobile device will come into play. And so whoever can bring the three elements together would be very powerful.

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