

SINGLE TOUCH SYSTEMS INC  
Form 10-Q  
May 14, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended March 31, 2010**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 000-53744

**SINGLE TOUCH SYSTEMS, INC.**

(Exact name of small business issuer as specified in its charter)

Delaware

13-4122844

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

2235 Encinitas Blvd., Suite 210

Encinitas, California 92024

(Address of principal executive offices)

(760) 438-0100

(Registrants telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company; as defined within Rule 12b-2 of the Exchange Act.

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of each of the issuer's classes of common equity as of March 31, 2010:  
77,177,006 shares of common stock

1

SINGLE TOUCH SYSTEMS, INC.

		Contents	Page <u>Number</u>
PART I	FINANCIAL INFORMATION		
Item 1	Interim Financial Statements March 31, 2010		
	Condensed Consolidated Balance Sheets		3
	Condensed Consolidated Statements of Operations		4
	Condensed Consolidated Statements of Cash Flows		5
	Notes to the Interim Financial Statements		7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations		20
Item 3	Quantitative and Qualitative Disclosures About Market Risk		26
Item 4T	Controls and Procedures		26
Part II	OTHER INFORMATION		
Item 1	Legal Proceedings		27
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds		27
Item 3	Defaults Upon Senior Securities		28
Item 4	Submission of Matters to a Vote of Security Holders		28
Item 5	Other Information		28
Item 6	Exhibits		29
SIGNATURES			30

2

SINGLE TOUCH SYSTEMS, INC.  
Condensed Consolidated Balance Sheets

	March 31, 2010	September 30, 2009
<b>Assets</b>	(Unaudited)	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 619,104	\$ 259,558

2

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Accounts receivable - trade, net	79,542	104,423
Accounts receivable - related party	30,773	21,748
Prepaid consulting expense	-	1,152,625
Prepaid expenses - other	17,373	31,628
<b>Total current assets</b>	<b>746,792</b>	<b>1,569,982</b>
<b>Property and equipment, net</b>	<b>224,764</b>	<b>233,718</b>
<b>Other assets:</b>		
Capitalized software development costs, net	505,166	434,765
Intangible assets:		
Patents, net	838,487	100,985
Patent applications cost	398,131	-
Deposits and other assets	15,282	15,282
<b>Total other assets</b>	<b>1,757,066</b>	<b>551,032</b>
<b>Total assets</b>	<b>\$ 2,728,622</b>	<b>\$ 2,354,732</b>

**Liabilities and Stockholders' (Deficit)**

<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 830,437	\$ 1,386,548
Accrued compensation	279,094	715,846
Accrued compensation □ related party	239,419	219,468
Deferred revenue	12,500	-
Payroll taxes payable	453,340	-
Current obligation on patent acquisitions	175,000	-
Current portion of notes payable □ related parties	1,016,945	1,502,073
Note payable □ other	583,135	1,015,962
Convertible debentures - including accrued interest, net of discount	72,914	-
Convertible debentures □ related parties, including accrued interest, net of discounts	2,024,154	1,374,104
<b>Total current liabilities</b>	<b>5,686,938</b>	<b>6,214,001</b>
<b>Long term liabilities</b>		
Obligation on patent acquisitions	108,351	-
Derivative warrant liability	3,529,900	4,712,400
<b>Total liabilities</b>	<b>9,325,189</b>	<b>10,926,401</b>

**Stockholders' (Deficit):**

Preferred stock, \$.0001 par value, 5,000,000 shares authorized;

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Common stock, \$.001 par value; 200,000,000 shares authorized;	none outstanding	-	-
	Issued and outstanding:		
	77,177,006 shares at March 31, 2010, and	77,177	64,442
	64,442,417 shares at September 30, 2009		
Additional paid-in capital		96,657,882	92,568,239
Accumulated deficit		(103,275,626)	(101,204,350)
Common stock subscriptions receivable		(56,000)	-
		<hr/>	<hr/>
<b>Total stockholders' (deficit)</b>		<b>(6,596,567)</b>	<b>(8,571,669)</b>
		<hr/>	<hr/>
<b>Total liabilities and stockholders' (deficit)</b>		<b>\$ 2,728,622</b>	<b>\$ 2,354,732</b>
		<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements

3

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SINGLE TOUCH SYSTEMS, INC.  
Condensed Consolidated Statements of Operations (Unaudited)

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	For the Three Months ended		For the Six Months	
	March		March 31,	
	31,	2009	2010	2010
	2010			
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Revenue</b>				
Wireless applications	\$ 107,193	\$ 122,659	\$ 134,095	\$
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating expenses:</b>				
Royalties and application costs	131,485	222,218	281,653	
Research and development	36,851	13,104	47,405	
Stock based compensation □ non employees	-	3,457,876	1,152,625	5
Advisory and consulting services	159,250	64,227	204,650	
Professional fees	97,766	110,795	180,701	
Bad debt expense	54,084	-	54,084	
Salaries and wages	393,132	354,145	552,992	
Officers' compensation	68,750	68,750	137,500	
Travel expenses	41,731	47,695	67,024	
Rent expense	27,675	26,906	55,349	
Depreciation and amortization	147,879	172,108	265,733	

4

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General and administrative	48,085	127,015	94,730	
Net loss on settlement of indebtedness	28,750	-	45,580	
	<u>1,235,438</u>	<u>4,664,839</u>	<u>3,140,026</u>	<u>8</u>
<b>Total operating expenses</b>				
	<u>(1,128,245)</u>	<u>(4,542,180)</u>	<u>(3,005,931)</u>	<u>(7)</u>
<b>Loss from operations</b>				
<b>Other income (expenses):</b>				
Changes in fair value of derivative and warrant liability	1,981,100	4,932,722	1,182,500	3
Interest expense	(169,441)	(91,320)	(247,045)	
	<u>683,414</u>	<u>299,222</u>	<u>(2,070,476)</u>	<u>(3)</u>
Net (loss) before income taxes				
Provision for income taxes	-	-	(800)	
	<u>683,414</u>	<u>299,222</u>	<u>(2,071,276)</u>	<u>(3)</u>
<b>Net income (loss)</b>				
	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ (0.03)</u>	<u>\$</u>
Basic and diluted net income (loss) per share				
	<u>73,581,918</u>	<u>59,509,984</u>	<u>69,652,445</u>	<u>59</u>
Weighted average shares outstanding				

The accompanying notes are an integral part of these financial statements

4

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SINGLE TOUCH SYSTEMS, INC.  
Condensed Consolidated Statements of Cash Flows (Unaudited)

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**Cash flows from operating activities:**

Net loss			\$ (2,071,276)	
Adjustments to reconcile net loss to net cash (used in) operating activities:				
Amortization of discount on convertible debentures				69,500

5

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Depreciation expense	48,9
Amortization expense - software development costs	204,9
Amortization expense □ patents	11,8
Provision for bad debts	54,0
Stock based compensation - non employees	1,152,0
Loss on settlement of indebtedness	45,5
(Increase) decrease in assets	
(Increase) decrease in accounts receivable	(38,2)
(Increase) decrease in prepaid expenses	14,2
(Increase) decrease in deposits and other assets	
Increase (decrease) in liabilities	
Increase (decrease) in accounts payable	(514,5)
Increase (decrease) in payroll taxes payable	347,2
Increase (decrease) in accrued compensation	(310,7)
Increase (decrease) in accrued compensation due related party	
Increase (decrease) in accrued expenses	60,0
Increase (decrease) in accrued interest	24,5
Increase (decrease) in deferred income	12,5
Increase (decrease) in derivative liability	(1,182,5)
	<hr/>
<b>Net cash used in operating activities</b>	<b>(2,070,9)</b>
	<hr/>
<b>Cash flows from investing activities:</b>	
Purchase of property and equipment	(40,0)
Purchase of patent and patent applications	(830,5)
Capitalized software development costs	(275,3)
	<hr/>
<b>Net cash used in investing activities</b>	<b>(1,145,9)</b>
	<hr/>
<b>Cash flows from financing activities:</b>	
Proceeds from issuance of common stock	3,980,5
Proceeds received from related parties	
Principal reduction on related party loans	(504,0)
Principal reduction on notes payable	(400,0)
Proceeds from convertible debt and other notes payable	500,0
Finance costs	
	<hr/>
<b>Net cash provided by financing activities</b>	<b>3,576,5</b>
	<hr/>
<b>Net increase (decrease) in cash</b>	<b>359,5</b>
<b>Beginning balance □ cash</b>	<b>259,5</b>
	<hr/>
<b>Ending balance □ cash</b>	<b>\$ 619,0</b>
	<hr/>

**Supplemental information:**

Interest expense paid	\$	215,3
Income taxes paid	\$	

The accompanying notes are an integral part of these financial statements

5

SINGLE TOUCH SYSTEMS, INC.

Condensed Consolidated Statements of Cash Flows (Continued)

**Non-cash investing and financing activities:**

During the six months ended March 31, 2010, the Company issued 290,000 shares in cancellation of legal and accounting fees due totaling \$122,000. The shares were valued at their respective market value on date of issuance and the Company recognized a loss on the settlement of debt in the amount of \$45,580.

During the six months ended March 31, 2010, the Company recorded \$500,000 discount related to the Beneficial Conversion Feature of the underlying convertible note.

During the six months ended March 31, 2010, the Company issued 12,394,589 shares of its common stock for \$3,980,500 in cash and a subscription receivable for \$55,500 that was received in April 2010.

During the six months ended March 31, 2010, the Company issued 50,000 shares of its common stock to a Director through the exercise of an option. The shares were issued pursuant to a subscription receivable in the amount of \$500.

During the six months ended March 31, 2010, the Company charged \$616,702 to equity relating to the amortization of discounts on related party convertible debt (see Note 8).

In October 2008, the Company granted a warrant to an advisor for services. The warrant allows the advisor to purchase the greater of 5,952,362 common shares or 5.2% of the outstanding shares of the Company, calculated on a fully dilutive basis. The terms also allow for a cash-exercise. The warrant was originally valued at \$13,831,504 and capitalized as a prepaid expense. It is being charged to operations over the one year term of the consulting agreement. Based upon the terms of the warrant, the Company considers it to be a derivative and is including the fair value of the warrant in its liabilities (see Note 8). During the six months ended March 31, 2009, the Company charged \$569,439 to equity relating to the amortization of discounts on related party convertible debt (see Note 8).

The accompanying notes are an integral part of these financial statements

6

SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

**1. Organization, History and Business**

7

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Single Touch Systems Inc. (the Company) was incorporated in Delaware on May 31, 2000, under its original name, Hosting Site Network, Inc. On May 12, 2008, the Company changed its name to Single Touch Systems Inc.

On July 24, 2008, the Company acquired all of the outstanding shares of Single Touch Interactive, Inc. (Interactive), a company incorporated in the state of Nevada on April 2, 2002, in exchange for issuing 42,967,554 shares of its common stock. For financial reporting purposes, the acquisition was treated as a reverse acquisition whereby Interactive's operations continue to be reported as if it had actually been the acquirer. Assets and liabilities continue to be reported at Interactive's historical cost, as the Company had nominal assets, liabilities and operations before the reverse acquisition.

The Company develops software applications utilized by end users in downloading images, ringtones, games, and other content into their cell phones and other wireless communication devices.

On May 27, 2008, Interactive declared a 1-for-2 reverse split of its common stock. All references in the accompanying financial statements to the number of shares outstanding and per-share amounts have been restated to reflect this stock split.

### **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position of the Company as of March 31, 2010, and the results of its operations and cash flows for the three months and six-months ended March 31, 2010 and 2009. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to rules and regulations of the U.S. Securities and Exchange Commission (the Commission). The Company believes that the disclosures in the unaudited condensed consolidated financial statements are adequate to make the information presented not misleading. However, the unaudited condensed consolidated financial statements included herein should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009 filed with the Commission on January 14, 2010.

The accompanying consolidated financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company has accumulated operating losses since its inception (May 31, 2000). In addition, the Company has used ongoing working capital in its operations. At March 31, 2010, its accumulated deficit amounted to \$103,275,626.

In view of current matters, the continuation of the Company's operations is dependent on revenue from its licensing of its technologies and related services, advances made by its officers, and the raising of capital through the sale of its equity instruments or issuance of debt. Management believes that these sources of funds will allow the Company to continue as a going concern through 2010. However, no assurances can be made that current or anticipated future sources of funds will enable the Company to finance future periods' operations. In light of these circumstances, substantial doubt exists about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

7

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SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

## **2. Summary of Significant Accounting Policies**

### **Reclassification**

Certain reclassifications have been made to conform the 2009 amounts to 2010 classifications for comparative purposes.

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Single Touch Systems Inc. and its wholly owned subsidiaries, Single Touch Interactive, Inc, and HSN, Inc. (an inactive company formed in New Jersey on August 21, 2001). Intercompany transactions and balances have been eliminated in consolidation.

### **Revenue Recognition**

The Company recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 10 *Revenue Recognition in Financial Statements*, as revised by SAB No. 104. As such, the Company recognizes revenue when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable and collectibility is probable. Sales are recorded net of sales discounts.

Revenue is derived from licensing of the Company's wireless applications to various telecommunication companies. Under the terms of the various licensing agreements, the Company receives a fee, net of revenue sharing and other costs, each time its application is utilized by the end user. Revenue is recognized in the month the application is utilized. The Company records its revenue pursuant to Accounting Standards Codification (ASC) Topic 605-45-45 *Reporting Revenue Gross as a Principal versus Net as an Agent*.

Advanced licensing fees received with minimum guarantees where it cannot determine the fee earned are recognized in income on the straight line basis over the term of the license in accordance with ASC Topic 928-605-25, *Financial Reporting in the Record and Music Industry*.

In addition, the Company also generates income through the development of software for third parties on a contractual basis. Revenue is recognized upon delivery of the software.

### **Accounts Receivable**

Accounts receivable is reported at the customers' outstanding balances less any allowance for doubtful accounts. Interest is not accrued on overdue accounts receivable.

### **Allowance for Doubtful Accounts**

An allowance for doubtful accounts on accounts receivable is charged to operations in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on historical write-off percentages and information collected from individual customers. Accounts receivable are charged off against the allowance when collectibility is determined to be permanently impaired. As of March 31, 2010, the Company established an allowance for doubtful accounts totaling \$54,084.

### **Property and Equipment**

Property and equipment are stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed. At the time property and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

Depreciation is computed on the straight-line and accelerated methods for financial reporting and income tax reporting purposes based upon the following estimated useful lives:

Software development	2- 3 years
Equipment	5 years
Computer hardware	5 years
Office furniture	7 years

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SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

### **Long-Lived Assets**

The Company accounts for its long-lived assets in accordance with ASC Topic 360-10-05, *Accounting for the Impairment or Disposal of Long-Lived Assets*. ASC Topic 360-10-05 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. At December 31, 2009, the Company determined that none of its long-term assets were impaired.

### **Prepaid Royalties**

The Company's agreements with licensors and developers generally provide it with exclusive publishing rights and require it to make advance royalty payments that are recouped against royalties due to the licensor or developer based on product sales. Prepaid royalties are amortized on a software application-by-application basis, based on the greater of the proportion of current year sales to total current and estimated future sales or the contractual royalty rate based on actual net product sales. The Company continually evaluates the recoverability of prepaid royalties, and charges to operations the amount that management determines is probable that will not be recouped at the contractual royalty rate in the period in which such determination is made or at the time the Company determines that it will cancel a development project. Prepaid royalties are classified as current and non-current assets based upon estimated net product sales within the next year.

### **Capitalized Software Development Costs**

The Company capitalizes internal software development costs subsequent to establishing technological feasibility of a software application. Capitalized software development costs represent the costs associated with the internal development of the Company's software applications. Amortization of such costs is recorded on a software application-by-application basis, based on the greater of the proportion of current year sales to total of current and estimated future sales for the applications or the straight-line method over the remaining estimated useful life of the software application. The Company continually evaluates the recoverability of capitalized software costs and will charge to operations amounts that are deemed unrecoverable for projects it abandons.

### **Issuances Involving Non-cash Consideration**

All issuances of the Company's stock for non-cash consideration have been assigned a dollar amount equaling the market value of the shares issued on the date the shares were issued for such services. The non-cash consideration received pertains to consulting services.

### **Stock Based Compensation**

The Company accounts for stock-based compensation under ACS Topic 505-50, formerly SFAS No. 123R, *Share-Based Payment* and SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - An amendment to SFAS No. 123*. These standards define a fair value based method of accounting for stock-based compensation. In accordance with SFAS Nos. 123R and 148, the cost of stock-based compensation is measured at the grant date based on the value of the award and is recognized over the vesting period. The value of the stock-based award is determined using the Black-Scholes option-pricing model, whereby compensation cost is the excess of the fair value of the award as determined by the pricing model at the grant date or other measurement date over the amount that must be paid to acquire the stock. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive the benefit, which is generally the vesting period. During the three months ended March 31, 2010 and 2009, the Company recognized stock based compensation expense of \$0 and \$3,457,846 from the granting of a common

stock warrant to an advisor. During the six months ended March 31, 2010 and 2009, the Company recognized stock based compensation expense of \$1,152,625 and \$5,763,127 from the granting of a common stock warrant to an advisor.

### Loss Per Share

The Company reports earnings (loss) per share in accordance with ASC Topic 260-10, "*Earnings per Share*." Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share has not been presented since the effect of the assumed conversion of warrants and debt to purchase common shares would have an anti-dilutive effect. Potential common shares as of March 31, 2010 that have been excluded from the computation of diluted net loss per share include 35,580,145 warrants, 8,675,000 options, and \$2,892,957 of debt convertible into 31,263,314 shares of the Company's common stock. Potential common shares as of March 31, 2009 that have been excluded from the computation of diluted net loss per share were 30,993,362 warrants and \$2,392,957 of debt convertible into 29,911,963 shares of the Company's common stock. If such shares were included in diluted EPS, they would have resulted in weighted-average common shares of 143,693,981 and 120,415,309 for the three months ended March 31, 2010 and 2009, respectively, and 138,523,132 and 120,347,652 for the six months ended March 31, 2010 and 2009, respectively.

9

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SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

### Cash and Cash Equivalents

For purpose of the statements of cash flows, the Company considers cash and cash equivalents to include all stable, highly liquid investments with maturities of three months or less.

### Concentration of Credit Risk

The Company primarily transacts its business with one financial institution. The amount on deposit in that one institution may from time-to-time exceed the federally insured limit.

During the three and six months ended March 31, 2010, significantly all of the Company's revenue was generated from contracts with eight customers. During the three and six months ended March 31, 2009, significantly all of the Company's revenue was generated from contracts with ten customers.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Convertible Debentures

If the conversion feature of conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 "*Debt with Conversion and Other Options*." In those circumstances, the convertible debt is recorded net of the discount related to the BCF and the Company amortizes the discount to interest expense or equity (if the debt is due to a related party), over the life of the debt using the effective interest method.

### **Income Taxes**

The Company accounts for its income taxes under the provisions of ASC Topic 740 *[Income Taxes]* (formerly Statement of Financial Accounting Standards 109). The method of accounting for income taxes under ASC 740 is an asset and liability method. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

### **Recent Accounting Pronouncements**

In March 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-11 (ASU 2010-11), Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives. The amendments in this Update are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity's first fiscal quarter beginning after issuance of this Update. The Company does not expect the provisions of ASU 2010-11 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-10 (ASU 2010-10), Consolidation (Topic 810): Amendments for Certain Investment Funds. The amendments in this Update are effective as of the beginning of a reporting entity's first annual period that begins after November 15, 2009 and for Interim periods within that first reporting period. Early application is not permitted. The Company does not expect the provisions of ASU 2010-10 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB issued ASU No. 2010-09 *[Subsequent Events (ASC Topic 855) Amendments to Certain Recognition and Disclosure Requirements]* (*[ASU No. 2010-09]*). ASU No. 2010-09 requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement for an SEC filer to disclose a date, in both issued and revised financial statements, through which the filer had evaluated subsequent events. The adoption did not have an impact on the Company's financial position and results of operations.

In January 2010, the Financial Accounting Standards Board (*[FASB]*) issued Accounting Standards Update (*[ASU]*) No. 2010-06, Improving Disclosures about Fair Value Measurements. ASU No. 2010-06 amends FASB Accounting Standards Codification (*[ASC]*) 820 and clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements and employers' disclosures about postretirement benefit plan assets. This ASU is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of ASU 2010-06 is not expected to have a material impact on the Company's condensed consolidated financial statements.

10

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SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

### **3. Accounts Receivable**

Fees earned but not paid as of March 31, 2010, net of any revenue sharing, amounted to \$164,339. Of this amount, \$30,733 is due from Activate, Inc., a related party. The Company established a reserve for bad debt at March 31, 2010 totaling \$54,084.

### **4. Property and Equipment**

The following is a summary of property and equipment at March 31, 2010:

Computer hardware	\$	541,791
Equipment		46,731
Office furniture		37,194
		<hr/>
		625,716
Less: accumulated depreciation		(400,952)
		<hr/>
	\$	224,764
		<hr/>

Depreciation expense for the three months ended March 31, 2010 and 2009 was \$24,250 and \$20,894, respectively. Depreciation expense for the six months ended March 31, 2010 and 2009 was \$48,955 and \$41,788, respectively.

### 5. Capitalized Software Development Costs

The following is a summary of capitalized software development costs at March 31, 2010:

Beginning balance	\$	434,765
Additions		275,359
Amortization		(204,958)
Charge-offs		-
		<hr/>
Ending balance	\$	505,166
		<hr/>

Amortization expense for the three months ended March 31, 2010 and 2009 was \$82,736 and \$102,689, respectively. Amortization expense for the six months ended March 31, 2010 and 2009 was \$204,958 and \$319,846, respectively.

Amortization expense for the remaining estimated lives of these costs are as follows:

<u>Year ending March 31,</u>		
2010	\$	245,008
2011		260,158
		<hr/>
	\$	505,166
		<hr/>

### 6. Intangible Assets

On June 2, 2009, the Company entered into an Intellectual Property Rights Purchase and Transfer Agreement (the "Agreement") with Streamworks Technologies, Inc., a Delaware corporation (the "Streamworks"). Pursuant to the Agreement, the Company acquired a portfolio of sixteen patents and patent applications related primarily to the management, streaming and routing of electronic media. In consideration for the portfolio, Streamworks received 3,666,667 common shares of the Company and warrants to purchase 1,833,334 shares of the Company's common stock at an exercise price of \$2.30 per share for a period of two years.

In addition, non-compete agreements were provided to the Company by certain management of Streamworks and the Company provided Streamworks with registration rights covering the common shares issued pursuant to the agreement. The Company valued the intellectual property at the fair value of the common shares and warrants

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provided totaling \$5,470,851. The property purchased has not reached technological feasibility. Therefore, the Company valued the technology at its estimated fair value of \$104,418 and recognized an impairment loss during the year ended September 30, 2009 of \$5,366,433. The Company is amortizing the technology's estimated fair value of \$104,418 over its seven year estimated life. On December 14, 2009, the Company's president assigned all of his rights in a patent and various patent applications for a total of \$244,840, which represented the total legal fees he incurred relating to the property transferred. Of the \$244,840 total, \$42,368 is allocated to the cost of the patent and \$202,472 is allocated to the various patent applications. The Company incurred additional legal fees associated with the patent applications during the six months ended March 31, 2010 of \$70,950. Costs associated with patent applications are not being amortized. Upon the issuance of a patent, its respective cost will be amortized over the patent's estimated useful life. Costs associated with abandoned applications are charged to operations.

11

SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

On March 15, 2010, the Company purchased six patents and three patent applications from an unrelated third party for \$900,000 of which \$550,000 was paid on the execution of the purchase agreement. \$175,000 is due on or before March 15, 2011 and the final installment of \$175,000 is due on or before March 15, 2012. As the agreement did not provide for any stated interest on the payments, the Company was required to impute interest on the payment stream. The Company present valued the payments at \$831,394 using an effective interest rate of 15% in its computation. Of the \$831,394, \$706,685 was allocated to the purchased patents and \$124,709 was allocated to the patent applications. The patents are being amortized over 7 years. The value assigned to the patent applications is not being amortized. Upon the issuance of a patent, its respective cost will be amortized over the patent's estimated useful life. Costs associated with abandoned applications are charged to operations. The Company granted the Seller a license to utilize all acquired patents over their respective lives on a world-wide basis for no consideration. In addition, the Company is required to reserve for the Seller ten abbreviated dialing codes for a five year period.

Amortization charged to operations for the three months ended March 31, 2010 and 2009 was \$7,893 and \$0, respectively. Amortization charged to operations for the six months ended March 31, 2010 and 2009 was \$11,821 and \$0, respectively. A summary of patent costs subject to amortization at March 31, 2010 is as follows:

Patent costs	\$	853,741
Less accumulated amortization		(15,254)
		<u>838,487</u>
	<u>\$</u>	<u>838,487</u>

A schedule of amortization expense over the estimated life of the patents is as follows:

<u>Period Ending March 31.</u>		
2011	\$	120,421
2012		120,421
2013		120,421
2014		120,421
2015		120,421
Thereafter		236,382
		<u>838,487</u>
	<u>\$</u>	<u>838,487</u>

**7. Income Taxes**

As of March 31, 2010, for income tax purposes, the Company has unused operating loss carryforwards of approximately \$26,100,000, which may provide future federal tax benefits of approximately \$8,874,000 which expire in various years through 2030 and future state benefits of approximately \$2,307,000 which expire in various years through 2020.

An allowance of \$11,181,000 has been provided to reduce the tax benefits accrued by the Company for these operating losses to zero as it cannot be determined when, or if, the tax benefits derived from these losses will materialize. Timing differences between expenses deducted for income tax and deducted for financial reporting purposes are insignificant and have no material impact to the differences in the reporting of income taxes.

The provisions for income tax expense for the six months ended March 31, 2010 and 2009 are as follows:

		<u>2010</u>		<u>2009</u>
Current				
Federal	\$	-	\$	-
State		800		1,026
		<u>          </u>		<u>          </u>
Total income tax expense	\$	800	\$	1,026
		<u>          </u>		<u>          </u>

**8. Obligation on Patent Acquisitions**

As discussed in Note 6, the Company acquired six patents and three patent applications for a payments totaling \$900,000 of which \$550,000 was paid. The remaining \$350,000 is payable in two annual installments of \$175,000 each. The patents have been pledged as collateral against the remaining balance due. As the agreement did not provided for any stated interest on the remaining two payments, the Company imputed interest at an annual rate of 15% and present valued the remaining payments to \$281,394. Interest accrued and charged to operations for the three and six months ended March 31, 2010 totaled \$1,957 and \$0 respectively. Following is the maturities of the long-term portion of the obligation:

March 31, 2012	\$175,000
Less imputed interest	<u>(66,749)</u>
	<u>\$108,251</u>

12

SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

**9. Convertible Debt**

In March 2010, the Company received \$500,000 in consideration for issuing a convertible note and warrants to purchase 1,000,000 shares of the Company's common stock. The note is assessed interest at a rate of 12% per annum and accrued interest is required to be paid quarterly commencing on June 30, 2010. Principal is convertible into shares of the Company common stock at a price of \$0.37 per share. In the event the Company undertakes additional financing at a price per share less than \$0.37, then the conversion rate will be adjusted to the price per share of the additional financing. The note matures on September 30, 2010, when principal and any

remaining accrued interest are fully due and payable.

The warrants are exercisable into common shares commencing March 12, 2010 at a price of \$0.75 per share and expire on March 12, 2012.

As required, the Company valued the warrants and conversion feature of the note. The value of these instruments totaled \$500,000, which was recorded as a discount against the note's outstanding balance. The discount is amortized to interest expense over the life of the debt using the effective interest method.

Interest charged to operations relating to this note for the three months ended six months ended March 31, 2010 and 2009 amounted to \$3,167 and \$0 respectively.

A summary of the balance due as of March 31, 2010 is as follows:

Principal balance due	\$500,000
Accrued interest	3,167
Less: discount	<u>(430,253)</u>
	<u>\$ 72,914</u>

For the three months ended six months ended March 31, 2010 and 2009, the Company charged \$69,747, and \$0, respectively, to operations on the amortization of the discount.

#### **10. Related Parties - Loan Activities**

##### **Note payable - officer**

The Company's president has assisted in funding the operations of the Company through loan advances of which a portion have been repaid. Initially, the outstanding balance, including accrued interest assessed at a rate of 8% per annum, was fully due and payable on December 2010. On July 24, 2008, the Company modified the terms of the debt and the balance due him on that date including accrued interest and accrued compensation totaling \$2,319,512 was evidenced by a convertible promissory note bearing interest at an annual rate of 8%. Interest is payable monthly and the principal outstanding balance is payable on demand. If no demand is made, than the principal balance and any accrued interest is fully due and payable on July 15, 2010. Any portion of the outstanding principal loan balance is convertible into shares of the Company's common stock at a price of \$0.08 per share.

The Company accounted for the modification of the debt pursuant to EITF 96-19 [*Debtor's Accounting for a Modification or Exchange of Debt Instruments*] and APB Opinion 26 (ASC Topic 470-50), and recognized a gain on the modification of \$2,319,512 that was charged to equity. The convertible debt was recorded net of a discount that includes a beneficial conversion feature (["BCF"]) amounting to \$2,319,512. The discount is amortized to equity over the life of the debt using the effective interest method.

Interest charged to operations relating to this note for the three months ended March 31, 2010 and 2009 amounted to \$45,755 and \$45,755 respectively. Interest charged to operations relating to this note for the six months ended March 31, 2010 and 2009 amounted to \$92,526 and \$92,526 respectively.

A summary of the balance due the Company's president as of March 31, 2010 is as follows:

Principal balance due	\$ 2,319,512
Accrued interest	49,340
Less: discount	<u>(411,963)</u>
	<u>\$ 1,956,889</u>

For the three months ended March 31, 2010 and 2009, the Company charged \$301,866 and \$278,731, respectively, to equity on the amortization of the discount. For the six months ended March 31, 2010 and 2009, the Company charged \$597,774 and \$551,962, respectively, to equity on the amortization of the discount.

## SINGLE TOUCH SYSTEMS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

**Note Payable - Activate, Inc.**

Activate, Inc. (Activate), a corporation wholly owned by the Company's President, has advanced the Company \$50,000. Under the originally terms of the loan, the advance was assessed interest at an annual rate of 8% and was fully due and payable with accrued interest in December 2010. On July 24, 2008, the Company modified the terms of the debt and the balance due Activate on that date including accrued interest totaling \$73,445 was evidenced by a convertible promissory note bearing interest at an annual rate of 8%. Interest is payable monthly and the principal outstanding balance is payable on demand. If no demand is made, than the principal balance and any accrued interest is fully due and payable on July 15, 2010. Any portion of the outstanding principal loan balance is convertible into shares of the Company's common stock at a price of \$0.08 per share. The Company accounted for the modification of the debt pursuant to EITF 96-19 *Debtor's Accounting for a Modification or Exchange of Debt Instruments* and APB Opinion 26 (ASC Topic 470-50), and recognized a gain on the modification of \$73,445 that was charged to equity. The convertible debt was recorded net of a discount that includes BCF amounting to \$73,445. The discount is amortized to equity over the life of the debt using the effective interest method.

Interest charged to operations relating to this note for the three months ended March 31, 2010 and 2009 amounted to \$1,449 and \$1,449, respectively. Interest charged to operations relating to this note for the six months ended March 31, 2010 and 2009 amounted to \$2,860 and \$2,930, respectively.

A summary of the balance due to Activate as of March 31, 2010 is as follows:

Principal balance due	\$	73,445
Accrued interest		6,864
Less: discount		<u>(13,044)</u>
	\$	<u>67,265</u>

For the three months ended March 31, 2010 and 2009, the Company charged \$9,558 and \$8,826, respectively, to equity on the amortization of the discount. For the six months ended March 31, 2010 and 2009, the Company charged \$18,928 and \$17,477, respectively, to equity on the amortization of the discount.

In addition to the above, during the year ended September 30, 2009 Activate has advanced the Company a net amount of \$795,397. During the six months ended March 31, 2010, the Company repaid \$504,000 on these advances. The advances bear interest at a rate of 8% and the outstanding balance is fully due and payable on demand. Interest accruing on the advances and charged to operations for the three months ended March 31, 2010 and 2009 amounted to \$9,750 and \$0, respectively. Interest accruing on the advances and charged to operations for the six months ended March 31, 2010 and 2009 amounted to \$25,158 and \$0, respectively. The balance of the outstanding advances and related accrued interest at March 31, 2010 amounted to \$340,968.

In June 2009, Activate purchased a \$250,000 promissory note from a debtor of the Company and assumed all of his rights and interest in the note. The note initially matured on June 30, 2009 and has been extended to March 31 2010. The note bears interest at an annual rate of 10%. Interest accruing on this note and charged to operations during the three months and six months ended March 31, 2010 and amounted to \$6,164 and \$13,726, respectively. The balance of the Note at March 31, 2010 including accrued interest amounted to \$273,691.

### Other Related Party Loans

A Company director and an affiliate of the director advanced funds to the Company. The balance of the advances began accruing interest in December 2008 at an annual rate of 8%. The total balance owed as of March 31, 2010 including accrued interest was \$401,961. Interest accrued and charged to operations during the three months ended March 31, 2010 and 2009 amounted to \$10,770 and \$7,694, respectively. Interest accrued and charged to operations during the six months ended March 31, 2010 and 2009 amounted to \$21,305 and \$9,533, respectively. The principal and accrued interest are due on demand.

14

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SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

### 11. Notes Payable - Other

On December 5, 2008, the Company entered into a Loan and Security Agreement with a third party for a total loan of \$1,000,000. Proceeds from the loan were net of loan fees incurred by lender. The loan bears interest at an annual rate of 10% per annum and accrued interest is payable 90 days after the loan proceeds are received. All related party debt is subordinate to this loan. The loan has been guaranteed by the Company's President, and is secured by the Company's assets.

In June 2009, the Parties entered into a Change in Terms Agreement. Under the terms of the agreement, the maturity date of the loan was initially extended to July 31, 2009. In consideration for the extension, the Company paid an interest payment of \$25,000 and agreed to a loan extension fee of \$25,000 that increased the amount the principal balance of the note. In addition, the Agreement required the Company to pay \$300,000 by July 5, 2009.

The Agreement allowed for further extensions assuming the Company was not in default as of July 31, 2009. To extend the maturity date to August 31, 2009, the Company was required make additional payments to the noteholder of no less than \$300,000 by July 31, 2009, pay an extension fee of \$25,000 due by July 31, 2009, and pay all interest that has accrued to July 31, 2009. A final extension to September 30, 2009 was available providing the Company made additional payments to the noteholder of no less than \$300,000 by August 31, 2009, paid an extension fee of \$25,000 by August 31, 2009, and paid all interest that had accrued through August 31, 2009.

The Company made principal repayments of \$200,000 during the year ended September 30, 2009 and paid loan fees totaling \$75,000 that were charged to operations during that period. On March 29, 2010, the Company made a payment including principal and accrued interest totaling of \$431,000. The balance due at March 31, 2010 totaled \$400,000. Subsequent to the period ended March 31, 2010 the company made an additional payment of \$400,000 towards the balance due.

An unrelated third party advanced a total of \$120,000 to the Company. The balance owed as of March 31, 2010 including accrued interest totaled \$130,152. Interest accrued and charged to operations during the three months ended March 31, 2010 and 2009 amounted to \$2,367 and \$552. Interest accrued and charged to operations during the six months ended March 31, 2010 and 2009 amounted to \$4,787 and \$552. The principal and accrued interest are due on demand.

An unrelated third party advanced a total of \$50,085 to the Company. The balance owed as of March 31, 2010 including accrued interest totaled \$52,983. Interest accrued and charged to operations during the three months ended March 31, 2010 and 2009 amounted to \$988 and \$0. Interest accrued and charged to operations during the six months ended March 31, 2010 and 2009 amounted to \$1,998 and \$0. The principal and accrued interest are due on demand.

A summary of the balance due on these loans as of March 31, 2010 is as follows:

Principal balance due	\$	570,085
Accrued interest		<u>13,050</u>
	\$	<u>583,135</u>

## 12. Related Party Transactions

On December 14, 2009, the Company's president assigned all of his rights in a patent and various patent applications for a total of \$244,840, which represented the total legal fees he incurred relating to the property transferred.

In March 2010, a Company director exercised warrants to purchase 50,000 shares of the Company's common stock for \$500. The director did pay the \$500 at the time of the shares were issued and the \$500 was recorded as a receivable.

15

SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

## 13. Fair Value

The Company's financial instruments consist principally of notes payable, convertible debentures and a derivative warrant liability. Notes payable and convertible debentures are financial liabilities with carrying values that approximate fair value. The Company determines the fair value of notes payable and convertible debentures based on the effective yields of similar obligations. The Company determines the fair value of its derivative warrant liability based upon the trading prices of its common stock on the date of issuance and when applicable, on the last day of the quarter. The Company uses the Black-Scholes Option Model in valuing the fair value of its derivative warrant liability.

The Company believes all of the financial instruments' recorded values approximate fair market value because of their nature and respective durations.

The Company complies with the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), previously referred to as SFAS No. 157. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements. ASC 820-10-35, *Fair Value Measurements and Disclosures - Subsequent Measurement* (ASC 820-10-35), clarifies that fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10-35 also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The Company also follows ASC 825 *Interim Disclosures about Fair Value of Financial Instruments*, previously referred to as FAS 107-1 to expand required disclosures.

ASC 820-10-35 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10-35 are described below: Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

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Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company utilizes the best available information in measuring fair value. The following table summarizes, by level within the fair value hierarchy, the financial assets and liabilities recorded at fair value on a recurring basis as of March 31, 2010:

	March 31, 2010			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Liabilities</b>				
Notes payable -				
Related parties		- \$ 1,016,945		- \$ 1,016,945
Other		- \$ 581,135		- \$ 581,135
Obligation on patent acquisition		- \$ 283,351		- \$ 283,351
Convertible debentures		- \$ 503,167		- \$ 503,167
Convertible debentures -				
Related parties		- \$ 2,449,161		- \$ 2,449,161
Derivative liability		- \$ 3,529,900		- \$ 3,529,900

16

SINGLE TOUCH SYSTEMS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

**14. Deferred Income**

In December 2005, the Company received \$2,000,000 in connection with an option agreement and related service agreement. Under the terms of the option agreement, the third party payer had until July 30, 2006 to exercise the option to acquire the Company. The option was not exercised and the \$2,000,000 is treated as an advance against royalties earned by the Company on the use of an application licensed to the third party payer.

Under the service agreement, the Company provides the application for the first four months at no cost, but is entitled to reimbursement for any direct pass through third party costs paid by the Company relating to the use of the licensed technology and related service. Thereafter the Company nets \$.175 per transaction on the delivery of any mobile content to the third Party payer through the utilization of the application for a period of up to three years. As the \$2,000,000 advance is not refundable, the Company is amortizing it into revenue evenly over the remaining 29 months of the license agreement pursuant to SFAS No. 50 (ASC Topic 928-10). Therefore on a monthly basis, the Company is reporting revenue relating to this license agreement the greater of the transaction fee earned or \$68,966 (\$2,000,000/29 months). In addition, during the first four months of the contract, the Company received the revenue generated under the service agreement as a contingency against future costs associated with the first four months of the agreement. The amount received during the four months totaled \$488,952. The Company is also amortizing it into revenue on the straight-line basis pursuant to SFAS No. 50 (ASC Topic 928-10).

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Revenue recognized during the three months ended March 31, 2010 and 2009 under this agreement amounted to \$0 and \$0, respectively.

Revenue recognized during the six months ended March 31, 2010 and 2009 under this agreement amounted to \$0 and \$249,329, respectively.

As of March 31, 2010, the Company received \$12,500 for services to be rendered in the subsequent period.

### 15. Stockholders' Equity

#### Common Stock

The holders of the Company's common stock are entitled to one vote per share of common stock held.

During the six months ended March 31, 2010, the Company issued a total of 12,734,589 shares of its common stock of which 12,394,589 shares were issued for \$3,980,500 in cash and a \$55,500 subscription receivable, 50,000 shares were issued to a director of the Company for a \$500 subscription receivable, 290,000 shares were issued to attorneys and an outside accountant in exchange for the cancellation of \$112,000 due them for past services. The 290,000 common shares issued were valued at the trading price of the shares on their respective date of issuance and the Company recognized a loss on the issuances totaling \$45,580 during the six-month period.

#### Warrants

In connection with the above-indicated Company's private offering of 12,394,589 shares of its common stock for \$3,980,500, the Company issued warrants to purchase 5,510,811 shares at exercise prices ranging from \$1.00 to \$1.50 per share that expire in various dates commencing in November 2011 through January 2012.

As discussed in Note 9, the Company received \$500,000 in March 2010 in consideration for issuing a convertible note and warrants to purchase 1,000,000 shares of the Company's common stock at \$0.75 per share. The Warrants expire on March 12, 2012.

17

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SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

(UNAUDITED)

#### Options

On April 22, 2008, the Company adopted its 2008 Stock Option Plan (the "Plan"). Under the Plan, the Company reserved 8,800,000 shares of its common stock to be issued to employees, directors, consultants, and advisors. The exercise price under the Plan cannot be less than the fair market value of the shares on date of grant. In 2008, the Company granted options to employees and consultants to purchase a total of 8,675,000 shares of the Company's common stock at price per share of \$1.375 per share. The options expire three years from date of vesting, which is as follows:

<u>Vesting Date</u>	<u>Number of Options</u>
July 28, 2008	6,000,000
July 28, 2009	1,320,000
July 28, 2010	<u>1,355,000</u>
	<u>8,675,000</u>

The 6,000,000 options that vest on July 28, 2008 were granted to the Company's president. These 8,675,000 options were valued at \$544,790 using the Black-Sholes Option Model based upon an expected life of 3 years, risk free interest rate of 2.90%, and expected volatility of 94%. At the date of grant, the Company's common stock had a trading price of \$.25 per share. The Company is charging the \$544,790 to operations as compensation expense based upon the vesting of the respective options. The Company did not recognize any compensation expense during the three and six months ended March 31, 2010 or 2009 relating to these options.

A summary of outstanding stock warrants and options is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding □ September 30, 2009	37,794,334	\$ 1.14
Granted	3,250,000	\$ 1.23
Exercised	-	\$ -
Cancelled	-	\$ -
	<hr/>	<hr/>
Outstanding □ December 31, 2009	41,044,334	\$ 1.15
Granted	3,260,811	\$ 1.00
Exercised	(50,000)	\$ (01)
Cancelled	-	\$ -
	<hr/>	<hr/>
Outstanding □ March 31, 2010	44,255,145	\$ 1.14
	<hr/>	<hr/>

Of the 44,255,145 options and warrants granted at March 31, 2010, a total of 42,900,145 are exercisable.

## 16. Commitments and Contingency

### Operating Leases

The Company leases office space in Encinitas, California under an agreement that expires on July 31, 2010. In addition to paying rent, the Company is also required to pay its prorata share of the property's operating expenses.

Rent expense for the three months ended March 31 2010 and 2009 was \$27,675 and \$26,906, respectively. Rent expense for the six months ended March 31 2010 and 2009 was \$55,349 and \$53,811, respectively.

### Licensing Fee Obligations

The Company has entered into various licensing agreements that require the Company to pay fees to the licensors on revenues earned by the Company utilizing the related license. The amounts paid on each license vary depending on the terms of the related license.

(UNAUDITED)

**17. Subsequent Events**

The Company has evaluated subsequent events through May 13, 2010, the date these financial statements were issued. In May of 2010 The Company received \$685,000 from the sale of 1,851,351 common shares to two individual investors. In May of 2010 The Company issued 177,500 common shares to a former attorney as full payment for \$145,550 of past due legal services.

19

SINGLE TOUCH SYSTEMS, INC.

**Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following Management's Discussion and Analysis should be read in conjunction with Single Touch's financial statements and the related notes thereto. The Management's Discussion and Analysis contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect," and the like, and/or future-tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements in this Report on Form 10-Q. The Company's actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors. The Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Report on Form 10-Q.

The following discussion should be read in conjunction with our unaudited consolidated financial statements and related notes and other financial data included elsewhere in this report. See also the notes to our consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended September 30, 2009.

***Critical Accounting Policies and Estimates***

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In consultation with our Board of Directors, we have identified the following accounting policies that it believes are key to an understanding of its financial statements. These are important accounting policies that require management's most difficult, subjective judgments.

***Revenue Recognition.***

Under the terms of various service and licensing agreements, the Company receives a fee, net of revenue sharing and other costs, each time its application is utilized by the end user. Revenue is recognized in the month the application is utilized. The Company records its revenue pursuant to Accounting Codification Standard ("ACS") Topic 605-45, formerly EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent".

Advanced service and licensing fees received with minimum guarantees where it cannot determine the fee earned are recognized in income on the straight line basis over the term of the license in accordance with ACS Topic 928-10, formerly FASB SFAS #50.

***Conventional Convertible Debt***

When the convertible feature of the conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (BCF). We record a BCF as a debt discount pursuant to ACS Topic 470-20, formerly EITF Issue No. 98-5 (EITF 98-05), Accounting for Convertible Securities with Beneficial Conversion Features or Contingency Adjustable Conversion Ratio, and formerly EITF Issue No. 00-27, Application of EITF Issue No. 98-5 to Certain Convertible Instrument(s). In those circumstances,

the convertible debt will be recorded net of the discount related to the BCF. We amortize the discount to interest expense over the life of the debt using the effective interest method.

20

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## SINGLE TOUCH SYSTEMS, INC.

### *Fair Value Measurement*

The Company adopted ACS Topic 820-10, formerly Statement of Financial Accounting Standard No. 157, Fair Value Measurements (□Topic 820-10□), at the beginning of fiscal year 2009 to measure the fair value of certain of its financial assets and liabilities required to be measured on a recurring basis. The adoption of Topic 820-10 did not impact the Company's consolidated financial position or results of operations. Topic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Topic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability. The three levels of the fair value hierarchy under Topic 820-10 are described below: Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access. The Company has no Level 1 assets or liabilities.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

The Company has no Level 2 assets. The Company's Level 2 liabilities consist of notes payable, convertible debentures and a derivative warrant liability. The Company determines the fair value of notes payable and convertible debentures based on the effective yields of similar obligations. The Company determines the fair value of its derivative warrant liability based upon the trading prices of its common stock on the date of issuance and when applicable, on the last day of the quarter. The Company uses the Black-Scholes Option Model in valuing the fair value of its derivative warrant liability.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company has no Level 3 assets or liabilities.

### *Non-monetary Consideration Issued for Services*

We value all services rendered in exchange for our common stock at the quoted price of the shares issued at date of issuance or at the fair value of the services rendered, whichever is more readily determinable. All other services provided in exchange for other non-monetary consideration is valued at either the fair value of the services received or the fair value of the consideration relinquished, whichever is more readily determinable.

Our accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ACS Topic 505-50, formerly EITF 96-18, □Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services□, and formerly EITF 00-18, Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees.□ The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. In accordance to ACS Topic 505, an asset acquired in exchange for the issuance of fully vested, nonforfeitable equity instruments should not be presented or classified as an offset to equity on the grantor's balance sheet once the equity instrument is granted for accounting purposes. Accordingly, we record the fair value of nonforfeitable common stock issued for future consulting services as prepaid services in our consolidated balance sheet.

### *Software Development Costs*

We account for our software development costs in accordance with ACS Topic 985-20, formerly Statement of Financial Accounting Standard No. 86, □Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed.□ Under ACS Topic 985-20, we expense software development costs as incurred until we

determine that the software is technologically feasible. Once we determine that the software is technologically feasible, we amortize the costs capitalized over its expected useful life of the software, which is generally two years.

21

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SINGLE TOUCH SYSTEMS, INC.

**Plan of Operation**

Single Touch Systems is a provider of customized easy-to-use wireless solutions. Our patent pending technology simplifies adoption by reaching new data subscribers and generating new revenue streams for carriers, consumer brand companies and retailers. Single Touch's Mobile Dial Code (["MDC"]) programs make mobile easy for brands, consumers and carriers. The simplicity of dialing a ["#"] plus a 3 to 6 digit branded telephone number has resulted in high response and download conversion rates. A large percentage of MDC consumers are first time data users, demonstrating how simple it is to deliver mobile data and campaigns through these MDC programs while also opening up a new market outside of Short Message Service (["SMS"]).

Our MDC programs are a developing revenue source. The Company initially developed software applications utilized by end users in downloading images, ringtones and other content into their cell phones and other wireless communication devices. The Company has transitioned to a transaction based revenue model facilitating mobile commerce and advertising using our Enhanced Services Platform. The Company generates revenue from each voice call, data transmission, advertisement and mobile payment transaction that the platform enables.

Recently developed programs involve campaigns providing value added services to traditional retail customers; like notifying pharmacy customers that a prescription is ready for pick up and alerting customers to special product deals. We are also developing mobile couponing and other mobile payment services to address a broader market application of mobile data services.

Our focus of operations for the next 12-month period will be to develop our retail messaging business segment and focusing on growing operations in each other product category including retail to generate revenues. We intend to use profits from operations to maintain and grow each product category. We will continue our efforts to raise additional capital to maintain existing and generate expanded operations.

**Results of Operations**

Results of Operations for the Three-Months Ended March 31, 2010 and March 31, 2009

The Company reported loss from operations of \$1,128,245 for the three-months ended March 31, 2010 compared to a loss from operations for the three-months ended March 31, 2009 of \$4,542,180, a decrease in loss of \$3,413,935. The significant cause in our reduction in net loss from operations pertains to our stock based compensation. For the three months in 2009, we incurred \$3,457,876 as opposed to \$0 during the same three month period in 2010. Due to a decrease in our derivative liability relating a prior issuance of warrants to a consultant, we had net income of \$683,414 for the three-months ended March 31, 2010 compared to \$299,222 for the same three month period in the prior year. Gain from changes in fair value of our derivative liability in 2010 was \$1,981,100 as compared to \$4,932,722 during the three months ended March 31, 2009.

We had decreased royalties and application costs for the three months ended March 31, 2010 as compared to the same three month period in 2009 of \$90,733, a 40.80% decrease (\$131,485 in 2010 compared to \$222,218 in 2009). This decrease was significantly caused by a reduction in our fixed applications costs.

Our operating expenses during the three months ended March 31, 2010 were 2.3% higher than the amount of operating expenses incurred during the same three month period in 2009, not including stock based compensation. The components of operating expenses included royalties and application costs as discussed above, salaries and wages (\$461,882 in 2010 as compared to \$422,895 in 2009), advisory and consulting services (\$159,250 in 2010 as compared to \$64,227 in 2009), depreciation and amortization (\$147,879 in 2010 as compared to \$172,108 in 2009) and significantly reduced general and administrative expenses (\$48,085 in 2010 as compared to \$127,015 in 2009) As indicated above, a significantly large component of our net income during the three months ended March 31, 2010 and 2009 was the change in the fair value of our derivative liability which amounted to \$1,981,100 in 2010 and \$4,932,722 in 2009. The terms of the warrant issued to our special advisor causes us to treat the warrant as a derivative financial instrument pursuant to ACS Topic 815, formerly

ITF 00-19 [Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock]. We value the warrant using the Black-Sholes Option Model. The fair value of the warrant liability decreased at March 31, 2010 by \$1,981,100 (\$3,529,900 at March 31, 2010 compared to \$4,712,400 at March 31, 2009).

22

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## SINGLE TOUCH SYSTEMS, INC.

### Revenues

Revenues for the three month period ending March 31, 2010 were \$107,193, resulting in a decrease of 12.6% over revenues of \$122,659 for the comparable period in 2009. The revenue decrease in the three month period ended March 31, 2010 from the comparative period in 2009 was a result of the termination of our services to Telegence and Lavalife. Revenue increased 298% from the preceding quarter ended December 31, 2009 as our new programs began to ramp up. Our top three customers accounted for 79% of our revenues versus 57.2% in the quarter ended March 31, 2009.

### Results of Operations for the Six-Months Ended March 31, 2010 and March 31, 2009

The Company reported loss from operations of \$3,005,931 for the six-months ended March 31, 2010 compared to a loss from operations for the six-months ended March 31, 2009 of \$7,624,913, a decrease in loss of \$4,618,982. Again the significant cause in our reduction in net loss from operations during the six-month periods pertains to our stock based compensation. For the six months in 2009, we incurred \$5,763,127 as opposed to \$1,152,625 during the same three month period in 2010, a decrease of \$4,610,502.

Our net loss for the six-months ended March 31, 2010 totaled \$2,071,276 compared to \$3,871,525 during the same six month period in the prior year. Our net losses for both six month periods include gain from changes in our derivative liability of \$1,182,500 in 2010 and \$3,902,964 in 2009.

We had decreased royalties and application costs for the six months ended March 31, 2010 as compared to the same six month period in 2009 of \$155,392, a 35.55% decrease (\$281,653 in 2010 compared to \$437,045 in 2009). This decrease was significantly caused by a reduction in our fixed applications costs.

Our operating expenses during the six months ended March 31, 2010 were 26.62% lower than the amount of operating expenses incurred during the same six month period in 2009, not including stock based compensation. The components of operating expenses included royalties and application costs as discussed above, salaries and wages (\$690,492 in 2010 as compared to \$859,214 in 2009), professional fees (\$180,701 in 2010 as compared to \$207,674 in 2009), depreciation and amortization (\$265,733 in 2010 as compared to \$361,634 in 2009), and significantly reduced general and administrative expenses (\$94,730 in 2010 as compared to \$253,305 in 2009). During the six-month period in 2010, we recognized a loss of \$45,580 in the issuance of our common stock in exchange for the cancellation of \$112,000 of fees due certain professional.

A significantly large component of our net income during the six months ended March 31, 2010 and 2009 was the change in the fair value of our derivative liability which amounted to \$1,182,500 in 2010 and \$3,902,964 in 2009.

### Revenues

Revenues for the six month period ending March 31, 2010 were \$134,095, resulting in a decrease of 79.% over revenues of \$641,894 for the comparable period in 2009. The revenue decrease in the six month period ended March 31, 2010 from the comparative period in 2009 was a result of the termination of our services to Telegence and Lavalife.

23

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## SINGLE TOUCH SYSTEMS, INC.

### Changes in assets and liabilities

At March 31, 2010, we had total assets of \$2,728,622 and total liabilities of \$9,325,189; comparably, at March 31, 2009, we had total assets of \$9,430,700 and total liabilities of \$14,356,246. Of the total assets at March 31, 2009 of \$9,430,700, \$8,068,377 pertains to the unamortized portion of the fair value of the warrants issued to our

special advisor that was classified to prepaid expense. We have amortized the fair value of the warrant over the initial one year term of the consulting agreement. Total assets at March 31, 2009, excluding the prepaid consulting amounts to \$1,362,323, which is \$1,366,299 less than our total assets in March 2010 of \$2,728,622. The difference is principally made of an increase in our cash balance of \$359,546 and an increase in patents and patent applications costs of \$1,135,633.

Of the total liabilities at March 31, 2010 of \$9,325,189, \$3,529,900 pertains to the derivative liability of the above indicated warrant. Of the total liabilities at March 31, 2009 of \$14,356,246, \$9,928,540 pertains to the derivative liability of the above indicated warrant. Total liabilities at March 31, 2010 and 2009 excluding the derivative warrant liabilities totaled \$5,795,289 and \$4,427,706, respectively. The increase in 2010 over 2009 is primarily due to the increase in amount we owe on related party and third party debt, increased accrued compensation and payroll taxes payable, offset somewhat by a decline of \$1,013,120 in accounts payable and accrued expenses.

#### Liquidity and Capital Resources

During the six-month period ending March 31, 2010 cash used in operating activities totaled \$2,070,998; cash used in investing activities totaled \$1,145,956, primarily for the purchase of capitalized software development costs of \$275,359 and for the purchase of patent and patent application costs of \$830,597; cash provided by financing activities totaled \$3,576,500 primarily from proceeds from the issuance of shares of our common stock and a convertible note. We had an overall net increase in cash for the 6 month period of \$359,546; where the beginning balance for the period was \$259,558 and the cash balance at the end of the period was \$619,104.

During the six-month period ending March 31, 2009, cash used in operating activities totaled \$1,043,164; cash used in investing activities totaled \$484,933, primarily for purchase of capitalized software development costs of \$465,151.

During the six-month period ending March 31, 2009 we received \$1,355,068 in cash provided by financing activities including proceeds from convertible debt and other notes payable of \$1,250,000. The resultant overall net decrease in cash for the period was \$173,029; where the beginning balance for the period was \$175,061, the cash balance at the end of the period was \$2,032.

24

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#### SINGLE TOUCH SYSTEMS, INC.

Our operations have been funded through loans from our Founder/CEO Anthony Macaluso, loans from third parties, and proceeds from the issuance of our shares of common stock. We have not generated sufficient revenue to pay for our operations. We expect to experience cash flow difficulties for an indefinite period. Although no assurances can be given, we believe that our cash flow deficit will improve as revenues and sales increase. In addition, although no assurances can be given, we believe that we may be able to secure additional equity and/or debt financing.

A critical component of our operating plan impacting our continued existence is the ability to obtain additional capital through additional equity and/or debt financing. We do not anticipate enough positive internal operating cash flow until such time as we can generate substantial additional revenues and/or improve profit margins on those overall revenues, which may take the next few years to fully realize. In the event we cannot obtain the necessary capital to pursue our strategic plan, we may have to significantly curtail our operations. This would materially impact our ability to continue operations.

Our near term cash requirements are anticipated to be offset through the receipt of funds from private placement offerings and loans obtained through private sources. Since inception, we have financed cash flow requirements through debt financing and issuance of common stock for cash and services. As we expand operational activities, we may continue to experience net negative cash flows from operations and will be required to obtain additional financing to fund operations through common stock offerings and bank borrowings to the extent necessary to provide working capital.

Over the next twelve months we believe that existing capital and anticipated funds from operations will not be sufficient to sustain operations and planned expansion. Consequently, we will be required to seek additional capital in the future to fund growth and expansion through additional equity or debt financing or credit facilities. No assurance can be made that such financing would be available, and if available it may take either the form of debt or equity. In either case, the financing could have a negative impact on our financial condition and our

Stockholders. We may continue to incur operating losses over the next twelve months. Our operating history makes predictions of future operating results difficult to ascertain. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of development. Such risks include, but are not limited to, an evolving and unpredictable business model and the management of growth. To address these risks we must, among other things, obtain a customer base, implement and successfully execute our business and marketing strategy, continue to develop and upgrade technology and products, respond to competitive developments, and attract, retain and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so can have a material adverse effect on our business prospects, financial condition and results of operations.

#### Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Based upon current operating levels, we may require additional capital or significant reconfiguration of our operations to sustain our operations for the foreseeable future. The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our continuation as a going concern is dependent upon our ability to generate sufficient cash flow to meet our obligations on a timely basis and ultimately to attain profitability. We have limited capital with which to pursue our business plan. There can be no assurance that our future operations will be significant and profitable, or that we will have sufficient resources to meet our objectives. We are partially dependent upon our officers and other insiders to provide working capital. However, there can be no assurance that these loans and capital advances will continue in the future. We intend to generate sufficient revenues from our line of wireless products and services to fund our business plan. There can be no assurance that we will be successful in raising additional funds.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements or financing activities with special purpose entities.

25

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SINGLE TOUCH SYSTEMS, INC.

### **Item 3 - Quantitative and Qualitative Disclosures About Market Risk**

Not required for Smaller Reporting Companies

#### **Item 4T - Controls and Procedures**

##### *Evaluation of Disclosure Controls and Procedures*

The Company's Principal Executive Officer and Principal Financial Officer, Mr. Macaluso, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

##### *Changes in Internal Controls*

There has been no change in the Company's internal controls over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even a system which is determined to be effective cannot provide absolute assurance that all control issues have been detected or prevented. Our systems of internal controls are designed to provide reasonable assurance with respect to financial statement preparation and presentation.

26

SINGLE TOUCH SYSTEMS, INC.

## **Part II OTHER INFORMATION**

### **Item 1 Legal Proceedings**

On April 7, 2009, Teligence (U.S.), Inc. served the Company a complaint arising from an agreement between them as successors in interest and our wholly owned subsidiary Single Touch Interactive. The complaint was filed in the First Judicial District of the State of Nevada in and for Carson City. The case is Teligence v. Single Touch Interactive, Inc., et. al., Case No.: 0900 001271B. The plaintiff is seeking recovery from an alleged Breach of Contract to collect claimed past due amounts payable by Single Touch Interactive, Inc of approximately \$350,000. In December 2009, the parties agreed to settle the dispute. Under the terms of the settlement agreement, the Company is required to pay \$200,000 in four monthly installments of \$50,000 commencing in January 2010. If the \$200,000 is not paid as indicated, the balance increases to \$300,000 plus attorney fees. As of the date of this report we have made all of the four payments as required. The matter was submitted for dismissal by the parties in March of 2010.

On December 8, 2009, the Company received notice of Arbitration RE: Fort Ashford Funds, LLC vs. Single Touch Systems & Macaluso through Judicate West case #A157734-24. The matter relates to any outstanding balance of Principal and interest due on a Loan and Security Agreement, the Company entered into on December 5, 2008 for a total loan of \$1,000,000. As of the date of this report a request for deposit for arbitration fees has been received and no dates are pending. On March 29, 2010, the Company made a payment including principal and accrued interest on the outstanding balance totaling of \$431,000. The balance due at March 31, 2010 totaled \$400,000. Subsequent to the period ended March 31, 2010 the company made an additional payment of \$400,000 towards the balance due. As of the date of this Report, the Company has repaid the \$1,000,000 principal, additional fees totaling \$75,000 and interest accrued. The Company has not received a release from Fort Ashford Funds, LLC as of the date of this report. If additional consideration is claimed the Company will dispute and defend against such claims.

From time to time the Company may be named in claims arising in the ordinary course of business. Currently, no additional legal proceedings or claims are pending against or involve the Company that, in the opinion of management, could reasonably be expected to have a material adverse effect on its business and financial condition.

### **Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

In March and April of 2010 The Company received \$1,236,000 from the sale of 3,340,538 common shares to ten individual investors and one entity.

In March 2010, the Company received \$500,000 in consideration for issuing a convertible note and warrants to purchase 1,000,000 shares of the Company's common stock. The note is assessed interest at a rate of 12% per annum and accrued interest is required to be paid quarterly commencing on June 30, 2010. Principal is convertible into shares of the Company common stock at a price of \$0.37 per share. The note matures on September 30, 2010, when principal and any remaining accrued interest are fully due and payable. The warrants are exercisable into common shares commencing March 12, 2010 at a price of \$0.75 per share and expire on March 12, 2012.

In May of 2010 The Company received \$685,000 from the sale of 1,851,351 common shares to two individual investors.

Proceeds from these financing activities were used for the purchase of intellectual property, payment of debt obligations and general operating expenses.

All sales were issued as exempted transactions under Section 4(2) of the Securities Act of 1933 and are subject to Rule 144 of the Securities Act of 1933. The recipient(s) of our securities took them for investment purposes without a view to distribution. Furthermore, they had access to information concerning our Company and our business prospects; there was no general solicitation or advertising for the purchase of our securities; and the securities are restricted pursuant to Rule 144.

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SINGLE TOUCH SYSTEMS, INC.

**Item 3 Defaults Upon Senior Securities**

On December 5, 2008, the Company entered into a Loan and Security Agreement with a third party for a total loan of \$1,000,000. Proceeds from the loan were net of loan fees incurred by lender. The loan bears interest at an annual rate of 10% per annum and accrued interest was payable 90 days after the loan proceeds were received. All related party debt is subordinate to this loan. The loan has been guaranteed by the Company's President, and is secured by the Company's assets.

In June 2009, the Parties entered into a Change in Terms Agreement. Under the terms of the agreement, the maturity date of the loan could be extended to September 30, 2009. In consideration for the extension, the Company paid an interest payment of \$25,000 and loan extension fees of \$75,000. In addition, the Agreement required the Company to a series of \$300,000 payments to reduce the principal balance and maintain current interest payments. The Company made principal repayments of \$200,000 and paid loan fees totaling \$75,000.

On March 29, 2010, the Company made a payment including principal and accrued interest on the outstanding balance totaling of \$431,000. The loan was in default at March 31, 2010 with a balance due totaling \$400,000. Subsequent to the period ended March 31, 2010 the company made an additional payment of \$400,000 towards the remaining balance due.

As of the date of this Report, the Company has repaid the \$1,000,000 principal, additional fees totaling \$75,000 and interest accrued. The Company has not received a release from Fort Ashford Funds, LLC as of the date of this report. If additional consideration is claimed the Company will dispute and defend against such claims.

**Item 4 Submission of Matters to a Vote of Security Holders**

None for the period ending March 31, 2010

**Item 5 Other Information**

None, for the period ending March 31, 2010

28

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SINGLE TOUCH SYSTEMS, INC.

**Item 6 Exhibits and Reports**

Single Touch Systems, Inc. includes by reference the following exhibits:

- 3.1 Certificate of Incorporation of Hosting Site Network, Inc., (presently known as Single Touch Systems Inc.) filed November 8, 2001, as exhibit 3.1 with the registrant's Registration Statement on Form SB-2(SEC File No. 333-73004), as amended; which exhibit is incorporated herein by reference.
- 3.2 Certificate of Amendment to Certificate of Incorporation of Hosting Site Network, Inc., (presently known as Single Touch Systems Inc.) filed April 11, 2002, as exhibit 3.2 with the registrant's Registration Statement on Form SB-2 (Post Effective Amendment No. 3) (SEC File No. 333-73004), as amended; which exhibit is incorporated herein by reference.
- 3.3 Certificate of Amendment to Certificate of Incorporation of Hosting Site Network, Inc., (presently known as Single Touch Systems Inc.) filed July 31, 2008, as exhibit 3.3 with the registrant's Current Report on Form 8-K(SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 3.4 By-Laws of Hosting Site Network, Inc., (presently known as Single Touch Systems Inc.) filed November 8, 2001, as exhibit 3.2 with the registrant's Registration Statement on Form SB-2(SEC File No. 333-73004), as amended; which exhibit is incorporated herein by reference.
- 3.5 Amended and Restated By-Laws of Hosting Site Network, Inc., (presently known as Single Touch Systems Inc.) filed February 8, 2002, as exhibit 3.3 with the registrant's Registration Statement on Form

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SB-2 (Post Effective Amendment No. 2) (SEC File No. 333-73004), as amended; which exhibit is incorporated herein by reference.

- 4.1 Single Touch Interactive, Inc. \$2,319,511.64 Convertible Promissory Note dated July 24, 2008 filed July 31, 2008, as exhibit 4.11 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004), as amended; which exhibit is incorporated herein by reference.
- 4.2 Form of Warrant - filed July 31, 2008, as exhibit 4.10 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 4.3 Form of Class [A] Warrant - filed July 31, 2008, as exhibit 4.8 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 4.4 Form of Class [B] Warrant - filed July 31, 2008, as exhibit 4.9 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 10.1 Non-exclusive Special Advisory Services Agreement with Peltz Capital Management, LLC [ ] Warrant and Registration Rights Agreement; Inclusive - October 30, 2008 filed November 5, 2008, as exhibit 10.1 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 10.2 2008 Stock Option Plan for Single Touch Systems, Inc. (formerly Hosting Site Network, Inc.) - filed July 31, 2008, as exhibit 10.10 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 10.3 2009 Employee and Consultant Stock Plan for Single Touch Systems, Inc. - filed December 8, 2009, as exhibit 4 with the registrant's Registration on Form S-8 (SEC File No. 333-163557); which exhibit is incorporated herein by reference.
- 10.4 Loan and Security Agreement by and between Single Touch Systems, Inc. and Fort Ashford Funds, LLC. dated December 5, 2008, filed December 29, 2009, as exhibit 10.2 with the registrant's Current Report on Form 10-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 10.5 Change in Terms Agreement dated June 24, 2009; RE: Loan and Security Agreement by and between Single Touch Systems, Inc. and Fort Ashford Funds, LLC. dated December 5, 2008; filed August 19, 2009, as exhibit 10.12 with the registrant's Current Report on Form 10-Q (SEC File No. 000-53744); which exhibit is incorporated herein by reference.

29

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### SINGLE TOUCH SYSTEMS, INC.

- 10.6 Services Agreement 20071210.103.C Between Single Touch Interactive, Inc. and AT&T Services, Inc. dated April 11, 2008 ; filed January 14, 2010, as exhibit 10.6 with the registrant's Annual Report on Form 10-K (SEC File No. 000-53744); which exhibit is incorporated herein by reference.
- 10.7 Amendment 20071210.103.A.001 to the Services Agreement 20071210.103.C Between Single Touch Interactive, Inc. and AT&T Services, Inc. dated March 20, 2009; filed January 14, 2010, as exhibit 10.7 with the registrant's Annual Report on Form 10-K (SEC File No. 000-53744); which exhibit is incorporated herein by reference.
- 14.1 Code of Ethics filed with the Securities and Exchange Commission on December 21, 2004 as an exhibit, numbered as indicated above, to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004, which exhibit is incorporated herein by reference; which exhibit is incorporated herein by reference.
- 21 List of Subsidiaries - filed July 31, 2008, as exhibit 21 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.

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Single Touch Systems, Inc. includes herewith the following exhibits:

- 10.8 Confidential Patent Purchase Agreement - Between Single Touch Interactive, Inc.; Microsoft Corporation and Microsoft Corporation's Subsidiary, Microsoft Licensing, GP, dated March 15, 2010.
- 31.1 Certification of Principal Executive Officer (Rule 13a-14(a)/15(d)-14(a))
- 32.1 Certification of Principal Executive Officer (18 U.S.C. 1350)

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Single Touch Systems, Inc.**

Date: May 13, 2010

By: /s/ Anthony Macaluso, President

Anthony Macaluso, President

Principal Executive Officer

Principal Financial Officer

30

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