

SINGLE TOUCH SYSTEMS INC
Form 10-Q
February 17, 2010

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2009
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to

Commission File Number: 000-53744

Single Touch Systems, Inc. .
(Exact name of registrant as specified in its charter)

Delaware 13-4122844
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

2235 Encinitas Blvd., Suite 210, Encinitas, California 92024
(Address of principal executive offices)

(760) 438-0100
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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,

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or a smaller reporting company; as defined within Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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 February 10, 2010:

73,549,405 shares of common stock

Single Touch Systems, Inc.

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Single Touch Systems, Inc.
Condensed Consolidated Balance Sheets

	December 31, 2009 (Unaudited)	September 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$32,006	\$259,558
Accounts receivable - trade	89,550	104,423
Accounts receivable - related party	25,918	21,748
Prepaid consulting expense	-	1,152,625
Prepaid expenses - other	30,433	31,268
Total current assets	177,907	1,569,982
Property and equipment, net	209,013	233,718
Other assets:		
Capitalized software development costs, net	483,082	434,765
Intangible assets:		
Patents, net	139,695	100,985
Patent applications cost	244,840	-
Deposits and other assets	15,282	15,282
Total other assets	882,899	551,032
Total assets	\$1,269,819	\$2,354,732
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$1,339,149	\$1,386,548
Accrued compensation	268,335	715,846
Accrued compensation – related party	239,419	219,468
Payroll taxes payable	440,141	-
Current portion of notes payable – related parties	1,483,462	1,502,073
Note payable – other	995,081	1,015,962
Convertible debentures – related parties, including accrued interest, net of discounts	1,701,039	1,374,104
Total current liabilities	6,466,626	6,214,001
Long term liabilities		
Derivative warrant liability	5,511,000	4,712,400
Total liabilities	11,977,626	10,926,401

Stockholders' (Deficit):

Preferred stock,\$.0001 par value, 5,000,000 shares authorized; none outstanding	-	-
Common stock, \$.001 par value; 200,000,000 shares authorized; Issued and outstanding: 67,772,417 shares at December 31, 2009, and 64,442,417 shares at September 30, 2009	67,772	64,442
Additional paid-in capital	93,183,461	92,568,239
Accumulated deficit	(103,959,040)	(101,204,350)
Total stockholders' (deficit)	(10,707,807)	(8,571,669)
Total liabilities and stockholders' (deficit)	\$ 1,269,819	\$ 2,354,732

The accompanying notes are an integral part of these financial statements

Single Touch Systems, Inc.
Condensed Consolidated Statements of Operations

	For the Three Months ended December 31,	
	2009	2008
	(Unaudited)	(Unaudited)
Revenue		
Wireless applications	\$26,902	\$519,235
Operating expenses:		
Royalties and application costs	150,168	214,827
Research and development	10,554	15,277
Stock based compensation – non employees	1,152,625	2,305,251
Advisory and consulting services	45,400	123,653
Professional fees	82,935	96,879
Salaries and wages	159,860	436,319
Officers' compensation	68,750	55,730
Travel expenses	25,293	24,098
Rent expense	27,674	26,906
Depreciation and amortization	117,854	168,632
General and administrative	46,645	134,398
Net loss on settlement of indebtedness	16,830	-
Total operating expenses	1,904,588	3,601,970
Loss from operations	(1,877,686)	(3,082,735)
Other income (expenses):		
Changes in fair value of derivative and warrant liability	(798,600)	(1,029,759)
Interest expense	(77,604)	(57,230)
Net (loss) before income taxes	(2,753,890)	(4,169,724)
Provision for income taxes	(800)	(1,026)
Net income (loss)	\$(2,754,690)	\$(4,170,750)
Basic and diluted net income (loss) per share	\$(0.04)	\$(0.07)
Weighted average shares outstanding	65,808,395	59,505,540

The accompanying notes are an integral part of these financial statements

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Single Touch Systems, Inc.
Condensed Consolidated Statements of Cash Flows

	For the Three Months ended December 31,	
	2009	2008
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net loss	\$(2,754,690)	\$(4,170,750)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation expense	24,705	20,894
Amortization expense - software development costs	89,221	168,632
Amortization expense – patents	3,928	-
Loss on settlement of indebtedness	16,830	-
(Increase) decrease in assets		
(Increase) decrease in accounts receivable	10,703	94,537
(Increase) decrease in prepaid expenses	1,153,821	2,88,709
Increase (decrease) in liabilities		
Increase (decrease) in accounts payable	(68,593)	5,197
Increase (decrease) in payroll taxes payable	302,496	-
Increase (decrease) in accrued compensation	(364,857)	-
Increase (decrease) in accrued compensation due related party	74,942	(13,020)
Increase (decrease) in accrued expenses	9,343	34,323
Increase (decrease) in accrued interest	12,166	(63,899)
Increase (decrease) in deferred income	-	(249,329)
Increase (decrease) in derivative liability	798,600	1,029,759
Net cash used in operating activities	(691,385)	(854,947)
Cash flows from investing activities:		
Purchase of property and equipment	-	(10,175)
Purchase of patent and patent applications	(243,629)	-
Capitalized software development costs	(137,538)	(238,101)
Net cash used in investing activities	(381,167)	(248,276)
Cash flows from financing activities:		
Proceeds from issuance of common stock	875,000	-
Proceeds received from related parties	-	257,201
Repayments on related party advances	(30,000)	(323,231)
Proceeds from issuance of debt to others	-	1,300,000
Finance costs		
Net cash provided by financing activities	845,000	1,223,970
Net increase (decrease) in cash	(227,552)	120,747
Beginning balance – cash	259,558	175,061
Ending balance – cash	\$32,006	\$295,808
Supplemental information:		
Interest expense paid	\$65,370	\$73,402

Income taxes paid	\$-	\$-
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The accompanying notes are an integral part of these financial statements

Single Touch Systems, Inc.
Condensed Consolidated Statements of Cash Flows (Continued)

Non-cash investing and financing activities:

During the quarter ended December 31, 2009, the Company issued 80,000 shares in cancellation of legal and accounting fees due totaling \$32,000. The shares were valued at their respective market value on the date of issuance and the Company recognized a loss on the settlement of debt in the amount of \$16,830.

During the quarter ended December 31, 2009, the Company charged \$305,278 to equity relating to the amortization of discounts on related party convertible debts (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.

During the quarter ended December 31, 2008, the Company charged \$281,882 to equity relating to the amortization of discounts on related party convertible debt.

The accompanying notes are an integral part of these financial statements

Single Touch Systems, Inc.

Notes To Condensed Consolidated Financial Statements

December 31, 2009

(Unaudited)

1. Organization, History and Business

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 December 31, 2009, and the results of its operations and cash flows for the three months ended December 31, 2009 and 2008. 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 December 31, 2009, its accumulated deficit amounted to \$103,959,040.

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.

Single Touch Systems, Inc.

Notes To Condensed Consolidated Financial Statements
December 31, 2009
(Unaudited)

2. Summary of Significant Accounting Policies

Reclassification

Certain reclassifications have been made to conform the 2008 amounts to 2009 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. 101, 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 December 31, 2009, there was no allowance for doubtful accounts, since all of the Company's receivables were determined by management to be collectible.

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

Single Touch Systems, Inc.

Notes To Condensed Consolidated Financial Statements

December 31, 2009

(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 December 31, 2009 and 2008, the Company recognized stock based compensation expense of \$1,152,625 and \$2,305,251 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 December 31, 2009 that have been excluded from the computation of diluted net loss per share include 32,369,334 warrants, 8,675,000 options, and \$2,417,432 of debt convertible into 30,217,902 shares of the Company's common stock. Potential common shares as of December 31, 2008 that have been excluded from the computation of diluted net loss per share were 22,328,362 warrants, 8,675,000 options and \$2,304,313 of debt convertible into 28,803,913 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 135,171,175 and 98,335,041 for the three months ended December 31, 2009 and 2008, respectively.

Single Touch Systems, Inc.

Notes To Condensed Consolidated Financial Statements

December 31, 2009

(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 months ended December 31, 2009, significantly all of the Company's revenue was generated from contracts with seven customers. During the three months ended December 31, 2008, significantly all of the Company's revenue was generated from contracts with eleven 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 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.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition) (“ASU 2009-13”) (formerly Emerging Issues Task Force Issue 08-1) and ASU 2009-14, Certain Arrangements That Include Software Elements , (amendments to FASB ASC Topic 985, Software) (“ASU 2009-14”) (formerly Emerging Issues Task Force Issue 09-3). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company anticipates adopting ASU 2009-13 and ASU 2009-14 in fiscal 2011 and is currently assessing the impact of the adoption of these standards on the Company’s condensed consolidated financial statements.

Single Touch Systems, Inc.

Notes To Condensed Consolidated Financial Statements

December 31, 2009

(Unaudited)

3. Accounts Receivable

Fees earned but not paid as of December 31, 2009, net of any revenue sharing, amounted to \$115,468. Of this amount, \$25,918 is due from Activate, Inc., a related party.

4. Property and Equipment

The following is a summary of property and equipment at December 31, 2009:

Computer hardware	\$ 501,791
Equipment	46,731
Office furniture	37,194
	585,716
Less: accumulated depreciation	(376,703)
	\$ 209, 013

Depreciation expense for the three months ended December 31, 2009 and 2008 was \$24,705 and \$20,894, respectively.

5. Capitalized Software Development Costs

The following is a summary of capitalized software development costs at December 31, 2009:

Beginning balance	\$ 434,765
Additions	137,538
Amortization	(89,221)
Charge-offs	-
Ending balance	\$ 438,082

Amortization expense for the three months ended December 31, 2009 and 2008 was \$89,221 and \$168,632, respectively. Amortization expense for the remaining estimated lives of these costs are as follows:

Year ending	
December 31,	\$349,819
2010	133,263

2011

483,082

6. Intangible Assets

On June 2, 2009, the Company entered into an Intellectual Property Rights Purchase and Transfer Agreement (“Agreement”) with Streamworks Technologies, Inc., a Delaware corporation (“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 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 three months ended December 31, 2009 of \$42,368. Costs associated with patent applications are not being amortized. Upon the issuance of a patent, its respective costs will be amortized over the patent’s estimated useful life. Costs associated with abandoned applications are charged to operations.

Single Touch Systems, Inc.

Notes To Condensed Consolidated Financial Statements

December 31, 2009

(Unaudited)

Amortization charged to operations for the three months ended December 31, 2009 and 2008 were \$3,928 and \$0, respectively. A summary of patent costs subject to amortization at December 31, 2009 is as follows:

Patent costs	\$ 147,056
Less accumulated amortization	(7,361)
	\$ 139,695
	\$147,056
(7,361)	
\$139,695	

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

Period Ending December 31,	\$ 19,181
2010	19,181
2011	19,181
2012	19,181
2013	19,181
2014	19,181
Thereafter	43,790
	\$ 139,695

7. Income Taxes

As of December 31, 2009, for income tax purposes, the Company has unused operating loss carryforwards of approximately \$26,800,000, which may provide future federal tax benefits of approximately \$9,113,000 which expire in various years through 2029 and future state benefits of approximately \$2,369,000 which expire in various years through 2020.

An allowance of \$11,482,000 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 three months ended December 31, 2009 and 2008 are as follows:

	2009	2008
Current		
Federal	\$ -	\$ -
State	800	1,026

Total income tax expense	\$	800	\$	1,026
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8. 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, then 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 these notes for the three months ended December 31, 2009 and 2008 amounted to \$46,772 and \$46,263 respectively.

A summary of the balance due the Company's president as of December 31, 2009 is as follows:

Principal balance due	\$2,319,512
Accrued interest	39,098
Less: discount	(713,828)
	\$1,644,782

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(Unaudited)

For the three months ended December 31, 2009 and 2008, the Company charged \$295,908 and \$273,230, respectively, to equity on the amortization of the discount.

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 these notes for the three months ended December 31, 2009 and 2008 amounted to \$1,411 and \$1,465, respectively.

A summary of the balance due to Activate as of December 31, 2009 is as follows:

Principal	
balance due	\$ 73,445
Accrued	
interest	5,415
Less:	
discount	(22,603)
	\$ 56,257

For the three months ended December 31, 2009 and 2008, the Company charged \$9,370 and \$8,652, 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 three months ended December 31, 2009, the Company repaid \$30,000 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 during the three months ended December 31, 2009 totaled \$15,408, which was charged to operations. The balance due at December 31, 2009 including accrued interest amounted to \$ 804,464.

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 during the three months ended December 31, 2009 amounted to \$7,562, which was charged to operations. The balance due at December 31, 2009 including accrued interest amounted to \$267,850.

Other Related Party Loans

A Company director advanced funds to the Company. The balance of the advances began accruing interest in December 2008 at an annual rate of 8%. The balance owed as of December 31, 2009 including accrued interest totaled \$411,148. Interest charged to operations during the three months ended December 31, 2009 and 2008 amounted to \$7,745 and \$1,224, respectively. The principal and accrued interest are due on demand.

9. 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.

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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. As of December 31, 2009, the loan was in default.

During the three months ended December 31, 2009 there was an adjustment to accrued interest totaling \$(4,556).

A summary of the balance due on this loan as of December 31, 2009 is as follows:

Principal balance due	\$ 800,000
Accrued interest	31,667
	\$ 831,667

A third party advanced a total of \$150,000 to the Company. The balance owed as of December 31, 2009 including accrued interest totaled \$163,414. Interest charged to operations during the three months ended December 31, 2009 amounted to \$1,008. The principal and accrued interest are due on demand.

10. 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.

11. 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.

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.

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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 December 31, 2009:

December 31, 2009

Fair Value Measurements

	Level 1	Level 2	Level 3	Total Fair Value
Liabilities				
Notes payable -				
Related parties	-	\$ 1,483,462	-	\$ 1,483,462
Other	-	\$ 995,081	-	\$ 995,081
Convertible debentures -				
Related parties	-	\$ 1,701,039	-	\$ 1,701,039
Derivative liability	-	\$ 5,511,000	-	\$ 5,511,000

12. 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).

Revenue recognized during the three months ended December 31, 2009 and 2008 under this agreement amounted to \$0 and \$249,328, respectively.

13. 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 three months ended December 31, 2009, the Company issued 3,330,000 shares of its common stock of which 3,250,000 shares were issued for \$875,000 in cash, 50,000 shares were issued to the Company's legal counsel in exchange for the cancellation of \$20,000 due him for past services, and 30,000 shares were issued to the Company's outside accountant in exchange for canceling \$12,000 due him for past services.

Warrants

In connection with the above-indicated Company's private offering of 3,250,000 shares of its common stock for \$875,000, the Company issued warrants to purchase 1,500,000 shares at an exercise price of \$1.50 per share that expire in November 2012, and warrants to purchase 1,750,000 shares at an exercise price of \$1.00 per share expiring in December 2012.

Single Touch Systems, Inc.

Notes To Condensed Consolidated Financial Statements

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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:

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

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 months ended December 31, 2009 or 2008 relating to these options.

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

	Number of Shares	Weighted Average Exercise Price
Outstanding - September 30, 2009	37,794,334	\$ 1.14
Granted	3,250,000	\$ 1.23
Exercised	-	-
Cancelled	-	-
Outstanding - December 31, 2009	41,044,334	\$ 1.15

Of the 41,044,334 options and warrants granted at December 31, 2010, a total of 39,689,334 are exercisable.

14. 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 December 31, 2009 and 2008 was \$27,674 and \$26,906, 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.

15. Subsequent Events

The Company has evaluated subsequent events through February 10, 2010, the date these financial statements were issued.

In January 2010, the Company received \$1,915,000 through the issuance of 5,776,988 shares of its common stock and warrants to purchase 2,260,811 shares of common stock. Of the warrants granted, 1,750,000 warrants are exercisable at \$1.00 per share and the remaining 510,811 warrants are exercisable at \$1.50 per share. The entire 2,260,811 warrants expire in January 2012.

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.

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.

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 and content owners. Single Touch's Abbreviated Dial Code ("ADC") programs make mobile easy for brands, consumers and carriers. The simplicity of dialing a '#' plus 3 to 6 digit branded telephone number has resulted in high response and download conversion rates. A large percentage of ADC consumers are first time data users, demonstrating how simple it is to deliver mobile data and campaigns through these ADC programs while also opening up a new market outside of Short Message Service ("SMS").

Our ADC programs are a developing revenue source. We continue to add new ADC clients and believe the ADC campaigns will continue to evolve beyond ringtone and other media content downloads. Recently developed programs involve non-mobile services campaigns providing value added services to traditional retail customers; like notifying pharmacy customers that a prescription is ready for pick up. We are also developing mobile couponing and other 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 business segments focusing on growing operations in each product category including ringtones, mobile applications and mobile couponing 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 December 31, 2009 and December 31, 2008

The Company reports a net loss of \$2,754,690 for the three-months ended December 31, 2009 versus a net loss of \$4,170,750 for the three-month period ending December 31, 2008.

The net loss for the three-month period ended December 31, 2009 includes stock based compensation of \$1,152,625; changes in fair value of derivative liability expense of \$798,600; salary and wages totaling \$228,610; and depreciation and amortization expense of \$117,854. Revenues for the period were \$26,902.

The net loss for the three-month period ended December 31, 2008 includes stock based compensation of \$2,305,251; changes in fair value of derivative and warrant liability expense of \$1,029,759; and salary and wages totaling \$492,049. Revenues for the period were \$519,235.

We had decreased royalties and application costs for the three months ended December 31, 2009 as compared to the same three month period in 2008 of \$ \$64,659, a 30% decrease (\$150,168 in 2009 compared to \$214,827 in 2008). This decrease was significantly caused by a reduction in our fixed applications costs.

Our largest expense during the three months ended December 31, 2009 and 2008 was stock based compensation of \$1,152,625 which amounted to 61% of the total operating expenses in 2009 and \$2,305,251, which amounted to 64% of total operating expenses in 2008. The stock based compensation expense was due to the granting of warrants to a special advisor to purchase our common stock at a price of \$2.10 when on the date of grant our common shares were trading at \$3.00. The warrants were valued pursuant to ACS Topic 505-50 using the Black-Sholes Option Model. Our operating expenses during the three months ended December 31, 2009, exclusive of stock based compensation, were actually lower than the amount of operating expenses incurred during the same three month period in 2008 by \$544,756 (a 42% decrease). The majority of the reduction was due to lower royalties and application costs as discussed above, salaries and wages (\$228,610 in 2009 as compared to \$492,049 in 2008), advisory and consulting services (\$45,400 in 2009 as compared to \$123,653 in 2008), depreciation and amortization (\$117,854 in 2009 as compared to \$168,632 in 2008) and general and administrative expenses (\$46,645 in 2009 as compared to \$134,398 in 2008)

Another large expense during the three months ended December 31, 2009 and 2008 was the change in the fair value of our derivative liability which amounted to \$798,600 in 2009 and \$1,029,759 in 2008. The terms of the warrant issued to our special advisor as discussed above causes us to treat the warrant as a derivative financial instrument pursuant to ACS Topic 815, formerly EITF 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 increased during the three months ended December 31, 2009 by \$798,600, thus an increase in our derivative liability and the charge to operations.

Revenues

Revenues for the three month period ending December 31, 2009 were \$26,902, resulting in a decrease of 95% from revenues of \$519,235 for the comparable period in 2008. The revenue decrease in the three month period ended December 31, 2009 from the comparative period in 2008 was a result of the termination of our services to Telegence, Lavalife, and Jamster. Additionally, our agreement with Motricity, Inc. expired December 17, 2008. Motricity revenues during the three months ended December 31, 2008 represented approximately 48% of our revenues for the three months in 2008.

Changes in assets and liabilities

At December 31, 2009, we had total assets of \$1,269,819 and total liabilities of \$11,977,626; comparably, at December 31, 2008, we had total assets of \$13,301,049 and total liabilities of \$18,238,413. Of the total assets at December 31, 2008 of \$13,301,049, \$11,526,253 pertains to the unamortized portion of the fair value of the warrants issued to our special advisor that was classified to prepaid expense. We are amortizing the fair value of the warrant over the initial one year term of the consulting agreement. Total assets at December 31, 2008, excluding the prepaid consulting amounts to \$1,774,796, which is \$504,977 more than our total assets in 2009 of \$1,269,819. The \$504,977 difference is principally made of a decrease in our cash balance of \$263,802 and a decrease in our accounts receivable balance of \$222,252.

Of the total liabilities at December 31, 2009 of \$11,977,626, \$5,511,000 pertains to the derivative liability of the above indicated warrant. Of the total liabilities at December 31, 2008 of \$18,238,413, \$14,861,262 pertains to the derivative liability of the above indicated warrant. Total liabilities at December 31, 2009 and 2008 excluding the derivative warrant liabilities totaled \$6,466,626 and \$3,377,151, respectively. The increase in 2009 over 2008 is due to the amount we owe on related party and third party debt.

Liquidity and Capital Resources

During the three-month period ending December 31, 2009 cash used in operating activities totaled \$691,385; cash used in investing activities totaled \$381,167, for purchase of capitalized software development costs of \$137,538 and patent and patent application costs of \$243,629 acquired from the Company's President; and, cash provided by financing activities from proceeds from the issuance of shares of our common stock totaled \$875,000. During the same three-month period, the Company repaid \$30,000 to Activate Inc. We had an overall net decrease in cash for the period of \$227,552; where the beginning balance for the period was \$259,558, the cash balance at the end of the period was \$32,006.

During the three-month period ending December 31, 2008 cash used in operating activities totaled \$854,947; cash used in investing activities totaled \$248,276, for purchase of capitalized software development costs of \$238,101 and property and equipment of \$10,175. During the same three-month period we received \$1,557,201 in cash from financing activities, including borrowings of \$257,201 from our Founder/CEO, Anthony Macaluso, \$50,000 from an unrelated third party, and \$1,250,000 from two unrelated third parties. During the period the Company repaid \$323,231 to Mr. Macaluso and paid \$10,000 in loan fees to an unrelated party, the resultant overall net increase in cash for the period was \$120,747; where the beginning balance for the period was \$175,061, the cash balance at the end of the period was \$295,808.

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.

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.

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 two of the four payments as required.

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 outstanding balance of Principal and interest on a note due of approximately \$ 850,000. As of the date of this report only a request for deposit for arbitration fees has been received and no dates are pending. The Company has been in continuing negotiations with the note holder to resolve the outstanding note balance, a final agreement has not been executed and as of the date of this report.

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 November of 2009 The Company received \$450,000 from the sale of 1,500,000 common shares to a single investor who had previously purchased shares in September of 2009. The investor also received 1,500,000 warrants expiring November 4, 2011 exercisable at \$1.50 per share.

In December of 2009 The Company received \$425,000 from the sale of 1,750,000 common shares to the same investor as the prior sale. The investor also received 1,750,000 warrants expiring December 13, 2011 exercisable at \$1.00 per share.

In January of 2010 The Company received \$425,000 from the sale of 1,750,000 common shares to the same investor as the prior two sales. The investor also received 1,750,000 warrants expiring January7, 2012 exercisable at \$1.00 per share.

In January of 2010 The Company received \$540,000 from the sale of 1,459,459 common shares to an entity and two individual investors. The investors also received 510,811 warrants expiring January11, 2012 exercisable at \$1.50 per share.

In January of 2010 The Company received \$950,000 from the sale of 2,567,529 common shares to five individual investors.

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.

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.

The Company has been in continuing negotiations with the note holder to resolve the outstanding note balance, a final agreement has not been executed and as of the date of this report, the loan is in default with a Principal balance due of \$800,000, Accrued interest of \$41,889 for a total amount due of \$841,889

Item 4 Submission of Matters to a Vote of Security Holders

None for the period ending December 31, 2009

Item 5 Other Information

None, for the period ending December 31, 2009

Item 6 Exhibits and Reports

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

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 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

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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.

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.

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

- 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: February 16, 2010

By: /s/ Anthony Macaluso
Anthony Macaluso
President, Principal Executive Officer
Principal Financial Officer