

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, 2008**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

COMMISSION FILE NUMBER: **33-73004**

**SINGLE TOUCH SYSTEMS, INC.**

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

Delaware

(State or other jurisdiction of incorporation or organization)

13-4122844

(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 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.

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 December 31, 2008:

59,505,540 shares of common stock

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SINGLE TOUCH SYSTEMS, INC.

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SINGLE TOUCH SYSTEMS, INC.

Consolidated Balance Sheet  
(Unaudited)

	December 31, 2008	September 30, 2008
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 295,808	\$ 175,061
Accounts receivable - trade	219,684	284,985
Receivables – related party	118,036	66,457
Prepaid expenses	11,618,260	65,468
<b>Total current assets</b>	<b>12,251,788</b>	<b>591,971</b>
Property and equipment, net		
	304,444	315,163
Other assets:		
Capitalized software development costs, net	678,547	609,078
Deferred operating costs	50,988	50,988
Deposits and other assets	15,282	15,282
<b>Total other assets</b>	<b>744,817</b>	<b>675,348</b>
<b>Total assets</b>	<b>\$ 13,301,049</b>	<b>\$ 1,582,482</b>
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,296,966	\$ 1,257,448
Accrued compensation – related party	-	13,020
Current portion of notes payable – related parties	351,338	365,530
Note payable – other	1,257,140	-
Convertible debentures – related parties, including accrued interest, net of discount	471,707	-
Convertible debentures and accrued interest, net of discount	-	181,887
Deferred income	-	249,329
<b>Total current liabilities</b>	<b>3,377,151</b>	<b>2,067,214</b>
Long term liabilities		
Notes payable – related parties	-	-
Derivative warrant liability	14,861,262	-
<b>Total liabilities</b>	<b>18,238,413</b>	<b>2,067,214</b>
Stockholders' (Deficit):		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none outstanding		
Common stock, \$.001 par value; 200,000,000 shares authorized; Issued and outstanding:		

59,505,540 shares at December 31, 2008, and			
42,769,276 shares at December 31, 2007	59,505		59,505
Additional paid-in capital	86,817,390		87,099,272
Accumulated deficit	(91,814,259)		(87,643,509)
	<hr/>		<hr/>
<b>Total stockholders' (deficit)</b>	<b>(4,937,364)</b>		<b>(484,732)</b>
	<hr/>		<hr/>
Total liabilities and stockholders' (deficit)	\$ 13,301,049	\$	1,582,482
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SINGLE TOUCH SYSTEMS, INC.  
Consolidated Statements of Operations  
(Unaudited)

	For the Three Months Ended	
	December 31,	
	2008	2007
	(Unaudited)	(Unaudited)
Revenue		
Wireless applications	\$ 519,235	\$ 422,331
	<hr/>	<hr/>
<b>Total revenue</b>	<b>519,235</b>	<b>422,331</b>
	<hr/>	<hr/>
Operating expenses:		
Royalties and application costs	214,827	142,261
Software development costs	168,632	183,363
Research and development	15,277	45,931
Stock based compensation	2,305,251	-
Advisory and consulting services	123,653	180,000
Salaries and wages	436,319	238,398
Officers' compensation	55,730	593,750
Travel expenses	24,098	698,476
General and administrative	258,183	294,804
	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>3,601,970</b>	<b>2,376,983</b>
	<hr/>	<hr/>
<b>Loss from operations</b>	<b>(3,082,735)</b>	<b>(1,954,652)</b>
	<hr/>	<hr/>
Other income (expenses):		
Changes in fair value of derivative and warrant liability	(1,029,759)	-
Interest expense	(57,230)	(378,280)
Interest income	-	-
	<hr/>	<hr/>
Net loss before income taxes	(4,169,724)	(2,332,932)
Provision for income taxes	(1,026)	(800)
	<hr/>	<hr/>
<b>Net loss</b>	<b>\$ (4,170,750)</b>	<b>\$ (2,333,732)</b>
	<hr/>	<hr/>
Basic and diluted net loss per share	\$ (0.07)	\$ (0.05)
	<hr/>	<hr/>
Weighted average shares outstanding	<u>59,505,540</u>	<u>47,324,274</u>

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

	For the Three Months Ended December 31,	
	2008	2007
<b>Cash flows from operating activities:</b>	(Unaudited)	(Unaudited)
Net loss	\$ (4,170,750)	\$ (2,333,732)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	20,894	12,680
Amortization expense - software development costs	168,632	183,363
Amortization expense – discount of convertible debt	-	253,361
(Increase) decrease in assets		
(Increase) decrease in accounts receivable	94,537	(204,194)
(Increase) decrease in prepaid expenses	2,288,709	236,719
Increase (decrease) in liabilities		
Increase (decrease) in accounts payable	5,197	142,051
Increase (decrease) in accrued compensation due related party	(13,020)	525,000
Increase (decrease) in accrued expenses	34,323	227,618
Increase (decrease) in accrued interest	(63,899)	124,920
Increase (decrease) in deferred income	(249,329)	(257,982)
Increase in derivative and warrant liability	1,029,759	-
<b>Net cash used in operating activities</b>	<b>(854,947)</b>	<b>(1,090,196)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(10,175)	(6,439)
Capitalized software development costs	(238,101)	(156,822)
<b>Net cash used in investing activities</b>	<b>(248,276)</b>	<b>(163,261)</b>
<b>Cash flows from financing activities:</b>		
Proceeds received from related parties	307,201	1,240,000
Repayments on related party advances	(323,231)	-
Proceeds from issuance of debt to others	1,250,000	-
Finance costs	(10,000)	-
<b>Net cash provided by financing activities</b>	<b>1,223,970</b>	<b>1,240,000</b>
<b>Net increase (decrease) in cash</b>	<b>120,747</b>	<b>(13,457)</b>
<b>Beginning balance – cash</b>	<b>175,061</b>	<b>61,621</b>
<b>Ending balance – cash</b>	<b>\$ 295,808</b>	<b>\$ 48,164</b>
<b>Supplemental information:</b>		
Interest expense paid	\$ 73,402	\$ -
Income taxes paid	\$ -	\$ -
<b>Non-cash investing and financing activities:</b>		

In October 2008, the Company granted a warrant to an advisory for services. The warrant allows the Advisor to purchase the greater 5,952,362 common shares or 5.2% of the outstanding common shares of the company, calculated on a fully dilutive basis. The terms also allows for a cashless-exercise. The warrant was originally valued at \$14,866,695 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 12).

During the first quarter of 2008, the Company charged \$281,882 to equity relating to the amortization of discounts on related party convertible debt (See Note 12)

During the first quarter of 2007, the Company issued 81,341 shares of its common stock to holders of its convertible debt in consideration for the cancellation of accrued interest due them.

During the first quarter of 2007, the Company released the 6,700,000 shares of its common stock which was held in escrow in consideration for the cancellation of indebtedness including accrued interest totaling \$2,920,000.

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SINGLE TOUCH SYSTEMS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008  
(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 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 because before the reverse acquisition, the Company had nominal assets, liabilities and operations.

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 Company's 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, 2008, its accumulated deficit amounted to \$91,814,259.

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 advancements made by its officers, and the raising 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 2008. 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.

## 2. Summary of Significant Accounting Policies

Certain reclassifications have been made to conform the 2007 amounts to 2008 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 EITF 99-19 "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 SFAS #50.

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.

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SINGLE TOUCH SYSTEMS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008  
(UNAUDITED)

### **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.

### **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

### **Long-Lived Assets**

The Company accounts for its long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 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, 2008 and 2007, the Company did not believe there was any impairment of its long-lived assets.

### **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 will abandon.

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SINGLE TOUCH SYSTEMS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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### **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 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. The Company recognized stock based compensation of \$2,305,251 in the three month period ended December 31, 2008, from the granting of a common stock warrant to an advisor (See Note 12). The Company did not recognize any stock based compensation during the three month period ended December 31, 2007.

### **Loss Per Share**

The Company reports earnings (loss) per share in accordance with SFAS No. 128, "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 30, 2008 were 31,003,362 warrants, and \$2,304,313 of debt convertible into 28,803,913 shares of the Company's common stock that have been excluded from the computation of diluted net loss per share. Potential common shares as of December 31, 2007 were 6,774,000 warrants, and \$3,096,000 of debt convertible into 2,211,428 shares of the Company's common stock that have been excluded from the computation of diluted net loss per share. These potential common shares are excluded because the effect would have been anti-dilutive. If such shares were included in diluted EPS, they would have resulted in weighted-average common shares of 98,335,041 and 47,324,274 as for 2008 and 2007, respectively

### **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, 2008, significantly all of the Company's revenue was generated from contracts with ten customers. During the year ended December 31, 2007, significantly all of the Company's revenue was generated from contracts with seven customers. Fees from one customer in both years were collected and paid to the Company by a related party. See Note 10.

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### 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 EITF Issue No. 98-5 ("EITF 98-05"), "Accounting for Convertible Securities with Beneficial Conversion Features or Contingency Adjustable Conversion Ratio," and EITF Issue No. 00-27, "Application of EITF Issue No. 98-5 to Certain Convertible Instruments." In those circumstances, the convertible debt will be recorded net of the discount related to the BCF and the Company will amortize the discount to interest expense over the life of the debt using the effective interest method.

### Income Taxes

The Company accounts for its income taxes under the provisions of Statement of Financial Accounting Standards 109 ("SFAS 109"). The method of accounting for income taxes under SFAS 109 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 the first quarter of fiscal 2009, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements, ("SFAS No. 157") for all financial assets and financial liabilities and for all non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. See Note 10 – "Fair Value".

In October 2008, the Financial Accounting Standards Board ("FASB") issued Financial Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP 157-3 did not have a significant impact on our consolidated financial statements or the fair values of our financial assets and liabilities.

In December 2008, the FASB issued Financial Staff Position ("FSP") Financial Accounting Standard No. 140-4 and FASB Interpretation 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities ("FSP FAS 140-4" and "FIN 46(R)-8"). The document increases disclosure requirements for public companies and is effective for reporting periods (interim and annual) that end after December 15, 2008. FSP FAS 140-4 and FIN 46(R)-8 became effective for us on December 31, 2008. The adoption of FSP FAS 140-4 and FIN 46(R)-8 did not have a significant impact on our consolidated financial statements.

### 3. Accounts Receivable

Fees earned but not paid as of December 31, 2008 and 2007, net of any revenue sharing, amounted to \$256,905 and \$443,001, respectively. Of the amounts due at December 31, 2008, \$37,221 is due from a related party (Activate, Inc.).

The Company entered into an agreement with Activate, Inc., a corporation wholly owned by the Company's President. Activate holds a license on certain applications on which the Company licensed to a third party Activate has sublicensed the applications to the Company and in consideration, receives 3% of all net revenue generated under the license. Activate collects the revenue generated under this license and pays 97% of the amounts collected to the Company.

In addition to the amount due from Activate, Inc., at December 31, 2008 short term cash loans from the Company's President were overpaid by the Company in the amount of \$80,815 which was immediately repaid after the period end in the form of additional short term cash loans from the Company's President which were required to support operations.



#### 4. Property and Equipment

The following is a summary of property and equipment:

	<u>December 31, 2008</u>	
Computer hardware	\$	492,184
Equipment		46,731
Office furniture		37,194
		<u>576,109</u>
Less: accumulated depreciation		<u>(271,665)</u>
	\$	<u>304,444</u>

#### 5. Capitalized Software Development Costs

The following is a summary of capitalized software development costs at December 31, 2008:

	<u>December 31, 2008</u>	
Beginning balance	\$	609,078
Additions		238,101
Amortization		(168,632)
Charge-offs		-
	\$	<u>678,547</u>

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

December 31,	
2008	\$ 501,721
2009	176,826
	<u>\$ 678,547</u>

#### 6. Income Taxes

As of December 31, 2008, for income tax purposes, the Company has unused operating loss carryforwards of approximately \$23,000,000, which may provide future federal tax benefits of approximately \$7,800,000 which expire in various years through 2029 and future state benefits of approximately \$2,000,000 which expire in various years through 2019.

An allowance of \$9,800,000 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, 2008 and 2007 are as follows:

	<u>2008</u>		<u>2007</u>	
Current				
Federal	\$	-	\$	-
State		1,026		800
		<u>1,026</u>		<u>800</u>
Total income tax expense	\$	<u>1,026</u>	\$	<u>800</u>

SINGLE TOUCH SYSTEMS, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2008  
 (UNAUDITED)

## 7. Convertible Debt

During 2007 and 2006, the Company received a total of \$3,096,000 in exchange for issuing promissory notes that are assessed interest at a rate of 6.5% per annum and mature on June 30, 2008.

While outstanding, the notes are convertible into shares of the Company's common stock at a rate of \$1.40 per share. The conversion terms of the promissory notes contain certain anti-dilution provisions. The Company has agreed to register the underlying convertible shares in connection with the filing of any public offering, subject to certain terms and conditions. Commencing on June 30, 2007, the Company has the right to convert all or some of the convertible debt into shares of its common stock at a price of \$1.40 per share. For each \$100,000 of convertible debt received, the Company granted warrants to purchase 25,000 shares of the Company's common stock at a price of \$1.76 per share. The warrants expire five years after issuance and contain anti-dilution provisions.

The conversion features of the note are below market and therefore the Company recorded a beneficial conversion feature ("BCF") of \$2,295,292 pursuant to EITF Issue No. 98-5 ("EITF 98-05"), "Accounting for Convertible Securities with Beneficial Conversion Features or Contingency Adjustable Conversion Ratio," and EITF Issue No. 00-27, "Application of EITF Issue No. 98-5 to Certain Convertible Instruments." The convertible debt was recorded net of the discount that includes the BCF. The discount is amortized to interest expense over the life of the debt using the effective interest method.

During the year ended September 30, 2008, the total amount of debt and accrued interest totaling \$3,395,584 was converted into 2,361,219 shares of the Company's common stock. In addition, during the year, the Company issued an additional 2,211,460 to the debt holders pursuant to the terms of the anti-dilution provisions of the respective loan agreements. The Company valued the additional shares issued at par value.

The balance of convertible debt due at December 31, 2008 is as follows:

	<u>2008</u>
Principal balance due	\$ -
Accrued interest	-
Less: discount	-
	<u>          </u>
	\$ -
	<u>          </u>

Amortization of the discount charged to operations during the three months ended December 31, 2008 and 2007 amounted to \$0, and \$99,449, respectively.

## 8. Related Parties – Activities

### Note payable - officer

The Company's president has assisted in funding the operations of the Company through loan advances of which a portion has been repaid. Initially, the outstanding balance, including accrued interest which was 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, 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 being amortized to equity over the life of the debt using the effective interest method.

Interest charged to operations for the three months ended December 31, 2008 and 2007 amounted to \$46,263 and \$22,441, respectively.

A summary of the balance due the Company's president as of December 31, 2008 is as follows:

	<u>2008</u>
Principal balance due	\$ 2,319,512
Accrued interest	508
Less: discount	<u>(1,862,880)</u>
	<u>\$ 457,140</u>

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

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SINGLE TOUCH SYSTEMS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2008  
(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, 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, 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 being amortized to equity over the life of the debt using the effective interest method.

Interest charged to operations for the three months ended December 31, 2008 and 2007 amounted to \$1,465 and \$1,391, respectively.

A summary of the balance due the Activate as of December 31, 2008 is as follows:

		<u>2008</u>
Principal balance due	\$	69,994
Accrued interest		3,559
Less: discount		<u>(58,986)</u>
	\$	<u>14,567</u>

For the three months ended December 31, 2008, the Company charged \$8,652 to equity on the amortization of the discount.

**Other Related Party Loans**

A Company director and an affiliate of the director advanced funds to the Company during 2008. The balance of the advances began accruing interest in December 2008. The balance owed as of December 31, 2008 including accrued interest totaled \$351,338. Interest charged to operations during the three months ended December 31, 2008 amounted to \$3,756.

**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 will be net of any 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. Principal and unpaid accrued interest are fully due and payable on June 9, 2009. 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. Interest charged to operations on this loan for the three months ended December 31, 2008 amounted to \$5,222.

Also in December 2008, the Company borrowed \$250,000 from an unrelated third party. The loan is assessed interest at an annual rate of 10% and principal and interest are fully due and payable in June 2009. Interest charged to operations on this loan for the three months ended December 31, 2008 amounted to \$1,918.

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## 10. Fair Value

The Company adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (“SFAS 157”), at the beginning of fiscal year 2009 to measure the fair value of certain of its financial assets required to be measured on a recurring basis. The adoption of SFAS 157 did not impact the Company’s consolidated financial position or results of operations. SFAS 157 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). SFAS 157 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 SFAS 157 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.

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’s Level 2 assets consist of a derivative and warrant liability. The Company determines the fair value of its Level 2 assets 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-Sholes Option Model in valuing the fair value of level 2 assets.

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.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis.

	December 31, 2008			<u>Fair Value</u>
	Level 1	Level 2	Level 3	
Assets	\$ -	\$ -	\$ -	-
Liabilities				
Derivative and warrant liability	\$ -	\$ 14,861,262	\$ -	14,861,262
		<u>Derivative and Warrant Liability</u>		
Balance – October 1, 2008				
Transfers into Level 2		\$ 13,831,503		
Total realized and unrealized losses				
Included in operations		1,029,759		
Balance – December 31, 2008		<u>\$ 14,861,262</u>		

* Level 1	Quoted prices in active markets identical assets
Level 2	Significant other observable inputs
Level 3	Significant unobservable inputs
Fair Value	Assets/Liabilities at fair value

## 11. 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 #50. 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 #50.

Revenue recognized during the three months ended December 31, 2008 and 2007 under this agreement amounted to \$249,328 and \$224,143, respectively.

## 12. 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, 2007. The Company issued the 6,700,000 shares held in escrow to the note holder in consideration for the cancellation of \$2,920,000 of indebtedness which including accrued interest (See Note 9). During the three months ended December 31, 2007, the Company issued 82,846 shares of its common stock in consideration for the cancellation of \$165,692 of accrued interest due on its convertible debt.

### Warrants

In 2005, the Company issued stock warrants to various consultants to purchase 5,000,000 shares of the Company's common stock at a price of \$1.00 per share. The warrants expire on July 15, 2015. These warrants were valued at \$27,187,000 using the Black-Sholes Option Model based upon an expected life of 10 years, risk free interest rate of 4.5%, and expected volatility of 50%. At the date of grant, the Company's common stock had an estimated market value based upon the price established in its past private offering of \$6 per share.

As part of the convertible debt issued in 2006 and 2007, as discussed above in Note 7, the Company issued stock warrants to the various note holders to purchase a total of 774,000 shares of its common stock at a current price of \$1.76 per share. The warrants expire on the fifth anniversary date of the respective grant. As the exercise price of \$1.76 per share was greater than the estimated market price of the Company's common stock of \$1.40 at date of grant, no compensation expense was recognized.

In 2007, the Company issued stock warrants to three consultants to purchase 1,000,000 shares of the Company's common stock a price of \$0.02 per share. The warrants expire on July 12, 2012. These warrants were valued at \$1,384,400 using the Black-Sholes Option Model based upon an expected life of 5 years, risk free interest rate of 4.8%, and expected volatility of 65%. At the date of grant, the Company's common stock had an estimated market value based upon the price established in its debt offering of \$1.40 per share.

In 2008, the Company granted the convertible note holders indicated above additional warrants to purchase 2,322,000 shares of the Company's common stock at a price of \$.88 per share. The warrants expire on June 22, 2011. These warrants were valued at \$190,404 using the Black-Sholes Option Model based upon an expected life of 3 years, risk free interest rate of 3.27%, and expected volatility of 50%. At the date of grant, the Company's common stock had an estimated market value based upon the price established in its debt offering of \$.88 per share. In 2008, the Company issued stock warrants to two consultants to purchase 2,000,000 shares of the Company's common stock a price of \$0.01 per share. The warrants expire on June 22, 2011. These warrants were valued at \$1,741,800 using the Black-Sholes Option Model based upon an expected life of 3 years, risk free interest rate of 3.27%, and expected volatility of 50%. At the date of grant, the Company's common stock had an estimated market value based upon the price established in its debt offering of \$.88 per share.

As discussed in Note 7, under a private offering, the Company issued 2,640,000 Class A Warrants and 2,640,000 Class B Warrants. Each Class A Warrant entitles the holder to purchase one share of common stock at a price of \$1.60 per share for a period of 18 months from date of grant. Each Class B Warrant entitles the holder to purchase one share of common stock at a price of \$2.05 per share for a period of 18 months from date of grant. As the exercise price of both the Class A and Class B Warrants were greater than the market price of the

Company's common stock of \$0.25 at date of grants, no compensation expense was recognized. On April 22, 2008, the Company adopted its 2008 Stock Option 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>
	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 \$544,200 to operations as compensation expense based upon the vesting of the respective option. Compensation expense for the year ended September 30, 2008, 2009, and 2010 is \$376,800, \$82,896, and \$85,094, respectively.

On October 30, 2008, the Company entered into a Non-exclusive Special Advisory Services Agreement with Peltz Capital Management, LLC, a Delaware limited liability company ("Peltz"). The Agreement ends on September 30, 2009; but will be renewed for up to two additional one-year terms commencing on September 30 of each year unless on or prior to September 20<sup>th</sup> of such year either party delivers a notice of non-renewal to the other (in which case the Agreement shall terminate on the date set forth in the notice). The agreement is also terminable upon thirty days notice by either party. Inclusive with this Non-exclusive Special Advisory Services Agreement is the Warrant and a Registration Rights Agreement. In consideration for the services to be rendered under the terms of the agreement, the Company granted to Peltz a warrant for the purchase of the greater of Five Million Nine Hundred Fifty Two Thousand Three Hundred Sixty Two (5,952,362) shares of common stock of the Company or 5.2% of the total outstanding common stock of the Company, computed on a fully dilutive basis. The Warrants can be exercised at a price of \$2.10 per share and expire five years from the date of grant. The Warrant contains various penalty and non-dilution clauses which if triggered could reduce the exercise price of the warrants and/or require the company to issue additional warrants. The Warrant contains cashless exercise provisions and the Registration Rights Agreement provides some contingent registration rights as described in the agreement. The initial third of the warrants vested upon execution of the agreement and the remaining warrants vest over a two month period.

The 5,952,362 warrants were valued at \$13,831,504 using the Black-Sholes Option Model based upon an expected life of 5 years, risk free interest rate of 2.84%, and expected volatility of 94%. At the date of grant, the Company's common stock had a trading price of \$3.00 per share. The Company is charging the \$13,831,504 to operations as compensation expense over the initial twelve months of the agreement. Consulting expense charged to operations during the three months ended December 31, 2008 totaled \$2,305,251.

Due to the terms of the warrant, the Company has accounted for the warrant pursuant to EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and initially recorded the \$13,831,504 as a derivative liability. As of December 31, 2008, the Company valued the liability at \$14,861,262 using the Black-Sholes Option Model based upon an expected life of 5 years, risk free interest rate of 1.55%, expected volatility of 94%, and a per share market price of the Company's underlying stock of \$3.24. The \$1,029,758 increase in the derivative liability was charged to operations during the three months ended December 31, 2008.

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SINGLE TOUCH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Number of shares	Weighted average exercise price
Outstanding – September 30, 2008	25,051,000	\$ 1.20
Granted	5,952,362	\$ 2.10
Exercised	-	-
Cancelled	-	-
Outstanding – December 31, 2008	31,003,362	\$ 1.37

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Of the 31,003,362 options and warrants granted at December 31, 2008 a total of 28,328,362 are exercisable.

### 13. Commitments and Contingency

#### Operating Leases

The Company leases office space in Encinitas, California which 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.

A schedule of minimum lease payments under the leases is as follows:

Year Ended	
<u>December 31.</u>	
2009	\$ 107,622
2010	62,780
	<hr/>
	\$ <u>170,402</u>

Rent expense for the three months ended December 31, 2008 and 2007 was \$105,010 and \$98,446 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. As of December 31, 2008 and 2007, obligations due under these various licenses totaled \$309,117 and \$244,256, respectively. These liabilities are included in the Company's balance sheet under accounts payable and accrued expenses.

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SINGLE TOUCH SYSTEMS, INC.

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

#### Forward - Looking Statements

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, 2008.

#### 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 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 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 EITF Issue No. 98-5 (EITF 98-05), Accounting for Convertible Securities with Beneficial Conversion Features or Contingency Adjustable Conversion Ratio," and 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.

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## SINGLE TOUCH SYSTEMS, INC.

#### *Fair Value Measurement*

The Company adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements ("SFAS 157"), at the beginning of fiscal year 2009 to measure the fair value of certain of its financial assets required to be measured on a recurring basis. The adoption of SFAS 157 did not impact the Company's consolidated financial position or results of operations. SFAS 157 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). SFAS 157 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 SFAS 157 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.

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's Level 2 assets consist of a derivative and warrant liability. The Company determines the fair value of its Level 2 assets 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-Sholes Option Model in valuing the fair value of level 2 assets.

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.

#### *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 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 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 EITF 00-18, 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 Statement of Financial Accounting Standard No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed." Under SFAS No. 86, 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.

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## SINGLE TOUCH SYSTEMS, INC.

### *Corporate History*

Single Touch Systems Inc. ("the Company") was incorporated in Delaware on May 31, 2000, under its original name, Hosting Site Network, Inc. to provide businesses with Internet services. 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. Immediately following the acquisition, Single Touch Interactive, Inc. became our wholly-owned subsidiary and comprised the business of the Company. Single Touch Systems, Inc. is now engaged in the business of wireless application development, publishing and distribution.

### **Business Overview**

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, messaging alerts, 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, 2008 and December 31, 2007

The Company reports a net loss of \$4,170,750 for the three-months ended December 31, 2008 versus a net loss of \$2,333,732 for the three-month period ending December 31, 2007.

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; salary and wages totaling \$436,319; and, general and administrative expenses of \$258,183. Revenues for the period were \$519,235.

The net loss for the three-month period ended December 31, 2007 includes travel expense of \$698,476; officers' compensation of \$593,750; salary and wages totaling \$238,398; and, general and administrative expenses of \$294,804. Revenues for the period were \$422,331.

We had increased royalties and application costs for the three months ended December 31, 2008 as compared to the same three month period in 2007 of \$72,566, a 51.00% increase (\$214,827 in 2008 compared to \$142,261 in 2007). This increase was significantly caused by our fixed applications costs associated with the services we are beginning to provide related to new ADC products, which commenced in December 2008.

Our largest expense during the three months ended December 31, 2008 was stock based compensation of \$2,305,251 which amounted to 64% of the total operating expenses in the three month period ended December 31, 2008. The 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 EITF 96-18 using the Black-Sholes Option Model. With the exception of our stock base compensation, our operating expenses during the three months ended December 31, 2008 were actually lower than the amount of operating expenses incurred during the same three month period in 2007 by \$1,080,264. The majority of the reduction was due to lower officer's compensation (\$55,730 in 2008 as compared to \$593,750 in 2007) and travel expense (\$24,098 in 2008 as compared to \$698,476 in 2007).

Another large expense in 2008 was the change in the fair value of our derivative and warrant liability which amounted to \$1,029,759. The terms of the warrant issued to our special advisor causes us to treat the warrant as a derivative financial instrument pursuant to EITF 00-19. We value the warrant using the Black-Sholes Option Model. The fair value of the warrant increased at December 31, 2008 by \$1,029,599, thus an increase in our derivative liability and the charge to operations.

For the three months ended December 31, 2007, our major expenses consisted of travel expense of \$698,476; officers' compensation of \$593,750; salary and wages totaling \$238,398; and, general and administrative expenses of \$294,804.

#### Revenues

Revenues for the three month period ending December 31, 2008 were \$519,235 resulting in an increase over revenues of \$422,331 for the comparable period in 2007.

The revenue increase in the three month period ended December 31, 2008 from the comparative period in 2007 was partially a result of some lower cost elements on some of our agreements which was accounted for against revenue from sales of downloaded applications in the prior period.

We continue to experience lower sales from Brew based applications due to improve hardware capability allowing the use of other platforms we see this as a continuing market trend. Hardware capability in handsets continues to increase closing the gap personal computer capabilities. The Windows mobile platform and others, now offer extensive email, document review and editing capabilities as well as multimedia capabilities which have enabled the evolving mobile music/media subscription services.

Some ADC programs have also had reduced sales as a result of a transition in advertising from Motricity to Play-phone and Thumb-play. Our agreement with Motricity, Inc. expired December 17, 2008 and service was terminated in September 2008. Motricity revenues represented approximately 56% of our revenues for the year ended September 30, 2008. We have established new relations for our former Motricity ADC programs by contracting directly with BET and with Play-phone to promote this program. These revenues are currently nominal but are expected to increase once advertising develops which is the responsibility of Play-phone. We have also contracted directly with MTV and with Thumb-play to promote this program. These revenues are currently nominal but are expected to increase once advertising develops which is the responsibility of Thumb-play.

We are in the final stages of development and are completing pre-rollout testing of new ADC programs which we expect to shift revenue dependence from media download end users which often are proportionate to advertising directed by our customers, to value added services involving traditional retailers and service providers. ADC enhanced messaging services and couponing is expected to provide us with a greatly expanded revenue potential serving a much broader end user base. These programs can be implemented at point of sale as a convenience to the end user motivated as a cost savings to the retailer/service provider.

#### Changes in Assets and Liabilities

At December 31, 2008, we had total assets of \$13,301,049 and total liabilities of \$18,238,413; comparably, at December 31, 2007, we had total assets of \$1,582,482 and total liabilities of \$2,067,214. 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 \$192,314 more than our total assets in 2007 of \$1,582,482.

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, 2008 excluding the derivative warrant liability totaled \$3,377,151, which is \$1,309,937 higher than our total liabilities at December 31, 2007. The increase in 2008 over 2007 is due to the amount we owe on third party debt.

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## SINGLE TOUCH SYSTEMS, INC.

#### Liquidity and Capital Resources

During the three-month period ending December 31, 2008 the Company's cash position increased by \$120,747. Cash used in operating activities totaled \$854,947; cash used in investing activities totaled \$248,276, for purchase of property and equipment of \$10,175 and capitalized software development costs of \$238,101; and, cash provided by financing activities primarily through the issuance of debt to others was \$1,223,970.

During the three-month period ending December 31, 2008 we received \$1,557,201 in net cash provided by financing activities including borrowings of \$257,201 from our Founder/CEO, Anthony Macaluso, \$50,000 from a company affiliated with the Director, and \$1,250,000 from two unrelated third parties. During the same three month 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.

During the three-month period ending December 31, 2007, we received \$1,240,000 in net cash provided by Mr. Macaluso. Net cash used in

operating activities totaled \$1,090,196. Cash used in investing activities was \$163,261. The resultant overall net decrease in cash for the period was \$13,457, where the beginning balance for the period was \$61,621, the resultant cash balance at the end of the period was \$48,164.

As of December 31, 2008, our available cash amounted to \$295,808, which is insufficient to meet all of our current financial obligations and continue funding our operations. Our current cash requirement to maintain operations at existing operational levels is approximately \$400,000 per month. Management continues to address our cash requirements through developing revenue new ADC products, expanding our customer base and through the issuance of debt and equity instruments.

If additional funds are not received or revenues do not increase substantially it is unlikely that the Company will be able to continue at its current level of operations. Difficulties in obtaining new financing in the current credit and capital markets has impacted the company's funding efforts and has limited additional resources of funding from our President Mr. Macaluso who has historically covered short term cash requirements to maintain operations.

We are unable to predict the duration, extent or trends related to the current credit and capital markets we do expect to continue to experience difficulty financing our short term cash requirements as a result of these struggling markets and the U.S. Economy in general. Also, we may not be able to get terms favorable to the company or the existing shareholders if we are able to secure additional financing..

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## SINGLE TOUCH SYSTEMS, INC.

The majority of our operations have been funded to date 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

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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 Chief Executive Officer and Chief 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.

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SINGLE TOUCH SYSTEMS, INC.

## **Part II OTHER INFORMATION**

### **Item 1 Legal Proceedings**

From time to time the Company may be named in claims arising in the ordinary course of business. Currently, no 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**

None that have not been previously disclosed, for the period ending December 31, 2008

### **Item 3 Defaults Upon Senior Securities**

None, for the period ending December 31, 2008

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

No matters were submitted to a vote of security holders during the, for the period ending December 31, 2008.

### **Item 5 Other Information**

None, for the period ending December 31, 2008

### **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 SB-2 (Post Effective Amendment No. 2) (SEC File No. 333-73004), as amended; which exhibit is incorporated herein by reference.
- 4.1 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.
- 4.2 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.
- 4.3 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 Employment Agreement dated July 15, 2008 between Single Touch Interactive, Inc. and Anthony Macaluso- filed July 31, 2008, as exhibit 10.9 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.

- 10.3 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.
- 10.4 Agreement and Plan of Merger and Reorganization dated March 20, 2008 among Single Touch Systems, Inc. (formerly known as Hosting Site Network, Inc.), Single Touch Acquisition Corp. and Single Touch Interactive, Inc.- filed June 3, 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.
- 10.5 Addendum to Agreement and Plan of Merger and Reorganization dated March 20, 2008 among Single Touch Systems, Inc. (formerly known as Hosting Site Network, Inc.), Single Touch Acquisition Corp. and Single Touch Interactive, Inc.- dated May 29, 2008, filed June 3, 2008, as exhibit 2.1 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 10.6 Second Addendum to Agreement and Plan of Merger and Reorganization dated March 20, 2008 among Single Touch Systems, Inc. (formerly known as Hosting Site Network, Inc.), Single Touch Acquisition Corp. and Single Touch Interactive, Inc.- dated June 10, 2008, filed June 20, 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.
- 10.7 Third Addendum to Agreement and Plan of Merger and Reorganization dated March 20, 2008 among Single Touch Systems, Inc. (formerly known as Hosting Site Network, Inc.), Single Touch Acquisition Corp. and Single Touch Interactive, Inc.- dated June 27, 2008, filed July 14, 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.

- 10.8 Fourth Addendum to Agreement and Plan of Merger and Reorganization dated March 20, 2008 among Single Touch Systems, Inc. (formerly known as Hosting Site Network, Inc.), Single Touch Acquisition Corp. and Single Touch Interactive, Inc.- dated July22, 2008, filed July31, 2008, as exhibit 2.5 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); which exhibit is incorporated herein by reference.
- 10.9 Fifth Addendum to Agreement and Plan of Merger and Reorganization dated March 20, 2008 among Single Touch Systems, Inc. (formerly known as Hosting Site Network, Inc.), Single Touch Acquisition Corp. and Single Touch Interactive, Inc.- dated July24, 2008, filed July31, 2008, as exhibit 2.6 with the registrant's Current Report on Form 8-K (SEC File No. 333-73004); 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)

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SINGLE TOUCH SYSTEMS, INC.

**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 22, 2009      By: /s/ Anthony Macaluso, President

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Anthony Macaluso, President  
Principal Executive Officer  
Principal Financial Officer

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## Certification

I, ANTHONY MACALUSO, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SINGLE TOUCH SYSTEMS, INC.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2009

/s/ Anthony Macaluso  
Anthony Macaluso  
President  
Principal Executive Officer and Principal Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of SINGLE TOUCH SYSTEMS, INC. (the "Company") on Form 10-Q for the period ending December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, ANTHONY MACALUSO, President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

\\ Anthony Macaluso  
Anthony Macaluso  
President  
Principal Executive Officer and Principal Financial Officer

February 22, 2009

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