**GREAT EXPECTATIONS!**

**THE LOOMING FUTURE OF MOBILE MEDIA ADVERTISING AND MARKETING**

**Report Synopsis**

This industry survey was partly undertaken due to our own astonishment regarding the rapid adoption, by US consumers, of Smart-phones and other media-friendly mobile devices; and how a few, very savvy, marketers and some swift-footed retailer/service-producers have leveraged the capabilities of these instruments to communicate marketing messages to consumers. A marketing/advertising evolution is occurring under our very noses. To our astonishment, many investors neither realize the magnitude of the shift, nor the power this new channel provides to advertisers. These new, highly-personalized mobile devices deliver rich, robust, PC-like experiences, and the unprecedented level of accessibility and utility have made them (as one writer noted) “the remote control for our lives.” They go with us virtually everywhere; and via GPS circuitry, they KNOW WHERE WE ARE and oftentimes, via apps or “checking in” functions, they KNOW WHAT WE ARE DOING! This combination of factors is driving a change in how marketers, advertisers, brands and organizations interact with consumers and will drive transformation more pervasive and potent than that wrought by consumers’ access to the internet.

Like most nascent industries, we found the space populated by a few major players. Most are hangers-on from the desktop world. A handful are “up-and-coming” entrepreneurial operations, both public and private, who are carving-out specific markets for themselves with distinctive technology capabilities. Additionally there are a raft of much smaller entities (mostly private or VC financed) too tiny to register.

Regardless of how the investment scenario plays out over the next several years, a rising tide will lift all boats. Those best rigged and able to benefit the most from the prevailing industry growth will rise more quickly and experience multiple years of rapid, unbridled and expansive growth. Though they may purchase some of the much tinier, existing entities to pick-up particular markets or technology share, just the availability of organic opportunities should permit four to seven years of 40% to 70+% CAGR.

Currently, it is unlikely that the smaller, significant players will be acquired. They are way too small to “move the needle” for GOOG, AAPL or the like. The behemoth players are so-many-magnitudes larger than the targets their addition would amount to less than rounding error. Also, a transaction at this time would place the executive recommending the acquisition at great risk. Further, managements of these mobile marketing/advertising entities think a lot of open ground lies ahead to be plowed; why hitch your wagon to a corporate behemoth that may limit your ability to maneuver in the world of rapidly shifting sands? That is, until several years out
when the size of these intermediate operations matters far more to the buyer as well as the entrepreneurs’ own pocketbook. It’s time to BUY the intermediates or be patient.

**MOBILE ADVERTISING/MARKETING REVIEW**

Starting points to consider when framing the future role of Mobile Media Marketing within the overall backdrop of the advertising industry:

- Total Ad expenditures (national/local) in the USA are now approaching $160 billion.

- Almost two decades ago, the creation of Internet advertising spawned a whole new industry and several behemoth operations (Think: Google, Apple, MSN, Yahoo, etc.) benefiting from direct access to consumers provided by desktop electronic media.

- The installed base of cell phones and other mobile devices already outpaces that of PCs (Desktops, Laptops and all others.) There are more handheld phones than there are citizens in the U.S. and peoples’ reactions to incoming SMS signals are far more spontaneous and immediate than to email messages. Moreover, users are far more likely to read a phone message, text or media message, etc. before deleting the message than a computer email, where we have become habitually trained to delete nearly any item that isn’t the least bit interesting. Indeed over the course of time, we have actually invested in technologies to prescreen emails to expedite the “deleting” process.

- The next uncharted media frontier for advertising and commercial messaging is the mobile media network. Though a nascent arena, it is coming-on fast with remarkable growth paralleling the phenomenal increases in the installed and established base.

- Few skilled players, who understand how to tap into consumers’ operating sphere and illicit a response without offending their sensibilities, exist in this mobile advertising arena.

It is these emerging mobile marketing and advertising operators that will enjoy an operating heyday over the next several years. Those mobile media marketing service providers that can access mobile customers, understand how to work with both agencies and product/service clients, and who have the technological expertise to provide custom solutions that should ultimately benefit from this on-coming and inevitable “land grab” for the consumers’ attention and buying direction. Unlike the mad scramble for internet sites witnessed two decades ago, this race will be far faster paced and one not populated by entrepreneurial start-ups, characterized by home-bound “masters” looking for avenues to apply their craft. No, far more professional, experienced and ad savvy experts will lead the launch and development.

**The following is what we learned.**

While the recent headlines were grabbed by the equity launch and haughty valuation of Facebook, the outstanding appraisals given to it and the other social media networks that have been able to tie communities of potential consumers together, there is still the missing ribbon from this package that
binds the all important bundle as one and in-sync. As it stands, these communities or “networks” of folks are joined because of a communication interest or connection between friends; but, what makes them “valuable” is the opportunity for business to “tap” into that community (like an oil well tapping into a reservoir) for the advantage of either gathering a database of potential “targets” for direct marketing or for aggregating information about a specific, target group. Based on the rapid proliferation of mobile electronic devices across all demographic categories, penetration of mobile marketing and advertising will undoubtedly surpass electronic web advertising once the advertising industry better grasps how to tackle the new medium and best exploit the technical intricacies and nuances to project content and messaging to their clientele.

**Starting with the Big Picture and Scoping in to the Target.**
Mobile advertising expenditures in the US approached $1.5 billion for the first time during 2011 as the proliferation of smart-phones and increasing mobile internet usage accelerated demand for the medium amongst advertisers. Advertisers in the US are believed to have spent roughly $1.45 billion on mobile advertising in 2011 (eMarketer), up 66% from $743 million in 2010, with the spending allocated to display ads (e.g. banner ads, rich media and video), paid search and messaging-based ads and incorporates revenues from mobile phones, tablets and all other mobile equipment (see table below for breakdown).


<table>
<thead>
<tr>
<th>($) in millions</th>
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<tbody>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Banners and rich media</td>
</tr>
<tr>
<td>Messaging</td>
</tr>
<tr>
<td>Search</td>
</tr>
<tr>
<td>Video</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
</tr>
</tbody>
</table>

Source: eMarketer, January 2012

Video ads represent the fastest growing segment of the mobile advertising space at 104% increase (2010-11), followed by paid search revenues (+89%), banners and rich media (+86%) and messaging (+35%).

The growth of mobile advertising has been impressive, yet mobile ad spending in 2011 remains a small fraction of total online ad out-lays when compared to roughly $32.0 billion (eMarketer) spent on web advertising, up 23% from 2010. In fact despite the weak economy, online ad expenditures are expected to post strong gains in 2012 with 23% growth expected to $39.5 billion (US), driven largely by increasing penetration and overall industry growth. Should this materialize, online advertising spending would surpass total print advertising in the US for the first time – eMarketer expects total print ads to decline roughly 6% to $33.8 billion from $36 billion in 2011.

Total US advertising spending is expected to grow to $169.5 billion in 2012 from $158.9 billion in 2011 (up 6.7%). This is aided by tailwinds provided by political ads campaigns surrounding the U.S. presidential election as well as increased advertising due to the Olympics in London.

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So, what is driving the meteoric growth of mobile ad spending vis-à-vis total ad spending? It is, in fact, the convergence of multiple factors, and one very specific reality that has, and will, continue to catalyze growth of mobile advertising at the expense of print, radio and online media.

- Increasing adoption of highly functional wireless devices. Readers have to face the reality that the increasing appetite by consumers for innovative mobile-connected devices like smartphone, tablet computers, e-readers, and the like enables remote experiences (more similar to the desktop environment) as more intuitive user interfaces, faster processors, advanced display technologies and touch capabilities have enhanced the user environment.
  
  - From April 2010-March 2011, major handset makers launched more than 120 new, smart-phone models (CTIA).
  
  - Further, in 2011, US consumers purchased 278.3 million data-capable devices, including 95.8 million smart-phones or wireless-enabled PDAs and 15.2 million wireless-enabled laptops, notebooks, tablets or wireless broadband modems, are in the hands of consumers as of June 2011.

- Greater access to broadband wireless networks enables faster delivery of rich media content. The proliferation of 3G, 4G/LTE and Wi-Fi access points has provided the foundation for increased adoption of higher-functionality mobile devices, providing new opportunities within the mobile environment.

- Higher functionality mobile devices and infrastructure has shifted how consumers access content. Much of the media-rich content and entertainment material typically consumed through traditional news and leisure sources like print, television/radio or the desktop computer, are increasingly being accessed via mobile wireless devices….these electronic appliances are becoming an increasingly integral component of many users’ lives. For instance, do you know of any younger person who actually watches TV, listens to broadcast radio, or reads newspapers or magazines anymore? Most resort to connected or mobile wireless devices for content, all forms of entertainment or communication. Now more often than not, consumers can access news, check the weather, get the scores of any game, watch movies or TV shows, consult road maps, shop for goods, conduct financial transactions – really do just about any activity they can do “tethered” to a desktop computer or attached to a physical reference library - only now consumers perform searches on what they want and when they want from nearly any location.

- The advertising industry paradigm is shifting. Traditional advertising media (signs/billboards, print advertising and terrestrial broadcast media) are quickly becoming limited in their penetration, timeliness and effectiveness. Besides being limited by inherent shortcomings such as limited geographic reach, limited audience-targeting and little ability to measure outcomes, wide-swatches of the more youthful demographic groupings completely eschew traditional
media sources. In addition, it is being realized that response rates for mobile advertising content are much higher than traditional media approaches due to better contextual relevance including integration of geo-location data that most smart-phones and tablets provide, consumers can be accessed in innovative and compelling ways not previously possible.

Combined, these benefits create an enormous opportunity for retailers and manufacturers to reach-out and communicate with consumers and more importantly, motivate consumers to respond to these signals by either buying a company’s products or services or by enticing them into responding to some-other call to action….say for more information, an appointment, etc. The capability of mobile media, and the opportunity provided to those who will guide and assist retailers, manufacturers and the vast array of service providers through this new world, is almost boundless given the technologies newfound abilities to access consumers virtually anywhere or anytime, to provide a more personalized or targeted message, as well as to target consumers based on their location or their need. Further, the proliferation of mobile devices not only permits a more robust engagement with the consumer, but allows far better response measurement and data tracking in ways previously not possible. This capability yields incredibly valuable data that can be parsed and dissected to far better ascertain what campaign techniques work versus those that don’t, how responses are best received and delivered upon and most importantly, who the end user really is.

Here is an example that could have untold benefits for retailers as well as the merchandise suppliers and just about everyone else along the retail chain-of-supply. In 2011, US consumers redeemed $4.6 billion in coupons for consumer packaged goods, representing roughly 3.5 billion coupons. That is a lot of paper that has to be processed but also a lot of paper that ends up as waste and essentially disposed of by the retailer at end of the day. In addition, when the coupons are redeemed, there is almost no demographic data about the customer or where the coupon was found (which ad campaign was successfully responded to?) or other information about the transaction except that ‘so much was saved’ on a ‘Tony’s Pizza’ purchased at the Wood Village Safeway. In addition, the coupon collection process requires reconciliation with sales, auditing and submission to ‘Tony’s’ for the “cash” payment back to the retailer. There is a lengthy time delay between the decision to include a coupon in a publication, the remittance to the retailer and eventually submission to the manufacturer by the retailer. The whole process, long and laborious, contains many points where “shrinkage” can occur.

If the coupon was tied directly to the consumers’ mobile phone number, it would simplify the process greatly. I’m not suggesting that the cellphone have a screen that is sufficiently sophisticated to display a barcode. Though that is an approach that appears to be “handy” and technically flashy, it would require retailers to make a considerable investment in new equipment that could read the bars on phone screens. That’s not going to happen very soon. Conversely, let’s use my cellphone number for example, 503-757-xxxx, as the customer passcode. This approach is little different than the system most are already accustomed to when paying for “discounted gas” at many of the local filling stations when given the shopper bonus points we’ve “saved” from say, Safeway, Krogers, Quality Foods, or Fred Meyers. But instead of gathering bonus chits accumulated at the checkout stands, we are now
going to accumulate saving coupons while reading an article or watching a video. Say I’ve been reading the newspaper and spotted a coupon for Schick disposable razors or the infamous, Tony’s Pizza. The ad has either a code number or a QR code that I enter into my phone. When I enter it into the cellphone store system, it is delivered to the intermediary (SITO in this situation) and my account “remembers” that I have a “coupon” for Schick Razors or Tony’s Pizza. Same for a special on “Arm&Hammer” electric toothbrush refills (regularly $8.49), now $7.29 with coupon. Ditto for Ivory Soap that is four bars for $1.00; $1.49 off.

When I’m at the store, my phone reminds me that I have three things on my electronic “shopping list” to hunt for because I “clipped” the coupons. When I check-out at the cash register and input my phone number, the three coupons are redeemed when the items are “checked” through the register. Simple, no paper, it’s done via the back office computer.

One more aspect that is very important. The retailer now knows that I live in NW Portland. That the customer lives in the upper, Northwest Hills area of the City—a significant clue to demographics. That there are no doubt other items that can be found about me regarding my buying and consumer habits tied to my phone that would be very helpful to the product goods company to know. More importantly, this system doesn’t require the retailer to install all new equipment at the checkout stands (as with QR codes).

The Near Ubiquity of Mobile Messaging Capability Drives Rapid Expansion

The monster segment of mobile advertising is mobile messaging and this form of mobile marketing comprises roughly 20% of category revenues according to eMarketer. While revenue growth has flattened in recent periods and the investment community looks askance at the segment, there is no logical reason to dismiss text messaging because several attributes still make it an attractive vehicle to distribute mobile ad content.

Broadest potential audience:

- 72% of mobile phone users regularly send/receive text message (CTIA 2009).
- 98% of text messages are opened; 90% are opened within 4 minutes of receipt.
- Mobile phone subscriptions in the US now exceed the number of citizens registered by a ratio of 103 to 100.
- 98% of mobile phones used in the US are capable of sending and receiving SMS messages.
- 65% of adults, 18 and older, send or receive text messages.
- 79% of smartphone users are willing to receive money-off coupons via their phones.
• 57% of respondents said they would be interested in opting-in to a brand’s, SMS loyalty program (Hipcricket survey).

• 80% of those surveyed said they had not been marketed to via SMS by their favorite brands.

• 90% of mobile users who had participated in SMS loyalty programs felt they gained benefit from doing so.

Smartphone users vs. other cell owners
% of adult phone owners within each group who use their phones to do the following:

<table>
<thead>
<tr>
<th></th>
<th>Smartphone Owner</th>
<th>Other Cell Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Send or receive text messages</td>
<td>92%</td>
<td>59%</td>
</tr>
<tr>
<td>Take a picture</td>
<td>92</td>
<td>59</td>
</tr>
<tr>
<td>Access the internet</td>
<td>84</td>
<td>15</td>
</tr>
<tr>
<td>Send a photo or video to someone</td>
<td>80</td>
<td>36</td>
</tr>
<tr>
<td>Send or receive email</td>
<td>76</td>
<td>10</td>
</tr>
<tr>
<td>Download an app</td>
<td>69</td>
<td>4</td>
</tr>
<tr>
<td>Play a game</td>
<td>64</td>
<td>14</td>
</tr>
<tr>
<td>Play music</td>
<td>64</td>
<td>12</td>
</tr>
<tr>
<td>Record a video</td>
<td>59</td>
<td>15</td>
</tr>
<tr>
<td>Access a social networking site</td>
<td>59</td>
<td>8</td>
</tr>
<tr>
<td>Watch a video</td>
<td>54</td>
<td>5</td>
</tr>
<tr>
<td>Post a photo or video online</td>
<td>45</td>
<td>5</td>
</tr>
<tr>
<td>Online banking</td>
<td>37</td>
<td>5</td>
</tr>
<tr>
<td>Access Twitter</td>
<td>15</td>
<td>&lt;1</td>
</tr>
<tr>
<td>Participate in a video call or video chat</td>
<td>13</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: The Pew Research Center's Internet & American Life Project, April 26 – May 22, 2011 Spring Tracking Survey. n=2,277 adults ages 18 and older, including 755 cell phone interviews.
All differences are statistically significant.
Interviews were conducted in English and Spanish.
Smartphone n=688; Other cell phones n=1,226

Text message marketing, commonly referred to a SMS marketing (SMS stands for Short Messaging Service) commenced early in the last decade in Europe and Asia as an inexpensive and efficient way to distribute content to previously collected numbers. In the US, and in most all developed markets, opt-in permission by recipients is required by the guidelines established by industry standards (such as the Interactive Advertising Bureau (IAB) and the Mobile Marketing Association (MMA).) These guidelines have subsequently been adopted by wide swatches of industry participants.
As a result, while consumers’ early SMS experiences often included ‘Spam-like’ messages (unwanted or “junk” texts), text marketing has become a legitimate means of communicating ad content, as well as informative data, to the largest potential audience and revenue segment within the mobile ad industry. Consistent with MMA Consumer Best Practices Guidelines, most US mobile operators require double opt-ins for content, and the ability for recipients to opt-out by replying “NO” to the offending or unwanted message.

Mobile SMS campaign target mobile device users who “opt-in” to receive promotions from the advertising entity, whether it’s the NFL, Johnson & Johnson or Bob’s Sandwich Shack. The user typically sends a text-message to a particular phone number – usually it’s a “short-code” that corresponds with a particular phone number – in response to a promotional prompt.

**Short code:** A five or six digit number used instead of the conventional 10 digit phone number because it’s easier for the user to remember. The short codes, which are leased from the wireless carriers, can be quite expensive; dedicated short code leases can run $1,000-$3,000 month+

The promotional prompt often consists of signage within the retailers/producer’s business premises encouraging customers to enroll to receive promotional text-ad offers (or sign up for a special contest, then receive promotional offers). The retailer or their proxy then sends the prospective enrollee a second message, confirming receipt of their request and asking them to validate their interest in receiving offers (the double opt-in as required by CTIA). Upon registration and double opt-in, the consumer receives various promotions as defined by the retailer/producer and specified within the text advertisement.

For instance in the Northwest, we have a small chain called Burgerville USA. They have several, seasonal specialties such as certain holiday-flavored shakes, WallaWalla Sweet Onion Rings in the late summer, sweet potato fries and pumpkin shakes in the fall, etc. If this restaurant were to enroll in a text-ad program such as discussed above, they could first announce the start of Sweet Onion season (a regional favorite) or fresh blackberry or strawberry or raspberry milkshake seasons (more favorites), or if their Thursday summer nights were slow, they could initiate a “call to action” for an exclusive “make it a meal special” for diners that evening, who will receive free drinks and fries with their burger (it just has to be within the 160 character limitation).

Three years ago--Christmas, 2008-- was an abysmal shopping season. A large national retailer originally tested the capability of broadcast SMS specials to opt-in customers for store specials. We were told by the interactive company management running the test, that specials that provided real price breaks on electronic and media product goods (CDs, DVDs and electronic games) were able to elicit a 30%-to-40% “sell-through” response. Since that time, tests on other categories—athletic equipment for coaches— have elicited a sell-through response rates in the mid-teens.
Another parallel concept being tested is that of branded messaging – where calls to action are sent to opt-in consumers, but the messages are sponsored by a branded product. So, for instance, a message is sent out by a retailer notifying the consumer his/her prescription is ready for pick-up, including a message noting it is allergy season and a link to available Claritin™ discount coupons redeemable at the retailer.

The financial benefits are demonstrable and compelling, too. Because these messages target individuals who have already indicated a willingness to receive offers and promotions, response rates often run into the 15%-to-70% range, compared to traditional forms of advertising like print and broadcast media, which may garner only 1%-to -2% response rates. Moreover, the responses are immediate and impact directly traceable to the campaign; given the costs only $0.03 to $0.10 per message, sending 1,000 messages costs $30 to $100 dollars – one or two sales that day can virtually pay for the entire campaign! At normalized response rates, the return on investment can reach 200%+.

Probably as important is the timeliness of the response. Think of the problem that a grocer might have if there was an over-stocking order of bananas in the Lewiston, Idaho store….the produce manager inadvertently orders a metric ton rather than an extra bushel of bananas. Now he must get rid of them. Well by tying the store transportation network together to distribute the excess ton across the 103 other stores in Oregon, Washington and the rest of Idaho, the manager could send out a “special” advertisement promotion for bananas 29¢ per pound. And in three days if there are still some left, a message at 9¢ per pound.

SMS marketing and advertising is all about aggregating the channel by accumulating a database of opt-in consumers, then providing relevant messaging. Some retailers like Office Max, have done this via “dollars off” incentives, where consumers receive incentive savings when they opt-in to receive future promotions from the store. In the case of Office Max, only 13% of the $5 off coupons were actually redeemed according to Jeff Haddon, Mobile Programming Manager at the Company, meaning the actual cost of acquiring each new messaging recipient was only $0.65.

There are several public companies and a host of private operations, vying in the text messaging arena because the opportunities are just so plentiful. For one, market penetration is just now scratching the surface. Not only are there existing uses of traditional media that can be more effectively replaced with text marketing, but there are new prospective applications under development to facilitate that transition.

As a basic example simply consider the Yellow Pages directories of local businesses and organizations as a potential customer pool. Only a small percentage of these entities have adopted texting as a means of promoting their business or wares. Given the widespread deployment of text-ready handsets and text users (more than 7 trillion messages sent in 2011!), we expect this area to continue growing, albeit at lower rates than recent years, as messaging remains a vital tool for marketers looking to deploy mobile couponing, loyalty and customer care campaigns. Consumer behavior demonstrates a high comfort
level with SMS communications, plus 95% of US phones can receive these communications, well above the 50% penetration rate for Smart-phones in the US.

Furthermore, regulations and laws targeting healthcare reform both incentivize the use of electronic healthcare records and certain mobile communication interactions, while dunning organizations that fail to implement such schemes. This includes medical compliance and wellness information alerts that need to be conveyed to patients and providers; in all 25 areas that have been outlined and targeted in the Obamacare reforms, they can be facilitated using text messaging technologies. We look for more from this area as 2012 unfolds.

**Mobile Banner Ads and Rich Media – It’s All About Hyper-Targeting!**

Mobile banner advertising and rich text media consists of those pesky color graphics ads you “enjoy (?!)” that appear on mobile websites in support of advertising campaigns. The objective is to convey a more robust branding experience (compared with messaging), which is challenging given the varying technical specifications of the various phone models, network technologies and data bandwidths. Mobile banner ads must be “clickable” by the end-user and may be inserted anywhere on the publication site.

By contrast, mobile rich media ads provide supplemental information defined by the concepts of *display* and *activation*. The display portion of the ad appears like a banner ad on the host screen, however, when the banner is clicked or hovered over, another frame of rich media springs forth highlighting a different view of rich media on display. For example, an ad might expand across the page, providing greater surface area for interaction or display; or invoke a video player without leaving the browsing context; or display real-time content like temperature, stock prices or product pricing without the user having to reload the entire page.

It is likely that the introduction of rich media content will occur more rapidly in the mobile environment than what was experienced in the desktop paradigm just a few years ago. Increased connection speeds associated with mobile will occur much more rapidly than the transition from dial-up to broadband in the desktop environment due to the comparative ease of upgrading wireless networks versus the “last-mile” challenges in the fixed-line world. Further, rich media ads have been widely used in countries with existing mobile broadband access. Given the trials and lessons-learned, it should greatly ease the introduction of new ad messages with respect to the usual roll-out glitches that are usually tied to new technology presentations.

Meanwhile, rich media ads offer considerable advantages to advertisers over conventional display advertising including:

- Enhanced multimedia features—such as video and animation which create more appealing and engaging ads leading to more click-throughs and buy-responses. Contrarily, agencies must learn to be cognizant that “too much, may be just too
much!"...excessive use of visual glitz may achieve the opposite result and lead to higher abandonment rates.

- Automatic response mechanisms like expandable banners that may capture consumer responses seamlessly and without requiring consumers to transfer to other websites for rapid content deployment and response collection.
- Clean re-engageements with core content: When the consumer moves away from the rich media banner, the publishers content returns to prominence.
- New, mobile device capabilities like geo-location and image scanning: Advertisers can offer richer, more highly targeted and personal experiences to consumers than previously possible.

US expenditures in 2011 for mobile banner ads and rich media mobile ads totaled just under $450 million. Google is solidly well-positioned as the market-leader based-on its AdMob segment with its roughly 25% market share, or $127.5 million in ad sales. Apple’s iAd division is number two posting an estimated $92 million (or 18% share) in 2011 revenue; Millennial Media generated $91 million (~17.7% share). Contextually relevant advertising has outperformed other forms of online display ads as brand marketers use personalized and demographically-aligned content to reach their target audience.

**Mobile Search Growing As Mobile Device Ubiquity Extends Reach**

Mobile search, the largest individual class within the burgeoning mobile advertising space, is also the most highly concentrated category in terms of service providers. Google, already ranked the world’s largest search engine vis-à-vis desktop internet search, has established itself the market-share leader with mobile searches with roughly 95% market share of the estimated $653 million 2011 US market. Yahoo, Bing and others split the remaining pittance. This staggering ranking is unlikely to change anytime soon, barring an unforeseen (and unlikely) shift from GOOG’s dominance in the search engine space, which translates well into the mobile environment.

The mobile search category will continue grow at very high rates for the foreseeable future as marketers and advertisers continue to refine their approaches, delivering increasingly relevant search results leveraging the latest mobile device features and technical developments. Moreover, as consumers increasingly come to rely on their connected mobile devices to access more mobile content, their habits and preferences will follow along. That said, real-time decision enhancing capabilities such as geo-location data and other contextually-relevant, non-traditional ad-targeting methods will continue to drive higher-than-industry average growth in this category for the foreseeable future.

**Mobile Video Advertising Is Growing Rapidly**

Mobile video ad spending in the US more than doubled to $68 million in 2011 from ~$30 million in 2010. Much of this growth is attributed to the rapid adoption of Apple’s iPad platform, which boasts a relatively large, high resolution screen (compared with handsets), making the experience of the viewing videos remotely far more enticing. The quantity of US consumers watching videos on mobile devices also increased from 40%-to-50% year-over-year, according to Nielsen Co.: Interestingly, these consumers watch an average of four hours and twenty minutes of video each month.
Another real advantage to mobile video viewing is that that sort of sensual experience has higher retention rates (94% in the first ten seconds) compared to online videos (81%) according to Rhythm NewMedia, a mobile video ad network. Consumer packaged goods brands and entertainment category companies lead the charge in terms of mobile video advertising adoption as they have learned the media downloads are a very robust approach to attract and imprint consumers with messages.

Recent Mobile Advertising Transactions

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Acquirer</th>
<th>Price</th>
<th>Estimated, TTM</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>AdXpose (closed Aug/11)</td>
<td>SCOR</td>
<td>$22.0 mm</td>
<td>unknown</td>
<td>NM SCOR common shares</td>
</tr>
<tr>
<td>air2web, Inc. (closed Oct/11)</td>
<td>VELT</td>
<td>$19.0 mm</td>
<td>$12 mm</td>
<td>1.58 Cash consideration</td>
</tr>
<tr>
<td>BoomText (closed Aug 2011)</td>
<td>MFON</td>
<td>$3.83 mm</td>
<td>unknown</td>
<td>NM $120k cash; $357.5k notes; $20,000 common shares; $115k liabilities assumed + up to $2.66 mm earn out</td>
</tr>
<tr>
<td>Casee (closed Oct/11)</td>
<td>VELT</td>
<td>$29.1 mm</td>
<td>unknown</td>
<td>NM $8.4 mm cash at close; up to $20.7 mm add'l pmts by 2013</td>
</tr>
<tr>
<td>Dotomi (closed Aug/2011)</td>
<td>VCLK</td>
<td>$288.2 mm</td>
<td>$80 mm</td>
<td>3.48 $171.8mm cash + 7.1mm common shares @ $15.40</td>
</tr>
<tr>
<td>Hipcricket, Inc. (closed Aug/2011)</td>
<td>AUGT</td>
<td>$62.8 mm</td>
<td>$18 mm</td>
<td>3.49 $3mm cash + 11.46mm common shares @ $3.10 + $1mm note + ($17.0mm - $29.5mm other consideration)</td>
</tr>
<tr>
<td>IndieClick Media Group (closed Aug/2011)</td>
<td>DMD</td>
<td>$14.4 mm</td>
<td>unknown</td>
<td>NM $13mm cash + $1.4mm earn out</td>
</tr>
<tr>
<td>JAGTAG, Inc. (closed Aug/2011)</td>
<td>AUGT</td>
<td>$5.65 mm</td>
<td>$1.7mm</td>
<td>3.32 1.46mm common shares @ $3.86</td>
</tr>
<tr>
<td>Mobile Interactive Group (closed Nov/11)</td>
<td>VELT</td>
<td>$59.0 mm</td>
<td>$20 mm</td>
<td>2.95 $20mm cash +55mm common shares + $34mm EO</td>
</tr>
<tr>
<td>Mobivity (closed Apr 2011)</td>
<td>MFON</td>
<td>$1.67 mm</td>
<td>unknown</td>
<td>NM $65k cash; $606k note + 1.0mm common shares @ $1.00</td>
</tr>
<tr>
<td>Rockfish Interactive (closed Aug 2011)</td>
<td>WPPGY</td>
<td>$40.0 mm</td>
<td>$14.4 mm</td>
<td>2.78 Unknown</td>
</tr>
<tr>
<td>Screamin Media Group, Inc. (closed Jul 2011)</td>
<td>LOCM</td>
<td>$29.3 mm</td>
<td>$2.4 mm</td>
<td>13.80 $6.76mm cash; 727,360 shares @ $3.437; $20 earn out</td>
</tr>
<tr>
<td>Ttxtstation (closed Apr/11)</td>
<td>MFON</td>
<td>$2.69 mm</td>
<td>unknown</td>
<td>NM $268k cash pmts; 2.425 mm common shares @ $1</td>
</tr>
</tbody>
</table>

Source: Company SEC reports and press releases

(Please continue with the next section on the following page)
Pure Play Mobile Advertising Companies in the Public Domain

Mobile Marketing, Pure Play: Valuation Analysis

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Symbol</th>
<th>Recent Px</th>
<th>Enterprise Value ($mm)</th>
<th>Revenue</th>
<th>Trailing Twelve Months ($ in mms)</th>
<th>MRQ</th>
<th>EV/Rev</th>
<th>EBITDA</th>
<th>EV/EBITDA</th>
<th>YTY</th>
<th>∆ Revs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Augme Technologies, Inc.</td>
<td>AUGT</td>
<td>$ 2.09</td>
<td>180.16</td>
<td>$ 7.87</td>
<td>22.89 -22.26</td>
<td>NM</td>
<td>419%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CommerceTel Corp.</td>
<td>MFON</td>
<td>$ 1.25</td>
<td>30.14</td>
<td>$ 1.77</td>
<td>17.03 -1.8</td>
<td>NM</td>
<td>232%</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>SingleTouch Interactive, Inc.</td>
<td>SITO</td>
<td>$ 0.32</td>
<td>40.65</td>
<td>$ 4.58</td>
<td>8.87 -7.09</td>
<td>NM</td>
<td>162%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Velti PLC</td>
<td>VELT</td>
<td>$ 8.87</td>
<td>416.89</td>
<td>$ 159.58</td>
<td>2.61 10.26</td>
<td>40.63</td>
<td>85%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Augme Technologies, Inc. (OTCBB: AUGT.OB - $2.00)

This Company provides mobile marketing and strategic services to consumer and healthcare companies. AUGT operates multiple delivery platforms including the AD LIFETM mobile marketing technology platform. AD LIFETM enables end-users (marketers, brands, and agencies) to plan, create, test, deploy, and track mobile marketing programs across all mobile channels including SMS, 2D/QR codes, mobile websites, advertising networks, social media and branded applications. AD LIFETM facilitates consumer brand interaction and the ability to track and analyze campaign results so that managers can better tie advertising experiences (landings, click-rates and click-throughs, etc.) to responses and sell-throughs. AD LIFETM solves the mobile marketing industry’s challenge of accommodating of disparate operating systems, device types, and varying on-screen mobile content renderings when delivering media-rich content.

Additionally, Augme provides business-to-consumer (B2C) utilities, including national mobile couponing solutions, strategic mobile healthcare tools, custom mobile application development, and consumer data tracking and analytics; and AD SERVE, an ad delivery system that serves content to targeted destinations; and BOOMBOX, an internet video delivery platform that provides digital broadcasting capabilities to any venue, event, campaign, business or talent.

AUGT licenses certain software using the software as a service (SaaS) model, while other services are compensated on a performance basis (cost per click, cost per message, cost per impression) or on a project basis (professional services and website development). The Company offers full-service mobile advertising solutions including SMS messaging, 2D/QR codes, mobile website development, ad creation, testing and delivery.

Management believes the Company is able to earn premium performance payments and CPC (cost per clicks) based on the use of proprietary algorithms that utilize contextual relevance when placing advertisements, which ultimately lead to higher customer acquisitions or “success” rates for programs.

1 Whereby the majority of revenues are derived from mobile advertising activities.
AUGT has supported more than 130,000 mobile campaigns for leading clients like Macy’s, MillerCoors, Nestle, KFC and Clear Channel Communications. Company headquarters are located in New York City, while offices are maintained in Seattle, Los Angeles, Atlanta, Dallas, San Francisco, Chicago and Tucson.

3Q 2011 Results Demonstrate Strong Growth and Demonstrates Lack of Seasoning:
AUGT reported 3Q 2011 (ended November 30, 2011) financial results in early January 2012, demonstrating strong revenue growth (due mostly to recent acquisitions), a better balance sheet (It completed a $20 million equity raise this past November, 2011.) and scorched tail feathers. In the Company’s most recent quarterly report and operating review, management restated previous financial results due to erroneous accounting methods for non-cash items. Some of the major operating items for the period are noted below as well as a few of the restated numbers:

- Revenue increased from $853 thousand in 3Q 2010 to $4.42 million in 3Q 2011 (+419%)
- Booked $5.3 million in new business, bringing backlog to $13.1 million at quarter end (of which $2.7 million is expected to ship in 4Q and $7 million planned for FY2013).
- Gross margin increased from 58% in 3Q 2010 to 68%, this year. The increase due to a richer sales mix and operating scale benefits.
- SG&A expenses increased from $3.1 million to $13.2 million (up 299%), expenses were predominantly added due to the addition of Hipcricket and JAGTAG including professional fees, transition costs, consolidation costs, severance expenses (expected to taper off after 4Q 2012 to around the $7.5 million run-rate).
- Depreciation and amortization was $1.23 million compared with $261.2 thousand reported last year as a result of the acquisitions of JAGTAG and Hipcricket.
- Cash totaled $16.9 million at quarter’s end, with the addition of $18.7 million net proceeds from the public offering of 9.4 million shares at $2.15 as well as another $2.8 million from the exercise of options and warrants, offset by cash used in operations.
- Management expressed their belief that these funds are adequate to execute the near-term growth plan and bring the company to a breakeven operating level later this year.

CommerceTel, Corp. (OTCBB: MFON.OB - $1.00)
CommerceTel, Corp. provides mobile marketing services utilizing a software-as-a-service (SaaS) model combined with a variable, per message/ per minute charge rate as well as a professional fee-based component associated with customized professional services. MFON’s chief invention is its proprietary C4 cloud based mobile advertising platform. Brands and organizations reach out to consumers, using C4’s SMS messaging capabilities, to deliver promotional offers, discounts, loyalty programs, contests and other types of advertising communications.

Our understanding is that the beauty of CommerceTel’s mobile marketing system is that it’s almost a complete “do-it-yourself” system where the C4 platform integrates the customer’s relationship
management database with a mobile marketing toolset. MFON’s proprietary patented technology and “Mobivity Mobile” Platform allows the customer’s marketers and advertisers to assemble, organize the list and SMS-out, to potential buyers, text messages about specials, features, bonus opportunities or whatever the selling hook might be. If there is a downside, the message is limited to 140 characters and the send out is in actuality limited “real time” special offers and discount promotions, (memberships, contests?). The process also depends on predetermined lists of customers who have already opted-in to receive “selling promotions” from that retailer or service organization. The platform includes analytic tools to measure the performance of each campaign down to the specific user level. The Mobivity Platform also supports other forms of mobile communication to the consumer including Multimedia Messaging (MMS), Voice, and in-application messaging to smart phone applications.

Notable accounts that have used their capabilities include CNN, Disney, Sony Pictures, AT&T, Verizon, USA Network, several professional sports franchises, the Golf Channel and NBC Universal. Increasingly, the Company finds themselves pursuing the Local Advertising Industry, which spent $136B in 2010 on legacy forms of marketing such as print or yellow page ads. This is more similar to the example we used above. We like to think of the kind of customer MFON appeals to (for lack of a better description of the demographic) is the “yellow-page advertisers” and hence are reaching out to their local customers. So, MFON could help the regional restaurant chains, florists’ chains, local grocers, maybe sound system entities and so forth.

3Q FY 2011Financial Results (for the period ended September 30, 2011)
The Company recently quarterly reported financial results; the highlights follow:

- Revenues increased from $254.3 thousand in 3Q 2010 to $842.9 thousand (+231.4%) with the bulk of the increase due to the inclusion of revenues from three completed acquisitions: Mobivity, April 1, 2011 (+$157.2 thousand); Txtstation, April 1, 2011 (+$287.1 thousand); and Boomtext, August 1, 2011 (+$247.1 thousand).

- Gross profit increased from $144.4 thousand last year to $531.2 thousand (+267.9%) in 3Q 2011.. Gross margin increased from 57% to 63%, primarily due to a richer contribution mix also from the addition of the Mobivity, Txtstation and Boomtext acquisition revenues.

- Operating expenses increased from $440.1 thousand to $1,118.0 thousand (+154%) due to increased headcount caused by the acquisitions as well as acquisition-related costs and increased depreciation and amortization expenses.

- Operating loss widened from ($295.7) thousand in 3Q 2010 to ($586.8) thousand (+98.4%) this year due to increased overhead associated with recent acquisitions.

- Net loss increased from ($313.3) thousand to ($775.6) thousand due to higher operating losses combined with higher interest expenses ($18.4 thousand in 3Q 2010 versus $133.1 thousand in 3Q 2011). Cash on the balance sheet declined from $373.4 thousand at the end of 3Q last year to $1.15 thousand this year due to additional cash burn, expenses and investments associated with recent acquisitions. Accounts receivable increased from $49.22 thousand (17.4 “days sales”) to $318.9 thousand (34.1 “days”, +547%) due to increased sales and a higher percentage of revenues deriving from text-messaging charges, which are billed in the month transacted and
paid on terms via customers. Management notes the Company’s continued need for additional sources of financing to fund operations and meet certain obligations in arrears to both investors and vendors, including an $800 thousand bridge note issued pursuant to recent acquisitions. Management additionally notes that the Company lacks sufficient funds to sustain operations at current levels for the next twelve months.

CommerceTel has accumulated a strong portfolio of assets and stands well-positioned to capitalize on the growth of the mobile messaging marketplace. Unfortunately, the microcap arena is a desert of investment capital at this time, and a big, quarterly earnings miss by Augme, right after raising $20 million in equity capital, has investors’ interest on its heels. Nonetheless, the Company’s service offerings offer a compelling economic proposition for local businesses looking to beef-up sales with real-time messaging, promotions and advertising at a budget-friendly cost.

**SingleTouch Systems, Inc. (OTCBB: SITO - $0.30)**

Single Touch Systems, Inc. is a leading developer and marketer of enterprise-class, scalable messaging platforms to other businesses. If one were to classify AUGT as the enabler of banner and window ads in the mobile ad space available on highly trafficked landing pages; MFON as the mobile communication “yellow pages” communicating the messages from local businesses to customers (but they are trying to capture local businesses that have large clumps of grouped customers…think a Subway franchiser with 50 retail outlets); then SITO might be thought of as the large network distributor of ads (messages) to the myriad communications receivers out there. Management at SITO continues to focus their strategy on the more national-sized operations that can both use and benefit from such broad mobile reach marketing campaigns.

SITO’s technology provides for the delivery of mission-critical messaging across multiple communications channels using the company’s patented technologies and modular, adaptable gateways. It permits marketers to reach the largest number of consumers through all types of connected devices at practically one time with the greatest number of messages. Because the operation started with the intent of partnering with ATT to provide services to Wal-Mart and Sam’s Club, SITO built into its message relay system considerable redundancy as well as substantial capacity. We understand that when the pipeline was designed and installed, SITO’s message delivery capability was launched with a pipeline capable of delivering over 6 billion messages in a single day. Although the Company’s communication resources have yet to be stress tested by demand, management is focused on three mobile marketing areas to drive future growth and build message volume. They include:

- **Reminder messaging – “Come here”/ “Be There”**
  - Using the Single Touch Platform, marketers and brands can manage all text and voice messaging campaigns through one interface.

- **Abbreviated Dial Code (ADC)**
  - Short, easy-to-remember numbers connect to natural voice interface to download content to mobile devices, drive brand advertising and provide product/service promotions.

- **Closed-Loop Coupon, Advertising and Redemption Platform**
Enabling mass market penetration and awareness to provide discounts, coupons and loyalty programs.

Based on their last SEC filing, Single Touch derives >90% of revenues from a single customer, ATT Services, Inc., through which it provides message notifications to Wal-Mart Stores, Inc. (NYSE: WMT - $61.75) customers, which provides the bulk of the ATT revenues. To date, the preponderance of revenue is from pharmacy “ready-reminder” messages (“Your prescription is ready to be picked up.” “Don’t forget to pick up your prescription.” “Thank you for shopping Wal-Mart.” And so on.) An additional growing source of revenue from this relationship relates to “site to store” reminder messages. These prompt messages are created when a Wal-Mart customer buys an item on the Wal-Mart website and wants to take delivery at a specific store. The “site to store” messages are generated when customer are to be notified that their parcel is ready for pick-up at the desired location. Many opt for this delivery method since it is WMT’s policy to offer free shipping to their own stores.

Additional opportunities exist within WMT and other retailers for incremental growth: Single Touch is developing a program for sponsored ads, for instance, for pharmacy notifications (Think: “This notice brought to you by Claritin™”, for example) which combine a reminder message with an advertising note and a clickable link to obtain special offers. These higher value added types of messages can increase the gross revenue/message by 2x-to-3x compared with simple reminder messages. Further, the Company is rapidly expanding its customer roles through direct channels, as opposed to “wholesale” messaging distribution as in the case of business through ATT. We believe these types of programs can yield similarly larger per-message revenue multipliers.

Single Touch recently reported Q1 FY2012 (ended December 31, 2011) financial results; the highlights below:

- Revenue increased 57% from $1.012 million in 1Q FY201 to $1.590 million in the current year’s period, primarily due to increased messaging volumes through ATT/WMT from the pharmacy ready-reminder program. During the December period, an additional program for “site to store” pickup messages ramped up, providing an additional boost to volumes and revenue.
- Operating expenses (excluding stock based compensation and depreciation/amortization of intangibles) increased from $1.504 million in 1Q 2011 to $1.977million (+31%) due to increased professional services, travel expenses and generally higher spending to support the higher level of activity.
- Non GAAP Operating loss (excluding non-cash stock based compensation and depreciation/amortization of intangibles) decreased from $493 thousand in 1Q 2011 to $388 thousand in the most recent period, due to higher revenue and the effects of positive operating leverage.
- The Company finished FY2011 with a $1.61 million in cash and equivalents compared to $524 thousand on September 30, 2011.

During 2011, the Company’s board of directors elected to install a new CEO, James Orsini, to replace founder Tony Macaluso, who is now Executive Chairman of the Board. Orsini joined SITO in May of 2011 and has relevant industry background experience including five years as EVP of Finance and Oper. for the ad agency, Saatchi & Saatchi of New York, several years as COO of Interbrand North America and stints at investment bank, Goldman Sachs and one of the big-eight accounting firms.
Subsequent to the close of the September fiscal year, in November 2011 the BOD approved borrowing up to $2 million using a 1 year, 10%-convertible, promissory note. The notes can be prepaid without penalty, with 10 days written notice to holders from SITO; principle and interest for 12 months is convertible, at the option of the holder, into common stock of the Company at $0.50 share. Each $100 thousand note includes a warrant exercisable for three years, entitling the holder to 200,000 shares of common stock at $0.25 per share. As of late-February 2012 the Company was fully-subscribed on the offering, accepted $2 million in funding under these terms. Director Stephen Baksa participated in the round to the tune of $500 thousand and another existing shareholder invested $500 thousand.

Also, SITO has just embarked upon more fully monetizing its intellectual property portfolio, filing its first offensive infringement lawsuit competitor ZOOVE last month. This is another source that would seem to have unrecognized value.

**Velti PLC (NASDAQ: VELT - $10.24)**

Velti Plc, provides mobile marketing and advertising solutions for mobile operators, ad agencies and media groups to implement highly-targeted, interactive and measurable campaigns by communicating with and engaging consumers via their mobile devices. VELT’s SaaS (Software as a Service) mGage™ mobile marketing platform, launched in 2010, helps businesses to plan, execute, monitor and measure mobile marketing/advertising campaigns on various digital delivery channels, including internet sites, SMS/MMS, mobile television, mobile communities, mobile applications, mobile games, location-based services and mobile social networking.

VELT generates revenue through SaaS usage fees, performance and volume fees, software licensing and managed services (turn-key model). The Company has offices in San Francisco, New York, Los Angeles, Palo Alto, London, Dublin, Athens, Düsseldorf, Paris, Moscow, Sofia, Shanghai, Beijing, and New Delhi. The headquarters is located in Jersey, Channel Islands.

Velti’s integrated mobile marketing platform, called mGage™, provides end-to-end support for a client’s production of mobile marketing and advertising campaigns. The platform permits users to select advertising inventory, manage media purchases, create mobile applications, design websites, build CRM campaigns and track performance in real-time across the campaign. The Company’s databases and analytics platforms can process, analyze and optimize more than 3.1 billion data facts per day.

Velti generates the bulk of its revenues in Europe (62.9% in 3Q 2011) followed by the Americas at 23.5% and Asia/Africa (13.6%).
Acquisitions Broaden Product Offerings and Strengthen Company Prospects
On October 4, 2011, VELT completed the acquisition of Air2Web, Inc., a provider of mobile customer relationship management solutions used in North America and India for many of the world’s largest consumer brand companies. In connection with the merger, VELT paid roughly $19 million in cash for all outstanding shares of Air2Web, while paying off debt obligations of $1.9 million at the close.
In November 2011, VELT completed the acquisition of Mobile Interactive Group Limited, the U.K.’s largest mobile marketing company for a minimum purchase commitment of $25 million, of which $20 million was paid in cash at the close of the transaction. Deferred consideration of $5 million will be paid in March 2012, and up to $34 million in additional payments could be paid in 2013 based on attainment of certain performance goals.

VELT 3Q 2011 (September 30, 2011) Financial Results Show Strong Customer Acquisition
• Reported revenue increased 85% YTY from $20.6 million in 3Q 2010 to $38.2 million in 3Q 2011, driven by strong adoption of Smart-phones, increased mobile marketing spent and incremental client additions, including Budget Rent A Car, Days Inn, Jack in the Box, Revel Entertainment and Safeway Stores.
• Adjusted EBITDA of $5.6 million compared to $3.3 million in 3Q 2010 (+73%).
• GAAP net income of $0.6 million ($0.01 EPS) compared with a net loss of $6 million (-$0.16 EPS) for 3Q 2010.
• Adjusted net loss of $1.1 million (-0.02 EPS) compared with an adjusted net loss of $3.9 million, or ($0.10) EPS last year.
• On the balance sheet, VELT recorded cash and equivalents of $140.4 million compared to $17.4 million in the same period last year. The bulk of the increase traces to VELT’s initial public offering (IPO) in January 2011, in which they raised roughly $150 million through the issuance of 12.52 million shares at $12.
• Posted a current ratio of 3.87x compared to 0.97x last year.
• Account receivables (total) of $78.97 million versus (trade receivables of $36.55 million) compared with $72.70 million (trade receivables of $39.11 million) in 3Q 2010. DSO, based on trade receivables, declined from 171 “days” in 3Q 201 to 86 “days” in the most recent period.

Millennial Media, Inc. (IPO Millennial Media --Filed S-1 for IPO and public listing)
Sandwiched between Google/ AdMob and Apple iAd, Millennial Media, Inc., is, (by virtue of revenue,) the second largest mobile advertising platform company in the US. Rather than providing actual ad content, this Baltimore, Maryland, company provides technology tools and services that help developers and programmers optimize their advertising revenue by gaining insights about their users and using that intelligence to acquire them for their mobile applications. The Company offers advertisers ways to extend their advertising reach through the utilization of sophisticated targeting capabilities while delivering engaging and rich ad content to users’ mobile devices.

Millennial’s core technology platform, called Mydas®, makes real-time decisions on what ads to deliver, to whom, and when, with the objective of optimizing the effectiveness of the ad campaigns regardless of the target device type or operating system. According to the Company, more than 28,000
mobile applications are enabled by their developers to receive ads delivered through Mydas, and in December, 2011 the Mydas platform reached more than 200 million unique users worldwide including ~100 million users in the US. The platform can deliver ads to more than 7,000 different mobile device models and is compatible with all major operating systems, including Android, Apple iOS, Blackberry, Symbian and Windows Phone. The Company processed 40 billion ad impressions in December 2011. Mobile applications have become a powerful tool for advertisers to connect with consumers via their mobile devices. Industry research firm Gartner estimates that 17.7 billion mobile application downloads in 2011 will grow to 108 billion by 2015 (+57% CAGR). The raw numbers of apps in existence places increasing pressure on developers to stand out amongst the raft of competitors in the crowded app stores. This competition for consumers’ attention and visibility amongst app developers, large and small, has created an opportunity for companies like MM who enable the developers to deliver engaging, app-enabled experiences to potential consumers that help their organizations achieve the desired business objectives.

Millennial Media provides developers with access to tools and services that permit their apps to display banner ads, interactive rich media ads and video ads from the Company’s Mydas platform. In exchange, the developers provide MM space on their apps to serve up ads and access to anonymous data associated with their apps and app users. MM compiles and analyzes the data to create comprehensive user profiles and audience groups that, when combined with real-time decision making, creates more optimal targeting enabling more effective outcomes for their advertising clients.

These advertising clients pay MM to deliver their mobile ad content to mobile device users, and MM pays the mobile developers a fee for their ad space. The more ads that are deployed, the more anonymous data the Company collects about users, audiences and the effectiveness of particular types of ad campaigns, permitting even greater targeting capabilities, increased advertising performance and improved opportunities for developers to increase their revenue streams. The Company permits users to opt out of anonymous data collection where it pertains to location data and interest-based targeting.

MM claims a wide-ranging base of developers and advertisers large and small, including substantial mobile publishers like CBS Interactive and The New York Times, large app developers like Zynga and Pandora, and other developers including UberMedia and Gogii. The Company’s advertising client list includes a veritable Who’s Who of advertising agencies and brands, including 22/25 of the top advertisers as ranked by Ad Age magazine based on 2010 U.S. ad spending, in addition to smaller advertisers and developers.

The Company’s financial results demonstrate the efficacy of this model (figures detail the first nine months of 2011 compared to the first nine months of 2010 as conveyed in the Co’s S-1 filing):

- Increased revenue 137% from $29.1 million in 2010 to $69.1 million in 2011.
- Gross margin increased from 33.2% in 2010 to 38.5% in 2011, resulting largely from more favorable pricing terms with developers, in large part due to increased utilization of the Company’s mmDev self-
service portal, through which fees paid to developers are generally lower, resulting in a richer margin on sales of these slots.

- Operating expenses increased 82.7% from $15.0 million in 2010 (51.6% of sales) to $27.4 million (39.6% of sales) due to increased headcount and other corporate infrastructure to support growth in the business.
- Net loss narrowed from $5.37 million in 2010 to a loss of $417 thousand in 2011.

MM filed an S-1 with the SEC for an initial public offering in early January 2012, with the underwriters listed as Morgan Stanley, Goldman Sachs & Co., Barclays Capital, Allen & Company, Stifel Nicolaus Weisel. The Company intends to raise approximately $75 million, with the use of proceeds for working capital, general and corporate purposes, including additional international operational expansion and product development.

Public Company Price Charts

Charts Courtesey of Stockcharts.com and Bigcharts.com.
DISCLOSURES:

As of the date of this report, the analysts both own shares of Single Touch but not of the other securities: Neither analyst expects nor do they intend to receive compensation from the Companies included in the above report for services. Mr. Robins received research-awareness compensation for work provided via one, 12-month, consulting contract with SITO signed September 16th, 2008 but fully paid over 12-months ago. There have been no other remunerative relationships between the analysts and any of the other companies.

This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Association of Investment Management & Research (AIMR). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

The following enumerated factors disclose where there might be conflicts of interest by the analyst or CFR. This Key related to the “disclosures” noted on page #1.

(1) Catalyst Financial Resources LLC (CFR) does not make markets in any securities and has not managed or co-managed a public offering of securities for the subject company within the past 12 months. An affiliate make markets in SITO, MFON and AUGT.

(2) CFR has not received compensation for investment banking services from the Subject Company within the past 12 months but an affiliate has of late.

(3) CFR expects to receive or intends to seek compensation for investment banking services from the Subject Company within the next 3 months.

(4) The research analyst or a member of the research analyst’s household has a financial interest in the securities of the Subject Company in the form of a (a) long position (b) short position (c) right (d) warrant (e) future or (f) call option in such securities.

(5) CFR and/or its officers or affiliates may either hold a position in this company’s share or own options, rights or warrants to purchase any of the securities of the subject company.

(6) The research analyst principally responsible for preparing this research report received compensation based upon various factors, including CFR total revenue, a portion of which was generated by CFR’s investment banking services.

(7) The research analyst or a member of the analyst’s household serves as an officer, director, or advisory board member of the subject company;

(8) An affiliate of CFR may have a different view from the views expressed herein.

(9) CFR and/or its affiliates beneficially own 1% or more of the subject company.

(10) The Subject Company is a client of CFR or one of its affiliates.

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EQUITY RECOMMENDATION SYSTEM:

Buy          Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months.
Accumulate   Purchase of the stock is recommended for above average appreciation over the next 12 to 18 months, but the buyer may have an opportunity to acquire the stock within a 10% trading range.
Hold         Holding the stock is recommended because the share price has moved above the specific “Buy” range and, therefore, appreciation potential is less than or equal to the market.
Sell         The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

EQUITY RISK SYSTEM:

High         The security is more volatile than the market and/or the company is more leveraged than its peer group.
Moderate     The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group.
Low          The security is less volatile than the market and/or the company is less leveraged than its peer group.

DISTRIBUTION OF RECOMMENDATIONS:

At this time, there are an insufficient number of companies under coverage to generate usable distribution information or draw any conclusions regarding bias about the research methodology. Prospective companies are screened and evaluated by sales personnel and research analysts with the investment thesis and overall research recommendation developed before the commission is established.