

LML PAYMENT SYSTEMS INC. (NASDAQ: LMLP)

November 4, 2009

Industry: Business Services

Fiscal Year Ends March 31

FYE March (US \$)	2006A	2007A	2008A	2009A
Revenue	5.5M	6.6M	11.3M	12.4M
Operating Profit	(4.5)M	(1.5)M	(0.5)M	0.6M
Net Income	(4.6)M	(1.1)M	(2.2)M	5.5M
EPS, Pro Forma	(0.23)	(0.05)	(0.10)	0.20

Closing Price \$0.78 (11/03/2009)

52-Week High \$1.37

52-Week Low \$0.30

Shares Outstanding . . . 27.12 million shares

Market Cap \$21.98 million

Enterprise Value \$18.00 million

Share Volume (3mos) . . 53,706 shares



Overview

LML Payment Systems, Inc. (NASDAQ: LMLP) (the “Company”) offers investors a unique opportunity to participate in the rapidly expanding electronic payment industry. Based in Vancouver, the Company is poised to employ a combination of organic growth and intellectual property monetization to accelerate the growth of its transaction payment processing business beyond Canada into the United States and international markets and to maximize the value of its intellectual property as it pursues licensing fees and royalties from top-tier banks and processors.

LMLP is a Payment Technology Platform Provider capitalizing on two secular trends; firstly, the rapid growth in e-commerce and secondly, the continued adoption of electronic forms of payment. Originally a check processor, the Company continues to operate its legacy check recovery business having meaningfully restructured the operations, improving margins and profitability. LMLP continues to look for strategic acquisitions of businesses and technologies in the internet payment space to position the Company for future growth.

LMLP is a recognized innovator in the financial payments industry. The Company’s investment in technology has produced significant innovations including a number of patented systems, methods and processes. The Company has a history of monetizing its patent portfolio through licensing and enforcement activities. Importantly, the strength of the Company’s Intellectual Property (IP) portfolio presents a potentially lucrative and underappreciated catalyst for the Company and investors. Most recently, LMLP launched a patent infringement suit which now includes 25 defendants, mostly banks and payment processors, related to electronic check processing. As a result, LMLP is seeking to continue its successful monetization of its Intellectual Property portfolio to provide both a catalyst and resource for future growth.

See the last page of this report for important Disclosure Information.

AVALON S.T.E.P. ANALYSIS

Story Line

LMLP is a provider of financial payment processing solutions to Internet and brick-and-mortar businesses and organizations. The Company operates three separate lines of business: transaction payment processing; check processing/software licensing; and intellectual property licensing. LMLP serves over 8,000 merchants, primarily in Canada.

While historically check processing was a significant source of revenue for LMLP, the decline in the use of checks by consumers and the growth in electronic payment transactions, in particular e-commerce payment transactions have become key strategic drivers for the Company. Today, electronic and internet-based payment processing has become the key business segment for the Company and now accounts for 67% of revenue. While U.S. online sales excluding travel, digital downloads and event tickets are projected to fall 3% in 2009, according to an August 2009 eMarketer report (See Page 6 for further details), Company revenues from this segment increased 10% in Q1 FY10. Forrester Research had predicted 10% annual growth of online retail sales for 2008 to 2013 (U.S. online retail forecast, February 2, 2009).

The successful and initial monetization of the Company's intellectual property in 2006 provided an important catalyst for growth. That year the Company restructured its check operations which restored profitability and allowed it to acquire payment processor Beanstream Internet Commerce, Inc. (Beanstream). With the strategic acquisition of Beanstream completed in June 2007, LMLP repositioned its operations to focus on its objective of becoming a Payment Technology Platform Provider providing comprehensive payment processing solutions for e-commerce and traditional businesses choosing to leverage the internet to make and/or receive payments. LMLP continues to evaluate strategic acquisitions of companies, technologies or intellectual property as a means to accelerate future growth.

The Company's intellectual property estate consists of five U.S. patents related to electronic check processing methods and systems. In November 2008, LMLP launched a patent infringement suit in a U.S. District Court in Texas against 19 prominent banks and processors that the Company believes employ its technology to convert paper checks into electronic transactions. In June 2009, in the same Texas court, the Company filed a second lawsuit against an additional 6 financial institutions. LMLP is seeking damages and injunctive relief for infringement of U.S. Patent No. RE40220.

As was the case in 2006, a successful result from LMLP's patent infringement suit could once again present the Company with a significant revenue opportunity. The revenue associated with a successful enforcement action would manifest by way of potential financial settlements and/or jury awards in the manner of licensing fees and running royalty streams. Continued successful enforcement of its patents provides a key opportunity for the Company to monetize the Intellectual Property Portfolio for the benefit of shareholders.

The Company has a profitable and growing online Transaction Payment Processing business and a significant patent estate, which is, once again, being enforced; this time, against 25 defendants who are mostly financial institutions using the technology which describes processes used to process an estimated 5.4 billion payment transactions annually (See Page 8 for further details). With a market cap of under \$25 million, the market is not currently assigning any value to the potential successful enforcement action of the Company's patent estate or the solid growth of the Company's organic business.

AVALON S.T.E.P. ANALYSIS CONTINUED

Time Line

LMLP is expected to report Q2 FY10 results in November 2009. According to current docket control documents, some key milestone events for the Company's enforcement efforts in the Texas Court are now scheduled to occur. In July 2010, the Court will conduct a claim construction hearing (also known as a Markman hearing). After the hearing, the court will provide its opinion to the Company and defendants as to how it will instruct the jury to interpret the claims of the patent-in-suit. Generally, following a claim construction hearing, it is not unusual for defendants to discuss settlement offers. With some 25 defendants in this enforcement action, it is difficult to anticipate the number of potential pretrial settlements. For those defendants who do not settle out of the case, the case will proceed to the next stage and then eventually to trial which is currently scheduled for March 2011.

Earnings Line

On August 12, 2009, LMLP reported Q1 FY10 earnings of \$0.01 on \$3.2 million in revenue. The Company posted 28% growth in its Transaction Payment Processing business and added 291 customers. Currency fluctuations negatively impacted results leading to an 11% growth rate year over year and 10% sequential quarter-over-quarter when converted to U.S. dollars. The Company booked positive cash flow from operations and retired the remainder of its debt during the last quarter. Additionally, during the fourth quarter of fiscal 2009, the Company was able to record a \$5 million tax credit which it anticipates will positively affect future cash flow.

Price Line

With the global economic recovery underway and the wide range of possible outcomes of the patent suits, a price target is inappropriate to assign at this time.

Background and Business Model

LMLP is a leading provider of financial payment processing solutions to internet and traditional brick and mortar businesses. The Company operates three separate business segments: Transaction Payment Processing (TPP), Check Processing/Software Licensing (CP/SL), and Intellectual Property Licensing (IPL).

LMLP's check processing business segment involves predominantly traditional and electronic check processing and recovery services that do not utilize the internet. These services include electronic check authorization, electronic check conversion, electronic check re-presentment and software licensing. Although historically, this business was the major source of revenue for the Company, the decline in check-writing, increased use of credit and debit cards and rapid growth in online payment systems eventually led to declining revenues. Given these secular trends, LMLP restructured its check processing segment,

discontinuing unprofitable operations and greatly improving margins.

The acquisition of Beanstream Internet Commerce Inc., a Canadian-based provider of Internet payment processing solutions in June 2007 subsequently provided the entry point into the Transaction Payment Processing segment. Importantly, revenue from Transaction Payment Processing currently makes up 67% of the Company's total revenue. With this strategic acquisition, LMLP repositioned itself beyond check processing to provide merchants with payment technologies to facilitate electronic transactions. Beanstream's solutions include credit and debit card processing, electronic checking, risk management, hosted shopping carts and online registration tools. TPP segment revenues are derived from onetime set-up fees, monthly gateway fees and transaction fees paid by merchants. The TPP segment experiences high gross margins (approximately 45%) and a large percentage of recurring revenue is based on transaction volume.

Revenue by Segment FYE March 2009

\$12.4 Million

Intellectual
Property
Licensing
\$1.7m (13%)
GM: 99%

Check
Processing
\$2.8m (24%)
GM: 42%



Transaction
Payment
Processing
\$7.8m (63%)
GM: 45%

Source: Company Presentations

LMLP provides electronic payment, authentication and risk management services to over 8,000 businesses and organizations in Canada and the United States. A substantial portion of these are small and mid-sized companies from among the estimated one million Canadian merchants making it one of the largest non-bank electronic payment processors in Canada. The Company is poised for expansion in the U.S. and other markets particularly by leveraging its strong partner network. Revenues in this segment are driven by transaction volume, increased merchant adoption and overall e-commerce growth.

Economic recovery and the addition of new partners and merchants are anticipated to be key revenue drivers in FY10. LMLP has historically added 300 to 400 new merchants per quarter, largely due to its network of integrated financial and technology partners. The Company's financial partners include Toronto-Dominion Bank (NYSE: TD), First Data and Equifax (NYSE: EFX). Product customers include Best Buy (NYSE: BBY) in Canada, IKEA, Dillon's grocery stores and Disney (NYSE: DIS) Interactive.

As a prime example of the Company's ability to provide innovative payment solutions through its Beanstream subsidiary to its merchants, last month LMLP announced a new eStore product platform for Scotiabank Group's (NYSE:BNS) precious metals division. Beanstream developed and is hosting a customized online ordering system with credit and debit card processing, authentication and back office reports to support this unique application. Customers now have a secure option for purchasing precious metals, including bullion, online. Notably, Scotiabank is the first bank to offer this service in Canada.

The Canadian e-commerce market was approximately \$12.8 billion in 2007 (according to the last available metrics from Statistics Canada – the Daily, November, 17, 2008). The U.S. e-commerce market was approximately \$133.6 billion in 2008 (according to the U.S. Census Bureau – Department of Commerce, February 17, 2009). Further, the recent global economy has also impacted e-commerce, as merchants recognize it is cost effective to sell online and value

conscious consumers look online for both better product information and prices. The U.S. and international markets will provide LMLP with the opportunity to leverage its extensive relationships with financial and technology partners to drive additional merchant acquisition.

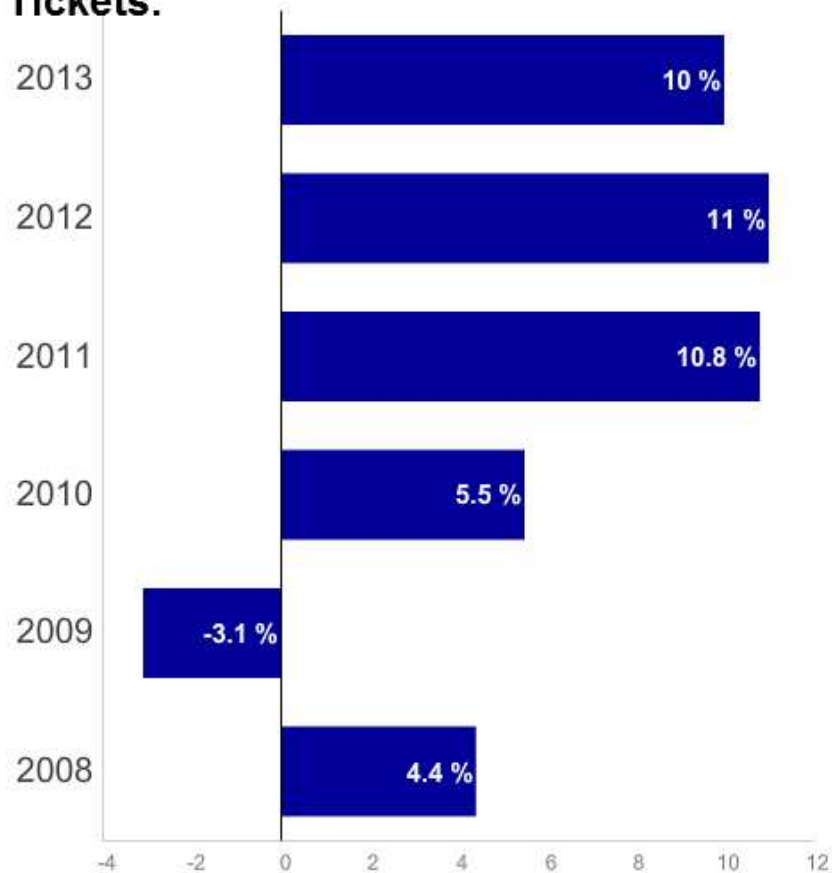
According to an August 2009 report by eMarketer, U.S. online sales excluding travel, digital downloads and event tickets are actually expected to fall 3% in 2009, representing the first ever decline in the total retail e-commerce market. However, following this unexpected contraction, online sales are expected to recover in 2010 and see double-digit growth in 2011. Given the large, growing market opportunity as reported by eMarketer, as well as broad secular trends benefitting the e-commerce business, the TPP segment is expected to remain a key driver for LMLP growth and profitability.

Finally, Intellectual Property Licensing has been a significant business segment for LMLP on the strength of the Company's patent estate. To date, LMLP has established licenses with eight licensees who are primarily payment processors, enabling the Company to monetize its Intellectual Property portfolio. In 2006, LMLP finalized licensing deals with Electronic Clearing House (ECHO, acquired by Intuit, INTU), First Data Corp. subsidiary, Telecheck and Nova Information Systems (now Elavon, a subsidiary of U.S. Bancorp.) as part of the settlement of patent litigation related to conversion of paper checks presented at the point-of-sale into electronic transactions (See Appendix C for a full list of licensees).

More recently, LMLP has again instituted enforcement action with respect to its intellectual property and has filed patent infringement lawsuits in order to recoup licensing fees from companies which LMLP believes have infringed its intellectual property. The significance of the Company's Intellectual Property may be underappreciated in LMLP's market capitalization.

LMLP has 55 full time employees as of May 2009. The Company's headquarters are located in Vancouver, BC with operations in Victoria, BC, Wichita, KS and Marshall, TX.

**U.S. Retail Ecommerce Sales Growth,
2008-2013 in Percentage of Growth,
Excluding Travel, Downloads, and Event
Tickets.**



Source : eMarketer, August 18, 2009, U.S. Retail Ecommerce Sales, 2008-2013

Intellectual Property Lawsuits

LMLP has five key patents related to electronic check processing methods and systems (see Appendix A). U.S. Patent No. RE40220, a reissued patent granted by the US Patent & Trademark Office (USPTO) in April 2008, is a significant asset for the Company. While the patent initially had four systems claims, the reissued patent “Check writing point of sale system” includes over 100 claims including numerous claims describing methods and systems for converting checks into electronic payments. The patent could be interpreted to cover electronic-check applications on the automated clearing house (ACH) network. As a result, LMLP would be positioned to earn licensing fees from any bank or processor practicing the claims in the patent and handling accounts receivable conversion also known as remittance bill payment (ARC), internet (WEB), point of purchase (POP) and phone based (TEL) transactions (See Page 8 for further details).

According to the 2007 Federal Reserve Payments Study – noncash payment trends in the United States: 2003-2006 (issued December 2007), it is clear that the use of paper checks is in decline (-6.4% CAGR per year 2003-2006). However, at the date of issue there were still 30.6 billion paper checks paid annually. The four NACHA (National Automated Clearing House Association) class codes mentioned above are clearly significant factors contributing to the displacement of paper checks into electronic items.

On November 19, 2008 LML Patent Corp., a wholly owned subsidiary of LMLP, filed suit in the U.S. District Court in the Eastern District of Texas against 19 prominent banks and processors alleging infringement of RE40220. On June 4, 2009, an additional patent infringement suit was filed in the same court against 6 financial institutions in the U.S. alleging infringement of the same patent.

Notably, the U.S. District Court in the Eastern District of Texas is the jurisdiction of choice for many patent suits. It is known to be a favorable jurisdiction to intellectual property plaintiffs. According to PriceWaterhouseCoopers, between 1995 and 2007, plaintiffs won 72% of the patent infringement cases that went to jury trials in this court.

LML Patent Corp. has retained McKool Smith of Dallas, Texas, a premier patent litigation law firm, as lead counsel in the case, a firm highly recognized for its consistent victories in intellectual property cases.

LML Patent Corp. lead attorney and principal of the firm, Samuel Baxter is also a former Texas District Judge. In August 2009, Baxter and his team won a \$138 million jury verdict against SAP America (NYSE: SAP) and its parent SAP AG on behalf of client Versata Software. The trial was conducted in the same district as the LML Patent Corp. suit. Similarly, Baxter and co-lead counsel Ted Stevenson (who is also on the LML Patent Corp. case) won a \$200 million patent verdict against Microsoft (NASDAQ: MSFT), also in the Eastern District Court on behalf of Canadian software Company i4i.

LML Patent Corp. has named as defendants many large household name banks such as JP Morgan Chase (NYSE: JPM), Wells Fargo (NYSE: WFC), Citigroup (NYSE: C), and eBay’s (Nasdaq” EBAY) PayPal. A complete list of the firms included in the LML Patent Corp. suit can be found in Appendix B.

As part of the enforcement litigation process, a claim construction hearing, also known as a “Markman hearing,” is scheduled for July 2010. At that time, the judge will render his interpretation of the patent claims and explain how those interpretations will be given to the jury to determine infringement. Both LML Patent Corp. and the defendants will be notified as to the judge’s interpretation. Following a Markman hearing, it is not unusual for defendants to attempt to reach a settlement with the plaintiff.

Defendants have two basic defenses and their subsets. These defenses are non-infringement and invalidity. Should the Markman Hearing result in a claim construction favorable to LML Patent Corp., infringement is probable and defense work would likely center around invalidity issues. As a matter of course, between Markman and trial, both plaintiff and defendants are able to submit motions for summary judgments for both infringement and validity issues.

Importantly, the scope of transactions potentially covered by this patent litigation is large. In 2008, there were approximately 4.6 billion conversions of checks to electronic payments under the ACH class codes of ARC and WEB alone, according to the Electronic Payments Association (See Page 8 for further details). Favorable settlements or licenses resulting from this enforcement action would be a significant development for the Company.

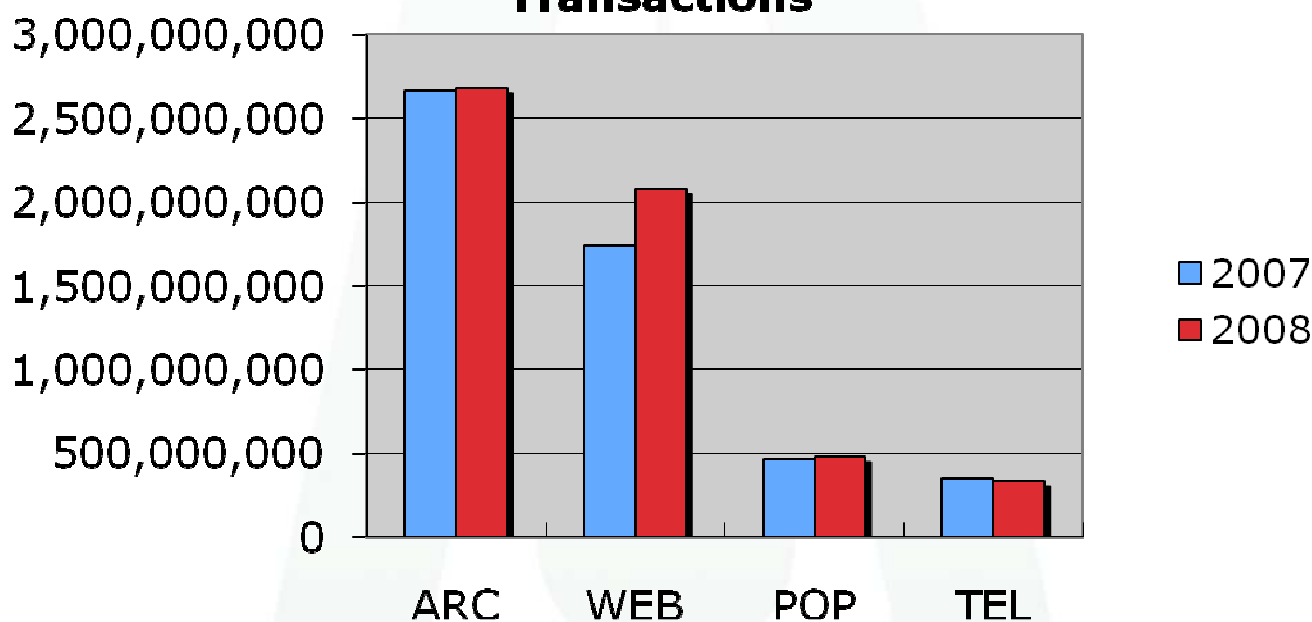
Considering LML Patent Corp.’s favorable venue and history of successfully obtaining license agreements for one to three cents per transaction from defending parties, similar settlements with a number of defendants is possible.

Past and Future Patent Litigation

The Company has a history of successful settlements of intellectual property litigation. In April 2006, less than two years after filing suit against FirstData, TeleCheck, Nova and Electronic Clearing House (ECHO), all four companies settled. LMLP granted licenses to the defendants in exchange for \$16 million (see Appendix

C for all licensees). ECHO agreed to pay an ongoing royalty per transaction in addition to upfront fees. The other three defendants paid an upfront lump sum payment in lieu of ongoing royalties. While this lawsuit took two years to settle, it has set an undeniable precedent. This monetary settlement was prior to the issuance of RE40220 with its more extensive claims.

Automated Clearing House (ACH) Transactions



Source: NACHA: The Electronic Payment Association

approximately 36.8x trailing twelve month's earnings and 2.2x trailing twelve month's sales.

The following table summarizes select statistics for major players in the payment processing space.

Comparables

LMLP's payment processing peers, all larger companies, trade at an average 10.2x book value,

Company Name	Market Cap	P/Tang B	P/LTM EPS	P/NTM EPS	P/LTM Sales	P/NTM Sales
Bottomline Technologies Inc. (NASDAQ:EPAY)	377.2	12.6x	NM	15.3x	2.7x	2.4x
CyberSource Corporation (NASDAQ:CYBS)	1,137.1	8.1x	71.3x	19.3x	2.4x	3.8x
Fiserv Inc. (NASDAQ:FISV)	7,081.4	NM	17.0x	11.7x	1.7x	1.8x
Global Payments Inc. (NYSE:GPN)	3,989.5	NM	104.8x	19.0x	2.4x	2.2x
Intuit Inc. (NASDAQ:INTU)	9,358.7	21.5x	21.5x	15.0x	2.9x	2.8x
Jack Henry & Associates Inc. (NASDAQ:JKHY)	1,949.0	10.0x	18.8x	17.8x	2.6x	2.5x
Net 1 Ueps Technologies Inc. (NASDAQ:UEPS)	793.7	5.2x	11.3x	9.7x	3.2x	3.1x
Online Resources Corp. (NASDAQ:ORCC)	157.9	NM	NM	NA	1.0x	NA
S1 Corp. (NASDAQ:SONE)	317.6	3.8x	13.2x	13.1	1.3x	1.3x
<i>Average (Excluding LMLP)</i>	<i>2,795.8</i>	<i>10.2x</i>	<i>36.8x</i>	<i>15.1x</i>	<i>2.2x</i>	<i>2.5x</i>
LML Payment Systems, Inc. (NASDAQ: LMLP)	21.1	4.3x	3.8x	NA	1.7x	NA

Source: Capital IQ

Liquidity and Capital Structure

LMLP ended the June 2009 quarter (Q1 FY10) with \$4 million in cash and equivalents, down from \$6.1 million at the end of March 2009 (FYE 2009). The decrease in cash was due to the final payment of a \$2.3 million promissory note in connection with the acquisition of Beanstream Internet Commerce.

Working capital increased to \$2.9 million in the June quarter from \$2.8 million in March 2009. The increase is attributed to \$113,000 in cash provided by operating activities. As of June 30, 2009, LMLP has no debt.

Common shares outstanding were 27,116,408 at the end of the June 2009 quarter.

Due to historical taxable income and the estimates of future profitability associated with the restructuring of its check operations and the acquisition of Beanstream, the Company, as of FYE 09, was able to reduce its valuation allowance for future tax assets and was able to realize a future tax asset of \$5.2 million.

On March 26, 2008, LMLP privately placed 4 million shares with Millennium Partners LLC at \$1.80 per share, netting \$6.69 million after fees. Following the transaction, Millennium owns approximately 15% of the Company's outstanding shares.

Outlook

LMLP will benefit from increasing electronic payment volume across all its financial payment processing services. The Company is poised to experience accelerated growth in its Transaction Payment Processing business as world economies, particularly in Canada and the United States, recover from the current recession and LMLP increases its penetration in these markets. Management's focus on potential strategic acquisitions of complementary businesses, products or technologies should also assure investors that the Company will continue to seek dynamic opportunities as well as to continue to grow the organic business to maximize shareholder value.

One of the more underappreciated assets is the Company's Intellectual Property portfolio. At this time, it remains unclear what level of revenue the Intellectual Property segment will generate within the next 12 months, a timeframe in which LMLP's patent litigation is likely to be settled or be directed to a jury trial. However, given the scope of the suit and the Company's historical success with enforcement action, any anticipated award or settlement would be significant for a Company of LMLP's size.

Top Institutional Shareholders	Shares Held	% Shares Held	Date
Millennium Management LLC	4m	14.75%	6/30/09
Gruber & McBaine Management	703k	3.59%	6/30/09
Wellington Management LLP	166.68k	0.62%	6/30/09
Renaissance Technologies LLC	46.00 k	0.17%	6/30/09

Senior Management

Patrick H. Gaines, Chief Executive Officer and Chairman of the Board

Mr. Gaines has served as LMLP's Chief Executive Officer (CEO) since February 2000 and a director since 1990. Mr. Gaines currently serves as Chairman of the Board of Directors. He has more than 19 years of experience in the development and management of Point-of-Sale programs, including the publishing, marketing and sales of Point-of-Sale discount products and credit card programs at the national level. Mr. Gaines has overseen LMLP's acquisition strategy and managed the resulting integration and development of products and services including end-to-end check processing solutions and credit, debit and EBT transaction routing and e-commerce. Mr. Gaines has also guided the development, licensing negotiations and litigation with respect to the Company's Intellectual Property estate which covers various electronic payment methods. Mr. Gaines' background also includes prior experience in venture capital. He holds a BA in Psychology from the University of Victoria.

Craig Thomson, President

Mr. Thomson has been President of LMLP since February 2009. He has been President and CEO of Beanstream since 2000, thus bringing significant leadership and entrepreneurial experience running high technology companies to LMLP. Mr. Thomson has had a high profile as a successful businessman including Ernst and Young's 1994 "Entrepreneur of the Year Award" in manufacturing, wholesale and distribution for Pacific Canada region. Mr. Thomson holds a degree in Computer Engineering from the Royal Military College of Canada.

Chris Koide, Executive Vice President

Mr. Koide has been the Executive Vice President of LMLP since February 2009. He continues to work as the Chief Operating Officer of Beanstream Internet Commerce, a position he has held since June 2000. Mr. Koide has worked with various financial software firms, including Peoplesoft Inc. as a Treasury Strategy Manager and Glassco Park Inc. (now Fincad.com) as Director of Financial Engineering and Risk Management. With 15 years of national, international and corporate banking experience, he brings to LMLP an extensive knowledge of banking practices, specifically business and financial risk analysis, securitization, financial engineering and cash management.

Richard Schulz, Controller/Chief Accounting Officer

Mr. Schulz has been employed as LMLP's Controller and Chief Accounting Officer since June 2002. He also serves as the Chief Accounting officer and director of the Company's subsidiaries. Mr. Schulz served as the Company's Assistant Controller from August 2001 to June 2002. Previously, he was a self-employed financial consultant with RRS Consulting and was employed as a senior staff accountant with Dale Matheson Car-Hilton Chartered Accountants.

LML Payment Systems Inc. Income Statement

	Years ended March 31,			Three Months Ended
	2007A	2008A	2009A	30-June 09
Total Revenue	\$6,554,191	\$11,327,878	\$12,378,848	\$3,235,559
Total cost of revenue	4,533,788	4,807,946	6,055,570	1,624,426
Gross profits	2,020,403	6,519,932	6,323,278	1,611,133
Operating Expenses				
General & administrative	2,834,952	5,659,694	4,343,406	948,512
Sales & marketing	355,445	227,935	323,103	99,382
Product development & enhancement	-	177,704	272,499	99,395
Amortization & depreciating	335,555	905,488	785,334	198,247
Operating income	(1,505,549)	(450,889)	598,936	265,597
Other income/expenses				
Foreign exchange gain (loss)	(2,545)	(229,661)	444,050	28,192
Other income (expenses), net	616,571	(246,918)	10,898	-
Gain (loss) on disposal of capital assets	7,000	(726,325)	864	2,174
Interest income	475,368	406,063	226,472	11,467
Interest expense	(12,700)	(358,756)	(247,536)	(45,281)
Settlement expenses	(45,000)	-	-	-
Due diligence expenses	(567,562)	-	-	-
Income (loss) before income taxes	(1,034,417)	(1,606,486)	1,033,684	262,149
Income tax expense (recovery)				
Current	38,446	614,342	846,671	172,517
Future	-	-	(5,268,153)	-
	38,446	614,342	(4,421,482)	172,517
Net income (loss)	(\$1,072,863)	(\$2,220,828)	\$5,455,166	\$89,632
EPS (basic and diluted)	(\$0.05)	(\$0.10)	\$0.20	\$0.00
WA shares outstanding basic	20,206,412	21,869,404	26,834,165	27,116,408
WA shares outstanding diluted	20,206,412	21,869,404	26,834,165	27,116,408

LML Payment Systems Inc. Balance Sheet

		Consolidated Balance Sheet			
		(All figures in US\$ except as noted below) (Unaudited)			
		31-Mar-07	31-Mar-08	31-Mar-09	30-Jun-09
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		\$10,163,008	\$9,749,768	\$6,138,530	\$3,980,105
Funds held for merchants		-	5,833,617	10,746,731	10,526,388
Restricted cash		250,000	250,000	175,000	175,000
Accounts receivable less allowances of \$33,795, \$31,785, \$32,168 and \$23,388 respectively		330,055	719,301	801,087	910,891
Prepaid expenses		405,213	273,751	295,702	335,771
Current portion of future income tax assets		-	-	838,575	873,463
Total Current Assets		11,148,276	16,826,437	18,995,625	16,801,618
Property & equipment, net		1,362,003	246,828	227,324	215,402
Patents, net		943,985	788,473	622,730	580,874
Restricted cash		-	153,619	125,030	135,598
Future income tax assets		-	-	4,429,578	4,621,216
Other assets		224,263	23,247	19,020	19,588
Goodwill		-	15,903,077	17,874,202	17,874,202
Other intangible assets, net		-	5,700,637	5,205,487	5,081,700
Total Assets		\$13,678,527	\$39,642,318	\$47,498,996	\$45,330,198
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable		\$659,111	\$1,745,679	\$756,845	\$710,499
Accrued liabilities		309,677	648,661	814,094	725,525
Corporate taxes payable		-	573,240	283,794	390,460
Funds due to merchants		-	5,833,617	10,746,731	10,526,388
Obligations under capital lease		360,179	203,366	170,243	119,698
Promissory notes		-	2,731,923	2,100,920	-
Current portion of deferred revenue		1,531,260	1,448,921	1,361,046	1,397,756
Total Current Liabilities		2,860,227	13,185,407	16,233,673	13,870,326
Obligations under capital lease		726,806	177,573	-	-
Promissory notes		-	2,435,460	-	-
Deferred revenue		5,859,628	4,606,379	3,330,630	3,022,525
Total Liabilities		9,446,661	20,404,819	19,564,303	16,892,851
COMMITMENTS AND CONTINGENCIES					
SHAREHOLDERS' EQUITY					
CAPITAL STOCK					
Class A, preferred stock, \$1 CDN par value 150,000,000 shares authorized and issuable, in series, none issued or outstanding		-	-	-	-
Class B, preferred stock, \$1 CDN par value 150,000,000 shares authorized and issuable, in series, none issued or outstanding		-	-	-	-
Common shares, no par value, 100,000,000; shares authorized, 27,116,408; 27,116,408, 26,341,832 and 20,207,094 issued and outstanding respectively		32,774,368	48,071,980	50,039,568	50,039,568
Contributed surplus		3,443,292	5,391,187	6,732,059	7,051,248
Deficit		(31,985,794)	(34,206,622)	(28,751,456)	(28,661,824)
Accumulated other comprehensive income (loss)		-	(19,046)	(85,478)	8,355
Total Shareholder's Equity		4,231,866	19,237,499	27,934,693	28,437,347
Total Liabilities & Shareholder's Equity		\$13,678,527	\$39,642,318	\$47,498,996	\$45,330,198

Appendix A – LMLP Patent Portfolio:

Patent #: RE40220

Issue Date: April 8, 2008

<http://www.lmlpayment.com/patents-licensing/u-s-patent-no-re40220>

Patent #: 6,354,491

Issue Date: March 12, 2001

<http://www.lmlpayment.com/patents-licensing/u-s-patent-no-6354491>

Patent #: 6,283,366

Issue Date: September 4, 2001

<http://www.lmlpayment.com/patents-licensing/u-s-patent-no-6283366>

Patent #: 6,164,528

Issue Date: December 26, 2000

<http://www.lmlpayment.com/patents-licensing/u-s-patent-no-6164528>

Patent #: 5,484,988

Issue Date: January 16, 1996

<http://www.lmlpayment.com/patents-licensing/u-s-patent-no-5484988>

Appendix B - Companies in LML Patent Corp. Suits filed in the Texas Eastern District Court

Filed November 19, 2008

LML Patent Corp. v.

J. P. Morgan Chase & Co.	(NYSE: JPM)
Wells Fargo & Co.	(NYSE: WFC)
Wachovia Corp., (a Wells Fargo Company)	(NYSE: WFC)
Citigroup Inc.	(NYSE: C)
Bank of New York Mellon Corp.	(NYSE: BK)
HSBC Holdings plc	(NYSE: HBC)
Capital One Financial Corp.	(NYSE: COF)
Marshall & Ilsley Corp.	(NYSE: MI)
ABMN AMRO Holding NV	
Northern Trust Corp.	(NASDAQ: NTRS)
Regions Financial Corp.	(NYSE: RF)
National City Corp.	(NYSE: NCC)
Fifth Third Bank	(NASDAQ: FITB)
Citizens Financial Group, Inc.	
First National Bank of Nebraska, Inc.	
UnionBanCal Corp.	
Deutsche Bank Trust Co. Americas	(XETRA: DBKGn.DE / NYSE: DB)
M & T Bank Corp.	(NYSE: MTB)
PayPal Inc. (subsidiary of eBay)	(NASDAQ: EBAY)

Filed June 5, 2009

LML Patent Corp. v.

National Bank of Daingerfield TX	
PlainsCapital Bank	
Southside Bank	(NASDAQ: SBSI)
First Bank	
The American National Bank of Texas	
American Bank of Texas	

Appendix C – Current Licensees

Select Payment Processing Inc.

First American Payment Systems L.P.

Certified Payment Processing L.P.

ACH Direct, Inc.

Sage Payment Solutions Inc.

First Data Corp.

Telecheck International Inc.

Elavon (formerly NOVA Information Systems Inc.
and a wholly owned subsidiary of U.S. Bancorp.)

(NYSE: USB)

IMPORTANT DISCLOSURE INFORMATION

Investment Risks

LMLP is subject to the same risks as other payment processors companies including, but not limited to: a weak economic environment negatively impacting revenue and liquidity, fraud, potential product liability, changes in government regulations and intellectual property litigation.

A significant portion of LMLP's assets are goodwill related to its acquisition of Beanstream. If goodwill or other intangible assets become impaired, LMLP will have to record additional impairment charges.

The Company has sustained significant losses in four of the past five years and there is no guarantee it will be able to operate profitably going forward. LMLP's two largest customers generated 30% of the total revenue in FY09. If the Company is unable to retain those customers, financial results would be materially affected.

LMLP's business is dependent on computer networks, data centers and software. Any disruption to the network, security breaches, or errors in the software could harm the business.

Currency fluctuations could affect financial results. With significant operations in Canada, any changes in the exchange rate between the American and Canadian dollars have the potential to impact results.

LMLP's stock is considered a microcap. As a result, the market and the liquidity of the stock are difficult to predict.

For additional Investment Risks, see LMLP's March 31, 2009 10-K and subsequently filed 10-Qs.

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Certain statements in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any passages that are primarily relevant to expected future events or that can only be evaluated by events that will occur in the future. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Forward looking statements in this report include that LML is poised to accelerate the growth of its transaction payment processing business to international markets and to maximize the value of its intellectual property; that it continues to evaluate strategic acquisitions to accelerate growth; that its patent lawsuits have a significant revenue opportunity; that the Court will conduct a claim construction hearing in July 2010; that online sales will recover in 2010 and increase in 2011. Factors that could affect LML's actual results include, among others, the potential failure to establish and maintain strategic relationships, inability to integrate recent and future acquisitions, inability to develop new products or product enhancements on a timely basis, inability to protect or enforce our proprietary rights or to operate without infringing the patents and proprietary rights of others, that court proceedings do not proceed as expected, general economic conditions; that our competition offer better or cheaper products and services than we can offer; and quarterly and seasonal fluctuations in operating results. More information about factors that potentially could affect LML's financial results is included in LML's quarterly reports on Form 10-Q and our most recent annual report on Form 10-K filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance upon these forward-looking statements that speak only as to the date of this release

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