

Intrinsyc Software Int'l Inc. (ICS-T, \$0.49)

Thursday, July 10, 2008

Rating: SECTOR OUTPERFORM
 Target Price: \$1.50
 Return: 206%
 YTD Performance: -47%
 Risk Profile: SPECULATIVE

Ralph Garcea, MBA, P. Eng (416-507-2609, rgarcea@haywood.com)
 Kristian Bauer (416-507-2786, kbauer@haywood.com)

α The Destinator asset acquisition provides synergistic opportunities: potential new software license agreements (SLAs) and higher ASPs. We see a 50% upside in our EPS estimates in 2010.

Destinator Deal Closes; Accretive Opportunities Begin

Event: Intrinsyc has officially closed the Destinator asset acquisition.

Impact - Positive: Risks associated with the deal not closing are gone; Intrinsyc is positioned to leverage Destinator's software and existing contracts.

- **Forecasts** – Adjusted to reflect the acquisition: FY2008 revenues of \$28.2M (cons: \$23.7M), EBITDA of -\$20.3M (cons: -\$14.4M), and EPS of -\$0.16 (cons: -\$0.10). FY2010 revenues of \$79.0M (cons: \$56.4M), EBITDA of \$14.8M (cons: \$6.0M), and EPS of \$0.09 (cons: \$0.04).
- **Target Price, Ratings** – Unchanged, SECTOR OUTPERFORM rating and \$1.50 target.

Issues:

- **Accretive Opportunities Begin**
 Destinator's tier-one customer line-up positions Intrinsyc well for future Soleus™ contracts; Intrinsyc's existing software license agreements open the door for incremental GPS contracts.
- **Minimum of four Soleus™ SLAs targeted for 2008**
 Existing contracts with Mio and Samsung Semi; new contract opportunities: LG? Motorola? ASUSTeK?
- **Financial Impact: Increase Revenues, Accretive in 2009/2010**
 Acquisition cost: \$8.5M in cash and 11M shares. Increased near-term OPEX and a one-time hit should yield increased long-term operating leverage.

Valuation: From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Mobility Software Universe based on our CY2009 estimates (EV/Sales: 1.1x versus 2.7x). The situation should remedy itself throughout 2008 as the Company's customers start shipping Soleus-based devices. Our DCF-based target of \$1.50 yields a CY2009 valuation of 4.1x EV/Sales.

Catalysts: 1) *Software License Agreements* – Soleus™ contracts, notably a tier-one manufacturer, should increase revenue visibility and expectations; 2) *Royalty Generation* – We expect Soleus™ royalties to begin in Q2/08; 3) *Product Visibility* – Soleus™ product reviews will increase visibility and drive future signings.

Investment Brief: Soleus™ is a comprehensive software platform (based on Windows CE), whose modular architecture speeds up the development process, provides a reusable platform, allows a higher degree of customization, and lowers the manufacturer's bill of materials (BOM).

Forecast Risk	High
Financial Risk	High
Valuation Risk	High
52-Week High / Low	\$1.30/\$0.39
Dividend / Yield	0.00%
Shares O/S	161.9 (basic) / 191.0 (F/D)
Market Capitalization	\$79.3M
Daily Volume	420K

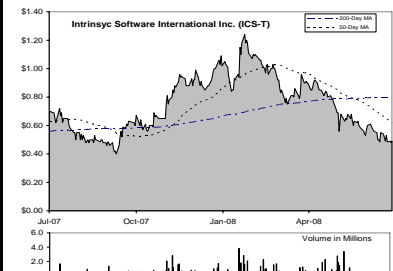
Financial Forecasts				
CY Est.	2007A	2008E	2009E	2010E
Revenues (\$mlns)	21.2	28.2	64.0	79.0
EBITDA (\$mlns)	(15.0)	(20.3)	3.3	14.8
EPS (FD) (\$)	(0.14)	(0.16)	0.01	0.09
CFPS (FD) (\$)	(0.13)	(0.13)	0.07	0.11

Valuation				
	2007A	2008E	2009E	2010E
P/E	NM	NM	58.9x	5.4x
EV/SALES	1.9x	2.8x	1.1x	0.7x
EV/EBITDA	NM	NM	20.9x	3.8x
DCF		\$1.49	\$1.58	\$1.70

Company Profile – www.intrinsyc.com
 Intrinsyc is a leader in software and services that enable next-generation handheld and embedded products, including mobile handsets, smart phones and converged devices. Intrinsyc is a Microsoft Windows Embedded Gold Partner, the 2007 Windows Embedded Excellence Award winner for System Integrator, and a Symbian Platinum Partner.
 Company CEO - Glenda M. Dorchak

Revisions, Date of Record
 Rating - Unchanged.
 Target - up from \$1.25, Jan 8, 2008.

Price Performance





Investment Thesis

Intrinsyc Software operates primarily as two businesses: the wireless systems engineering group, and the mobility software business that has been responsible for the development of Soleus, a consumer software product for wireless and handheld devices since 2004.

Soleus is a comprehensive software platform (based on Windows CE) and includes a high-level operating system (HLOS), an application suite, a pre-certified telephony stack, and sophisticated user interface-generation tools. Soleus' modular architecture speeds up the development process, provides a reusable platform, allows a higher degree of customization, and lowers the manufacturer's bill of materials. Within the mobile phone market, feature phones (Intrinsyc's target segment) have evolved as the biggest segment, and in 2006, contributed approximately 60% of the global sales (587 million units). We expect feature phones to continue to be 60% to 65% of global shipments going forward.

Destinator Deal Closes; Accretive Opportunities Begin

On July 9, 2008, the Destinator select asset acquisition closed. The bankruptcy courts ruled in Intrinsyc's favour and the acquisition contingencies were met. We believe that the acquisition provides Intrinsyc with accretive opportunities and synergistic assets. We remain confident that the Company is positioned to sign four software license agreements (SLA) this year, we provide financial details on our model adjustments, and we provide a Q2/08 financial preview.

To recap, the Destinator asset acquisition includes 17 intellectual patents, two R&D facilities (China and Israel), 130 employees, source code/products, and revenue generating contracts. The acquisition cost ~US\$16M (\$8.5M in cash and 11M shares).

Accretive opportunities begin, plenty of synergies can be gained. The list of Destinator's tier-one contracts (LG, Motorola, ASUSTeK, Mio) opens doors for future SLA's. Furthermore, existing Soleus™ contracts open the door for future GPS contracts. We believe that Intrinsyc is on track to sign four SLA's this year, and we believe that the Company will gain momentum as their existing products gain visibility and as the GPS technology is integrated into the Soleus™ platform.

Destinator GPS-Embedded Products: ASUSTeK P750 (left) and Motorola A1600 (right)



Source: Company Websites





In terms of the acquisition impact on Intrinsyc's business, we adjust our financial estimates to reflect the increased headcount of 375 personnel (from 245); the new operating facilities and their corresponding G&A (China & Israel); increased R&D expenditures from the Soleus™ GPS integration; software revenue adjustments (~US\$10M annualized); integration costs (~US\$2M over 12-months); and trimmed gross margins. We believe that the lower near-term operating expenditures and one-time hit should result in increased long-term operating leverage; we believe that the GPS addition to Soleus™ has the potential to add ~\$1.50+ to the unit ASP. Financially, we lower revenues and estimated Soleus™ units shipped for 2008 to be conservative; we still expect product shipments to gain traction throughout 2H/08 and into 2009.

Below is a table displaying our new and old model estimates, and consensus guidance. We see a 50% upside in our EPS estimates in 2010.

Estimate Comparison; New, Old, and Consensus (US\$ '000 except per share data)

	<u>New Model</u>			<u>Old Model</u>			<u>Consensus</u>		
	<u>F2008E</u>	<u>F2009E</u>	<u>F2010E</u>	<u>F2008E</u>	<u>F2009E</u>	<u>F2010E</u>	<u>F2008E</u>	<u>F2009E</u>	<u>F2010E</u>
Revenue	28,188	63,955	79,035	27,377	51,764	64,442	23,664	45,241	56,394
EBITDA	(20,255)	3,349	14,792	(10,703)	(2,882)	8,353	(14,420)	(3,872)	6,012
EPS (Adj.)	(0.17)	0.00	0.09	(0.09)	(0.03)	0.06	(0.10)	(0.04)	0.04

Source: Haywood Estimates, Capital IQ

Operationally, we expect the integration process to last about four-months. The new Chinese and Israeli R&D facilities provide opportunities for increased efficiencies. The Destinator GPS map data bundle agreements are not included in Intrinsyc's guidance. The 17 patents from Destinator do not, to the best of our knowledge, have any outstanding lawsuits pending. Furthermore, Destinator has not acted as a "trolling" company, but Intrinsyc will do their due diligence and look to license their patents should revenue-generating opportunities arise.

For Q2/08, we expect revenues of \$6.2M (cons: \$5.4M), EBITDA of -\$3.9M (cons: -\$3.7M), and EPS of -\$0.03 (cons: -\$0.03). We expect Soleus™ license royalties to begin in this quarter which should help the product visibility gain traction for future SLA's.

Despite the bearish market sentiment, we remain bullish on Intrinsyc Software. The Company's fundamentals remain solid and we foresee the GPS addition to Soleus™ being accretive longer term. This news, coupled with the recent Symbian open-sourcing, positions Intrinsyc well for the future. We reiterate our SECTOR OUTPERFORM rating and \$1.50 target.

Valuation

From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Mobility Software Universe based on our CY2009 estimates (EV/Sales: 1.1x versus 2.7x). The situation should remedy itself throughout 2008 as the Company's customers start shipping Soleus-based devices. Our DCF-based target of \$1.50 yields a CY2009 valuation of 4.1x EV/Sales.





Haywood Global Software Comps

Table with columns: CANADA TECHNOLOGY, Small Cap - Software/Services, Ticker, Trdg Curr, Local Price, Pot. Return, % of 52 week, Mkt. Cap. (US\$mm), Market Indicators (Return %), Revenue (USD), 180-day % chg, P/E, EV/Sales, EV/EBITDA, REV/Headcount. Includes companies like Constellation Software Inc., Absolute Software Corporation, and Gemcom Software International.

Table with columns: GLOBAL SOFTWARE, Ticker, Trdg Curr, Local Price, Pot. Return, % of 52 week, Mkt. Cap. (US\$mm), Market Indicators (Return %), Revenue (USD), 180-day % chg, P/E, EV/Sales, EV/EBITDA, REV/Headcount. Includes companies like Microsoft Corporation, Oracle Corp., SAP AG, VMware, Inc., and Autodesk, Inc.

Source: Capital IQ, Haywood Estimates





Distribution

This report may only be distributed to non-institutional US clients in the following states: Delaware, Georgia, Hawaii, Iowa, Idaho, Indiana, Kansas, Louisiana, Maryland, Maine, Minnesota, Missouri, New York, Oklahoma, Pennsylvania, South Carolina, South Dakota, Virgin Islands, Vermont and Washington.

Analyst Certification

I, Ralph Garcea, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

Important Disclosures

This report is prepared by Haywood Securities Inc. for use by Haywood Securities Inc., Haywood Securities (USA) Inc. and Haywood Securities (UK) Limited and their clients. Haywood Securities Inc. is a Canadian registered broker-dealer and a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the Toronto Venture Exchange and the Canadian Investor Protection Fund. Haywood Securities (USA) Inc. is a wholly owned subsidiary of Haywood Securities Inc., registered with the U.S. Securities and Exchange Commission, and is a member of FINRA and the Securities Investor Protection Corporation (SIPC).

Haywood Securities, Inc., and Haywood Securities (USA) Inc. do have officers in common however, none of those common officers affect or control the ratings given a specific issuer or which issuer will be the subject of Research coverage. In addition, the firm does maintain and enforce written policies and procedures reasonably designed to prevent influence on the activities of affiliated analysts.

Haywood analysts are salaried employees who may receive a performance bonus that may be derived, in part, from corporate finance income.

Of the companies included in the report the following Important Disclosures apply:

- The Analyst(s) preparing this report (or a member of the Analysts' households) have a financial interest in Intrinsyc Software (ICS-T).
- As of the end of the month immediately preceding this publication either Haywood Securities, Inc., its officers or directors beneficially owned 1% or more of Intrinsyc Software (ICS-T), Immersive Media Corp. (IMC-V).
- Haywood Securities, Inc. or an Affiliate has managed or co-managed a public offering of securities for Intrinsyc Software (ICS-T), Immersive Media Corp. (IMC-V) in the last 12 months.

Other material conflict of interest of the research analyst of which the research analyst or member knows or has reason to know at the time of publication or at the time of public appearance:

- n/a

Rating Structure

SECTOR OUTPERFORM – Haywood's top rating category. The analyst believes that the security will outperform its sector. Furthermore, the shares are forecast to provide attractive returns measured against alternative investments when considering risk profiles. The rating carries a minimum total return threshold of 15% for equities and 12% for trusts. The rating applies to companies that have tangible underlying assets that give a measure of support to the market valuation. The rating category considers both the absolute and relative values in assigning the highest rating on the security.

SECTOR PERFORM – The analyst believes that the security will trade with tight correlation to its underlying sector. Furthermore, the target price (together with any anticipated distributions) is at or above the market price, and forecast risk-adjusted returns are attractive relative to alternative investments.

SECTOR UNDERPERFORM – Investors are advised to sell the security or hold alternative securities within the sector. Stocks in this category are expected to underperform relative to their sector. The category also represents stocks with unattractive forecast returns relative to alternative investments.





TENDER – The analyst is recommending that investors tender to a specific offering for the company’s stock.

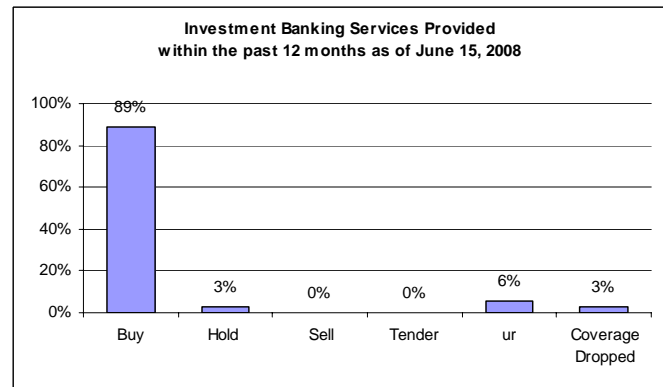
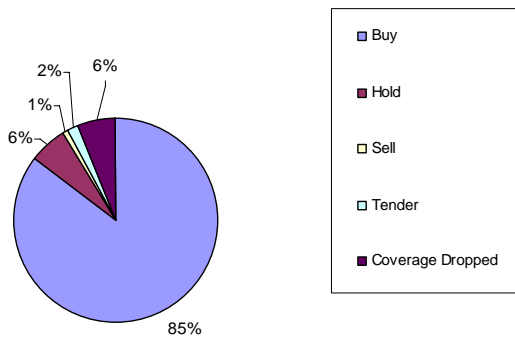
RESEARCH COMMENT – An analyst comment about an issuer event that does not include a rating.

COVERAGE DROPPED – Haywood Securities will no longer cover the issuer. Haywood will provide notice to clients whenever coverage of an issuer is discontinued. The termination of coverage will not occur unless clients have been provided with advice relating to positions they may still hold, such as a recommendation to sell their securities.

The above ratings are determined by the analyst at the time of publication. On occasion, total returns may fall outside of the ranges due to market price movements and/or short term volatility. At the discretion of Haywood’s Management, these deviations may be permitted after careful consideration

* *Haywood’s current rating structure (outlined above) does not correlate to the 3-tiered BUY, HOLD, SELL structure required by FINRA. Our ratings of Sector Outperform, Sector Perform and Sector Underperform most closely correspond to Buy, Hold/Neutral and Sell respectively however, as described above, our assigned ratings take into account the relevant sector.*

Rating Distribution March 15, 2008 - June 15, 2008



For further information on Haywood Securities’ research dissemination policies, please visit:

http://www.haywood.com/research_dissemination.asp

Risk Profile Parameters

SPECULATIVE: – Investment for risk accounts only. Companies within this category carry greater financial and/or execution risk. All junior/venture companies that carry great financial and/or liquidity risk will be tagged “SPECULATIVE”. A stock indicating a SPECULATIVE risk is determined from sector specific criteria outlined below listed below.

Risk Profile Parameters – Technology/Special Situations

Forecast Risk: *High* – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Sales are minimally visible. *Moderate* – Haywood forecasts are generally in line with guidance and sales are moderately visible. The Company has a history of meeting or exceeding guidance. *Low* – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance and its sales are highly visible.

Financial Risk: *High* – The business plan is not fully funded but requires debt and/or equity financing. This categorization does not necessarily predict whether the additional funds will be raised. Inventory turnover is low, cash flow is weak, and assets are below par. *Moderate* – The business plan is fully funded. Inventory turnover and cash flow are moderate, and assets are reasonably liquid. The Company’s debt is rated below investment grade. *Low* – The Company is fully funded with investment grade debt, high inventory turnover, high cash flow, and superior assets.

Valuation Risk: *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. Where applicable, the DCF valuation is not more than 10% above the current equity valuation. *Moderate* – The current valuation is within historic ranges and generally consistent with peers. Where applicable, the DCF valuation exceeds the current





capitalization by more than 10%. *Low* – The current valuation is at the low end of historic ranges and at a discount to peer valuations. Where applicable, the DCF valuation exceeds the current capitalization by more than 20%.

Disclaimers

Estimates and projections contained herein, whether or not our own, are based on assumptions that we believe to be reasonable. The information presented, while obtained from sources we believe reliable, is checked but not guaranteed against errors or omissions.

Haywood Securities Inc., its subsidiaries and their respective officers, directors, and employees may hold positions in the securities mentioned and may purchase and/or sell them from time to time.

Haywood Securities, or certain of its affiliated companies, may from time to time receive a portion of commissions or other fees derived from the trading or financings conducted by other affiliated companies in the covered security.

This report is neither a solicitation for the purchase of securities nor an offer of securities. Our ratings are intended only for clients of Haywood Securities Inc. Haywood Securities (USA) Inc., and those of Haywood Securities (UK) Limited and such clients are cautioned to consult the respective firm prior to purchasing or selling any security recommended or views contained in this report. Haywood Securities (UK) Limited (“HSUK”) is a wholly owned subsidiary of Haywood Securities Inc. authorized and regulated in the UK by the Financial Services Authority as a stock broker and investment adviser and is a member of the London Stock Exchange.

This report has been approved by HSUK for the purposes of section 21 of the UK’s Financial Services and Markets Act 2000. If you wish to contact HSUK please email D. Kim Gorius at kgorius@haywood.com.

If you are a UK resident private customer your attention is drawn to the risk warnings set out below:

Haywood Securities Inc or its subsidiaries or respective officers, directors or employees have or may have a material interest in the securities to which this report relates.

Past performance should not be seen as an indication of future performance. The investments to which this report relates can fluctuate in value and accordingly you are not certain to make a profit on any investment: you could make a loss.

Changes in the rates of exchange between currencies may cause the value of your investment to fluctuate.

If you are a UK resident private customer and you propose to do business with Haywood Securities Inc, please take note of the following:

Any investment services undertaken on your behalf by Haywood Securities Inc are not covered by the rules and regulations made for the protection of private investors in the UK. This means that you will not have the benefit of rights designed to protect investors under the Financial Services and Markets Act 2000 and under the rules of the Financial Services Authority (“FSA”). In particular, you will not benefit from the following UK protections:

- (a) the right to claim through the UK’s Financial Services Compensation Scheme for losses resulting in the unlikely event of our default;
- (b) in the event of a dispute, access to the UK’s Financial Ombudsman Service;
- (c) protection of money held on your behalf under the FSA’s Client Money Rules.

