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*At the Opening*  
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## Wireless Technology – Company Update - ACG, ICS, WEW

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This week we had the opportunity to visit with company executives at Ascalade Communications, Intrinsic Software, and WebTech Wireless. One consistent theme with all three companies was expansion. Ascalade is expanding to a much larger manufacturing facility, Intrinsic is hiring new executive talent at a brisk rate, and WebTech has nearly doubled its occupied office space. This seems to be a theme consistent throughout the sector as evident by other names in our coverage universe such as Research in Motion<sup>7</sup> or COM DEV International<sup>7</sup>. Discussions with management included a business summary, an overview of the wireless sector, as well as a general financial review. In this note we will reference a currency report that we encourage investors to read directly, published on October 1, 2007, and titled “Wireless Technology – Dollar Parity Implications “.

### ASCALADE COMMUNICATIONS<sup>2,7</sup>

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Ascalade's fiscal 2007 has been challenging from both a financial and a product mix (VoIP vs DECT cordless handsets) perspective. The company recently reported disappointing Q2 results as sales and income were below expectations. Ascalade's potential turn around is taking longer than we anticipated (its now apparent that customer concentration risk post restructuring at Phillips will necessitate bolder moves away from commodity wireless home products). Our discussion with management centered around new product initiatives as well as a check on the plant transition. The new US\$17.0 million factory in Qingyuan, China should increase its manufacturing capacity by 30% to 40% and produce up to one million handsets per month. The company should also have sufficient land for further expansion supporting an additional two million handsets per month accommodating approximately 10,000 employees.

New products such as multimedia devices capable of VoIP and video are expected to be key product drivers for F08. In June of this year Ascalade appointed Greg Allen as the new President responsible for re-examining all elements of the business. Mr. Allen will be responsible for business operations including sales, marketing, manufacturing and product development. Management noted that the multimedia and new product initiatives are on track to materially change the business next year. This will likely be reflected in the financials with higher margins and profitability, albeit on lower sales.

Management also stated that the plant expansion in the Guangdong Province in China remains on schedule for a smooth transition in Q4/F07. The construction phase of factory is near completion and the company is completing finishing aspects like landscaping. Initial production lines are in place and the company is completing quality audits. We view the transition update as bullish for F08 prospects as business risk will be substantially reduced in the new facilities.



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## Ascalade Financial Estimates

	Fiscal 2006				Fiscal 2007E				FYE December			
	Q1/06	Q2/06	Q3/06	Q4/06	Q1/07	Q2/07	Q3/07	Q4/07	2005	2006	2007E	2008E
Revenue	22.675	28.375	28.218	27.231	19.774	21.364	28.250	33.350	111.797	106.499	102.738	131.279
Cost of sales	19.869	24.007	24.308	23.024	17.349	20.413	25.078	28.448	96.895	91.208	91.287	110.118
Gross profit	2.806	4.368	3.910	4.207	2.425	0.951	3.173	4.903	14.902	15.291	11.451	21.161
<b>Expenses</b>												
Sales, marketing and distribution	0.729	0.706	0.707	0.685	0.659	0.677	0.750	0.780	2.454	2.827	2.866	3.439
Research, design and product development	0.282	0.362	0.291	0.218	0.230	0.266	0.325	0.400	2.070	1.153	1.221	1.526
General & admin	1.457	1.567	1.632	2.137	1.542	1.733	2.000	1.675	5.187	6.793	6.950	7.645
Depreciation & Amortization	1.315	1.244	1.220	1.114	1.388	1.937	1.950	2.000	4.921	4.893	7.275	8.003
Total Oper Costs	3.783	3.879	3.850	4.154	3.819	4.613	5.025	4.855	14.632	15.666	18.312	20.613
Operating income	(0.977)	0.489	0.060	0.053	(1.394)	(3.662)	(1.853)	0.047	0.270	(0.375)	(6.861)	0.548
Other expense (income)	(0.140)	(0.122)	(0.219)	0.052	(0.119)	(0.212)	(0.100)	(0.100)	1.603	(0.533)	(0.531)	(0.450)
Income taxes	0.000	0.154	0.054	(0.159)	(0.164)	(0.139)	(0.175)	0.015	0.240	0.049	(0.008)	0.125
Net income	(0.723)	0.576	0.237	0.063	(1.111)	(3.311)	(1.577)	0.133	(0.611)	0.153	(5.867)	0.873
EPS - diluted	(0.04)	0.03	0.01	0.00	(0.05)	(0.16)	(0.07)	0.01	(0.05)	0.01	(0.29)	0.04
Number of shares - basic	20.2	20.2	20.2	20.2	20.2	20.2	20.3	20.3	13.3	20.2	20.3	20.3
Number of shares - f.d.	20.2	20.2	20.2	20.2	20.2	21.2	21.3	21.3	13.3	20.2	21.0	21.2

Source: Company reports and GMP Securities

In our recent currency note we lowered our Ascalade financial estimates to reflect the state of the company's cordless and VoIP business along with the appreciation of the Canadian dollar. We expect the company to lower its revenue contribution from the cordless phone business in F08 and beyond. Our F08 VoIP revenue forecasts are \$30.2 million with a further \$30.0 million in contribution from multimedia devices. Overall our F08 estimates are \$131.3 million and \$0.04.

We continue to believe Ascalade is undervalued and at current levels represents a compelling risk/reward investment. Ascalade has a minimum tangible book value of C\$2.00 per share comprising of cash, land, and plant facilities. We apply a 6x F08 EBITDA multiple to arrive at our price objective of C\$2.50. Maintain BUY rating.

## INTRINSYC SOFTWARE<sup>1,7</sup>

When we recently initiated coverage on Intrinsic our investment thesis was centered around a strong management team executing in a large market opportunity (with a product just made commercially ready for prime time). Since our launch of coverage the angle on management strength has improved further. We interpret recent management and Board additions from industry giants such as Qualcomm and Broadcom as well as job postings on the company website as bullish indicators of prospects (especially as new hires are given an insider ability to scrutinize the company's customer pipeline for Soleus).

Management of Intrinsic has previously indicated that the company was targeting a design win announcement per quarter. While we do not expect this to work on a regular cycle, it is noteworthy that it's been a couple of months since Intrinsic announced meaningful news. We believe that Intrinsic has won business with MiTAC and HTC although we do not expect a formal confirmation of this until the company starts shipping commercial product in early 2008.

Soleus is finding an interesting product niche. The company is gaining traction with the ODM types seeking to provide low cost feature phones to the carriers. Microsoft has 146 handset partners which represents a vibrant community who should consider a Soleus-type product. Intrinsic management indicated that business activity has surged since the release of the Apple iPhone. Intrinsic has

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traditionally found that business opportunity is best when its customers are in the midst of changing platforms (or a major new design cycle). And the iPhone has definitely caused a disruption of many of the handset product plans and many are now considering a touch screen product. The disrupted product cycles of handset OEMs has resulted in increased bid activity for Intrinsyc. Management believes that the sales pipeline is strong and growing. The sales cycle from introduction to full commercial rollout lasts approximately 12 months. The typical design win will include a \$0.1 million license fee and \$0.05 million in support costs per year.

Since our initiation report in July the company has had very few announcements from a customer development perspective. However, the company has added several high profile industry executives including the appointment of Souheil Gallouzi to VP and general manager of product marketing and development (seven years at Qualcomm and was the senior director with MediaFLO Technologies) and Ketan Kamdar (currently VP, Strategic Planning and Network Operators, Mobile Platforms Group at Broadcom Corporation) to Intrinsyc's Board of Directors. In addition the company announced the launch of its new offices in Taiwan to support business and engineering services within Asia-Pac.

In our recent currency note we lowered our financial expectations. Our F08 and F09 estimates are \$23.7 million and (\$0.14) and \$33.4 million and (\$0.11).

### Intrinsyc Financial Estimates

	Fiscal 2007E				Fiscal 2008E				2006	2007E	2008E	2009E
	Q1/07 Nov-06	Q2/07 Feb-07	Q3/07 May-07	Q4/07 Aug-07	Q1/08 Nov-07	Q2/08 Feb-08	Q3/08 May-08	Q4/08 Aug-08				
Licensing	1.356	0.428	0.499	0.100	0.500	0.738	1.400	2.750	5.038	2.384	5.388	16.500
Service	2.661	4.303	4.477	3.800	3.800	4.300	4.300	4.700	9.889	15.764	17.100	15.390
Products/Other	1.004	0.306	0.135	0.250	0.300	0.300	0.300	0.300	3.732	1.810	1.200	1.500
<b>Revenue</b>	<b>5.021</b>	<b>5.036</b>	<b>5.112</b>	<b>4.150</b>	<b>4.600</b>	<b>5.338</b>	<b>6.000</b>	<b>7.750</b>	<b>18.658</b>	<b>19.319</b>	<b>23.688</b>	<b>33.390</b>
Cost of sales	2.705	2.554	2.464	2.213	2.220	2.533	2.683	3.193	11.318	9.936	10.628	12.908
<b>Gross Profit</b>	<b>2.316</b>	<b>2.482</b>	<b>2.648</b>	<b>1.938</b>	<b>2.380</b>	<b>2.805</b>	<b>3.318</b>	<b>4.558</b>	<b>7.340</b>	<b>9.384</b>	<b>13.060</b>	<b>20.482</b>
Administration	1.124	1.411	1.416	1.600	1.700	1.750	1.800	1.850	5.408	5.551	7.100	7.810
Marketing and sales	1.333	1.697	1.734	1.800	1.825	1.850	1.975	2.150	3.457	6.563	7.800	8.970
Research and development	2.976	3.302	2.953	3.100	3.200	3.300	3.350	3.400	10.970	12.331	13.250	14.575
Amortization	0.179	0.213	0.204	0.225	0.250	0.250	0.250	0.250	1.061	0.821	1.000	1.400
Stock based compensation	0.200	0.210	0.096	0.200	0.225	0.225	0.225	0.225	0.915	0.706	0.900	1.300
Other	0.000	0.002	0.642	0.000	0.000	0.000	0.000	0.000	0.261	0.644	0.000	0.000
<b>Total Oper Costs</b>	<b>5.811</b>	<b>6.834</b>	<b>7.045</b>	<b>6.925</b>	<b>7.200</b>	<b>7.375</b>	<b>7.600</b>	<b>7.875</b>	<b>22.072</b>	<b>26.615</b>	<b>30.050</b>	<b>34.055</b>
<b>Operating Income</b>	<b>(3.495)</b>	<b>(4.351)</b>	<b>(4.397)</b>	<b>(4.988)</b>	<b>(4.820)</b>	<b>(4.570)</b>	<b>(4.283)</b>	<b>(3.318)</b>	<b>(14.732)</b>	<b>(17.231)</b>	<b>(16.990)</b>	<b>(13.573)</b>
Interest expense/(income)	0.028	(0.057)	(0.093)	(0.040)	(0.020)	0.000	0.000	0.000	0.358	(0.162)	(0.020)	(0.500)
Loss on disposal of equipment	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.000	0.000
Foreign exchange gain/(loss)	(0.250)	(0.175)	0.000	0.000	0.100	0.100	0.100	0.100	0.428	(0.424)	0.400	1.000
Accretion and amortization - long-term debt	0.928	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.744	0.928	0.000	0.000
	0.706	(0.232)	(0.093)	(0.040)	0.080	0.100	0.100	0.100	1.531	0.342	0.380	0.500
Income tax expense/(recovery)	0.057	0.127	0.079	0.000	0.000	0.000	0.000	0.000	0.131	0.263	0.000	0.000
<b>Net Income</b>	<b>(4.259)</b>	<b>(4.247)</b>	<b>(4.383)</b>	<b>(4.948)</b>	<b>(4.900)</b>	<b>(4.670)</b>	<b>(4.383)</b>	<b>(3.418)</b>	<b>(16.393)</b>	<b>(17.836)</b>	<b>(17.370)</b>	<b>(14.073)</b>
<b>EPS - Basic</b>	<b>(0.05)</b>	<b>(0.05)</b>	<b>(0.05)</b>	<b>(0.04)</b>	<b>(0.04)</b>	<b>(0.04)</b>	<b>(0.04)</b>	<b>(0.03)</b>	<b>(0.24)</b>	<b>(0.15)</b>	<b>(0.14)</b>	<b>(0.11)</b>
Number of Shares - Basic	83.04	83.04	91.02	121.05	122.05	123.05	124.05	125.05	67.62	121.05	123.55	129.05

Source: Company reports and GMP Securities

Intrinsyc is expected to release Q4/F07 results on November 8. Our Q4 financial estimates are \$4.15 million in revenue and a loss of \$5.0 million in net income or \$0.04 per share. We apply a 3.5x P/S multiple to our F09 revenue estimate of \$33.4 million to arrive at our price objective of \$0.95 and maintain our BUY rating.



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## WEBTECH WIRELESS<sup>1</sup>

The most pressing issues for WebTech shareholders include improved visibility on Brazil, implications of a large commercial order from a customer such as FedEx, and the financial adjustments required to the consensus financial model as a result. WebTech management has not yet provided formal guidance about the financial implications of the recent challenges in Brazil. The company has little chance of doing business with former partner Crown Telecom and there are outstanding issues such as collect ability of credit as well as what to do with the 60k+ subscribers already on the network. We expect to receive a formal update on the business at the next quarter's results. We recently adjusted our estimates in our sector note on currency to account for lowered revenue contribution from Brazil. Our estimates are \$39.7 million and \$0.11 in F08 and \$60.1 million (including \$9.4 million in revenue contribution from Brazil) and \$0.16 in F09. This compares to consensus where estimates are higher with F08 sales and EPS of \$41.0 million and \$0.12 and F09 estimates of \$65.1 million and \$0.22.

### WebTech Wireless Financial Estimates

	Fiscal 2006				Fiscal 2007E				FYE July			
	Q1/06	Q2/06	Q3/06	Q4/06	Q1/07	Q2/07	Q3/07	Q4/07E	2006	2007E	2008E	2009E
Service	0.764	1.036	0.974	1.078	1.150	1.468	1.549	1.750	3.852	5.917	9.198	14.077
Product	1.792	3.028	3.760	3.912	2.760	7.088	8.034	3.000	12.492	20.882	30.486	46.006
<b>Revenue</b>	<b>2.556</b>	<b>4.064</b>	<b>4.734</b>	<b>4.990</b>	<b>3.910</b>	<b>8.556</b>	<b>9.583</b>	<b>4.750</b>	<b>16.344</b>	<b>26.799</b>	<b>39.684</b>	<b>60.083</b>
Cost of goods sold	1.307	2.002	2.361	2.425	1.993	5.432	5.734	2.178	8.095	15.340	19.442	32.039
<b>Gross profit</b>	<b>1.249</b>	<b>2.062</b>	<b>2.373</b>	<b>2.565</b>	<b>1.914</b>	<b>3.124</b>	<b>3.849</b>	<b>2.573</b>	<b>8.249</b>	<b>11.460</b>	<b>20.242</b>	<b>28.044</b>
<b>Expenses</b>												
Administration	0.388	0.343	0.511	0.655	0.443	0.782	1.285	0.950	1.897	3.460	4.152	4.567
Amortization	0.053	0.064	0.092	0.133	0.076	0.089	0.106	0.110	0.342	0.381	0.438	0.500
Bad debt - Crown Telecom	0.000	0.000	0.000	0.000	0.000	0.000	1.633	0.000	0.000	1.633	0.000	0.000
Marketing & sales	0.647	0.598	0.746	0.794	0.836	1.175	1.102	1.200	2.785	4.313	4.960	5.952
Research & development	0.403	0.558	0.543	0.650	0.635	0.875	1.000	1.100	2.154	3.610	4.513	5.189
Total operating costs	1.491	1.563	1.892	2.232	1.990	2.921	5.126	3.360	7.178	13.397	14.063	16.209
Operating income	(0.242)	0.499	0.481	0.333	(0.076)	0.203	(1.277)	(0.788)	1.071	(1.938)	6.179	11.836
Other income	0.088	0.165	(0.011)	(0.275)	(0.110)	(0.833)	5.551	(0.260)	(0.033)	4.348	0.321	1.000
Income Tax	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.625
Impairment of loan receivable	0.000	0.000	0.000	0.000	0.000	0.000	(13.280)	0.000	0.000	(13.280)	0.000	0.000
<b>Net income</b>	<b>(0.330)</b>	<b>0.334</b>	<b>0.492</b>	<b>0.608</b>	<b>0.034</b>	<b>1.036</b>	<b>(20.108)</b>	<b>(0.528)</b>	<b>1.104</b>	<b>(19.566)</b>	<b>5.858</b>	<b>9.210</b>
<b>EPS - basic</b>	<b>(0.01)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>	<b>0.00</b>	<b>0.02</b>	<b>(0.38)</b>	<b>(0.01)</b>	<b>0.03</b>	<b>(0.37)</b>	<b>0.11</b>	<b>0.17</b>
<b>EPS - diluted</b>	<b>(0.01)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.02</b>	<b>0.00</b>	<b>0.02</b>	<b>(0.38)</b>	<b>(0.01)</b>	<b>0.03</b>	<b>(0.36)</b>	<b>0.11</b>	<b>0.16</b>
Number of shares - basic	35.0	40.1	40.7	40.5	42.3	49.3	52.4	52.7	39.1	52.7	53.7	54.7
Number of shares - f.d.	40.1	42.0	44.7	40.5	48.8	51.2	53.6	54.0	41.8	54.0	55.7	57.7

Source: Company reports and GMP Securities

WebTech's experience thus far in Brazil has been severely negative for shareholder value. The company needs a signature deal like FedEx which would be both financially and fundamentally positive thereby substantially enhancing damaged management credibility. Unless clear progress occurs in Brazil from a business development perspective, we may choose to apply yet another discount for sales in this region. The positive news is that WebTech is engaged with several new potential partners to resume the business and support the existing subscriber base. The 60k subscriber base will prove to be a meaningful asset for the company when considering new partner negotiations.

Although the current situation and outlook of the company may appear uncertain, management remains bullish on the prospect of the core business. FedEx has been trialling WebTech product for a year now

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and remains an exciting prospect for the company. The strategic implications of an addition of FedEx as a customer exceed the financial opportunity, as we have indicated in previous research reports. FedEx would provide WebTech with one of the best possible reference accounts (arguably the best reference account in the industry) as well as instantaneous validation of its technology. Industry sources indicate that a full scale FedEx rollout is anticipated for early 2008.

WebTech is dramatically expanding its office facilities and the core commercial business appears very active. New office space will likely double the size of the company and employees appeared to have strong morale despite the recent volatility. Recent WebTech sales are being driven by active European accounts, leading automobile OEMs, trucking fleets, and municipalities. Rogers Wireless continues to be a solid addition from a customer channel perspective with over 500 sales representatives and a transportation and asset tracking market opportunity of over 850,000 units within Canada.

We believe that WebTech's stock will continue its recent period of high volatility. Retail momentum investors will be more influential on the share price and the short position on the company has soared 50% over the past two months. Our target price of C\$2.40 is unchanged and is based on applying 15x P/E to our F09 EPS estimate. We maintain our REDUCE rating and will revisit our thesis if the company is able to successfully deliver a signature customer to replace Brazil.



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**REDUCE.** Companies ranked Reduce have a negative potential total return.

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