

**INTRINSYC SOFTWARE INTERNATIONAL INC.**

Equity Research | Technology

Ticker

Recommendation

12-month Target

**TSX:ICS**  
\$0.76

**SPEC. BUY**  
(unchanged)

**\$1.75**  
(unchanged)

Please see important disclosures at the end of this document

**Q2-2007 Earnings Review**

April 11, 2007

**Market Data**

52-week High-Low	\$1.45-0.335
Shares Outstanding	
– Basic	83.0 million
– Fully diluted	108.2 million
Market Capitalization	\$51.5 million
Cash and Securities <sup>1</sup>	\$9.2 million
Total Debt <sup>1</sup>	\$0.0 million
Fiscal Year End	August 31
Major shareholders	Insiders: 1%
	Institutions: 6%

<sup>1</sup>As at Nov 30, 2006

**Financial Data**

(000, except EPS)	FY06A	FY07E	FY08E
Revenue	\$18,658	\$20,700	\$27,886
Gross Margin	39.3%	46.6%	54.8%
Net Income	(\$16,393)	(\$15,176)	(\$11,530)
EPS – fully diluted	(\$0.24)	(\$0.18)	(\$0.14)

**Investor Risk Tolerance Scale**



**Company Description**

Intrinsyc Software International Inc. is a mobility software and services company. The Company's principal business units are the Customer Programs group and the Mobile Products Group. The Customer Programs team develops mobility solutions for a variety of operating systems. The Mobile Products Group is charged with bringing Soleus and other forward-looking opportunities to market.

**Summary Q2-07 Earnings Release Preview**

**Event**

**Time (April 11, 2007)**

Q2-07 Press Release	8:30 am EST
Q2-07 Conference Call	1:00 pm EST
	Dial-in number: (866) 400-2280 (416) 850-9143 (int'l)
	Replay: (866) 245-6744 (416) 915-1035 (int'l)
	access code: 933422
	<a href="http://www.intrinsyc.com/investors/press_and_conf_call.asp">http://www.intrinsyc.com/investors/press_and_conf_call.asp</a>

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**Event**

Intrinsyc Software International Inc. ("Intrinsyc" or the "Company") released its Q2-07 (February 28, 2007) results yesterday, Tuesday, April 10, 2007 after the market close. A conference call will follow today at 1:00 p.m. EDT. (1-866-400-2280).

**Highlights**

**Revenue** for the quarter was \$5.0 million, in line with our expectation. The company, as expected, had slight declines in hardware and software revenues, but continued to grow engineering services/consulting revenue.

**Consolidated Gross Margin** was higher than we expected, at 49.3% versus our estimate of 46.2%. The Company stated that the increase in gross margin was a result of successfully securing and executing projects focused on mobility engineering services opportunities.

**Net Loss** for the quarter was \$4.25 million or \$0.05 per share, higher than our estimate of a loss of \$3.58 million or \$0.04 per share. The Company spent more on R&D and more on Sales and Marketing, mainly due to the *Soleus* project. The Company has stated that it will continue to ramp up spending on R&D as revenues increase.

**Cash** – Intrinsyc experienced significant cash burn this quarter, mainly due to increased spending on *Soleus* marketing and R&D which incurred expenses of approximately \$3.8 million this quarter. The Company has \$5.95 million in cash on hand and virtually no debt.

**Financing.** Last night, the Company announced the filing of a short-form prospectus in Canada. Other than the syndicate, no further details were given.

**Investment Conclusion**

**We continue to recommend Intrinsyc as a SPECULATIVE BUY with a 12-month target of \$1.75.** We believe that the investment in *Soleus* coupled with the new management team (in place now for 6-9 months) is about to yield results. We expect further Soleus OEM announcements this year, possibly 2 or more. We expect to see the full impact of these announcements by late 2007 into early 2008.

## Q4 in detail

Table 1 shows a comparison of results reported by the Company for the fourth quarter compared to our expectations.

Table 1: Income Statement Summary

INCOME STATEMENT	Q2 2007E	Q2 2007A	Variance to model	Q1 2007A	% change Q/Q	Q2 2006A	% change Y/Y
<b>Revenue</b>	\$5,136	<b>\$5,036</b>	<b>-1.9%</b>	\$5,021	0.3%	\$4,792	5.1%
Cost of sales	2,764	<b>2,554</b>	<b>-7.6%</b>	2,705	-5.6%	3,182	-19.7%
Gross margin	46.2%	<b>49.3%</b>		46.1%		33.6%	
Administration	1,135	<b>1,411</b>	24.3%	1,124	25.5%	1,361	3.7%
Marketing and sales	1,359	<b>1,697</b>	24.8%	1,333	27.3%	884	92.0%
Research and development	3,036	<b>3,302</b>	8.8%	2,976	10.9%	2,653	24.4%
EBITDA	(3,487)	<b>(4,139)</b>	<b>18.7%</b>	(3,316)	24.8%	(3,588)	15.3%
<b>Net earnings (loss)</b>	<b>(\$3,583)</b>	<b>(\$4,247)</b>	<b>18.5%</b>	<b>(\$4,259)</b>	-0.3%	<b>(\$4,529)</b>	-6.2%
Earnings (loss) per share	<b>(\$0.04)</b>	<b>(\$0.05)</b>		<b>(\$0.05)</b>		<b>(\$0.08)</b>	
<b>Cash Flow Statement</b>							
Cash from Earnings	(3,395)	<b>(4,111)</b>	21.1%	(3,685)	11.6%	(3,558)	15.6%
<b>Changes in Non-Cash Working Capital</b>							
A/R	699	<b>997</b>		(1,189)		657	
Net Change in non-cash working capital	1,553	<b>817</b>		(2,231)		1,103	
<b>Operating Cash Flow</b>	<b>(\$1,842)</b>	<b>(\$3,294)</b>	78.8%	<b>(\$5,916)</b>	-44.3%	<b>(\$2,454)</b>	34.2%

Source: Company Reports, NSI Estimates

Overall, the Company's Q2-2007 results are in line with our expectations. Recent developments this quarter, including the announcements of a partnership with Marvell and several other providers of software components for feature phone, the pre-integration of *Soleus* with Freescale Semiconductor Inc.'s i.MX31 processor, and most recently a licensing agreement with a major OEM in the personal navigation segment, are indications to us that the Company's *Soleus* project fills a clear need in the cell-phone handset market. We expect to see the full impact of these announcements by late 2007 into early 2008.