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INTRINSYC SOFTWARE INTERNATIONAL, INC. SPEC BUY

ICS-TSX $0.24 ↓TARGET $0.70 (FROM $0.90)

RESTRUCTURING EXTENDS RUNWAY

CHANGES	Old	New
Recommendation	N/A	**SPEC BUY**
Target Price	$0.90	**$0.70**

SHARE DATA	
52-week Range	$0.19 - $1.30
Avg. Weekly Volume	850,000
S/O Basic (mm)	162.0
S/O Fully Diluted (mm)	191.0
Market Capitalization (mm)	$45.8
Est. Enterprise Value (mm)	$28.8

Fiscal Year End: Dec. 31st

US$mm	F06*	F07*	F08E	F09E
Revenue	18.7	19.7	26.0	41.0
EPS –F.D.	(0.24)	(0.18)	(0.13)	(0.07)
Price/Sales	2.1x	2.0x	1.5x	0.9x
EV/Sales	1.2x	1.1x	0.8x	0.5x

*In C$; YE was Aug 31

Intrinsyc Software International, Inc. is a wireless software solutions provider. Intrinsyc targets the growing wireless handheld market, which includes consumer mobile handsets, personal navigation devices, smartphones, and other consumer converged devices. www.intrinsyc.com

- Last night, Intrinsyc Software provided a business update, including management changes, and announced it is cutting expenses by restructuring its operations. The expense cuts will result in savings of $6 mm - $8 mm annually.

- We view the expense cuts as positive since we estimate this will extend the Company's financial runway by another two quarters (until end of F09) and removes potential near-term speculation surrounding the financing options available and its potential to overhang the stock.

- The departures of Mark Johnston, EVP Worldwide Sales; and Randy Kath, CTO; although surprising, are unlikely to cause serious disruption. Mark Johnston will continue to work in an advisory role at Intrinsyc with CEO Glenda Dorchak, continuing to manage key strategic accounts. We do not anticipate any major transition-related issues.

- The Company maintained prior F08 guidance for revenues of $26 mm - $29 mm, but indicated that results could be closer to the low end of guidance due to slower than expected ramp in royalty revenues. Although somewhat disappointing, we do not believe this is on account of impairment of the Company's business model, and we continue to maintain that the Samsung deal has considerable upside potential.

- We are revising estimates to account for the revised expense guidance and we have made some changes to our revenue assumptions. For F08, we were at the low end of guidance and have fine-tuned our estimates. For F09, we now expect revenues of $41 mm (vs. $46.8 mm prior), operating expenses of $33.5 mm (vs. $40.4 mm prior), and EBITDA loss of $7.7 mm (vs. 9.8 mm prior).

- Pending catalysts for the stock include: (i) new design wins from OEMs/ODMs or silicon vendors; (ii) commencement of royalty revenues from product shipments of prior design wins; (iii) additional design wins from existing OEM/ODM customers; (iv) commencement and ramp up of royalty revenues from Samsung (1H/F09).

- We are maintaining our SPEC BUY, but lowering our DCF-based target to $0.70 (from $0.90), which equates to 2.4x EV/F09 Sales (no change to multiple from prior target).

Investment Report

RESTRUCTURING CUTS EXPENSES; OUTLOOK MAINTAINED

Last night, Intrinsyc Software provided a business update, including management changes, and announced it is cutting expenses by restructuring its operations. Key highlights include: (i) Headcount is being reduced 20% (approximately 60 - 70 employees), resulting in annual cost saving of $6 million - $8 million (we estimate the Company will take $1 mm charge in Q3/Q4); (ii) The departure of Chief Technology Officer Randy Kath and the moving of EVP Sales Mark Johnston into an advisory role; (iii) Guidance for F08 for revenues $26 mm - $29 mm reiterated with results expected to be closer to the lower end of guidance; and (iv) Company re-affirmed previous guidance of three additional design wins by the end of the year.

WHAT DOES ALL THIS MEAN?

Cash Burn Being Addressed: The key takeaway, in our opinion, from the business update was the Company is demonstrating that it is serious about addressing its cash burn. With Intrinsyc consuming approximately $25 mm in operating expenses a year, and the recent Destinator acquisition adding another $12 mm to the expense base, there was the apprehension among investors that the Company may face a challenging cash position in mid-F09. We believe the expense cuts announced today will extend the Company's financial runway by another two quarters (we estimate until end of F09) and removes potential near-term speculation surrounding financing options available and its potential to overhang the stock.

Management Changes Unlikely to Cause Disruption: The resignation of EVP Sales Mark Johnston came as a surprise, and senior management at Intrinsyc indicated that he was resigning for personal reasons. Mr. Johnston will continue to serve the Company in an advisory role and will support Tracy Rees, the newly appointed Chief Operating Officer, who takes on responsibility for Worldwide Sales as well. Mr. Rees, who joined Intrinsyc in 2007 as GM for Asia Pacific and was more recently running the services division, is a seasoned software industry executive with expertise in mobile and embedded systems technology. The stepping down of Mark Johnston, a 22-year veteran of Intel, does raise an eyebrow. While personal reasons may have played a role in his decision to resign, we believe the lack of execution may have also been a factor. However, the fact he is staying on to help the Company suggests that he is stepping down on good terms, thus the transition should be smooth. One concern investors may have is whether Tracy Rees has the relationships with OEMs/ODMs, especially in Asia, to drive the pipeline and design wins. Mr. Rees, during his tenure in Asia, has built important contacts with several existing OEM partners of Intrinsyc, and the Company confirmed that CEO Glenda Dorchak (who is also ex-Intel) continues to directly handle the relationships with strategic accounts like Samsung, Motorola, and Symbian.

Guidance, Royalty Ramp and Economic Headwind: The Company maintained prior F08 guidance for revenues of $26 mm - $29 mm, but indicated that results could be closer to the low end of guidance due to slower than expected ramp in royalty revenues, the launch schedules of products based on prior design wins being pushed out, and seasonal weakness at Destinator. This, coupled with a slowing worldwide economic outlook, also led to a cautious stance on guidance. Although the guidance outlook is somewhat disappointing, we note the Company is transitioning from a services-based business model to one based on software royalties; challenges associated with this transition might have resulted in some execution issues. In addition, the closing and integration of the Destinator acquisition (now completed) may have also been a distraction for management. With Destinator now integrated and product shipments based on prior design wins commencing (Mio Moov 380), we believe the refrenceability of having actual handheld products shipping validates the Soleus platform and could assist the Company in better managing the launch schedules of its OEM/ODM partners.

Design Win Outlook: Intrinsyc reaffirmed that it expects to close an additional three design wins before the end of the year. During recent Q2/F8 results (August), the Company indicated that its pipeline of design win opportunity remains at its highest ever, and in conversations we had with management yesterday, that design win pipeline outlook was reaffirmed. In our view, design win announcements would be a key, near-term catalyst for the stock as it would validate Soleus' relevance and viability during a period of considerable flux in the mobile operating system space given industry-changing moves from Google and Nokia/Symbian (see our Initiating Coverage report dated August 25, 2008). Although Soleus has been designed as a mobile development platform and does not directly compete with Symbian, there has been uncertainty as to how these industry developments will impact Intrinsyc. Additional design wins will be a key validation for Soleus and could set the stage for additional design wins from OEMs/ODMs that are waiting on the sidelines to see how the mobile industry software developments are playing out.

Prior Design Win Updates: To date, the Company has secured six design wins and the following is an update on their status:

- MiTAC – We believe the Company has two design wins with MiTAC (design win # 1 and design win # 3). The Mio Moov 380 PND, a connected PND device, was launched by MiTAC in June 2008 with shipments having commenced in Q3. The commencement of handset shipments is a key milestone for Soleus and demonstrates the platform's viability. The device is initially targeted at the Taiwanese market and will be sold in Europe later on this year. We expect royalty revenue from this product in Q3 and are conservatively estimating royalty revenues of $100K in Q3 from this product.
- MSI – The MSI 5608 product was unveiled in January at the Consumer Electronics Show. The 5608 is a consumer handset that features personal navigation and Mobile Digital TV (MDTV) capabilities and has been in field trials since March. The product

has not yet been launched, although Intrinsyc has completed all Soleus-related work, and the delay is due to business reasons on the part of the customer. Intrinsyc did not provide visibility into the launch time frame of this product. We have royalty revenues from this product commencing only in Q3/F09.

- Quanta – We believe the product based on Soleus will launch in Q4 of this year. We are estimating revenues of $200K from this product in F08.
- Unnamed Silicon Vendor – This design win, which was secured in November 2007 with a chip vendor that specializes in GPS technology, is expected to yield a product in late F08. The Company indicated it is working closely with its silicon partners in co-marketing efforts to target the silicon partners' OEM/ODM customers. We understand a device (GPS phone) is ready and the chip vendor's OEM client is likely to launch the device in Q4.
- Samsung LSI – The Company indicated it expects Samsung LSI to begin shipping the reference kit for the new applications processor with Soleus bundled to its customers in Q4. Samsung's OEM and ODM customers will subsequently have to implement and complete the development of the reference kit for their respective devices. We expect products based on this processor to begin shipping only in Q1/F08 slightly behind schedule. The delay was on account of Samsung requesting several custom features which required additional work from Intrisnyc. Our previous checks with Samsung representatives at the World Mobile Congress in Barcelona (February 2008) indicate the application processor, in which they will be embedding Soleus, will be targeted at mobile devices such as PNDs, personal media players (PMPs), feature phones targeted at emerging market, as well as consumer electronic devices. We believe Samsung has a lead customer for this processor and is in discussions with several other prospects. We reiterate the Samsung relationship has the potential to surprise materially to the upside.

OUTLOOK AND PENDING CATALYSTS

Services Business Strong: The Company's traditional services business remains strong and continues to build on the strength seen in 1H/F08. In Q3, the services division secured two significant engagements, which will add to the backlog and support the growing software business.

Slower Ramp for Software Business: The ramp up of the software business has been somewhat slower than expected as discussed above, but we believe the business model and business case of the software business remains relevant. Key data points to look for will be shipment volumes from products based on Soleus, with Samsung being one the most important near-term data points that would indicate the viability and potential of the Soleus offering. While there have been some delays in product launch/shipment milestones, all existing OEM/ODM partnerships appear to remain intact.

Revising Estimates: We are revising estimates to account for the revised expense guidance, and we have made some changes to our revenue assumptions as well. For F08, we were at the low end of guidance and have fine-tuned our estimates. For F09, we now expect revenues of $41 mm (vs. $46.8 mm prior), operating expenses of $33.5 mm (vs. $40.4 mm prior), and EBITDA loss of $7.7 mm (vs. 9.8 mm prior). We are taking a conservative stance on F09 revenue outlook until further data points of shipment volumes and product launches are discernable.

Exhibit 1: Estimate Revision Summary

	F08E		F09E	
US$ MM except EPS	Revised	Original	Revised	Original
Revenue	$26.0	$27.0	$41.0	$46.8
Y/Y Growth	32.0%	37.3%	57.7%	73.2%
Op Ex	$30.1	$31.7	$33.6	$40.4
% of revenues	115.8%	117.4%	82.0%	86.3%
EBITDA	-$16.8	-$17.7	-$7.8	-$9.8
EPS (FD)	-$0.11	-$0.12	-$0.05	-$0.06

Source: Evergreen Capital

Pending catalysts for the stock include:

- New design wins from ODMs/OEMs or silicon vendors;
- Commencement of royalty revenues ramp from previously secured design wins;
- Commencement and ramp up of royalties from Samsung deal (expected in Q1/F09);
- Additional design wins from existing ODM/OEM partners;
- Potential for accretive acquisitions.

VALUATION AND RECOMMENDATION

Although last night's business update appeared to be a mixed bag with some positives (expense cuts, product shipment commencement, etc.) and some negatives (management changes, guidance outlook), we believe the Company has taken steps to address the immediate concern of sufficient financial resources to execute its business plan. The expense cuts give Intrinsyc additional financial runway and removes the near-term speculation that surrounds financing options available and its potential to overhang the stock.

Delays in product launches from certain prior design wins, longer than anticipated sales cycles for new design wins, and weak market sentiment have all led to Intrinsyc trading close to its all-time low. While the delays are disappointing, we believe the business model of the Company is not impaired, and in our opinion, the magnitude of the stock pullback has been overdone. We continue to believe Intrinsyc is well positioned to take advantage of the ongoing shake-up of the mobile OS market (we believe the en masse shift of RTOS to current generation platforms is inevitable) and has a management team that we believe will execute.

Maintaining Speculative Buy, Lowering Target to $0.70 (from $0.90): We are maintaining our SPECULATIVE BUY, but lowering our DCF-based target to $0.70, which equates to 2.4x EV/F09 Sales (no change to multiple). On an EV/Sales basis, ICS trades at 0.4x consensus F2009 estimates – below its peers and well below industry leaders like RIM.

The stock is news-driven with design win announcements and product launches acting as potential catalysts for the stock. The stock could be volatile in the short term; however, we recommend investors take a medium-to-longer-term view of this story as we expect multiple expansions once royalty revenues commence and the Company transitions to a higher mix of high-margin software revenues and positive earnings.

Risks to Outlook: (i) Delays in securing new design wins; (ii) Product shipments below expectations negatively impacting royalty revenues; (iii) Departure of key management personnel; (iv) Economic slowdown; and (v) Competitive developments.

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Speculative	Materially exceeds sector average
Above Average	Exceeds sector average
Average	In-line sector average
Below average	Below sector average

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UNDER REVIEW	Awaiting further information	0%

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