

In-Touch Survey Systems Ltd. (TSXV: INX) – Initiating Coverage – Capitalizing on the Significant Growth in the Mobile Data Capture Market

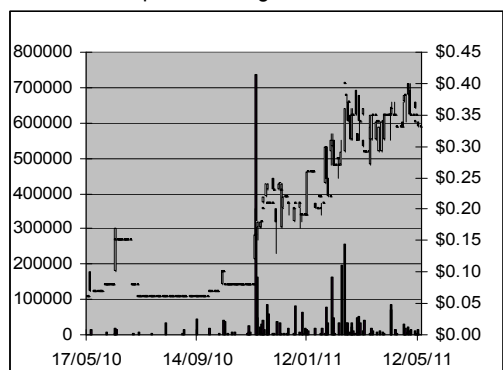
Sector/Industry: Mobile Data Capture

www.intouchinsight.com

Market Data (as of May 24, 2011)

Current Price	C\$0.37
Fair Value	C\$0.89
Rating*	BUY
Risk*	4 (Speculative)
52 Week Range	C\$0.06 -C\$0.40
Shares O/S	14,222,979
Market Cap	C\$5.26 mm
Current Yield	N/A
P/E (forward)	3.9x
P/B	5.2x
YoY Return	428.6%
YoY TSX-V	39.8%

*see back of report for rating and risk definitions



Investment Highlights

- In-Touch's primary focus is on the mobile data capture market. They provide businesses with mobile data capture applications to collect real time information on customer leads, customer feedback, employee feedback, product analysis and mobile marketing services.
- In-Touch recently released a Beta version of its application platform (In-Touch Apps) allowing clients to develop and customize data capture applications with a Web GUI (graphical user interface).
- The company's goal is to become a major player in the mobile data capture market - a market which, we believe, has significant growth potential.
- The data capture industry is highly fragmented and competitive.
- The company has had a significant turn around since the current management team took over in 2004. Revenues grew at a CAGR of 26% from \$1.45 million in FY2004, to \$5.89 million in FY2010, through organic growth and acquisitions. **In-Touch was ranked in the Deloitte Fast 50 in 2010.**
- In FY2010, the company reported revenues of \$5.89 million and net income of \$0.74 million (EPS: \$0.05) - the first profitable year since going public.

Risks

- The data capture industry is highly competitive.
- Like any other technology company, INX will be adversely affected if it is not able to cope with changes in technology.
- Revenues from the U.S. account for approximately 46% of total revenues. Therefore, the company's near-term prospects depend on the US economic recovery.
- Foreign exchange risks.

Financial Summary (YE December 31)

(C\$)	2005	2006	2007	2008	2009	2010	2011E	2012E
Revenue	1,684,290	3,632,304	5,060,576	5,914,814	5,479,081	5,893,125	7,414,460	8,275,238
Gross Margin	78.13%	58.71%	58.70%	60.75%	59.84%	63.94%	60.56%	58.28%
Net Income	(234,050)	(145,542)	(225,797)	(177,206)	(440,377)	736,692	1,367,319	1,592,519
EPS (diluted)	(0.05)	(0.01)	(0.02)	(0.01)	(0.03)	0.05	0.09	0.11
Cash	50,766	50,754	83,124	2,971	14,239	45,140	1,217,196	2,285,829
Assets	1,529,214	1,446,293	2,420,545	3,119,660	2,546,088	2,310,152	3,754,961	4,991,550
Debt to Capital	53.25%	49.78%	65.72%	71.57%	83.58%	38.37%	12.07%	1.33%
ROE	-79.10%	-33.06%	-45.76%	-29.90%	-97.57%	115.89%	78.38%	49.31%
ROIC	-28.94%	-16.03%	-18.37%	-9.21%	-23.06%	46.30%	61.27%	46.48%

In-Touch Survey Systems develops data collection software, which provides business to business (B2B) and business to consumer (B2C) companies mobile, real time information on customer leads, customer feedback, employee feedback and product analysis as well as mobile marketing services. INX's solutions allow companies to better understand their clientele and business in real time, connect with clients in a new and engaging way via mobile devices and integrate mobile devices to company software.

**Company
Overview**

In-Touch, **founded as a private company in 1992**, started as a location specific customer and employee satisfaction measurement and reporting company. Their focus was on the collection of employee and consumer data via kiosks and paper surveys at company events and retail locations and the associated reporting of the data back to their clients. Since inception, the company **has provided its solutions to over 250 companies/organizations across North America**. In-Touch's customers are primarily in the retail, food services, financial or hospitality industries, and include major companies such as General Motors (NYSE: GM), Blockbuster (OTCPK:BLOA.Q), Purolator, Royal Bank of Canada (TSX: RY), Hallmark, Toys 'R' Us, BJ's Wholesale Club, and Toyota (NYSE: TM) - to name a few.

Over the years, In-Touch has evolved their data collection abilities to also include web surveys and other electronic devices. Now, with the recent evolution of smartphones and other mobile devices, In-Touch has expanded to the mobile data collection market, offering their services of data collection via custom mobile applications. In-Touch offers companies the ability to collect data for customer leads, customer feedback, product analysis, operational audits and other more general data collection needs. This allows companies to better understand their clientele and business in real time, connect with clients in a new and engaging way via mobile devices, and integrate mobile devices to company software.

History

In 2002, In-Touch **went public through a reverse take-over** of Pacific Ranger Petroleum Inc., an inactive public company. The company also raised \$1 million (at \$0.26 per share) in the process.

In 2004, the company went through significant changes. Revenues dropped by approximately 60% YOY, from \$3.59 million in FY2003, to \$1.45 million in FY2004 as a result of their inability to secure new contracts. The company's original management team and directors (including the founders) resigned in August/September 2004. Mr. Michael Gaffney, who was brought in to turn around the company, became the new CEO in September 2004. **Mr. Gaffney and the new management team quite successfully turned around the company through significant cost-cutting and increased sales**. Revenues increased from \$1.45 million in FY2004 to \$5.89 million in FY2010. **FY2010 was the first profitable year since going public in 2002 and we are expecting continued growth in revenues as the economy continues to improve and invest more in their marketing efforts**.

The new management team's key focus has been on increasing revenues and reducing cash burn. To achieve this, they aggressively reduced costs and started to generate positive cash flows from operations in the past two years. They have also added complimentary products to their core business model through acquisitions and in-house developments such as mystery shoppers (acquired through Tenox Appraisal Inc. in 2005) and **more recently, shifted their focus to mobile data collection in their efforts to capitalize on the significant growth in the mobile data capture market**.

A report by Gartner states, “By 2013, 80% of businesses will support a workforce with Tablets.” We believe the market for integrating mobile devices to company software and the development of custom data capture applications while maintaining the device independence

will continue to grow and be a major revenue source. **The company's goal is to become a major player in the mobile data capture market.**

Technology

To achieve this goal, in 2008-09, In-Touch developed In-Touch Apps. In-Touch Apps is a hosted SaaS (Software as a Service) platform supporting HTML5 (a language for structuring and presenting information on the web) based mobile applications for lead capture and other onsite consumer interaction activities. In May 2011, In-Touch released a Beta version of In-Touch Apps to the public. The Beta version will allow clients to develop data capture applications via a Web GUI (graphical user interface) as well as give its clients the ability to customize the applications in real time. **The data capture applications, which were primarily developed by In-Touch, run on any device that uses modern web browsers including Internet Explorer 8, Firefox, Safari, Google Chrome, etc.** The mobile devices range from netbooks to tablets to smartphones; anything running modern web browsers. **We believe this gives In-Touch a competitive advantage as most applications are designed to run on a single device.**

A report by IDC predicts that by 2013, more than 56% of corporate devices will be individual-liable devices, i.e. a 'bring your own' Smartphone policy (Source: *IDC, Worldwide Business Use Converged Mobile Device 2009–2013 Forecast and Analysis, June 2009*). **With so many varieties of smartphones and mobile devices coming to market, we believe there will be strong demand for the device independent electronic data capture services provided by In-Touch.**

In-Touch Apps allows In-Touch to more efficiently offer the solutions they have offered in the past while allowing In-Touch to expand its product offering to the mobile market. The In-Touch Apps platform, which is the backbone of In-Touch's electronic data capture segment, has **two principle components: a mobile platform API and the In-Touch Data Director.**

The **mobile platform API** (Application Programming Interface) allows In-Touch (as well as Beta users) to create complex HTML5 applications while hiding most of the complexities of the programming. The mobile platform API allows the applications to be written more easily because programmers need only focus on the application goal compared to also focusing on how the application will interact with other software programs. This allows In-Touch and other users to write the apps efficiently and in a timely manner. In addition, the API acts as a cross-platform adapter meaning the applications can be written once and then used on a wide variety of devices.

The **Data Director** is a server-based tool allowing In-Touch clients to centrally configure, deploy and monitor applications developed for the mobile platform API. This allows program coordinators, via an internet connection, to monitor goals and data quality and also keep a close watch on their equipment, field personnel and events in near real time.

Below are a few examples of some of the products that are employed to run the customized applications on the In-Touch Apps platform. **In-Touch gives the option to its clients to either license the hardware from In-Touch (for example Kiosk, PDAs and**

Smartphones), purchase the equipment from In-Touch, use their own devices or devices provided by a third party. The software licensing and services accounts for approximately 80% of revenues, with the remainder related to hardware licensing.



Source: Company

**Products/
Solutions
offered**

A description of some of the solutions that In-Touch provides its clients with its electronic data collection methods are detailed below.

Event Marketing: In-Touch works directly with their clients to design a unique application, using the mobile platform API, which meets their clients’ objectives and needs for an event.

The data capture and mobile marketing applications assist In-Touch’s clients with lead capture, event registration, contests and sweepstakes, real time fulfillment, photo marketing, and other features based on the clients’ objectives. All the Apps are fully customizable based on the unique needs of their clients.

Additionally, companies may want to partner with other companies and coordinate, manage and monitor their data collection efforts. As such, these corporations and their partners will need applications and managing tools that are device independent. In-Touch provides these clients with the means of developing applications that are device independent and that also can be managed and monitored in a central location for ease of event management.

Below is a brief explanation of how they assist their clients in some of these areas.

- **Lead Capture:** In-Touch provides the ability to connect with clients through multiple interactive mediums including PDAs, Kiosks and other mobile devices. This allows company ambassadors to capture leads at company events using interactive media and deliver positive brand experiences. **The mobility of the data capture products allows companies to capture leads while interacting with clients.** Using the Data Director, clients are able to monitor goals and data quality, in real time, and keep a close watch on the equipment and field personnel allowing for improved efficiency and continual optimization of events.
- **Event Registration:** In-Touch applications can **provide attendees with the ability to pre-register to an event over the web and then synchronize this information with on-site registration.** This allows In-Touch’s clients to collect marketing information before the event starts.
- **Contests and Sweepstakes:** In-Touch applications can provide a variety of contest and sweepstake options that are designed to maximize data capture. **The contests and sweepstakes add an incentive to prospects to provide the data the companies are looking for.** Examples include virtual scratch and win and swipe-to-win (prospects receive pre-coded swipe cards) contests where prospect data is collected prior to their chance to win.
- **Photo Marketing:** In-Touch provides a photo marketing system that allows its clients to generate targeted leads seamlessly. In-Touch can provide several deployment options from fixed photo stations to mobile stations. Consumers have their photos taken digitally, usually with a “fun” background or theme to entice the consumer. The photos are then emailed directly to the consumer where lead generation/survey information is captured; once completed, the consumer is able to download the photo.
- **Radio Frequency Identification (RFID) -** In 2009, In-Touch added RFID to their base data capture capabilities. This allows for the **monitoring and tracking of the movement of prospects using radio identification technology.** This will allow companies to measure the time spent at certain locations while at company and

marketing events as well as track the movement of prospects at these events. This aids companies in understanding the behavioral trends of their prospects, which will allow companies to create events customized to the behavioral patterns of their consumers.

- **Real Time Fulfillment:** The information gained from the event can be put to use immediately. In-Touch applications allow for real time data access, via the data director, and they assist their clients with using the information gained to further engage the client. In-Touch does this by providing its clients with the ability to engage newly found prospects automatically and instantaneously through social media interaction, e-mail and text messages, VIP invites, etc.

Operational Audits: In-Touch assists clients in designing mobile audit applications allowing companies to perform compliance and inventory audits. This improves the efficiency and effectiveness of the audits because the data is captured via mobile devices, offline or online, and this is accomplished over the In-Touch Apps platform allowing for the monitoring and efficient management of the data. Examples of Operational Audits range from stock-out analysis in retail stores to inventory tracking on military bases. The In-Touch Apps platform provides auditors with:

- Real time data monitoring – allowing for decisions to be made in real time, avoiding costly delays
- Data security – The data captured is encrypted immediately, eliminating security concerns
- Intelligent data-entry verification – minimizes entry errors

Surveys and Research: Since the company was founded in 1992, In-Touch has been developing surveys and providing research to its clients in the areas of employee/consumer satisfaction, product analysis, pricing research, etc. In-Touch provides expert advice to guide their clients through the design, development, deployment and analysis of phone, web and mobile surveys. In-Touch focuses on large and complex surveys and research programs. In-Touch offers:

- Expertise in survey design, respondent selection and implementations
- Timely completion and return of accurate survey information using mobile web and supporting software.
- Access to robust reporting and analytical functions – allowing data to be displayed in an actionable form.

Enterprise Solutions: Many companies have invested large amounts of capital to develop applications for specific devices that are no longer usable due to the devices becoming obsolete. In-Touch is focusing on developing unique business oriented applications that can be linked to the company's databases or backend processes (such as inventory management, client databases, etc.). **The applications that In-Touch designs are browser based; meaning if the next device has a modern Web browser supporting HTML5 then the**

application will be able to run on that device. Below are a couple of examples of applications In-Touch has developed for its clients and potential clients.

- Banking Industry – In-Touch developed a prototype application for the finance industry that allows for the capture of consumer information and the ability to validate credit report information and issue credit via mobile devices.
- Insurance client - An insurance company wanted a consumer data capture application that could be used anywhere in the country, securely capture data, link the data to the company database with almost any type of PC, PDA, Smartphone or tablet.

Mobile devices have become an integral part of business these days and continue to grow with approximately 72.6% of the world population owning mobile devices. **A report by Gartner states, “By 2013, 80% of businesses will support a workforce with Tablets.” We believe the market for integrating business software to mobile device and the development of custom applications while maintaining the device independence will continue to grow and be a major revenue source.**

All the solutions mentioned in the above sections are categorized as - a) Electronic Data Collection (EDC), b) Marketing Research (MKR) and c) Information management systems (IMS) segments.

The EDC segment accounts for approximately 53% of the total revenues and the gross margins in this segment have been approximately 75%. The 5-year CAGR in EDC revenues was about 19%.

The MKR and IMS segments account for about 5% and 1%, respectively, of total revenues. Due to the high level of human involvement in the marketing research segment, the margins are understandably low at around 25%. The information management systems is a newly formed division focusing on securing government contracts in a bid to further diversify their revenue streams and secure long term contracts. The IMS segment leverages their technology for mobile data capture applications and consulting experience. Management mentioned in a recent news release that they are expecting \$1.0 million in revenues for the segment's first full year in 2011.

In-Touch receives the remaining 40% of revenues by providing Manual Data Collection services. Below is a brief description of the service provided in this segment.

Mystery Shopping Services: In-Touch provides mystery-shopping services (trained shoppers who discretely collect and report data on key retail experiences) for their clients and has been conducting mystery shopping since 2005. In-Touch assists their clients with the design of the mystery-shopping questionnaire and shopping process. The mystery shoppers simulate the behaviors of the consumers and collect information based on the service, sales skills, presentation, etc. The mystery shoppers then use In-Touch’s mobile web technology to input the data, which increases the speed their clients receive the results and minimizes input errors.

The gross margins for the mystery-shopping segment have been fairly consistent since the acquisition of Tenox Appraisal Inc., a company which held a prominent position in Canada's mystery shopping industry and has provided mystery-shopping services across Canada since 1987. Gross margins have been around 40% varying a couple percent each year; in 2010, the margins increased to about 55% due to continued improvements in efficiency. Since the acquisition, In-Touch has been able to grow revenues in this segment, despite the market downturn in 2008/09, by 7% p.a. (4 year compound annual growth rate 2006 - 2010). For FY2006 (the first full year of mystery shopping revenues) the company generated \$1.85 million in revenues and by FY2010, it achieved \$2.38 million.

In 2009, the company released a new version of their merchandising and mystery shopper software that has allowed them to offer more general audits (compliance and inventory audits, as mentioned above in the operational audits section), and thus expanding their solutions offered. The margins have also improved on this segment due to the new version of the mystery shopping software, as previously mentioned.

Customers

In-Touch has customers in Canada and the United States many of which are fortune 500 companies. **Revenues from the United States account for approximately 46% of total revenues - which implies the company is exposed to a high degree of currency risk.** In-Touch deals with clients in a number of different industries including: Retail, Automotive, Finance and Services and Hospitality. A list of In-Touch's major clients is shown below.



Source: Company

Approximately 43% of the company's FY2010 revenues were from two clients who operates in the US and Canada. All other revenues were from clients who contributed <10% to total revenue. **In our opinion, this concentration in two major client puts significant risk on revenues.** If the client discontinues business for any reason it would severely affect In-Touch's revenues. **However, management has indicated, In-Touch has**

had a long-standing relationship with the clients (since 2004). Furthermore, In-Touch recently secured new contracts with the clients and management has indicated that they are **continually focusing their sales efforts on diversifying their revenue sources.**

Business Model **Prospecting and Sales Process** - In-Touch uses a direct sales approach. In-Touch maintains a database of prospective clients including the names and contact information of the executives responsible for implementing measurement programs as well as marketing and research activities.

Once a direct sales meeting is set up, In-Touch has its sales executives describe the full range of service and demonstrates the capabilities of the solutions they offer. In the next step, the sales team continues to work with the prospects to fully understand the individual requirements and needs of the prospect then concludes the sale. The length of the sales cycle varies from within 3 to 6 months for smaller contracts (<\$100,000) to up to a year for larger contracts from the point of initial contact – which, we believe, is typical for a solution provider. In an effort to generate new sales leads, In-Touch continually conducts routine promotional campaigns targeting potential clients.

Revenue Model - The size of a sales contract varies from less than \$100,000 to over \$500,000 per year. **Also, the length of the contract varies from a year to multi-year contracts. Multi year contracts are beneficial as they result in steady and recurring revenues.**

The company receives revenues from the contracts in a variety of ways including software and system use, consulting, merchandise sales, custom development, mystery shopping, license fees and reports.

**Industry
Overview and
Competition**

In-Touch does business in a variety of industries, namely: Market Research, Data Processing and Outsourced Services as well as the Software and Services industry. **These industries are highly fragmented and competitive, and therefore, have relatively low net margins.** Most companies that provide similar services that are in direct competition with In-Touch are private companies. Most of these private companies focus on only one aspect of the market i.e. focus on mobile solutions only or market research only whereas In-Touch is pursuing a wider market. **This wider breadth of products and services differentiates In-Touch from many of its competitors.** The services are mostly complimentary which allows In-Touch to cross-sell their services and fulfill all of their clients' needs while maximizing their revenues. The mobile application market that In-Touch is currently venturing in is very competitive with many companies already established in this area. Also, the development of Smartphone applications, which was once a highly specialized area, is now very similar to desktop application development using the same programming languages and skill sets. In-Touch offers device independence with their applications, which sets them apart from Apple, BB enterprise server, Android etc. However, **technology changes at an exponential rate, and as such, In-Touch must continually develop and adapt to the changing technologies.**

As mentioned above, most competitors in direct competition with In-Touch are private

companies. Moreover, most of these companies do not offer the wide variety of services as In-Touch does. In-Touch competes with specialty firms in the areas of:

- **Customer and employee satisfaction measurement firms.** There are many firms providing specialized customer or employee measurement, and thus, this sector is highly competitive.
- **General market research firms.** These firms provide research on industries and specific companies. They tend to be large firms.
- **Management consulting firms.** Similar to general market research firms, these firms also consult on customer and employee satisfaction.
- **Mobile Enterprise Application Platform firms.** This is a relatively new market where most competitors' are private companies. The primary focus of these firms is on building applications for companies to provide companies the ability to do business in the mobile world. Linking mobile devices with enterprise software.

A list and brief description of the services provided by a few direct competitors (all private) is provided below.

Spring Wireless: Founded in 2001 and based out of Brazil. They have offices worldwide and provide end-to-end mobile business solutions. They allow businesses to seamlessly connect their mobile workforces to corporate systems across a variety of operating systems and devices including Apple, Android and BlackBerry smartphones. We have identified the mobile business solutions market as the highest potential growth segment for In-Touch due to the increased integration of mobile devices in business and personal lives and the relatively new market. As such, Spring Wireless is a major competitor in this relatively new business segment.

Pyxis Mobile: Incorporated in 1998 with a focus on providing system integration and solutions for companies seeking productivity solutions. Pyxis mobile solutions are used to deliver total business mobility. Pyxis provides its clients with a software package giving their clients the tools necessary to develop custom applications.

eShots: Founded in 1998, based out of the United States. eShots focuses its business on event marketing as well as data capture for company events. eShots initially started as a photo marketing company but in 2003 evolved into data capture and analysis at company events. This business is in direct competition to In-Touch's event marketing solutions.

Fish Software: Very similar products and services as eShots, Fish Software focuses on event marketing with email/SMS campaigns as well as data capture and analysis at company events.

Management

Management and the board of directors own about 40% of the outstanding shares,

which is a clear indication in their beliefs in the future potential of the company. In-Touch currently has 28 full time employees. Brief biographies of the management team, as provided by the company, follow:

Michael Gaffney: Chief Executive Officer

Michael Gaffney, B.Sc. (Ottawa), M.B.A. (John Molson, School of Business), is a serial entrepreneur in telecommunications and software-based businesses. For twenty-five years he has been either part of a team or leading a team. In 1986 Mr. Gaffney was co-founder of Worknet – a precursor to ‘Monster.com’; from 1991-96 a Vice President at Newbridge Networks; from 1996-2001 founder and CEO of Lansbridge University in New Brunswick – the worlds first totally online accredited university; from 2001- 2003 co-founder and CEO of Klear Semiconductor – a high quality radio chip now being deployed globally; from 2004-2006 founder and CEO of Blufyre I – a publicly traded investment company now operating mining exploration activities in Mexico and since 2004 CEO of In-Touch Survey Systems – revamping the technology and strategy to become a major player in the mobile data capture market.

Michael Kahn: Vice President and Chief Technical Officer

Michael Kahn has been In-Touch Survey System’s Chief Technology Officer and Vice President of Product Development since 2007. He has overseen the planning, design, architecture, development, deployment, and maintenance of data capture and mobile information management solutions for organizations like General Motors, Nationwide Insurance, the US Army and Air Force, and Westjet.

Prior to In-Touch he was a subject matter expert in all aspects of building and deploying online universities and colleges. He designed and deployed Canada's first online University with degree-granting authority (Lansbridge), and was responsible for Yorkville University’s online delivery systems where he reported directly to the chairman and worked directly with the Dean of Academics and other stakeholders in establishing and governing the online program in accordance with the standards required for degree granting approval. Prior to this he worked for Hummingbird Corporation and various Internet start-ups.

He holds a Masters degree in Engineering from Queen's University at Kingston, Ontario.

Pavla Selepova – Vice President Customer Services and Analytics

Pavla Selepova has been Vice President of Client Services at In-Touch Survey Systems since 2008. She is recognized in the industry as a thought-leader in the areas of client relationship management and customer data analysis. She is a trusted advisor to companies like the Loblaw Group of Companies, Canada Post, and Nationwide Insurance.

Prior to In-Touch she was the founder and principal consultant of MiroMetrica, a company that focused on all aspects of client data capture and analysis. She has held senior positions

with the Stentor Alliance and Bell Canada. At Stentor she directed a practice that provided customer data analysis services of the North American telecommunications sector. She later moved on to become Vice President of Program Management for Bell Canada (Canada’s telecommunications giant) where she managed a team that captured, analyzed, and processed customer data for the purpose of optimizing internal processes.

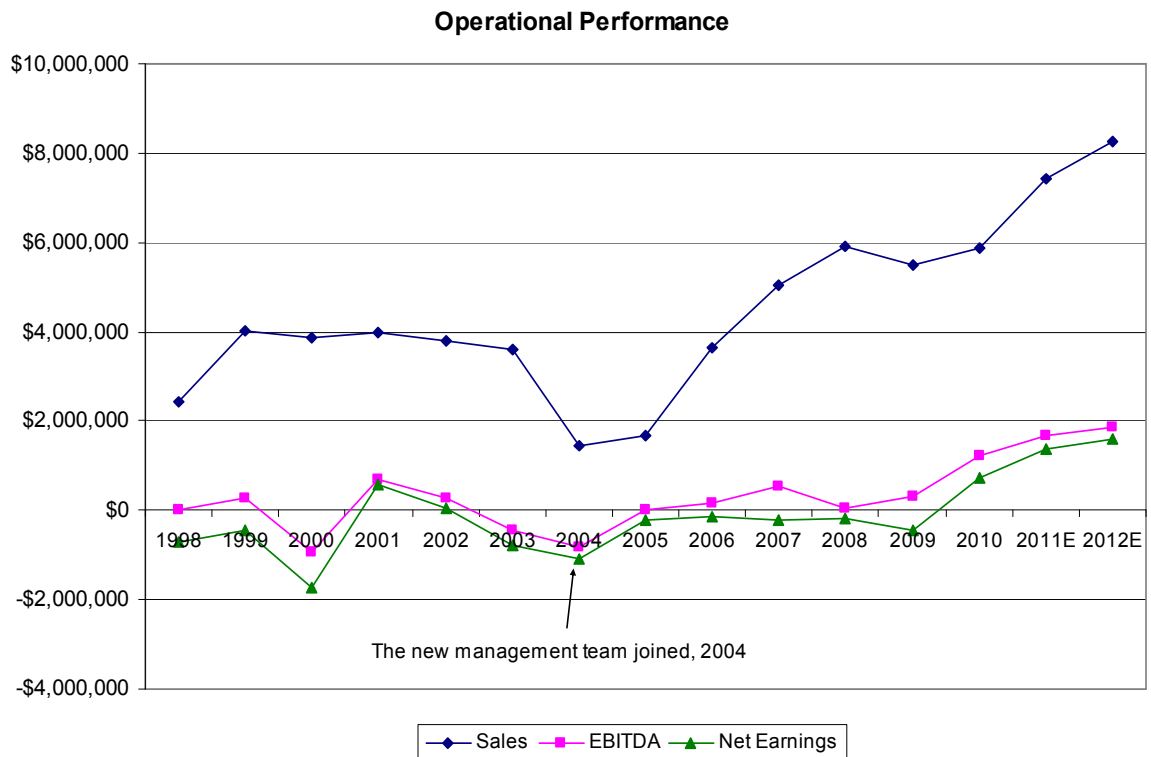
She was lead speaker on a North American CRM and customer data analysis lecture circuit, and has even lectured at the University of Notre Dame’s Summer School of Database Marketing. She holds Masters Degrees in Engineering with a concentration in Nuclear Physics, Theoretical Physics, and Business Administration.

Board of Directors

The company's board of directors is comprised of three individuals - Michael Gaffney (CEO, In-Touch), Neil Milton (Partner, Miltons LLP) and Rainer Paduch (Principal, Eigentum Enterprises Inc.). Mr. Milton and Mr. Paduch are independent members.

Financial Analysis and Projections

Significant revenue growth since management revamp in 2004 - The graph below illustrates the company’s revenues over the past 13 years along with 2 years of our forecasts. As shown in the chart, the company has had a successful turnaround after the 60% YOY drop in revenues in FY2004. Annual revenues from FY1999 to FY2003 were between \$3.50 million to \$4.00 million. **Since the new management team took over in 2004, revenues increased at a CAGR of 26%, from \$1.45 million in 2004, to \$5.89 million in 2010. In-Touch was in the Deloitte Fast 50 ranking in 2010 (a ranking of the 50 fastest growing Canadian tech companies with the highest percentage revenue growth over five years).** The revenue growth was a result of organic growth and acquisitions.



FY2010 was the first profitable year since the company went public in 2002. We are expecting continued strong growth in revenues as the economy continues to improve and the company's newest segment (IMS) gains momentum.

The following table shows the company's consolidated margins since 1998.

Margins	1998	1999	2000	2001	2002	2003	2004	2005
Gross	83.41%	71.61%	73.92%	73.60%	87.97%	58.80%	74.61%	78.13%
EBITDA	0.20%	7.06%	-24.59%	17.44%	7.22%	-12.74%	-56.32%	0.33%
EBIT	-21.29%	-7.19%	-41.30%	9.58%	0.36%	-20.06%	-70.58%	-9.56%
EBT	-29.13%	-11.00%	-44.70%	14.72%	0.80%	-21.89%	-75.11%	-13.90%
Net Margin	-29.13%	-11.00%	-44.70%	14.72%	0.80%	-21.89%	-75.11%	-13.90%

Margins	2006	2007	2008	2009	2010	2011E	2012E
Gross	58.71%	58.70%	60.75%	59.84%	63.94%	60.56%	58.28%
EBITDA	4.17%	10.45%	0.81%	5.95%	20.98%	22.60%	22.33%
EBIT	-0.36%	5.26%	-3.71%	0.28%	16.45%	19.21%	19.49%
EBT	-4.01%	-4.46%	-3.00%	-8.04%	12.50%	18.44%	19.24%
Net Margin	-4.01%	-4.46%	-3.00%	-8.04%	12.50%	18.44%	19.24%

As can be seen in the above chart, margins have fluctuated significantly over the years with no apparent trends. The variations in margins have been primarily due to the varying product mix. We are expecting gross margins to go down slightly in the next couple of years, due to the new segment, but as the segment matures, and the EDC segment continues to grow, we are expecting gross margins to be in the low to mid 60s.

Despite the high gross margins achieved in the past, FY2010 was its first profitable year since 2002, which is why cost cutting has been one of the key priorities of the company in the past few years. We believe the company will continue to be profitable going forward from their continued focus on improving the efficiency of existing products and increasing revenues (primarily from the mobile data capture segment and the new information management segment).

The company has had mostly positive cash flows from operations since the new management team joined in late 2004 (2005 first full year). Over the past two years, the company has experienced significant growth in their cash flows from operations. This will enable the company to continue to develop their technologies, improve the balance sheet and possibly finance further acquisitions without relying heavily on financing activities as was done in the past.

CASH FLOWS	2001	2002	2003	2004	2005	2006	2007
Cash Flow from Operations	103,311	(212,598)	(94,633)	(585,474)	80,919	249,682	(47,690)
Cash Flow from Financing	(731,323)	1,145,656	(128,951)	477,625	59,452	(50,668)	724,541
Cash Flow from Investing	-	782,242	524,786	254,257	50,766	50,754	83,122
Net change	(323,317)	782,242	(257,456)	(270,529)	(136,691)	(12)	32,368
FCFF	151,689	(380,082)	(78,879)	(706,792)	36,027	130,905	(578,934)

CASH FLOWS	2008	2009	2010	2011E	2012E
Cash Flow from Operations	(48,824)	429,207	755,227	1,613,093	1,848,296
Cash Flow from Financing	290,866	(376,318)	(632,292)	(296,558)	(584,990)
Cash Flow from Investing	2,968	14,259	45,140	1,217,196	2,285,829
Net change	(80,154)	11,288	30,901	1,172,056	1,068,633
FCFF	(190,049)	519,476	758,160	1,525,510	1,673,618

The following tables show the company's cash and liquidity ratios since FY2001.

Liquidity Analysis	2001	2002	2003	2004	2005	2006
Working Capital	(538,938)	926,911	335,197	(225,024)	(224,883)	(336,112)
Current Ratio	0.68	2.88	1.62	0.63	0.76	0.64
Debt / Capital	165.7%	10.0%	17.5%	76.6%	53.3%	49.8%
EBIT Interest Coverage Ratio	3.67	(0.82)	(14.52)	(24.7)	(2.4)	(0.2)

Liquidity Analysis	2007	2008	2009	2010	2011E	2012E
Working Capital	125,663	14,552	(63,501)	782,842	1,942,502	3,305,957
Current Ratio	1.10	1.01	0.96	2.13	2.79	4.31
Debt / Capital	65.7%	71.6%	83.6%	38.4%	12.1%	1.3%
EBIT Interest Coverage Ratio	2.4	(1.9)	0.1	10.2	25.0	80.6

Profitability Analysis	2001	2002	2003	2004	2005	2006
Return on Avg Assets	27%	1%	-38.42%	-75.2%	-17.4%	-9.8%
Return on Avg Equity	-55.7%	6.0%	-55.6%	-177.1%	-79.1%	-33.1%
Return on Average Invested Capital	47.7%	1.9%	-48.3%	-109.2%	-28.9%	-16.0%

Profitability Analysis	2007	2008	2009	2010	2011E	2012E
Return on Avg Assets	-11.7%	-6.4%	-15.5%	30.3%	45.1%	36.4%
Return on Avg Equity	-45.8%	-29.9%	-97.6%	115.9%	78.4%	49.3%
Return on Average Invested Capital	-18.4%	-9.2%	-23.1%	46.3%	61.3%	46.5%

At the end FY2010, the company had \$0.04 million in cash. Working capital and the current ratio were \$0.78 million and 2.13x, respectively. The company's debt to capital of 38% is higher than the average ratio in the data processing and outsourcing industry of 28%. However in the last year, In-Touch aggressively reduced its debt. The company has a line of credit (of up to \$0.45 million) with a chartered bank at an interest rate of prime plus 6% - the current balance is nil. At the end of FY2009, the company was in breach of covenant ratios, however, the company was back within its covenant ratios by Q1-2010 and continued to improve the ratios throughout the year.

As of December 31 2010, In-Touch had \$0.45 million owing in long term debt. The majority of this debt is from a loan that was issued in 2007 from BDC bank, with a face value of \$550,000 (issued in two instalments) and an annual interest of 11.70% on outstanding principal. In-Touch is required to make payments on the loan each year from "excess funds" to a maximum of \$110,000, which they have made in February of 2011, leaving a balance of \$387,080 remaining. The company must make a balloon payment on the remaining principal, on April 23 2012, plus bonus interest calculated on a sliding scale of In-Touch's market capitalization, ranging from 10% on low valuations (< \$1.0 million) down to 3% on high valuations (>\$10.0 million). The minimum bonus payable is \$100,000.

Stock Options and Warrants

At the end of March 2011, the company had 0.78 million stock options with a weighted average exercise price of \$0.10 per share. The company has no outstanding warrants.

Valuation

Discounted Cash Flow Analysis - Our Discounted Cash Flow (DCF) valuation on In-Touch (shown below) is \$0.89 per share. In-Touch currently does not pay taxes as they have previous year's losses to offset the taxable income. We expect the company to start paying taxes in 2015, which explains the drop in the Funds From Operations (FFO) in 2015 (as shown in the table below). In addition, we expect margins to shrink with increased competition and as the industry matures.

DCF Valuation Model: In-Touch								
(CS)	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Terminal
FFO	\$1,699,129	\$1,912,038	\$2,089,143	\$2,213,392	\$1,556,788	\$1,411,381	\$1,515,630	\$1,579,355
Investment in WC	(\$86,035)	(\$63,742)	(\$66,361)	(\$60,971)	(\$6,559)	(\$31,069)	(\$57,950)	(\$58,528)
CFO	\$1,613,093	\$1,848,296	\$2,022,781	\$2,152,421	\$1,550,228	\$1,380,313	\$1,457,680	\$1,520,827
CAPEX	(\$194,673)	(\$194,673)	(\$161,957)	(\$165,197)	(\$168,501)	(\$171,871)	(\$175,308)	(\$178,814)
FCF	\$1,418,420	\$1,653,623	\$1,860,824	\$1,987,224	\$1,381,728	\$1,208,442	\$1,282,372	\$1,342,013
Debt Inflows (Outflows)	(\$256,558)	(\$584,990)	(\$53,910)	-	-	-	-	-
FCF to Equity	\$1,161,862	\$1,068,633	\$1,806,914	\$1,987,224	\$1,381,728	\$1,208,442	\$1,282,372	\$1,342,013
PV	\$1,094,491	\$893,307	\$1,340,368	\$1,308,121	\$807,120	\$626,406	\$589,874	\$6,470,732
Discount Rate	12.69%							
Terminal Growth Rate	3%							
Total PV	\$13,130,419							
Cash (beg. of the year)	\$45,140							
Equity Value	\$13,175,559							
Shares O/S (dil)	14,792,168							
Value per share	\$0.89							

The discount rate was calculated using the following data:

Discount Rate Calculation using CAPM	Internet	Info Services	Computer Software/Services
Industry average Betas*	1.11	1.1	1.06
Average of industries	1.09		
Premium of 10% added to Beta**	1.19		
10-year Government bond yield	3.17%		
Market Risk Premium	8.00%		
Discount Rate	12.69%		

*Consensus estimates (from several sources)

**We added a 10% premium to the betas due to the size and stage of In-Touch

We believe the Internet, Information Services and Computer Software/Services industries best reflect In-Touch's operations and the current direction of the company. We have used the arithmetic average of these industries and then added a premium due to the size and stage of In-Touch in order to estimate In-Touch's Beta. We then applied the CAPM (Capital Asset Pricing Model) to arrive at our cost of equity estimate used in the above discounted cash flow model.

Comparables Analysis - Below is a chart showing valuation metrics of industries which we believe are comparable to In-Touch. As In-Touch provides services related to all of the industries, we decided to compare the average metric of all these industries with those of In-Touch. **As can be seen in the chart below, In-Touch appears to be undervalued based on every metric.** Although In-Touch should be trading at a discount to the industry average metrics (due to its smaller size), we do not believe the currently large discounts reflect the potential of the company.

Industry/Metric	EV/Sales	EV/EBITDA	P/E
Info Tech	1.4	8.6	16.3
Market Research	1.3	8.7	17.2
Software & Services	2.4	10.8	20
Data Processing and Outsourced Services	2.4	8.9	16.5
Internet Software and Services	4.5	15.6	26.8
Average of Industry Metrics (trailing)	2.4	10.5	19.4
In-Touch (trailing metrics)	1.0	4.7	7.1
In-Touch (forward metrics)	0.8	3.5	3.8

Rating

Based on our valuation and analysis on the company's operations, we initiate coverage on In-Touch with a BUY rating, and a fair value estimate of \$0.89 per share. Our fair value estimate reflects an upside potential of 141% from current price levels.

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- The data capture industry is highly competitive and barriers to entry to the market are not high.
- Like any other technology company, INX will be adversely affected if it is not able to cope with changes in technology.
- Revenues from the U.S. account for approximately 46% of the total revenues. Therefore, the company's near-term prospects depend on the US economic recovery.
- Like all other companies, the overall performance of the company depends heavily on market growth.
- Foreign exchange fluctuation risks.

We rate the shares Risk 4 (Speculative).

Appendix

STATEMENTS OF OPERATIONS

(in CS)	2006	2007	2008	2009	2010	2011E	2012E
Sales	3,632,304	5,060,576	5,914,814	5,479,081	5,893,125	7,414,460	8,275,238
COGS	1,499,682	2,089,878	2,321,746	2,200,533	2,125,290	2,924,036	3,452,336
Gross Profit	2,132,622	2,970,698	3,593,068	3,278,548	3,767,835	4,490,425	4,822,902
Expenses							
Selling Expenses	95,896	118,816	178,147	131,155	165,149	222,434	248,257
General & Administration	1,809,747	2,275,604	3,357,831	2,817,697	2,373,447	2,515,854	2,641,647
Research and development	75,670	47,356	8,926	3,757	(7,176)	76,369	85,235
Reorganization costs							
EBITDA	151,309	528,922	48,164	325,939	1,236,415	1,675,768	1,847,764
Amortization	164,377	262,740	267,647	310,462	267,110	251,553	235,250
EBIT	(13,068)	266,182	(219,483)	15,477	969,305	1,424,215	1,612,514
Interest & Bank Charges	80,249	113,239	115,462	154,761	94,967	56,896	19,995
Earnings from operations, before undernoted	(93,317)	152,943	(334,945)	(139,284)	874,338	1,367,319	1,592,519
Amortization of deferred financing costs		(23,273)	(18,581)	(10,682)			
Amortization of discount on note payable	(38,044)	(51,735)	(55,019)				
Amortization of intangible assets	(18,940)	(19,044)	(34,123)	(9,596)			
Gain on fair value of derivative assets		(60,212)	74,096	(33,956)	(97,109)		
Foreign exchange	(1,299)	(23,486)	119,055	(85,422)	(45,235)		
Gain on disposal of property and equipment	6,058	32,098	50,311	12,745	4,698		
Other income (loss)			22,000				
Impairment of intangible assets and good will		(233,088)		(174,182)			
EBT	(145,542)	(225,797)	(177,206)	(440,377)	736,692	1,367,319	1,592,519
Taxes/(Income Tax Recovery)	-	-	-	-	-	-	-
Net Earnings for the period	(145,542)	(225,797)	(177,206)	(440,377)	736,692	1,367,319	1,592,519

BALANCE SHEETS

(in C\$)	2006	2007	2008	2009	2010	2011E	2012E
Assets							
Cash	50,754	83,124	2,971	14,239	45,140	1,217,196	2,285,829
Accounts receivable	478,470	1,272,256	1,475,356	1,311,553	1,314,997	1,500,645	1,674,861
Unbilled receivables	10,500	25,927	96,037	165,857	34,340	136,793	152,673
Investment tax credit receivable	17,607	7,928	7,928	7,928	15,449	15,449	15,449
Inventory		-	49,950	-	-		
Prepaid expenses	49,284	29,925	44,012	42,980	67,073	158,799	177,235
Current Assets	606,615	1,419,160	1,676,254	1,542,557	1,476,999	3,028,882	4,306,048
PP&E	704,764	885,515	1,166,079	903,531	733,153	626,079	585,502
Franchise							
Intangible assets	34,914	15,870	105,117				
Goodwill	100,000	100,000	172,210	100,000	100,000	100,000	100,000
Total Assets	1,446,293	2,420,545	3,119,660	2,546,088	2,310,152	3,754,961	4,991,550
Liabilities & Shareholders' Equity							
Bank Indebtedness	141,288	295,000	613,962	496,261	-	-	-
Accounts Payables & Accrued Liabilities	497,071	494,908	624,414	593,624	378,134	801,390	946,181
Due to related party	140,000	40,000			40,000		
Deferred revenue	45,972	272,230	182,107	376,265	129,465	-	-
Current portion of L-T debt	118,396	191,359	147,447	114,967	146,558	284,990	53,910
Current portion of debentures payable							
Current portion of capital lease obligations			93,772	24,941			
Current Liabilities	942,727	1,293,497	1,661,702	1,606,058	694,157	1,086,380	1,000,091
Long term debt	37,791	495,979	756,946	639,381	448,900	53,910	-
Obligations under capital lease	12,189		29,060				
Deferred lease inducement	-	8,385	4,581	778			
Derivative financial instrument		89,398	15,302	49,258	146,367	146,367	
Shareholder's Equity							
Share capital	7,724,374	8,029,871	8,288,867	8,288,867	8,302,716	8,302,716	8,302,716
Contributed surplus			37,750	76,671	96,245	176,502	260,771
Deficit	(7,270,788)	(7,496,585)	(7,673,791)	(8,114,168)	(7,377,476)	(6,010,157)	(4,571,271)
Accumulated other comprehensive loss			(757)	(757)	(757)	(757)	(757)
Total Liabilities & Shareholders' Equity	1,446,293	2,420,545	3,119,660	2,546,088	2,310,152	3,754,961	4,991,550

STATEMENTS OF CASH FLOWS

(in C\$)	2006	2007	2008	2009	2010	2011E	2012E
Operating Activities							
Net earnings for the period	(145,542)	(225,797)	(177,206)	(440,377)	736,692	1,367,319	1,592,519
Items not involving cash							
Share released from escrow	60,000	51,999	74,667				
(Gain)loss on fair value of derivative		60,212	(74,096)	33,956	97,109		
Book value of assets sold							
Compensation related to stock option plan	76,203	67,998	37,750	38,921	25,623	80,257	84,269
Decrease in deferred lease inducement	(3,805)	(3,804)	(3,804)	(3,803)	(778)		
loss (gain) on disposal of property and equipment	(6,058)	(32,098)	(50,311)	(12,745)	(4,698)		
Unrealized foreign exchange loss			45,170				
other income (loss)			(22,000)				
impairment of intangible assets and goodwill		233,088		174,182	-		
Amortization and equipment write-down	164,377	262,740	267,647	310,462	267,110	251,553	235,250
Amortization of subordinated debenture							
Amortization of discount on note payable	38,044	51,735	55,019				
Gain on settlement of the capital lease							
amortization of deferred financing cost	-	23,273	18,581	10,682	-		
Amortizaion of intangible asset	18,940	19,044	34,123	9,596	-		
Changes in non-cash operating working capital							
Accounts receivable	95,096	(793,786)	(159,600)	163,803	(3,444)	(185,648)	(174,217)
Unbilled recievables	38,356	(15,427)	(70,110)	(69,820)	131,517	(102,453)	(15,881)
investment tax credit recievable	(16,265)	9,679	-		(7,521)	-	-
Inventory			(49,950)	49,950	-	-	-
Prepaid expenses	(12,511)	19,359	(14,087)	1,032	(24,093)	(91,726)	(18,436)
Accounts payable and accrued liabilities	(29,057)	(2,163)	129,506	(30,790)	(215,490)	423,256	144,791
Reverse takeover transaction							
Deferred Revenue	(28,096)	226,258	(90,123)	194,158	(246,800)	(129,465)	-
	47,523	(556,080)	(254,364)	308,333	(365,831)	(86,035)	(63,742)
Cash from (used in) operations	249,682	(47,690)	(48,824)	429,207	755,227	1,613,093	1,848,296
Financing activities							
issue of new shares	36,099	85,500	111,290		7,800		
Proceeds from convertible subordinated debenture							
Increase (decrease) in bank indebtedness	88,694	153,712	318,962	(117,701)	(496,261)		
issuance (payment) of long-term debt	(175,461)	485,329	(132,462)	(160,726)	(118,890)	(256,558)	(284,990)
increase in intangible asset							
payment under capital lease			(6,924)	(97,891)	(24,941)		
Other transactions						(40,000)	(300,000)
Cash from (used in) financing activities	(50,668)	724,541	290,866	(376,318)	(632,292)	(296,558)	(584,990)
Purchase of franchise				(31,193)			
Business acquisitions (net of cash)			(65,509)				
Decrease in restricted cash							
proceeds on disposal of property and equipment	22,711	69,537	91,405	42,868	24,448	50,194	-
Purchase of property and equipment	(221,737)	(714,020)	(348,092)	(76,167)	(116,482)	(194,673)	(194,673)
Cash from (used in) investing activities	(199,026)	(644,483)	(322,196)	(64,492)	(92,034)	(144,479)	(194,673)
Foreign exchange				22,891			
Increase (decrease) in cash	(12)	32,368	(80,154)	11,288	30,901	1,172,056	1,068,633
Increase in cash of discontinued operation							
Cash beginning of period	50,766	50,754	83,122	2,971	14,239	45,140	1,217,196
Cash end of period	50,754	83,122	2,968	14,259	45,140	1,217,196	2,285,829

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

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