TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Intellinetics Inc.

Speculative Buy

Howard Halpern

INLX $3.50 — (OTC)

November 19, 2020

	2018 A	2019 A	*2020 E*	*2021 E*
Revenue (in millions)	$2.4	$2.5	***$8.0***	***$10.9***
Earnings (loss) per share	($6.60)	($5.76)	***($0.30)***	***$0.13***

52-Week range	$10.00 – $0.08	Fiscal year ends:	December
Shares outstanding a/o 11/12/20	2.8 million	Revenue/shares (ttm)	$3.89
Approximate float	1.9 million	Price/Sales (ttm)	0.9X
Market Capitalization	$9.8 million	Price/Sales (2021) E	1.2X
Tangible Book value/shr	($0.36)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2021) E	26.9X

All per share amounts have been adjusted to reflect a 1-for-50 reverse stock split on March 20, 2020.

Intellinetics Inc., headquartered in Columbus, OH, is a cloud-based document services software provider. IntelliCloud™, its software solutions platform serves a mission-critical role for organizations in highly regulated, risk and compliance-intensive markets by enabling customers to securely capture and manage documents across its operations. Graphic Science is INLX's Image Technology Group that includes production scanning that converts images from paper to many different forms.

Key Investment Considerations:

Maintaining our Speculative Buy rating and 12-month price target of $6.50 per share.

Intellinetics' document management software solutions and the acquisitions of Graphic Sciences and CEO Imaging Systems should provide the scale needed to grow within the records management services segment of the $6.9 billion document management services (DMS) industry. According to IBISWorld, the records management segment could reach $5.2 billion in revenue in 2020, up from an estimated $4.9 billion in 2019.

We anticipate as pandemic conditions ease, revenues should grow in 2021 driven by the 2020 acquisitions of Graphic Sciences and CEO Imaging. Recurring revenue should also resume growth as new public and private sector customers deploy the company's IntelliCloud™ and CEO Image Executive™ solutions.

In March 2020, INLX acquired Graphic Sciences, a new subsidiary that converts images from paper to digital, paper to microfilm, and microfiche to microfilm for business and federal, county, and municipal governments, primarily in Michigan. In April 2020, the company acquired document solutions company CEO Imaging that has a strong customer base within the K-12 education market.

INLX reported 3Q20 EPS (on 11-16-20) of $0.06 per share on revenue of $2.5 million. In 3Q19, the loss per share was ($1.08) on sales of $756,000. We projected a loss of ($0.04) per share on sales of $2.2 million.

For 2020, we project a loss of ($0.30) per share on revenue of $8 million. We previously forecasted a loss of ($0.46) per share on revenue of $7.7 million. Our forecast reflects 3Q20 results and anticipated revenue generated by Graphic Sciences and CEO Image in 4Q20.

For 2021, we project EPS of $0.13 (prior was $0.03) on revenue growth of 35.6% to $10.9 million (unchanged). Our forecast reflects COVID-19 conditions easing, sales from 2020 acquisitions, and operating expense margin improvement to 51.4% from an estimated 59.6% (excluding one-time costs) in 2020.

Please view our Disclosures on pages 14 – 16.

Appreciation Potential

Maintaining our Speculative Buy rating and 12-month price target of $6.50 per share based on our sales estimate and achieving profitability in 2021.

Our rating reflects the company's acquisitions of privately held Graphic Sciences and CEO Imaging Systems in 2020 with the former generating significant professional services revenue and the later providing an opportunity to convert their customer base to INLX's higher margin recurring revenue IntelliCloud™ software solutions platform.

The company also strengthened its balance sheet with a March 2020 capital raise of $5.5 million through a combination of an equity and debt private placement (Taglich Brothers was the placement agent). Concurrently, the company's $4.7 million in existing convertible notes were converted into shares of common stock. On March 20, 2020, a 1-for-50 reverse stock split became effective.

Our 12-month price target of $6.50 per share implies shares could appreciate approximately 85% over the next twelve months. According to finviz (a/o 11/16/20), the average trailing twelve-month price-to-sales multiple for companies in the Specialty – Business Services sector is 2.7X (unchanged). INLX's trailing twelve-month price-to-sales multiple is 0.9X. We anticipate investors are likely to accord INLX a multiple approaching that of the sector given its forecasted sales growth of 35.6% for 2021. We applied a multiple of 2X to our 2021 sales per share forecast of $3.84, discounted for execution risks, to obtain a year-ahead price target of approximately $6.50 per share.

A higher valuation of Intellinetics Inc. is likely to be supported by quarterly sequential sales growth that should begin in 1Q21, a swing to an operating profit, generating cash earnings, and leveraging the two 2020 acquisitions that should increase its professional services and recurring revenue customer bases. We forecast an operating profit of $800,000 in 2021 compared to an estimated operating loss (excluding one-time transaction costs of $636,000) of 79,000 in 2020. In 2021, INLX should generate cash earnings of $1 million, up from estimated cash earnings of $492,000 in 2020. The company reported cash burn of $1.5 million in 2019.

In our view, Intellinetics Inc. is most suitable for high-risk tolerant investors seeking exposure to a microcap technology company that is attempting to build a solid SaaS recurring revenue customer base and a dedicated professional services organization.

Overview

Intellinetics, Inc., located in Columbus, Ohio, is a cloud-based document services software provider. Its secure document management solution, IntelliCloud™ serves a mission-critical role for organizations in highly regulated, risk and compliance-intensive markets in healthcare, K-12, public safety, public sector, risk management, financial services and more. The March 2020 acquisition of Michigan based Graphic Sciences, Inc., created the company's Image Technology Group and large scale production scanning department. This subsidiary has converted hundreds of millions of images over the last 33 years from paper to digital, paper to microfilm, and microfiche to microfilm for business and government agencies (local, state, and Federal). The April 2020 acquisition of CEO Imaging Systems, brings an existing customer base and the knowledge and capabilities to enable its clients (primarily in the K-12 education and financial services markets) to transform their paper records and document content into the digital cloud. The management system offered saves time, money, and floor space, and streamlines the archiving processes.

The company and its subsidiaries are targeting existing and new organizations and governmental agencies (state and local) within the health and human services and K-12 education market initially in the Midwestern US states.

In March 2020 and April 2020, the company acquired Graphic Sciences and CEO Imaging Systems, Inc., respectively.

Growth Platforms

Document Management Solution

The IntelliCloud software solutions platform is a Windows application that can have unlimited downloads and installs, enabling customers secure access even from remote locations. The platform has in excess of 50 pre-configured industry solutions ready for deployment. The primary modules of IntelliCloud include image processing, records management, workflow, and extended components.

The image processing module is used for capturing, transforming and managing images of paper documents, including support of distributed and high-volume capture, and optical character recognition. Records management enables customers the ability to retain content through automation and policies, ensuring legal, regulatory and industry compliance within the markets they serve. The workflow module is designed to support business processes, routing content electronically, assigning work tasks, and creating related audit trails.

The company's document management solutions include CEO Image Executive™, a document management system that was acquired in April 2020. The company's solutions portfolio allows document composition and e-forms (via third party OEM integration partnership), search, content and web analytics (via third party data visualization and advanced optical character recognition engine partnerships), email and information archiving, packaged application integration, and advanced capture for invoice processing.

Graphic Sciences

The company's new subsidiary, Graphic Sciences (acquired March 2, 2020), offers digital scanning, microfilm and microfiche, box storage, and equipment, software, and repair. The primary offering that drives this subsidiary's growth is its digital scanning services offering that provides paper scanning, newspaper and microfilm scanning, microfiche scanning, aperture card scanning, drawing scanning, and book scanning. Since most government files must be retained for the long term or permanently, the ability of Graphic Sciences to convert images from paper to digital, paper to microfilm, and microfiche to microfilm for business and federal, county, and municipal governments places it in a position to grow its customer base. The service offerings provided by the company has four production categories consisting of document prep, scanning, indexing, and delivery.

Graphic Sciences' offerings includes converting scanned images to microfilm or microfiche, and microfilm/microfiche preservation and duplication. The company provides physical document storage and retrieval services for its clients.

Growth Strategy

The company's aim is to drive recurring cloud-based software-as-a-service (SaaS) revenue from a growing customer base. INLX has an opportunity to grow its customer base for its document management solutions offerings based on the potential conversion of existing customers of Graphic Sciences and CEO Imaging Systems. The opportunity exists to expand the company's document management solutions customer base within the two acquired customer bases (governmental agencies and K-12 school districts primarily in Michigan), which should reduce customer acquisition costs, thus providing greater operating leverage as recurring revenue sales increase.

INLX seeks to accelerate adoption of its IntelliCloud software solutions platform through direct sales, partnerships, and a reseller network. The company anticipates its offerings (large scale scanning capabilities and IntelliCloud) will be a means for small to medium size organizations (public and private sectors) to create a cloud based remote file cabinet of documents for employees as people will likely continue to work from home due to the COVID-19 pandemic.

Acquisitions are likely to enable the company to grow its operations. The Graphic Science and CEO Imaging Systems acquisitions not only added revenue but also an existing customer base that provides cross selling opportunities. In March 2020, the company strengthened its balance sheet through a debt conversion, the issuance of equity capital, and a debt offering, which should enable them to respond to potential future strategic acquisition opportunities to expand its recurring revenue customer base.

Projections

Basis of Forecast

Our forecast reflects COVID-19 pandemic conditions that restrained 2Q20 revenue as only essential governmental services were performed in Ohio and Michigan for a majority of the quarter. We anticipate as COVID-19 pandemic conditions ease, Graphic Sciences' revenue contribution (primarily in professional services) will approximate 3Q20 results in 4Q20 and accelerate in 2021. In 3Q20, the company reconfigured and expanded the Graphic Sciences Michigan operations. The Michigan plant conforms to social distancing requirements but also add INXL's existing technologies to enhance throughput of its document scanning services that convert paper documents to digital images. To enhance throughput, the company is likely to add additional document preparation specialties to plant operations. By the end of 2021, the company could have 50 document preparation specialists, up from in the 2H20.

In 2021, a full year contribution from Graphic Sciences and an increasing customer base for the company's IntelliCloud and CEO Image Executive software solutions should translate into higher recurring revenue and drive total revenue growth of 35.6% while generating net income (the first time in the company's history).

We anticipate 2020 and 2021 gross margins of approximately 60.6% and 58.7%, respectively, compared to 77.6% in 2019. Our gross margin forecast reflects an increase in lower margin professional services revenue stemming from the Graphic Sciences acquisition. However, as recurring revenue increases, we anticipate SaaS margins of 73.8% in 2021, up from an estimated 73.5% in 2020. SaaS margins were 70.3% in 2019. SaaS revenue growth should enable the company to leverage operations with minimal incremental cost of sales.

Economic conditions

In October 2020, the International Monetary Fund (IMF) revised its economic growth estimate for the US to a decline of 4.3% for 2020 and growth of 3.1% for 2021. In June 2020, the IMF projected a decline in US growth of 8% for 2020 and growth of 4.5% for 2021.

The advance estimate of US GDP growth (released on October 29, 2020) showed the US economy increased at an annual rate of 33.1% in 3Q20, up from the 31.4% decline reported in 2Q20. The 3Q20 US GDP estimate primarily reflects increases in consumer spending, inventory investment, exports, business investment, and housing investment, partially offset by a decrease in government spending.

2020

We project total revenue growth of 216.5% to $8 million (prior was $7.7 million) due primarily to the March 2020 acquisition of Graphic Sciences that should contribute nearly $4.9 million to professional service sales, an increase in recurring SaaS and software maintenance revenue in 2H20, as well as revenue of $663,000 from storage and retrieval services (a new category from the Graphic Sciences acquisition) that was not previously reported by the company in prior years.

We project gross profit of $4.9 million compared to nearly $2 million in 2019. The increase in gross profit is due to sales growth, partly offset by gross margin contraction to 60.6% from 77.6% in 2019 stemming from an increase in lower margin professional service sales. Excluding one-time acquisition related transaction costs of $636,000, we anticipate operating income of $79,000 compared to a loss of $1.2 million in 2019. We anticipate operating expenses (excluding the one-time costs) of $4.8 million, up from $3.1 million in 2019. The increase in operating expenses reflects the operations (since March 2020) of Graphic Sciences and CEO Imaging (since April 2020).

We project interest expense decreasing to $638,000 from $981,000 due to lower debt balances stemming from the debt conversion in 1Q20. The conversion of debt generated a $287,000 gain on extinguishment of debt compared to none in 2019. We forecast a net loss of $719,000 or ($0.30) per share on 2.4 million average shares outstanding compared to a loss of $2.1 million or ($5.76) per share on approximately 370,000 average shares outstanding in 2019. We previously forecast a net loss of $1.1 million or ($0.46) per share. The company will record a tax benefit of $188,000 in 2020 compared to none in 2019 due to the releases of a portion of the valuation allowance for deferred tax liabilities of Graphic Sciences.

2021
We project total revenue growth of 35.6% to $10.9 million (unchanged) due primarily to inclusion of a full year of Graphic Sciences professional service and storage and retrieval sales and a return to more normal economic conditions as the COVID-19 pandemic environment eases. We anticipate a growing recurring revenue customer base driving SaaS and software maintenance revenue (combined) to $2.7 million, up from an estimated $2.3 million in 2020.

We project a 31.3% increase in gross profit to nearly $6.4 million due primarily to sales growth. Gross margin is likely to contract to 58.7% from an estimated 60.6% in 2020 due primarily to an increase in lower margin professional services revenue. We forecast operating income increasing to $800,000 from $79,000 (excludes one-time transaction costs of $636,000), as operating expense margin should improve to 51.4% from an estimated 59.6% (excluding one-time costs) in 2020.

We anticipate operating expenses of nearly $5.6 million compared to $4.8 million (excluding $636,000 in one-time transaction costs related to the acquisitions of Graphic Sciences and CEO Imaging). We project G&A expense increasing 9.8% to $3.8 million and sales and marketing expenses increasing 40% to nearly $1.5 million. D&A expense should increase to $340,000 from $293,000 in 2020. The increase in operating expenses reflects supporting the operations of Graphic Science and CEO Imaging, and converting their customers to the company's document management software solutions.

We project interest expense decreasing to $440,000 from $638,000 due to a lower debt balance. We forecast net income of $360,000 or $0.13 per share on approximately 2.8 million average shares outstanding. We previously forecasted net income of $75,000 or $0.03 per share.

Finances
In 2020, we project cash earnings of $492,000 and a decrease in working capital of $431,000 due primarily to increases in earn-out liabilities, payables, and accruals, partly offset by an increase in receivables and prepaid expense. Cash provided by operations and proceeds from the issuance of common stock and borrowings should cover capital expenditures including acquisitions, increasing cash by nearly $1.2 million to nearly $1.6 at December 31, 2020.

In 2021, we project cash earnings of $1 million and an increase in working capital of $48,000. Cash provided by operations of $998,000 is likely to cover capital expenses and repayment of debt. Cash should increase by $380,000 to $2 million at December 31, 2021.

3Q20 and 9M20 Results

3Q20
Total revenue increased 232% to $2.5 million from $756,000 in the year-ago period. The increase was due to the March 2, 2020 acquisition of Graphic Solutions and the April 21, 2020 acquisition of CEO Imaging Systems, as well as sales growth from software as a service and software maintenance customers. The Graphic Solutions acquisition drove the increase in professional services revenue to over $1.6 million from $122,000 in the year-ago period due primarily to customers seeking document scanning and conversion services. Document storage and retrieval services are a new revenue category that is part of the Graphic Solutions acquisition. This category generated revenue of $220,000 in 3Q20.

Gross profit increased 145% to nearly $1.5 million from $608,000 in the year-ago period due to sales growth, offset in part by gross margin contraction to 59.3% from 80.5% in 3Q19. The contraction in gross margin reflects the sales mix impact of the Graphic Sciences acquisition.

Operating expenses increased to $1.2 million from $761,000 in 3Q19. The increase in operating expenses reflects G&A costs increasing 65.3% to $844,000 due primarily to the acquisition of Graphic Sciences. Sales and marketing expense increased $37,000 to $285,000 reflecting the addition of Graphic Sciences and CEO Image expenses. D&A expense increased to $89,000 from $2,000 in the year-ago period due to amortization of the intangible assets and associated depreciation stemming from the acquisition of Graphic Sciences in March 2020 and CEO Imaging in April 2020, partially offset by a reduction from fully depreciated assets.

Interest expense decreased to $115,000 from $245,000 in the year-ago period due to a lower debt balance.

Net income was $156,000 or $0.06 per share, on 2.8 million average shares outstanding compared to a net loss of $399,000 or ($1.08) per share in 3Q19 on 370,000 average shares outstanding. We forecasted revenues of $2.2 million and a net loss of $100,000 or ($0.04) per share.

In Thousands $	9 Mos. '20	9 Mos. '19	% D
Total revenue	$ 5,558	$ 1,912	190.7%
Cost of sales	2,151	420	411.7%
Gross Profit	3,407	1,491	128.5%
Total Operating Expenses	4,133	2,316	78.5%
Operating Income (loss)	(726)	(825)	NMF
Total Other Income (expense)	(235)	(718)	NMF
Pre-Tax Income (loss)	(961)	(1,542)	NMF
Income Tax Expense (Benefit)	(188)	-	
Income from continuing ops.(loss)	(773)	(1,542)	NMF
Earnings per share	$ (0.34)	$ (4.17)	
Avg Shares Outstanding	2,271	370	
Adjusted EBITDA	298	(397)	
Margin Analysis			
Gross margin	61.3%	78.0%	
Operating margin	(13.1%)	(43.1%)	
Pre-tax margin	(17.3%)	(80.7%)	

Source: company reports

9M20 Results

Total revenue increased 190.7% to $5.6 due primarily to the March and April 2020 acquisitions of Graphic Sciences and CEO Image that contributed approximately $3.4 million and $220,000, respectively, to professional service sales that was not present in the year-ago period. Overall sales were restrained by a reduction of consulting contracts for customers seeking expanded applications for INLX's solutions, project management, and training, as well as a reduction in document scanning services in Columbus, Ohio, due to COVID stay-at-home orders disallowing non-essential projects for April/May 2020.

Gross profit increased 128.5% to $3.4 million from $1.5 million due to sales growth, offset in part by gross margin contraction to 61.3% from 78% in 9M19. The contraction in gross margin reflects the mix impact of the Graphic Sciences acquisition.

Operating expenses increased to $4.1 million from $2.3 million in the year-ago period. Excluding $636,000 in transaction cost related to the acquisition of Graphic Sciences and CEO Imaging, operating expenses would have been $3.5 million. The increase in operating expenses reflects higher G&A costs to nearly $2.5 million from nearly $1.6 million due primarily to the addition of expense from the acquired operations of Graphic Sciences and CEO Image, partly offset by reduced stock compensation costs due to certain option grants vesting in 2019, and reduced costs related to Website updates in 2019. Sales and marketing expense increased $20,000 to $759,000. D&A expense increased to $204,000 from $6,000 in the year-ago period due to amortization of the intangible assets and associated depreciation stemming from the acquisition of Graphic Sciences in March 2020 and CEO Imaging in April 2020, partially offset by a reduction from fully depreciated assets no longer depreciating.

Interest expense decreased to $523,000 from $718,000 in the year-ago period due to a lower debt balance, partly offset by accelerating the beneficial conversion option on notes converted in the 2020 private placement and note conversion. The company had a $287,000 gain on extinguishment of debt stemming from conversion of notes payable accounted for using troubled debt restructuring. There was no such gain in the year-ago period.

The net loss was $773,000 or ($0.34) per share, on nearly 2.3 million average shares outstanding compared to a net loss $1.5 million or ($4.17) per share on 370,000 average shares outstanding in the year-ago period. The current period included a $188,000 income tax benefit reflecting releasing a portion of the valuation allowance for deferred tax liabilities of Graphic Sciences (acquired in March 2020) that will no longer be due. In 9M19, there was no income tax benefit or expense.

Finances
In 9M20, cash earnings of $301,000 and an increase in working capital of $693,000 resulted in cash used in operations of $392,000. Borrowings and proceeds from the issuance of common stock more than covered cash used in operations and capital expenditures including the cash paid to acquire Graphic Sciences and CEO Imaging. Cash increased by $1.1 million to $1.5 million at September 30, 2020.

Capital Structure
At September 30, 2020, the company had total debt on its balance sheet of $2.4 million comprised of $1.8 million in long-term notes and $613,000 of short-term notes payable. On March 2, 2020, the company issued 12% subordinated promissory notes with a principal amount of $2 million (includes $258,000 in unamortized debt issuance costs and $251,000 in unamortized debt discount) that matures on February 28, 2023.

On April 15, 2020, INLX secured payroll protection funding of nearly $839,000 from the CARES Act through PNC Bank. The term of the loan is two years, with an annual interest rate of 1%, which shall be deferred for the first six months of the term of the loan. Based on how the loan is expected to be used by the company, as well as government rules, the loan could be forgiven.

On April 21, 2020, the company entered into an asset purchase agreement with CEO Imaging under which it issued $170,000 in seller notes payable. The terms of the seller notes payable include payment of $70,000 plus accrued interest on August 1, 2020 and $100,000 plus accrued interest on November 1, 2020 at a 1.5% annual interest rate. At September 30, 2020, the outstanding balance was $100,000 with accrued interest of $661,000.

Document Management Market

According to IBISWorld, the Document Management Services industry should reach $6.9 billion in 2024, up from an estimated $6.5 billion in 2019. The industry is divided into companies that provide commercial and government clients with outsourced records storage, document destruction services and digital conversion of paper-based records. The growth in the industry reflects increasing regulatory requirements mandating the retention of company records. Operators in the industry, such as Intellinetics, should benefit from sustained demand for secure document storage in electronic form.

IBISWorld estimates records management services segment revenue should reach $5.2 billion in 2024, up from an estimated $4.9 billion in 2019 (forecast assumes that 74.9% of the segment remains through 2024). One of the primary drivers of industry and segment growth is the increasing demand for digital conversion services. Industry participants estimate that only 1% of stored paper documents have been converted into digital files. In the next five-years, industry operators anticipate the digital conversion of medical records should be a significant growth opportunity.

Additional industry growth drivers should include people working from home that need access to documents in their office location, stricter records management required by various governmental and industry regulatory authorities, as well as records requirements for potential litigation. Companies within the industry must provide a platform that is cost-effective and secure for outsourcing document and record management.

Customers seeking a document management solution have begun to embrace a hybrid deployment model that allows an organization to move their most vital data to a private cloud without compromising on security and their non-sensitive data to a public cloud. Analysts estimate this is likely to be the fastest-growing segment over the next five years due to the flexibility, technical control, enhanced security, and adherence to the compliance requirements it offers.

Competition

The market for the company’s IntelliCloud software solutions platform is highly competitive with competition likely to intensify as the document solutions market evolves. The market is highly fragmented with the US having a large number of small companies servicing local or regional markets.

The competitive factors affecting the document solutions market include reputation, quality, performance, and price, as well as the availability of software products on multiple platforms, product scalability and integration with other enterprise applications. Additional competitive factors that Intellinetics' solutions are likely to face include the ability to effectively store, manage, and retrieve client records. In this market, companies are responsible for handling client's highly confidential records; thus having a reputation for reliability and security is crucial in order to obtain and retain customers.

The company believes its primary competitors within the small-to-medium business sector are private companies including DocuWare, Square 9, M-files, On Base, and Laserfiche. The competitors for the company's Graphic Science division vary from smaller shops to larger entities, including publicly traded Iron Mountain Incorporated.

Risks

In our view, these are the principal risks underlying the stock.

History of Losses

In 3Q20, INLX reported its first quarterly profit. At September 30, 2020, the company's accumulated deficit was nearly $21.6 million, up from nearly $15 million in 2016. While losses could occur, we anticipate a profit during 2H20 and full year 2021. If profits were to return to losses it could result in the company's inability to execute its growth strategy and/or seek dilutive financing.

COVID-19 Pandemic

The COVID-19 global pandemic presents concerns that may dramatically affect the company's ability to conduct normal business operations (such as acquiring new customers or receiving orders from existing customers) effectively. While the trajectory of the COVID-19 pandemic remains uncertain, it is likely that INLX's operations including sales to new and existing customers, may be directly affected for 2H20, especially if the State government of Michigan re-imposes stay at home orders for non-essential works. That could result in lower than anticipated revenue from the company's Graphic Sciences division.

Dilution

Over the eight-year period ended June 3, 2020, the company raised $17.7 million through the issuance of debt and equity securities.

At November 12, 2020, INLX had over 4270,000 shares of common stock reserved for issuance upon the exercise of outstanding warrants, convertible notes, and outstanding and unissued stock options under the company's equity incentive plan.

Customer Concentration

In 9M20 and 9M19, government contracts represented approximately 61% and 41% of net revenues, respectively. A significant portion of the company's sales to resellers represents ultimate sales to government agencies. In 3Q20, the company's two largest customers represented 64% of gross accounts receivable, compared to its three largest customers representing 56% of gross accounts receivables at December 31, 2019. The loss of a significant customer could disrupt the company's operations.

Intellectual Property

Since software and most of the underlying technologies are built on a Microsoft.Net framework, Intellinetics must rely on a combination of copyright, trademark laws, non-disclosure agreements, and other contractual provisions to establish and maintain proprietary intellectual property rights. Loss of such rights could adversely impact operations and growth prospects.

Data Center

The company's users must have access to its solutions 24-hours a day, seven-days a week, without interruption. INLX has computing and communications hardware operations located in data centers owned and operated by third parties. Since it does not control the operation of those data centers, the company is vulnerable to any security breaches, power outages or other issues the data centers experience. Disruptions or experience interruptions, delays and outages in service and availability from time to time could adversely impact customer relationships.

Infringement
Claims of infringement are becoming commonplace within the software industry. While the company does not believe it infringes on the rights of third parties, a third party may assert Intellinetics' software violates their intellectual property rights.

Cyber Security
Security breaches, unauthorized access and usage, viruses or similar types of breaches or disruptions could result in loss of confidential information, damage to the company's reputation, early termination of contracts, litigation, regulatory investigations, etc. If the company's security measures or its third-party data centers are breached as a result of third-party action, employee error, or malfeasance, its business could diminish due to the potential for significant liability expenses.

The US has laws and regulations relating to data privacy, security, and retention and transmission of information. The company must protect its information systems against unauthorized access and disclosure of confidential information and confidential information belonging to customers. The company believes it has policies and procedures in place to meet data security and records retention requirements. However, there is no assurance that the security measures in place will be effective in every case.

Market Acceptance
The markets for the company's IntelliCloud software solutions platform is rapidly evolving, which means that the level of acceptance of the platform will take time to determine. If customer acceptance fails to develop or develops slower than anticipated, current operations and growth opportunities are likely to diminish.

Shareholder Control
Intellinetics officers and directors own or have a controlling interest of approximately 7.1% of the outstanding voting stock as of the company's May 2020 proxy filing (shares outstanding on April 13, 2020). The company's officers include Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. who was appointed Chairman of INLX in October 2017 and owns or has a controlling interest in 2.4% of the company's outstanding voting stock. Two shareholders, Michael Taglich (President of Taglich Brothers, Inc.) and Robert Taglich (Managing Director of Taglich Brothers, Inc.) collectively own or have a controlling interest in 25.4% of the outstanding voting stock. Significant ownership interests could potentially influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk
The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume
Based on our calculations, the average daily-volume during the last three months to November 18, 2020 was 1,100. The company has a float of 1.9 million shares and shares outstanding of 2.8 million.

Intellinetics Inc.
Consolidated Balance Sheets
FY2018A – FY2021E
(in thousands)

	FY18A	FY19A	3Q20A	**FY20E**	**FY21E**
ASSETS					
Current assets:					
Cash	$ 1,089	$ 404	$ 1,512	**$ 1,645**	**$ 2,025**
Accounts receivable, net	136	330	1,079	**1,115**	**1,361**
Accounts receivable, unbilled	-	23	504	**504**	**500**
Parts and supplies, net	-	4	80	**80**	**85**
Prepaid expense and other current assets	162	111	207	**250**	**300**
Total current assets	1,387	872	3,382	**3,594**	**4,271**
Property and equipment, net	9	7	716	**720**	**725**
Right of use asset	-	97	2,704	**2,704**	**2,704**
Intangible assets, net	-	-	1,239	**1,093**	**693**
Goodwill	-	-	2,323	**2,323**	**2,323**
Other assets	10	10	19	**19**	**19**
Total assets	$ 1,406	$ 987	$ 10,382	**$ 10,453**	**$ 10,735**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	308	161	183	**150**	**125**
Accrued compensation	-	70	262	**250**	**275**
Accrued expenses, other	-	140	157	**175**	**250**
Lease liability	-	47	516	**516**	**516**
Deferred revenues	724	754	1,022	**1,050**	**1,100**
Deferred compensation	165	117	101	**101**	**125**
Earnout liabilities	-	-	287	**287**	**287**
Accrued interest payable	-	1,212	5	**5**	**5**
Notes payable	-	3,340	613	**543**	**465**
Notes payable - related party	47	1,467	-	**-**	**-**
Total current liabilities	1,244	7,310	3,145	**3,077**	**3,148**
Notes payable includes PPE	3,145	-	1,818	**1,818**	**1,400**
Notes payable - related party	1,046	-	-	**-**	**-**
Lease liability	-	53	2,262	**2,262**	**2,262**
Other	-	-	-	**162**	**286**
Earnout liabilities	502	-	602	**602**	**602**
Stockholders' equity:					
Common stock, $0.001 par value; authorized 50,000,000 shares;	0	0	3	**3**	**3**
Additional paid-in capital	14,132	14,419	24,121	**24,220**	**24,365**
Retained earnings (accumulated deficit)	(18,663)	(20,796)	(21,569)	**(21,691)**	**(21,331)**
Total stockholders' equity	(4,531)	(6,376)	2,555	**2,532**	**3,037**
Total liabilities and stockholders' equity	$ 1,406	$ 987	$ 10,382	**$ 10,453**	**$ 10,735**
SHARES OUT	355	370	2,811	**2,815**	**2,825**

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Annual Income Statement
FY2018A – FY2021E
(in thousands)

	FY17 A	FY18 A	FY19 A	**FY20 E**	**FY21 E**
Sale of software	$ 452	$ 174	$ 189	**$ 168**	**$ 40**
Software-as-a-service (SaaS)	622	749	860	**1,041**	**1,260**
Software maintenance services	966	995	1,011	**1,260**	**1,410**
Professional services	452	290	450	**4,893**	**7,150**
Storage and retrieval services	-	-	-	**663**	**1,025**
Third party services	128	174	26	**0**	**-**
Total Revenues	$ 2,620	$ 2,381	$ 2,536	**$ 8,026**	**$ 10,885**
Cost of Revenues per segement					
Sale of software	98	70	9	**44**	**-**
Software-as-a-service (SAAS)	305	300	255	**277**	**330**
Software maintenance services	120	100	87	**177**	**200**
Professional services	198	120	192	**2,490**	**3,745**
Storage and retreval services	-	-	-	**172**	**220**
Third party services	39	152	25	**1**	**-**
Total Cost of sales	760	742	568	**3,160**	**4,495**
Gross Profit	1,860	1,639	1,968	**4,866**	**6,390**
Operating Expenses:					
General and administrative	2,200	2,107	2,131	**3,439**	**3,775**
Transactions costs		-	-	**636**	**-**
Sales and marketing	823	998	982	**1,054**	**1,475**
Depreciation	12	9	8	**293**	**340**
Total Operating Expenses	3,034	3,114	3,121	**5,423**	**5,590**
Operating Income (loss)	(1,175)	(1,475)	(1,153)	**(557)**	**800**
Other income (expense)					
Gain on extingusihment of debt	419	-	-	**287**	**-**
Interest income (expense)	(610)	(866)	(981)	**(638)**	**(440)**
Total Other Income (expense)	(191)	(866)	(981)	**(350)**	**(440)**
Pre-Tax Income (loss)	(1,365)	(2,340)	(2,133)	**(907)**	**360**
Income Tax Expense (Benefit)	-	-	-	**(188)**	**-**
Net income (loss)	(1,365)	(2,340)	(2,133)	**(719)**	**360**
Earning (loss) per share	$ (0.08)	$ (6.60)	$ (5.76)	**$ (0.30)**	**$ 0.13**
Avg Shares Outstanding	17,373	355	370	**2,408**	**2,836**
Adjusted EBITDA	$ (944)	$ (1,159)	$ (707)	**$ 581**	**$ 1,200**
Margin Analysis					
Gross margin - Sale of software	78.4%	59.8%	95.4%	**73.9%**	**100.0%**
Gross margin - SAAS	51.1%	59.9%	70.3%	**73.5%**	**73.8%**
Gross margin - Maintenance services	87.5%	89.9%	91.4%	**85.9%**	**85.8%**
Gross margin - Professional services	56.1%	58.5%	57.3%	**49.1%**	**47.6%**
Storage and retrieval services	NMF	NMF	NMF	**74.0%**	**78.5%**
Gross margin - Third Party services	69.1%	12.7%	5.2%	**NMF**	**NMF**
Total gross margin	71.0%	68.8%	77.6%	**60.6%**	**58.7%**
General and administrative	84.0%	88.5%	84.0%	**42.8%**	**34.7%**
Sales and marketing	31.4%	41.9%	38.7%	**13.1%**	**13.6%**
Depreciation	0.5%	0.4%	0.3%	**3.7%**	**3.1%**
Operating margin	(44.8%)	(61.9%)	(45.5%)	**(6.9%)**	**7.3%**
Pre-tax margin	(52.1%)	(98.3%)	(84.1%)	**(11.3%)**	**3.3%**
Tax rate	0.0%	0.0%	0.0%	**0.0%**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues	0.7%	(9.1%)	6.5%	**216.5%**	**35.6%**

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Income Statement Model
Quarters 2019A – 2021E
(in thousands)

	Q1 19 A	Q2 19 A	Q3 19 A	Q4 19 A	FY19 A	Q1 20 A	Q2 20A	Q3 20 A	Q4 20 E	**FY20 E**	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**
Sale of software	$ 2	$ 7	$ 171	$ 10	$ 189	$ 94	$ 10	$ 54	$ 10	**$ 168**	$ 10	$ 10	$ 10	$ 10	**$ 40**
Software-as-a-service (SaaS)	199	230	214	216	860	226	249	282	285	**1,041**	290	300	320	350	**1,260**
Software maintenance services	253	253	248	258	1,011	261	314	340	345	**1,260**	345	350	355	360	**1,410**
Professional services	52	143	117	139	450	632	1,046	1,615	1,600	**4,893**	1,650	1,750	1,825	1,925	**7,150**
Storage and retrieval services	-	-	-	-	-	-	218	220	225	**663**	235	250	265	275	**1,025**
Third party services	10	8	6	2	26	0	-	-	-	**0**	-	-	-	-	**-**
Total Revenues	515	641	756	624	$ 2,536	$ 1,214	$ 1,836	$ 2,511	$ 2,465	**$ 8,026**	$ 2,530	$ 2,660	$ 2,775	$ 2,920	**$ 10,885**
Cost of Revenues per segement															
Sale of software	2	1	1	4	9	38	5	-	-	**44**	-	-	-	-	**-**
Software-as-a-service (SAAS)	68	61	68	59	255	73	71	66	67	**277**	75	80	85	90	**330**
Software maintenance services	29	21	18	19	87	47	32	49	50	**177**	50	50	50	50	**200**
Professional services	34	40	56	63	192	289	514	841	845	**2,490**	885	925	950	985	**3,745**
Storage and retreval services	-	-	-	-	-	-	43	65	65	**172**	50	55	55	60	**220**
Third party services	10	8	4	2	25	1	-	-	-	**1**	-	-	-	-	**-**
Total Cost of sales	142	130	148	148	568	448	665	1,021	1,027	**3,160**	1,060	1,110	1,140	1,185	**4,495**
Gross Profit	373	511	608	477	1,968	766	1,171	1,490	1,438	**4,866**	1,470	1,550	1,635	1,735	**6,390**
Operating Expenses:															
General and administrative	539	521	511	561	2,131	865	845	844	885	**3,439**	925	935	950	965	**3,775**
Transactions costs	-	-	-	-	-	461	176	-	-	**636**	-	-	-	-	**-**
Sales and marketing	269	222	249	242	982	244	230	285	295	**1,054**	335	365	375	400	**1,475**
Depreciation	2	2	2	2	8	28	87	89	89	**293**	85	85	85	85	**340**
Total Operating Expenses	810	745	761	805	3,121	1,598	1,337	1,219	1,269	**5,423**	1,345	1,385	1,410	1,450	**5,590**
Operating Income (loss)	(437)	(234)	(154)	(328)	(1,153)	(832)	(166)	271	169	**(557)**	125	165	225	285	**800**
Other income (expense)															
Gain on extingusihment of debt	-	-	-	-	-	287	-	-	-	**287**	-	-	-	-	**-**
Interest income (expense)	(233)	(239)	(245)	(263)	(981)	(290)	(117)	(115)	(115)	**(638)**	(110)	(110)	(110)	(110)	**(440)**
Total Other Income (expense)	(233)	(239)	(245)	(263)	(981)	(3)	(117)	(115)	(115)	**(350)**	(110)	(110)	(110)	(110)	**(440)**
Pre-Tax Income (loss)	(670)	(474)	(399)	(591)	(2,133)	(835)	(282)	156	54	**(907)**	15	55	115	175	**360**
Income Tax Expense (Benefit)	-	-	-	-	-	(188)	-	-	-	**(188)**	-	-	-	-	**-**
Net income (loss)	(670)	(474)	(399)	(591)	(2,133)	(646)	(282)	156	54	**(719)**	15	55	115	175	**360**
Earning (loss) per share	$ (1.81)	$ (1.28)	$ (1.08)	$ (1.60)	$ (5.76)	$ (0.54)	$ (0.10)	$ 0.06	$ 0.02	**$ (0.30)**	$ 0.01	$ 0.02	$ 0.04	$ 0.06	**$ 0.13**
Avg Shares Outstanding	370	370	370	371	370	1,186	2,811	2,811	2,825	**2,408**	2,830	2,835	2,840	2,840	**2,836**
Adjusted EBITDA	$ (215)	$ (90)	$ (93)	$ (310)	$ (707)	$ (180)	$ 104	$ 375	$ 283	**$ 581**	$ 225	$ 265	$ 325	$ 385	**$ 1,200**
Margin Analysis															
Gross margin - Sale of software	(5.5%)	83.6%	99.1%	56.6%	95.4%	59.3%	44.6%	100.0%	100.0%	**73.9%**	100.0%	100.0%	100.0%	100.0%	**100.0%**
Gross margin - SAAS	66.0%	73.7%	68.4%	72.7%	70.3%	67.9%	71.3%	76.7%	76.5%	**73.5%**	74.1%	73.3%	73.4%	74.3%	**73.8%**
Gross margin - Maintenance services	88.4%	91.9%	92.8%	92.4%	91.4%	82.2%	89.9%	85.5%	85.5%	**85.9%**	85.5%	85.7%	85.9%	86.1%	**85.8%**
Gross margin - Professional services	35.2%	72.1%	51.8%	54.8%	57.3%	54.2%	50.8%	47.9%	47.2%	**49.1%**	46.4%	47.1%	47.9%	48.8%	**47.6%**
Storage and retrieval services	NMF	NMF	NMF	NMF	NMF	NMF	80.5%	70.5%	71.1%	**74.0%**	78.7%	78.0%	79.2%	78.2%	**78.5%**
Gross margin - Third Party services	1.0%	0.8%	19.4%	5.0%	5.2%	NMF	NMF	NMF	NMF	**NMF**	NMF	NMF	NMF	NMF	**NMF**
Total gross margin	72.4%	79.7%	80.5%	76.4%	77.6%	63.1%	63.8%	59.3%	58.3%	**60.6%**	58.1%	58.3%	58.9%	59.4%	**58.7%**
General and administrative	104.6%	81.3%	67.6%	89.8%	84.0%	71.3%	46.0%	33.6%	35.9%	**42.8%**	36.6%	35.2%	34.2%	33.0%	**34.7%**
Sales and marketing	52.1%	34.6%	32.9%	38.8%	38.7%	20.1%	12.5%	11.4%	12.0%	**13.1%**	13.2%	13.7%	13.5%	13.7%	**13.6%**
Depreciation	0.4%	0.3%	0.3%	0.3%	0.3%	2.3%	4.7%	3.6%	3.6%	**3.7%**	3.4%	3.2%	3.1%	2.9%	**3.1%**
Operating margin	(84.7%)	(36.6%)	(20.3%)	(52.5%)	(45.5%)	(68.5%)	(9.0%)	10.8%	6.9%	**(6.9%)**	4.9%	6.2%	8.1%	9.8%	**7.3%**
Pre-tax margin	(130.0%)	(73.9%)	(52.8%)	(94.7%)	(84.1%)	(68.8%)	(15.4%)	6.2%	2.2%	**(11.3%)**	0.6%	2.1%	4.1%	6.0%	**3.3%**
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	(1.9%)	16.5%	12.3%	(1.4%)	6.5%	135.5%	186.6%	232.4%	294.8%	**216.5%**	108.5%	44.9%	10.5%	18.5%	**35.6%**

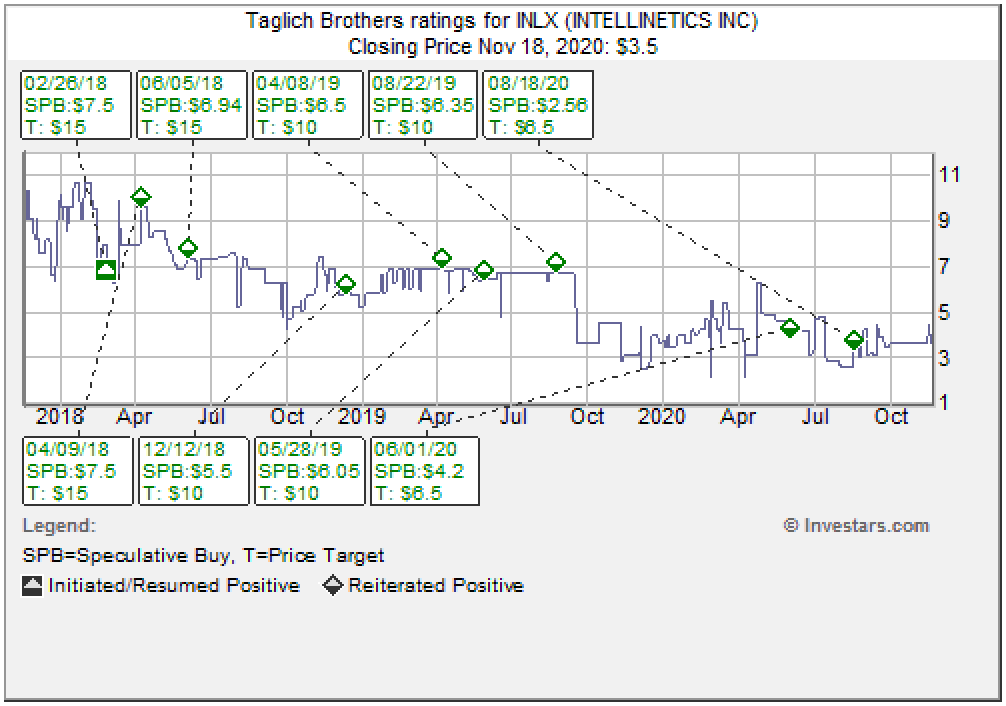
Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Cash Flow Statement
FY2018A – FY2021E
(in thousands)

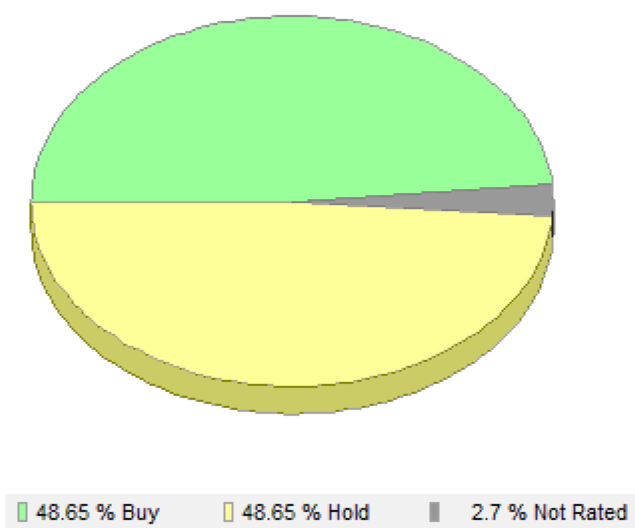
	FY2018A	FY2019A	9 Mos. 20A	**FY2020E**	**FY2021E**
Cash Flows from Operating Activities					
Net Income (loss)	$ (2,340)	$ (2,133)	$ (773)	**$ (719)**	**$ 360**
Depreciation and amortization	9	8	204	**293**	**340**
Bad debt expense	(7)	28	40	**40**	**-**
Loss on disposal of fixed assets - parts and supplies reserve	-	-	11	**11**	**-**
Amortization of deferred and original issue financing costs	233	184	109	**127**	**127**
Amortization of beneficial conversion option	202	71	12	**12**	**12**
Amortization of debt discount	-	-	62	**62**	**62**
Amorization of orignial issue discount on notes	-	12	-	**-**	**-**
Amortization of right of use asset	-	41	279	**279**	**-**
Stock issued for services	58	88	58	**75**	**100**
Stock options compensation	249	200	33	**45**	**45**
Note conversion expense	-	-	141	**141**	**-**
Warrant issue expense	-	-	237	**237**	**-**
Interest on converted debt	-	-	176	**176**	**-**
Gain on retirement of debt	-	-	(287)	**(287)**	**-**
Cash earnings (burn)	(1,597)	(1,502)	301	**492**	**1,046**
Changes In:					
Accounts receivable	167	(222)	333	**(785)**	**(246)**
Accounts receivable, unbilled	-	-	(204)	**(481)**	**4**
Parts and supplies, net	-	-	5	**(76)**	**(5)**
Prepaid expenses and other current assets	(0)	24	(26)	**(139)**	**(50)**
Right of use asset	-	(139)	-	**-**	**-**
Accounts payable and accrued expenses	(97)	63	(589)	**204**	**75**
Accrued interest, current and long-term	402	710	5	**70**	**100**
Lease liability	-	101	(270)	**469**	**-**
Deferred compensation	(48)	(48)	(16)	**(16)**	**24**
Earnout liabilities	-	-	-	**889**	**-**
Deferred revenues	15	30	70	**296**	**50**
(Increase)/decrease in Working Capital	440	520	(693)	**431**	**(48)**
Net cash provided (used in) Operations	(1,157)	(982)	(392)	**923**	**998**
Cash Flows from Investing Activities					
Purchase of property and equipment	(3)	(5)	(56)	**(60)**	**(75)**
Cash paid to acquire business, net of cash acquired	-	-	(4,019)	**(4,019)**	**-**
Cash flow provided (used in) Investing Activities	(3)	(5)	(4,075)	**(4,079)**	**(75)**
Cash Flows from Financing Activities					
Proceeds from issuance of common stock	-	-	3,168	**3,168**	**-**
Offering costs paid on issuance of common stock	-	-	(308)	**(308)**	
Payment of deferred financing costs	(131)	-	(176)	**(176)**	**-**
Issuance of convertible notes	-	-	-	**-**	**-**
Proceeds (repayment) from notes payable, net	900	-	2,939	**1,713**	**(543)**
Proceeds (repayment) from notes payable - related party, net	354	303	(48)	**-**	**-**
Net cash provided (used) by Financing	1,124	303	5,575	**4,397**	**(543)**
Net change in Cash	(37)	(684)	1,108	**1,241**	**380**
Cash Beginning of Period	1,126	1,089	404	**404**	**1,645**
Cash End of Period	$ 1,089	$ 404	$ 1,512	**$ 1,645**	**$ 2,025**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	15
Hold		
Sell		
Not Rated		

Important Disclosures

As of November 18, 2020, Taglich Brothers, Inc. and/or its affiliates own or have controlling interests in more than 1% of INLX common stock. Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 451,856 shares in shares of INLX common and restricted common stock (combined), and 58,181 restricted warrants and a principal amount of $23,684 in 12% 2019 bridge notes outstanding at April 13, 2020. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 164,688 shares in shares of INLX common and restricted common stock (combined), and 39,733 shares of restricted warrants issued and a principal amount of $23,684 in 12% 2019 bridge notes outstanding at April 13, 2020. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and Chairman of Intellinetics Inc., owns or has a controlling interest in 76,557 shares (the number of shares beneficially owned) of INLX common and restricted, which includes 28,712 shares of common stock underlying warrants issued. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 571 shares of INLX restricted common stock and 6,640 restricted warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 302,080 shares restricted warrants. Taglich Brothers, Inc., owns or has a controlling interest in 35,732 shares of restricted common stock and 225 warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 17,133 shares of INLX that may be acquired upon the exercise of warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In March 2013, Taglich Brothers, Inc. served as the placement agent for a common stock offering. In 2014, the company retained Taglich Brothers, Inc. as a placement agent for the sale of convertible notes the transaction. In November and December 2016, and January 2017, Taglich Brothers Inc. served as the placement agent in the sale of 12% convertible notes for the company. In September and November 2017 and September 2018, Taglich Brothers, Inc. served as the placement agent in the sale of 8% convertible notes for the company. In March 2020, Taglich Brothers acted as the placement agent for the sale of common stock and bridge notes for INLX.

All research issued by Taglich Brothers, Inc. is based on public information. In January 2018, the company paid Taglich Brothers a monetary fee of $4,500 (USD) representing payment for the creation and dissemination of research reports for three months. In June 2018, the company began paying Taglich Brothers a monthly monetary fee of $1,500 (USD) for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Intel Corporation	(NASDAQ: INTC)	Iron Mountain Incorporated	(NYSE: IRM)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.