

INSCOR, INC.

The Solution to the Municipal Financial Crisis

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INSCOR, INC. (OTC:PK – IOGA - \$0.40)

Target Price: \$3.25

Rating: Speculative Buy

COMPANY SNAPSHOT

INSCOR specializes in the education and marketing of the *FIT OPEB* plan to municipalities and corporations as a low-cost solution to funding retiree and other employee benefits. A *FIT* plan variation also works for affluent individuals, entertainers and professional athletes - whether for estate planning or funding cash flow needs. INSCOR's "*FIT*" (*Financed Insurance Trust*) strategy uses a combination of favorable financing terms, innovative uses of specific life insurance products and trusts - all of which result in minimum levels of out-of-pocket costs for producing significant future funding and revenue stream opportunities.

KEY STATISTICS

Price as of 4/9/13	\$0.40
52 Wk High – Low	\$2.00 – 0.025
Est. Shares Outstanding	265.3M
Market Capitalization	\$106.1M
3 Mo Avg Vol	7,000
Exchange	OTC:PK

COMPANY INFORMATION

INSCOR, Inc.
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INVESTMENT HIGHLIGHTS

The current financial crisis has taken its toll on government entities. Retiree health care and Other Post-Employment Benefits (OPEB) plans, especially those run by governmental entities, remain largely unfunded. Recently implemented GASB 45 accounting rules reveal unfunded liabilities in excess of \$1.5 trillion among state and local governments.

Governments are limited as to existing options to fund these liabilities. Municipalities can attempt to raise taxes, cut spending in already reduced budgets, but these steps tend to be universally unpopular.

IOGA has developed what may be the only low-cost solution to funding retiree and other employee benefits without raising taxes or issuing new bonds. This method has been used by Fortune 500 companies and IOGA tailored it toward the 67,000 government and agency markets in the U.S.

INSCOR's "*FIT*" (*Financed Insurance Trust*) innovative strategy generates substantial cash flow to fund these OPEB liabilities at little or no out-of-pocket costs to the municipalities. Plus, *FIT* for high-net worth individuals could be a sleeper revenue driver in the athlete market.

IOGA expects to begin generating meaningful revenue in 2013, following 2 years of marketing the *FIT* product. We expect that IOGA could generate \$52M in revenue and EPS of \$0.02 in 2013 and \$140M and \$0.18 EPS in 2014.

IOGA is positioned to generate substantial and recurring revenue and earnings as the only real solution to the municipal financial crisis. Our \$3.25 12-18 month target is based upon 18x our FY14E EPS estimate. *With only 4.3M shares in the public float*, as IOGA executes, the stock could quickly exceed our target. We rate the stock Speculative Buy.

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INSCOR OVERVIEW

INSCOR, Inc. specializes in providing solutions to high cost of funding post-retirement benefits. Every day, the news reports another city or large company has declared bankruptcy. In each case, the cause is nearly always the same—the cost of funding defined benefit plans simply outpaces revenues.

Ironically, one of the primary reasons these cities are in such trouble is that they are going broke paying the salaries of people that no longer even work there.

INSCOR has developed unique funding solutions utilizing high cash-value life insurance contracts combined with low-cost financing that allow cities and large companies to remove the burden of funding retirement benefits. INSCOR markets a variation of the plan to affluent individuals as well, especially those whose income potential is limited to a short period, such as athletes and entertainers.

Today, many retiree health care and Other Post-Employment Benefits (OPEB) plans, especially those run by governmental entities, remain largely unfunded due to the financial crisis. In the past, accounting rules enabled municipalities to use “pay as you go” accounting. However, with the advent of GASB 45 accounting rules, it has been revealed that unfunded liabilities are in excess of \$1.5 trillion among the 67,000 state and local governments and agencies.

Unfortunately, this situation leaves governments in a major bind as there are no real, practical, and low-cost existing options to fund these liabilities. After all, cities and counties have had their ratings slashed, budgets cut to the bone, and some have even filed for bankruptcy protection. As a result, attempts to raise taxes, implement further cuts in spending in already reduced budgets, or floating bonds are non-starters with voters.

Separately, the current financial morass has led to many stories in the press regarding the financial difficulties of entertainers and professional athletes. These stories highlight the need for affluent individuals seeking solutions for estate planning or funding cash flow needs to engage in innovative strategies today—even if one is not in financial distress.

The FIT OPEB Model

Management has spent more than 2 years educating and marketing its *FIT OPEB* solution to key government leaders across the country. With so many municipalities in distress, INSCOR has elected to focus its energies on the highest rated (by Moody's, S&P, and Fitch ratings services) municipalities, as these entities can enjoy the greatest benefit and INSCOR's execution capabilities are highest.

The innovative Financed Insurance Trust OPEB plan, or *FIT OPEB* plan, is a customizable solution developed by INSCOR which combines the procurement of specifically-designed life insurance on active employees using funds borrowed from the financial sector, or bond issuance, and secured by the insurance policies themselves.

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The plan, which in large measure has been used by Fortune 500 companies (especially banks) for many years, is modeled to provide an income stream from policy proceeds based on predictable employee termination, employee mortality, and yearly withdrawals from policy cash values.

As a result, a *FIT OPEB* plan can provide a cash stream to support each year's OPEB obligations, plus fund future OPEB liabilities with little or no spending increases, tax increases, or reduction in benefits.

It should be noted that with interest rates at historical lows, highly-rated municipalities that implement the *FIT OPEB* now are also able to benefit from incredibly low initial costs.

As part of the marketing and execution of INSCOR's *FIT OPEB* plan, the Company has engaged Actuarial Risk Management, Ltd. ("ARM") to conduct independent, comparative, actuarial analysis of its flagship solution, *FIT OPEB*. By adding the tools and evaluation services provided by ARM, government officials can now be provided with critical, independent insight into the benefits of implementing the *FIT OPEB* solution. In addition, INSCOR anticipates that the resulting analysis will go beyond just providing independent verification supporting governmental use of *FIT OPEB* plans. The analysis will also provide governments with back-tested comparisons of other options and provide them with all of the information required to make informed decisions. Furthermore, the incorporation of the ARM data should also serve as a new deal and revenue catalyst for the Company with corporations.

The *FIT* Plan for Individuals

A *FIT* plan variation also works for affluent individuals, entertainers, and professional athletes—whether for estate planning or funding cash flow needs. INSCOR's "*FIT*" (*Financed Insurance Trust*) strategy uses a combination of favorable financing terms, innovative uses of specific life insurance products and trusts—all of which result in minimum levels of out-of-pocket costs for producing significant future funding and revenue stream opportunities. We note that with the help of Vice Chairman of the Board, Dominique Wilkins, a former NBA star and NBA Hall-of-Famer, the *FIT* for high-net worth individuals could be a sleeper revenue driver in the athlete market.

Frankly, the *FIT* plan for individuals should be a requirement for all athletes and entertainers. After all, these figures typically have a very short earning career, and thus require a program that provides a lifetime of income.

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The Three Primary Components of *FIT OPEB* and *FIT* Plans include:

Financing: Financing through established lenders with favorable terms specifically-designed to fund the premiums for life insurance.

Insurance: Typically, Indexed Universal Life policies through a select group of companies are used in *FIT* strategies. The policies must offer the potential for high cash value growth without risk.

Trust: *FIT* plans are generally modeled with a specifically designed trust to own the policy in order to provide for important benefits, including preservation of all tax benefits, protection against out-side creditors, and the availability to access the cash.

Interestingly, the success of *FIT* strategies is derived from the arbitrage that exists between the interest rate credited to policy cash values and the interest rate charged by the lender to fund the policy. An estimated 2% spread in the arbitrage over time will generally be sufficient in most plans to fully fund a life insurance policy without requiring much, if any, out-of-pocket expense.

On the financing side, INSCOR management has significant capabilities and relationships in which to execute financing for municipalities, corporations, and individuals. It should be noted that premium financing loans are considered among the safest in the industry since they are backed by the guaranteed liquidity of life insurance cash values and the strength and reputation of the life insurance companies. The security of these loans, when coupled with the current low interest rate environment, results in lending terms that are extremely favorable. Loan rates are typically LIBOR plus 1-2% over 1 - 10 years and the cash value of the life insurance provides the bulk of the collateral on the loan.

THE REVENUE MODEL

INSCOR's diverse target market and first-mover advantage as the only viable low-cost option to fund OPEB liabilities should result in high revenue growth and profitability.

On the *FIT OPEB* side, the Company's target market is huge. Nonetheless, INSCOR has established a core "hit list" of prospects that have relatively high credit ratings, yet unfunded OPEB liabilities over the past two years, that will enable meaningful revenue to occur during the second half of 2012. On average, INSCOR's target prospect has 4,000 – 5,000 employees and the anticipated employee life insurance sign-up rate is 20-25%. According to our model, an average municipal contract should result in a contract value of \$15.2 million, of which \$9.1 million is booked in Year 1, and the balance amortized equally over 4 years.

On the individual *FIT* side, we estimate that an average contract could be worth \$700,000 in revenue, with 60% booked in Year 1 and the balance amortized equally over 4 years. Beginning in mid-2013, we expect that

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management will hire regional sales managers to mine the existing prospects and develop new ones in the municipal world, while also hiring personnel in sales, marketing and administrative roles.

COMPETITIVE ADVANTAGES

In our view INSCOR has a number of advantages over the present competition, including at least a two-year head start against any prospective competitors.

- First mover advantage
- Only viable, low-cost solution for municipal market that does not include raising taxes or issuing new bonds
- Relationship with actuary firm to provide independent evaluation and back-testing
- Key executives have a combined 80+ years in the insurance industry
- Diverse corporate and individual tailored, target market strategies
- Highly profitable model with recurring revenue streams

RISK FACTORS

INSCOR's biggest risk is timing. Since the Company is primarily working with municipalities which tend to be slow to move and delays in execution are not uncommon. However, since management has been working on a large "hit list" for nearly two years, we believe that this risk is muted. Another related issue for the Company is the education of the municipal and individual market. Since this is a new concept (in the municipal world but not the corporate world) it may take longer to educate and execute, or require multiple, smaller sign-ups, before INSCOR gains traction. Sign-ups by employees may also impact our revenue forecast, but only incrementally. Slower sales penetration as a result of competition from larger firms is possible, but we deem it unlikely as they have not shown an interest in engaging in this concept at this time as they have elected to focus on other revenue channels.

EXECUTIVE LEADERSHIP

Keith McAllister, Chairman

Mr. McAllister has an impressive history of successful ventures. Before founding International Oil & Gas Holding Corp., Mr. McAllister most recently co-founded Mobile Wireless Security (MWLS), which offered wireless streaming video security solutions. Prior to that he was president of Entertainment Direct TV, which was acquired by Broadband Wireless International Corporation, where he served as co-Chairman and CEO. Mr. McAllister was CEO of Dudley Bernichi Diamonds in Cape Town, South Africa, exporting investment grade diamonds from South Africa to North America from 1998 through 2000. Mr. McAllister developed his international business experience as a restaurateur and nightclub owner of five properties in Detroit, Toronto and Cape Town. Mr. McAllister attended the University of Wisconsin.

INSCOR, INC. (OTC:PK IOGA)**Richard Doerr, Chief Executive Officer**

Prior to joining INSCOR, Mr. Doerr has served as a partner and managing member of CPS Nevada Insurance Services, a highly regarded and successful national brokerage. Mr. Doerr's experience included thirteen years as regional brokerage manager for CNALife Insurance Companies and general agency owner for several top insurance companies dating back to the 1984. Mr. Doerr's focus over the past few years relative to the formation of INSCOR has been the development of strategic partnerships and relationships with professionals and financial institutions in the creation of financing insurance strategies. Specifically, these strategies include liquidity and funding solutions for high net-worth clients, corporations and municipalities.

Richard Krabbeler, President

Mr. Krabbeler has significant agency building experience as a sales Manager with the Equitable in the 1980's and later as manager of Mutual of Omaha's largest and most successful sales organization. Mr. Krabbeler's focus in successful business development with CPS will continue as President of INSCOR. In addition, he is working closely with key strategic partners in expanding high-level relationships with municipalities and corporations for the education and marketing of INSCOR's *FIT* programs.

Dominique Wilkins, Vice Chairman

The most celebrated player to ever put on a Hawks uniform, Hall-of-Famer Dominique Wilkins enters his seventh season as the Hawks' Vice President of Basketball. Previously the team's Special Assistant to the Executive Vice President and Player Development Assistant, Wilkins works in various management functions within the organization's basketball and business areas, and as the team's analyst for the Hawks broadcast networks.

Extremely active with local and national charity endeavors, Wilkins has done work with the Juvenile Diabetes Research Foundation, Cystic Fibrosis Foundation, Special Olympics, Muscular Dystrophy Association and American Lung Association. In July 2007, Wilkins launched "Nique and Newt's Full-Court Press on Diabetes" with former Speaker of the United States House of Representatives, Newt Gingrich. In March 2010, Wilkins was honored by the Georgia State Legislature as they presented a State Resolution naming him the Diabetes Ambassador for the state of Georgia.

Wilkins, 50, was born on January 12, 1960 in Paris, France. He is also the proud parent of beautiful kids and he joined basketball's immortals with his entry into the Naismith Memorial Basketball Hall of Fame on September 8, 2006, was inducted into the Georgia Sports Hall of Fame on April 3, 2004, and into the Atlanta Sports Hall of Fame's inaugural class on June 10, 2005.

Mark Bolt, Vice-President, Sales

Mark was the co-founder of the Shepherd mutual funds, a proprietary family of mutual funds, co-founder of Access Fund Management, LLC, a family of sub-accounts in a Western Reserve Life variable annuity, served as President of Shepherd Advisory Services and is founder of Doulos Financial Group, Inc., an independent insurance marketing firm that focuses primarily on creating insurance strategies for high-net worth individuals and companies to solve funding solutions for business, retirement and estate planning issues.

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FINANCIALS

As noted above, it is a bit difficult to forecast revenue for the Company on a quarterly basis, but we feel confident in management's ability to execute. Furthermore, while our forecasts appear to be unusually high on the surface, the nature of the model is simply one that is comprised of few, large deals, with large upfront revenue recognition and recurring revenue streams. In addition, the model does not require a great deal of administrative or marketing expenses once a deal is consummated.

For 2013, we project a small deal will be closed in Q2, to be followed by the closing and recognition of average-sized contracts in Q3. Our Q4 forecast of \$14.8 million reflects 60% revenue recognition of the 4-year revenue recording cycle and should result in \$0.02 EPS.

For the full-year 2013, we project total revenue of \$15.8M in revenue and EPS of \$0.02. These estimates reflect a total of 7 signed and executed municipal contracts, along with individual *FIT* contracts. For FY14, we preliminarily estimate revenue of \$140M and EPS of \$0.18. Our FY14 projections assume recurring revenue recognition from the deals executed in FY13, as well as the signing of 16-20 new *FIT OPEB* and a number of *FIT* contracts.

It should be noted that unlike the *FIT OPEB* segment, we do not have a significant number of individual *FIT* contracts estimated in our model, even though some of these contracts could be significantly higher than the \$700,000 average. Once a few of these contracts are implemented, we will revise our model accordingly.

In addition to the variability in our revenue forecasts due to new deal execution timing, there is also some variability in our estimates on items both above and below the operating line due to the nature of the launch of a pioneering business model. We do not believe that our expense forecasts will be materially different from our current estimates, but will review them following the release of 3Q13 financial results.

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Table I. Projected Income Statement

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(in thousands, \$)

	<u>FY12</u>	<u>1Q13E</u>	<u>2Q132E</u>	<u>3Q13E</u>	<u>4Q13E</u>	<u>FY13E</u>	<u>FY14E*</u>
Revenue	\$336	\$125	\$125	\$684	\$14,820	\$15,754	\$140,000
Cost of Sales	\$0	\$0	\$0	\$205	\$4,446	\$4,651	\$42,000
Gross Profit (Loss)	\$336	\$0	\$125	\$479	\$10,374	\$10,978	\$98,000
<u>Operating Exp</u>							
SG&A	\$388	\$100	\$100	\$150	\$500	\$850	\$10,000
Operating Inc (Loss)	(\$52)	(\$100)	\$25	\$329	\$9,874	\$10,128	\$88,000
Interest Expense	\$3	\$0	\$5	\$0	\$0	\$5	\$0
Interest Income	\$0	\$0	\$0	\$0	\$100	\$100	\$3,000
Taxes	\$0	\$0	\$0	\$99	\$3,591	\$3,689	\$32,760
Net Income (Loss)	(\$55)	(\$100)	\$20	\$230	\$6,383	\$6,534	\$58,240
Net Inc. (Loss) per Share	(\$0.00)	(\$100.00)	\$0.00	\$0.00	\$0.02	\$0.02	\$0.18
Est. Shares Outstanding	265,000	270,000	275,000	300,000	310,000	284,000	330,000

* denotes preliminary estimate

VALUATION AND CONCLUSION

INSCOR's diverse target market and first-mover advantage as the only viable low-cost option to fund OPEB liabilities, and the best available offering that ensures a lifetime of income for celebrities, should result in high revenue growth and profitability. In our view, after Q2, INSCOR could see dominoes fall in their favor, with a number of prospects coming on line very quickly. Furthermore, there is clearly meaningful upside potential in FIT sales as well.

Our \$3.25 twelve-eighteen month price target is based upon only 18x our FY14 EPS estimate, which is typical for a hyper-growth company. Given that there are only 4.3M shares in the public float, as INSCOR executes, there is a strong possibility that the stock exceeds our target inside of 12 months. We rate the stock Speculative Buy.

**INSCOR, INC. (OTC:PK IOGA)****Analyst: Robert Goldman**

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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