



INTK (Pink Sheets) \$0.14

Rating: Speculative Buy

Price Target: I/T \$0.50 L/T \$1.00

Report Type UPDATE

May 21, 2008

INDUSTRIAL NANOTECH, INC.

COMPANY PROFILE

Industrial Nanotech develops, manufactures and markets industrial grade coating products.

Reason for Update: Q1 Results, Recent Announcements

MARKET DATA

52-Week High/Low	\$0.26/\$0.12
Ave. Daily Volume (Approx)	180,000 sh
Shares Outstanding (Approx)	166.6 Mil sh
Fully Diluted (Approx)	N/A
Public Float (Approx)	N/A
Short Interest/Ratio (Approx)	N/A

FINANCIAL DATA

Market Capitalization (Fully Diluted)	\$23.3 Mil
Cash & Equivalents (3/31)	\$16,801
Short-term Debt (3/31)	\$602,000
Long-term Debt (3/31)	0
Total Debt/Equity (Approx)	N/A
Total Debt/Total Capitalization (Approx)	N/A

	Revenues	EPS	OCF
Q1	\$ 117,605	0.00	\$ 1,597,581
Q2	\$ 99,104	(0.01)	\$ (410,865)
Q3	\$ 45,779	0.00	\$ (36,560)
Q4	\$ 107,198	(0.01)	\$ 55,119
2006**	\$ 369,686	(0.02)	\$ 2,447,556***
Q1	\$ 130,205	(0.00)	\$ (661,525)
Q2	\$ 108,049	(0.01)	\$ (702,580)
Q3	\$ 198,665	0.00	\$ (779,502)
Q4	\$ 339,095	(0.01)	\$ (659,082)
2007	\$ 779,014	(0.02)	\$ (2,802,689)
Q1	\$ 389,848	(0.01)	\$ (668,675)
2008E	\$ 1,800,000	0.07	\$ (600,000)

*EPS figures are rounded.

**2004-2006 numbers are being/or have been revised

***2006 full year OCF number has been revised, we do not have individual quarterly 2006 revised numbers.

BRIEF SUMMARY

Industrial Nanotech's coatings products are designed to provide thermal insulation, to inhibit rust and prevent mold and corrosion. The primary component of their product line has been developed using nanotechnology, providing their products with what the company believes are superior performance qualities and competitive advantages.

Ira Zadikow
Pro-Active Research Group

Research Analyst
646 315 7070

HIGHLIGHTS

- Industrial Nanotech is an intriguing example of applying the science of nanotechnology to the improvement of the production of basic materials, in their case specialty coatings for the industrial and consumer marketplace.
- The size of the upcoming Petrobras project is approx. \$5.8 million. The Petrobras order marks an extremely important turning point for the company. The company is now indicating a Q3 start for this project.
- DEBA order for approximately \$1,000,000 is extremely important to the company and will generate approximately \$300,000/quarter.
- Introduction of new Nansulate EPX product should generate approximately \$500,000 in revenues over the next few months.
- The co. is building momentum with a host of smaller orders from distributors and end-users in addition to occasional substantial, but lumpy, larger orders.
- The company continues to add distributors, increase their product offerings and expand their customer base.
- Reiterate our Speculative Buy rating.

www.industrial-nanotech.com

www.nansulate.com



PLEASE READ THE IMPORTANT DISCLOSURES AND CERTIFICATIONS AT THE END OF THIS REPORT

BUSINESS SUMMARY

Industrial Nanotech develops, manufactures and markets industrial grade coating products for the industrial and consumer marketplace. The products are designed to provide insulation, inhibit rust and to prevent mold and corrosion. The primary component of their product line has been developed using nanotechnology, providing their products with what the company believes are superior performance qualities and thus competitive advantages.

The co. manufactures and distributes a line of liquid applied coating products under the Nansulate name that are designed to insulate and to also inhibit rust and moisture, therefore preventing rust and corrosion. The coatings are used for both indoor and outdoor applications. Since it also provides a clear coating, it also has an advantage by allowing the visual inspection of the substrate (the product being coated) through the external coating. The company's line of Nansulate products are in essence improved versions of currently accepted and widely used coating and insulation products. The improvements have been accomplished through nanotechnology, and the co. believes that this provides them a significant advantage.

All of the company's products are marketed under the "Nansulate" name, with various versions available for specific uses and end markets. The major component of Nansulate is the proprietary Hydro-NM-Oxide, which is a nanocomposite. It is this component, which has been created through nanotechnology, that has provided Nansulate with its superior qualities as a coating product. The Nansulate product line offers several superior benefits and advantages over currently marketed "conventional" products, and is intended to provide economic savings to end-users by reducing their energy and maintenance costs.

UPDATE: Q1 RESULTS, RECENT ANNOUNCEMENTS

Q1 RESULTS

Revenues for the company's Q1 were \$389,848, the highest quarterly revenues for the company to date. The company had previously "previewed" these results on April 1. See detail later in this report.

RECENT ANNOUNCEMENTS

On May 20 the company announced that a Petrobras technical executive will be visiting the company in the summer to outline project specifications for Nansulate EPX to potentially be used for several Petrobras projects. The company mentioned that the long awaited Petrobras pipeline project involving Industrial Nanotech is now scheduled to begin in Q3 (July-September). The company also mentioned that several major oil and gas companies have held discussions with the company regarding potential uses of Nansulate EPX.

On May 7 the company announced the commercial production availability of their most recent product introduction, Nansulate EPX. The product has a very high thermal insulation capacity combined with excellent fire and chemical resistance. The company has begun shipping product to those distributors that have pre-ordered it. The company was not specific as to the monetary value of those orders, however, recently the company did indicate that those orders were valued at approximately half a million dollars. We would assume that revenue recognition for those shipments will occur in the second and third quarters. Our 2008 revenue estimate for the company is currently \$1.8 million, and we would note that between existing orders and ongoing business the company should be relatively assured of achieving that goal. We would note that we are tempted to increase our estimates, however we will not do so as of yet. We would also note, as we have in the past, that the timing of the upcoming Petrobras order will be a major swing factor for the company, with that project now expected to commence in Q3. The company also announced that the manufacturing of Nansulate EPX commenced at "their" new manufacturing and distribution facility in New Brunswick, NJ, but it was unclear from the announcement what exactly their interest is in this facility.

FINANCIALS

Q1 2008

Q1 revenues were \$389,848, the highest quarterly revenues for the company to date. We would again note that at this point revenues are generally difficult to project due to the lumpy nature of orders and the timing of revenue recognition. In addition, for orders that are announced, very often the value of the order is not specified. The DEBA order should however mollify this lumpiness for the near-term, until the Petrobras project commences, now expected in Q3.

Revenues for their Q1 were \$389,848 vs. \$130,205 for their Q1 of 2007, up 200% year-to-year, and up 15% sequentially from their Q4. EPS was a loss of \$(0.01) vs. an EPS loss of \$(0.02) for their Q1 of 2007. Their Operating Cash Flow (OCF) loss was \$(668,675) vs. an ocf loss of \$(661,525) for their Q1 of 2007.

FUNDING

CASH

The company's cash levels have been extremely low, and they exited their Q1, March 31, with \$16,801. In addition we would note that their Q1 financial filing indicates negative stockholder's equity of \$(1,865,746), their fifth consecutive negative quarter. The co. has been generating revenues, however not at a sufficient enough level to offset cash usage, and has thus been running a cash flow deficit. The co. has been funding ongoing operations by issuing stock in private transactions or raising funds in note sales. We would assume that the co. will continue to pursue additional financings, at least in the near-term. The DEBA order (shipments commenced in mid March, with revenue recognition begun in their Q1) should provide a degree of near-term stability as far as revenue visibility. It is the upcoming Petrobras order, which as we've noted has been pushed back but is now expected to commence in Q3, that should greatly relieve intermediate-term liquidity and viability concerns.

DEBT

The company as of March 31 had a short-term debt position of approx. \$602,000, in addition to other liabilities. (We would note that we believe that this short-term debt, a "related party note", (or at least a major portion of it), consists of monies borrowed from the primary principals of the company).

CUSTOMERS AND NEAR TERM OPPORTUNITIES

PETROBRAS - POTENTIAL GAME-CHANGER

PETROBRAS

Easily the company's most important pending project is the previously mentioned pipeline project with Petrobras. This project, and the Petrobras relationship in general, should proven to be a game-changing event for Industrial Nanotech. The company's quarterly revenues have recently been upwards of \$300,000, and the Petrobras order is expected to be substantially above these levels. The Petrobras project is now expected to commence in Q3 (July-September), in which case we would then expect revenue recognition in Q3 or Q4.

The estimated value of the Petrobras project is currently expected to be approximately \$5.8 million. The pipeline is going to be coated with the company's Nansulate. The length of the pipeline has been extended and portions of it have been widened. The co. has announced a new application process that will be used on the Petrobras project that reduces application times by a very substantial amount and could greatly increase the company's profit margins.

Petrobras (Petroleo Brasileiro-PBR-NYSE) is one of the fifteen largest oil companies in the world, operating in North and South America, Africa and Asia. Industrial Nanotech has been fostering a relationship with Petrobras for approximately two years. There is a strong likelihood of additional follow-on business from Petrobras, and also the strong possibility that this order greatly increases the visibility and recognition of Industrial Nanotech in the oil & gas field as well as in the marketplace in general.

DEBA CONTRACT

On October 22 the company announced that Kolorgen, their distributor in Turkey with whom they've enjoyed a very beneficial relationship, signed a contract with Denizli Basma ve Boya Sanayii a.s. (DEBA), one of the region's largest garment manufacturers, to purchase approximately 10,000 gallons of Nansulate High Heat. The order's value was not stated, although the company did state that the "retail" value of the order was approximately \$800,000. We would note that in the company's update of Feb. 4, 2008 the value and size of this order was mentioned in larger terms, approximately 14,400 gallons with an approximate value of over \$1,000,000. On March 11 the company announced the shipment of their first container. Shipments are expected to consist of approximately 4,300 gallons per quarter (1,400 gallons per month) until completion, which is expected to take approximately 10 months. This breaks down to approximately \$70/gallon, or approximately \$300,000 per quarter.

This is a substantial order for the company, especially considering that the company's revenues for their Q3 of 2007 were slightly less than \$200,000, their Q4 revenues were \$339,095 and their Q1 revenues were \$349,848. The company began recognizing revenues from this order in their Q1 and revenues will be recognized for each container shipped. We would expect revenues to be recognized through their Q4, and possibly into their Q1 of 2009. We would also note that the timing of this order is extremely important to the company, especially due to the push-out of the Petrobras order.

KOLORGEN

As mentioned, Kolorgen is the company's distributor in Turkey, and has been very successful in placing Nansulate in over twenty dyehouses (textile plants) throughout Turkey. Dyehouses operate in extreme temperature environments, and Nansulate has been used to provide thermal insulation and corrosion protection on high temperature pipes and other manufacturing equipment.

As previously mentioned, Kolorgen fairly recently signed an important contract with DEBA, valued at approximately \$1,000,000 to be shipped over an approximate ten month period.

Industrial Nanotech is also working on several specific products (Nansulate coating variations, upgrades, etc.) as requested and outlined by "several major multinational corporations". The successful development of these products would obviously not be a guarantee of contracts and sales, but it's a very important avenue for the company to pursue and could potentially have very positive implications for the co.

The co. is pursuing a wide range of sales opportunities, both commercial and consumer. The co. is also pursuing OEM (original equipment manufacturer) deals, and we'd note a couple of extremely important points regarding that market. The obvious would be the many positive ramifications emanating from OEM deals with any clients of note, as far as name recognition, revenues, etc. However, there's one additional very important consideration. OEM deals would most probably be intermediate to longer-term recurring contracts/orders, thus adding an ongoing, recurring and somewhat predictable revenue stream, which could be extremely beneficial to the company on an ongoing basis.

The co. is currently pursuing the consumer retail, homeowner and contractor markets in addition to the corporate/OEM markets. Their PlaceMakers deal in New Zealand is the company's largest retail outlet opportunity to date. The company wants to increase their addressable markets, and there is one additional key factor. Though corporate and OEM sales would be substantially larger, and most probably would also be on a longer term recurring basis, the corporate sales cycle can be very long and tedious and extremely difficult to predict. To make the ongoing revenue stream somewhat more predictable and less "lumpy", a retail stream of a higher volume of orders, even though of much smaller size, would be very beneficial.

We believe that the extremely large variety of industries and sectors that have either awarded INTK contracts, or are expressing interest and testing their products, is a testament to the end market potential that is available to the company. The company is currently in negotiations, and/or in various stages of testing, with various OEM's, various other end-user customers and distributors and retail outlets, both domestically and internationally.

UPCOMING CATALYSTS/BENCHMARKS

- The DEBA order, now valued at approximately \$1 million, commenced shipping in March, with revenue recognition begun in their Q1.
- Petrobras shipments are now expected in approximately the Q3 timeframe, and should be a major turning point for the co. This should obviously be an extremely significant event for the company and has the potential to generate noticeable attention for the company as well.
- Traction of new Nansulate EPX product.
- Contracts/Purchase Orders/New Customer Announcements.
- Additional product testing with OEM's and other potential customers.
- Trade shows, increased marketing and advertising.
- Additional Patent Issuances.
- Licensing/Private Labeled Products/Partnership Announcements.
- Increased visibility in trade publications (news, attention, buzz).
- Improvements and increased breadth for the Nansulate product line.

These developments should all attract additional attention to the co. among the industry, potential customers and distributors, the media, the public, investors and the Wall Street community.

SUMMARY/PROJECTIONS

The company's Q1 results were the highest quarterly revenues in the company's history, and higher than the company's pre-announced results. Revenues from the initial shipment of the DEBA contract were included in these results. Besides the ongoing DEBA contract, revenues from shipments of the company's new Nansulate EPX product should be recognized over the next couple of quarters and the Petrobras order should commence in Q3.

On May 20 the company issued a press release including several potential positives for the company. A Petrobras representative will be visiting the company this summer to discuss potential Nansulate EPX applications, the long delayed Petrobras pipeline project is scheduled to begin in Q3 and the company has been in discussions with several "major" oil & gas companies regarding potential Nansulate EPX uses. All of these are positive developments with potentially important implications, especially a projected Q3 timeframe for the commencement of the Petrobras pipeline project, which should be reassuring to many. We could then potentially see Petrobras revenue recognition beginning in Q3 or Q4. Again, this should not only be an extremely substantial source of revenues to the company, but should also serve as a very important milestone for the company in terms of increased marketplace recognition.

The company recently began shipping their new Nansulate EPX product, with pre-orders from distributors valued at approximately \$500,000. Our 2008 revenue estimate for the company is currently \$1.8 million, and between existing orders and ongoing business the company should be capable of achieving that goal. We would also note, as we have in the past, that the timing of the upcoming Petrobras order will be a major swing factor for the company.

The company has been building momentum over the past couple years, with signs of continuing progress and acceptance of the company's products. Additional distributors have been added, product trials are ongoing and business discussions are proceeding. The co. is beginning to enjoy the fruits of their labors, and the Petrobras order is a coup and a potential game-changer for the co.

We are positive on the company, acknowledging the fact that this is still an emerging growth company and story. The company has much work to do in terms of sales, personnel, funding, and primarily, establishing themselves as a recognized and viable entity in their industry. The next one to two years will be very important for the development of the company, and there is obviously still risk to the story. However, we feel that the company has enough of a product edge and is generating enough momentum to remain competitive and to establish themselves in the industry. They've developed a product line suited to extremely large and stable markets, a product line that seems to be a superior and economically affordable product. Their combination of nanotechnology with basic materials provides the opportunity for a vast array of end-user applications and excellent growth potential.

We are looking for gradual but continuing progress at the co. in terms of purchase orders, contracts, revenues, additional distributors and trials. Their order with Petrobras is a potential company game-changer and their \$1,000,000 order with DEBA/Kologen is very positive. We anticipate lumpiness in revenues and orders continuing in the near future until the company establishes a firmer and wider customer and distribution base, which we anticipate developing in 2009.

We would note that we are endeavoring to be somewhat conservative in our approach to the company. We endeavor to focus on the co. as a “basic materials” co. (with its main component produced through nanotechnology), while others will tend to view the co. as a nanotechnology co. (that happens to be in basic materials.) The former approach is admittedly somewhat staid and potentially mundane, the latter approach can lead to much greater exuberance and attention. The former approach would tend to result in less stock volatility, the latter approach more. We do not mean to discount the positive benefits derived from the science of nanotechnology. We are just striving to focus on the tangible benefits and commercial applications, sales and opportunities.

We would also note that nanotechnology stocks can be volatile, can react disproportionately to news, and oftentimes tend to trade as a group. Such news as issuances of patents, products, contracts and partnerships can cause large and rapid percentage stock price moves. We might expect such developments to potentially occur with INTK as well.

Apart from these occasional trading movements of probably limited duration, we are positive on Industrial Nanotech, and we do believe that the company will ultimately be a successful nanotechnology based enterprise. The company needs to achieve many milestones over the next one to two years in order to firmly establish themselves in the marketplace. (We would also repeat, it’s easily conceivable that the stock price itself could make several price moves even though the co. itself would still have much to accomplish and prove.)

Industrial Nanotech, Inc.

Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2008	2007
Income		
Revenue	\$ 389,848	\$ 130,205
Less: Cost of Goods Sold	<u>221,338</u>	<u>59,705</u>
Gross Profit	168,510	70,500
Expenses		
Sales and Marketing	30,186	23,286
General and Administrative	427,446	123,482
Research and Development	59,455	4,314
Consulting	539,502	583,990
Depreciation	351	351
Interest	-	21
Total Expenses	<u>1,056,940</u>	<u>735,444</u>
Income /(Loss) before Provision for Income Taxes	<u>(888,430)</u>	<u>(664,944)</u>
Provision for Income Taxes	-	-
Net Income/(Loss)	<u>\$ (888,430)</u>	<u>\$ (664,944)</u>
Basic and Diluted (Loss) per Share	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted Average Number of Shares	166,598,461	136,469,288

Industrial Nanotech, Inc.

Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2008	2007
Operating Activities		
Net Income/(Loss)	\$ (888,430)	\$ (664,944)
Adjustments to reconcile Net Income/(Loss):		
Stock issued for services	25,000	-
Depreciation	351	351
Balance Sheet Adjustments:		
(Increase)/Decrease in Accounts Receivable	(100,396)	7,782
(Increase)/Decrease in Inventory	9,980	10,102
(Increase)/Decrease in Employee Loan - -		
(Increase)/Decrease in Other Assets	(2,065)	(2,100)
Increase/(Decrease) in Accounts Payable	103,751	12,103
Increase/(Decrease) in Accrued Expense	5,634	1,274
Increase/(Decrease) in Accrued Payroll	<u>177,500</u>	<u>(26,093)</u>
Net Cash (Used) by Operating Activities	<u>(668,675)</u>	<u>(661,525)</u>
Investment Activities		
Purchase of Equipment	<u>-</u>	<u>(2,093)</u>
Net Cash (Used) by Investment Activities	<u>-</u>	<u>(2,093)</u>
Financing Activities		
Proceeds/(Repayment) Long Term Notes Payable	-	-
Proceeds/(Repayment) Related Party Loans	(73,328)	134,774
Proceeds from Stock Sale of Stock	180,000	20,000
Prepaid Consulting-Stock Related	449,298	534,723
Proceeds from Stock issued to repay Debt	<u>-</u>	<u>-</u>
Cash Provided by Financing Activities	<u>555,970</u>	<u>689,497</u>
Net Increase in Cash	(112,705)	25,879
Cash, Beginning of Period	<u>129,506</u>	<u>3,622</u>
Cash, End of Period	<u>\$ 16,801</u>	<u>\$ 29,501</u>
Cash Paid For:		
Interest	\$ -	\$ 21
Income Taxes	\$ -	\$ -
Non-cash Activities:		
Stock issued for services	<u>\$ 25,000</u>	<u>\$ -</u>
Depreciation	<u>\$ 351</u>	<u>\$ 351</u>

Additional information is available upon request.

RISKS

-Low cash levels and need for funding. As addressed previously, the co. currently has a very low cash level (\$16,801 as of March 31), has ongoing operational expenses, had negative operating cash flow in their Q1 of approximately \$(668,675) and negative stockholder's equity of \$1,865,746. The company has been raising funds predominantly through (short term) note sales, (primarily to the principals of the company we believe), as well as to a lesser extent selling stock in various private transactions, and this will probably continue, for at least the near term. This could be dilutive to current shareholders. In addition, there is no guarantee that the company can continue to raise sufficient funds to meet their operational needs. Though obviously a negative and deserving of caution, we would also note that the company has several orders in the pipeline, including the DEBA order, which commenced shipments in

March. Shipments to Petrobras should commence in approximately their Q3, and revenues should begin to be recognized in the company's Q3 or Q4.

-Competition, replication. The co. has much competition, much of it in the form of major corporations with far greater resources. Many of these companies are also investing in, and partnering in, nanotechnology. It is conceivable to us that competitors could develop somewhat similar products as the company's, thus thwarting their competitive product edge.

-Reliance on one key individual. The inventor of the key products and components of those products is Stuart Burchill, CEO of the company. Existing and additional patents will go to Mr. Burchill. The co. technically "owns the exclusive rights" to license these patents and products. However, if Mr. Burchill were to leave the co., especially under any negative circumstances, there is a possibility that the co. could be negatively affected. However, there are agreements in place in the event of this scenario, thereby possibly insulating INTK from any possible damage.

-Not all of their products have received patents as of yet. This could possibly provide a legal obstacle if other parties were to replicate these products, or to produce products that were extremely similar.

-High oil prices will raise the company's raw materials costs, thus impacting margins. The industry reacts by generally just raising product sales prices to compensate for this, but there is often a lag time, due to contractual pricing agreements, etc., that would delay the ability to raise prices.

-The co. is a younger co. and has to execute well and conserve their resources.

-The stock tends to trade relatively lower volume amounts.

-The stock trades on the Pink Sheets, a trading environment with relatively low visibility, and generally avoided by institutions.

Recommendation History: Pro-Active Research Group, Inc. initiated coverage of Industrial Nanotech on April 16, 2007 with a Speculative Buy recommendation and the following target prices:

I/T \$0.50

L/T \$1.00

Rating System: Pro-Active Research has a three-tier rating system: Buy (and Speculative Buy), Hold, Sell. Pro-Active also issues non-rated informational reports.

Coverage Universe: 100% Buy

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DISCLOSURES

Pro-Active Consulting, its representatives, and affiliated companies may beneficially own 1% or more of a class of common stock or other securities of Industrial Nanotech ("INTK"), and may also be short the common stock or other securities of Industrial Nanotech ("INTK").

Analyst Certification

The analysts named in this report hereby certify that their views about the company are accurate and they have not and will not receive direct compensation in exchange for providing specific recommendations in this report.



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