Zacks Small-Cap Research

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DecisionPoint Systems (DPSI-OTC)

DPSI: CMAC Shifts Mix to High Margin Products - OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/16/2011
Current Price (04/3/12)	$1.45
Target Price	**$3.00**

OUTLOOK

DecisionPoint designs, sells, installs and services voice and data communications products and systems for private networks and wireless broadband systems to a wide range of enterprise markets, including retail, transportation and logistics, manufacturing, wholesale and distribution. The combination of its blue chip portfolio of customers as well as the reverse merger combination has the firm projecting the top-line to nearly double to $100 million. We expect the firm to apply to be listed on a major exchange.

SUMMARY DATA

52-Week High	**$3.24**
52-Week Low	**$0.52**
One-Year Return (%)	**-53.20**
Beta	**1.05**
Average Daily Volume (sh)	**7,413**
Shares Outstanding (mil)	**8**
Market Capitalization ($mil)	**$10**
Short Interest Ratio (days)	**18.02**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**5.6**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**Comp-Software**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	$11.6 A	$12.0 A	$11.5 A	$13.1 A	$48.3 A
2010	$11.1 A	$13.3 A	$16.4 A	$15.5 A	$56.3 A
2011	$12.8 A	$13.2 A	$16.4 A	$15.9 A	$58.4 A
2012	$17.0 E				$75.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	-$0.08 A	$0.00 A	$0.01 A	$0.04 A	$0.02 A
2010	-$0.05 A	-$0.04 A	$0.00 A	$0.00 A	-$0.09 A
2011	-$0.05 A	-$0.25 E	$0.01 A	-$0.02 A	-$0.31 A
2012	-$0.01 E				-$0.13 E

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WHATS NEW

On March 29, 2012, DecisionPoint Systems, Inc., reported financial results for its fiscal 2011 fourth quarter and full year, ended December 31, 2011.

The fourth quarter performance resulted in a slight year over year increase in revenue, with sales increasing $417,873 to $15.887 million from $15.469 million for the three months ended December 31, 2010. The small increase in revenues for the three months ended December 31, 2011 was due to the revenue contribution of CMAC. CMAC, a supply chain consulting and systems integration firm, was acquired by DecisionPoint in late December 2010.

Gross margin jumped 80 basis points from 21.6 percent in the fourth quarter of 2010, up to a record 22.4% for the three months ended December 31, 2011. The increase in gross margin was primarily a result of a richer mix of sales of higher margin third party software and professional services.

While gross margin for the quarter improved to record highs, selling, general and administrative expenses in the fourth quarter increased year over year by $1.108 million to $3.329 million. The increase in selling, general and administrative expenses was primarily due to additional costs and personnel related to the Company's acquisition of CMAC and generally higher business levels.

Net income before dividends improved to $65,350 in the fourth quarter of 2011 compared to a net loss of $25,268 in the fourth quarter of 2010. Still, net loss attributable to common shareholders was approximately $152,541 for the fiscal 2011 fourth quarter compared to a net loss attributable to common shareholders of $46,338 for three months ended December 31, 2010.

The year over year descent in net loss attributable to common shareholders was primarily the product of a cumulative and imputed preferred stock dividends charge of $217,891 for the fourth quarter of 2011 compared to cumulative and imputed preferred stock dividends of $21,070 during the fourth quarter of 2010.

Based on a weighted average number of basic and diluted shares of 7.460 million, basic and diluted net loss per share resulted in a net loss of $0.02 per share for the fourth quarter of fiscal 2011. This compared to a basic and diluted net loss per share of $0.01 based on a weighted average number of basic and diluted shares of 4.333 million during the three months ended December 31, 2010.

For the year ended December 31, 2011, year over year revenues improved by nearly 4 percent to $58.358 million from $56.244 million for the comparable twelve months of 2010.

Still, the Company reported a net loss for fiscal 2011 of $5.168 million compared to a net loss of $2.208 million for the twelve months ended December 31, 2010.

Here again, the increase in net loss was primarily a result of increased in selling, general and administrative expense offset by higher gross margin offset by improved gross margin.

Selling, general and administrative expense increased year over year by 41.5 percent or $3.986 million to $13.597 million while gross margin for fiscal 2011 increased to 20.6 percent compared to 19.3 percent for fiscal 2010.

Here again, the increase in selling, general and administrative expense was primarily due to additional costs and personnel related to the Company's acquisition of CMAC and generally higher business levels while the improvement in gross margin was primarily a result of a richer mix of sales of higher margin third party software and professional services.

Based on a weighted average number of basic and diluted shares of 6.019 million, basic and diluted net loss per share resulted in a net loss of $0.94 per share for the full year fiscal 2011. This compared to a basic and diluted net loss per share of $0.66 based on a weighted average number of basic and diluted shares of 3.462 million during the full year ended December 31, 2010.

The Company ended the year with $365,000 in cash and a working capital deficit of $3.762 million.

Still, in June 2011, DecisionPoint was able to complete a reverse merger with Comamtech as well as exchange $4.0 million of senior notes for convertible preferred stock.

With the completion of both the reverse merger and the equity conversion, the Company was able to improve its capital structure as well as strengthen its equity base.

Along the same lines, DecisionPoint's shareholder's equity improved year over year by $5.377 million to $2.507 million as of December 31, 2011.

Similarly The CMAC acquisition increased DecisionPoint's mix of higher margin professional services and software revenue by enhancing the Company's ability to deliver operational and technical supply chain solutions as well as improve the Company's Professional Services revenue mix.

Likewise, during the year DecisionPoint built out its field mobility practice, introducing initial co-branded products through wireless carrier relationships with Sprint, T-Mobile and Verizon and in 2012, the Company expects to release additional turnkey, or bundled, solutions with its partners.

As result of recent and upcoming product releases with wireless partners, the Company expects continued field mobility growth. Additionally, DecisionPoint reported that bookings are running ahead of last year and that with improved customer capital spending, its retail segment has been building its backlog. Therefore, the Company projected its fiscal 2012 revenues will increase by over 25 percent compared to sales from the full year ended December 31, 2011.

DecisionPoint goal is to continue shifting its revenue mix towards software and professional services and to continue to expand gross margin, through increasing sales of new products.

DecisionPoint Closes Deal

On June 16, 2011 DecisionPoint Systems, Inc. announced that the company closed its merger with Comamtech Inc.

The entire management team of DecisionPoint has become the management team of the merged company. In our opinion the merger trades dilution of the firm's shares for the stability of a solid balance sheet and the option of future acquisitions. Further, management believes the merger serves as a building block for a Nasdaq Capital Market listing application. The financial foundation of the combined company will be stronger with reduced balance sheet risk and lower debt.

Details

The merged company has approximately 6.9 million basic common shares outstanding and 8.2 million fully diluted shares outstanding, based on an exchange ratio of 1 Comamtech share for every 8 DecisionPoint outstanding common shares held by shareholders.

INVESTMENT THESIS

DecisionPoint delivers to its customers the ability to make better, faster, and more accurate business decisions by implementing industry-specific, enterprise wireless and mobile computing systems for their front-line employees. It is these systems which provide the information to improve the hundreds of individual business decisions made each day. The "productivity paradox" is that the information remains locked away in their organization's enterprise computing system, accessible only when employees are at their desk. DecisionPoint solves this productivity issue. The result for its customers is they are able to move their business decision points closer to their own customers whom in turn, drive their own improved productivity and operational efficiencies.

DecisionPoint does this by providing customers with everything they need through the process of achieving their enterprise mobility goals starting with the planning of their systems, to the design and build stage, to the deployment and support stage, and finally to achieving their projected Return On Investment ("ROI"). DecisionPoint's business designs, sells, installs and services voice and data communications products and systems for private networks and wireless broadband systems to a wide range of enterprise markets, including retail, transportation and logistics, manufacturing, wholesale and distribution, as well as other commercial customers (which are referred to as the "commercial enterprise market").

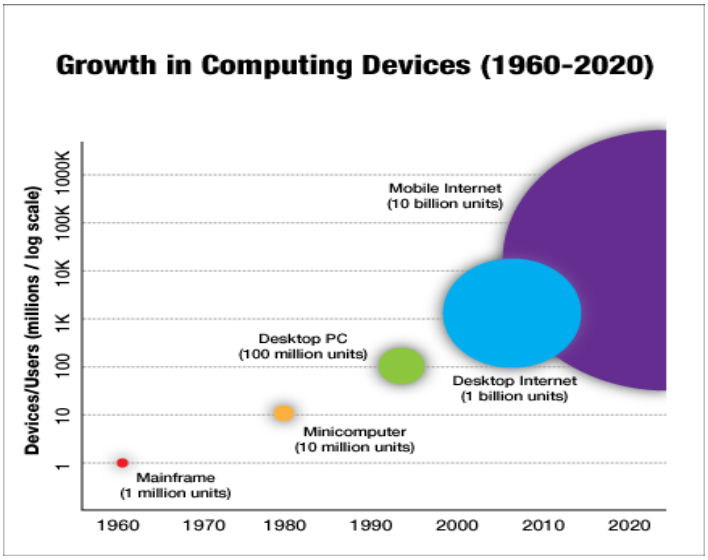
Target Markets

The markets for enterprise wireless and mobile computing are very fragmented while also being extremely complex in nature. But generally they can be characterized by the following attributes:

- Vertical market industries which require specific domain expertise. (Traditionally retail, warehousing, and manufacturing)
- Industries which track goods or deliver a service in the field (or both).
- Industries which have a significant group of mobile workers, whether they operate primarily in one place or in the field.

Backdrop of Growth

Over the past several years several of the key technologies in the mobile computing industry have matured and improved. Several key technologies have been standardized such as Windows mobile operating systems, Wifi wireless local area networks, and the building out of nationwide wireless data networks such as HSDPA technology and EVDO technology. DecisionPoint designs applications that tailor to that firm's specific industry. An example would be proof-of-Delivery (POD) system for couriers.



Source: Minneapolis news

Rather than simply providing hardware and customized software the firm has been shifting its focus to providing higher margin consulting services along with customer driven mobile wireless and RFID solutions. This has the effect of increasing profitability and the acquisition of CMAC should help.

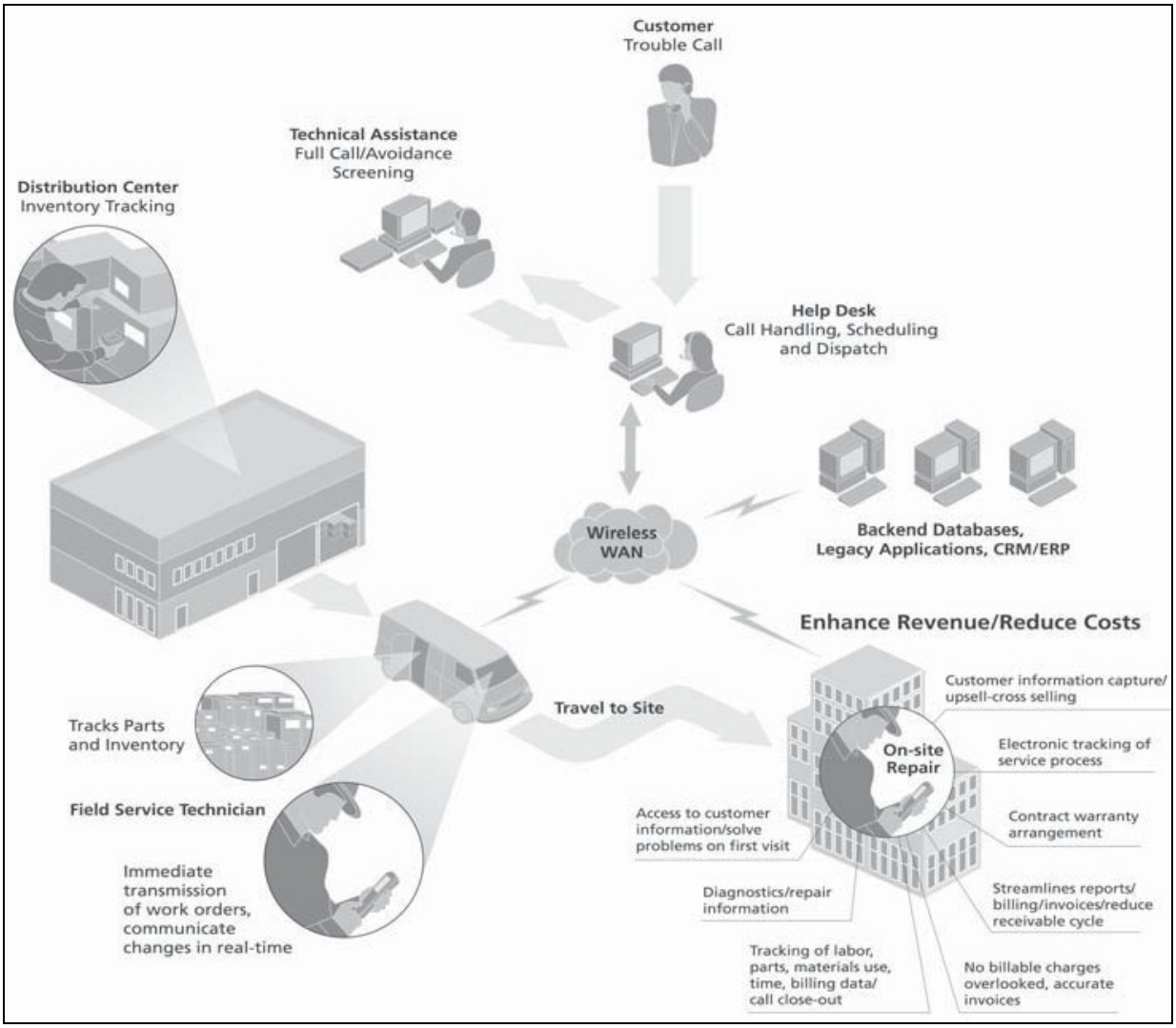
CMAC is a logistics consulting and systems integration provider headquartered in Alpharetta, Georgia. The purchase price of $3.15 million was paid 70% in cash and 30% in stock. The transaction is expected to be accretive to DecisionPoint's 2011 earnings by $0.02 to $0.03 per share fully-diluted. Management feels CMAC offers complementary services to similar end markets and is a good fit with DecisionPoint. Combining with CMAC will shift DecisionPoint's revenue mix more in favor of services and software, resulting in expected incremental gross margin expansion of 100 to 200 basis points in 2011. Further CMAC's strong presence in the Southeast complements geographic service presence in the U.S. to that important and fast growing region.

Vertical Markets Shifting

Historically the firm’s largest vertical markets were retail, warehousing, and manufacturing. This is intuitive since each had a large amount of goods in motion which needed to be tracked. While these markets are still attractive to DNPI, new markets have emerged such as Transportation and logistics, and field services such as repair and maintenance, and delivery and inspections. This new group of markets, which cuts across multiple industries and business applications, is referred to as “Field Mobility.” Meaning goods or services are being tracked by field based workforces rather than workers at a single location.

Example of Field Service Management (*Source Symbol Technologies White Paper)

In a day and age when service offerings have become a key competitive differentiator, mobile computing solutions deliver the power to change field service operations from a typical ‘cost of doing business’ to a strategic business unit that contributes heavily to the overall profitability of the company and a dramatic improvement in its competitive position.



Through a combination of technology such as bar code scanning, image capture devices, mobile handhelds and wireless networking, mobile computing solutions reveal a wealth of strategic information that can be used at all levels in a company—from the analysis of an individual services call to planning for a more effective field service operation and identification of repair patterns that can lead to uncovering unknown product weaknesses and better manufacturing. How much impact can a mobile computing solution have on a field service organization? One company shaved one hour of labor off of the workday for each of its 800 field service workers. The total 800 hours in labor savings daily translated into 200,000 hours per year (or 250 workdays). With an average fully loaded cost per hour of $100 per field worker, the company realized a savings of approximately $20 million per year, easily justifying the investment in mobile computing technology.

DecisionPoint remains well positioned to achieve solid revenue growth and operating leverage given the trend toward to mobile communications with machines that communicate from the field. We feel the company's competitive advantage is twofold. It connects a growing number of businesses beyond traditional industries as well as incorporating higher margin services beyond being a reseller.

We value the company based our two stage intrinsic model.

The intrinsic value is essentially a sum of the company's future earnings, minus any long-term debt. Dividing the intrinsic value by the number of shares outstanding yields an intrinsic stock price. We used the following inputs:

- A 10-year period with an earnings growth rate of 12.5% (average forecast) and a discount rate of 10.3%.

- A continuing period assumed to go on forever, with earnings growing at 6% and a discount rate of 11.4%.

With these inputs we arrive at a target price of $3.00.

PROJECTED INCOME STATEMENT & BALANCE SHEET

INCOME STATEMENT ($ Millions)	Dec-10 Q4 10	Mar-11 Q1 11	Jun-11 Q2 11	Sep-11 Q3 11	Dec-11 Q4 11	Mar-11 Q1 12 E	FY 2008	FY 2009	FY 2010	FY 2011 E	FY 2012 E
REVENUE											
Net Revenue	**15.47**	**12.80**	**13.23**	**16.45**	**15.89**	**17.00**	**53.31**	**48.31**	**56.24**	**58.37**	**75.00**
Sequential Growth		*-17%*	*3%*	*24%*	*-3%*	*7%*					
OPERATING EXPENSES											
Cost of Revenues	12.13	10.48	10.56	13.01	12.32	13.25	43.21	38.57	45.39	46.4	58.1
% of Revenue	*78.4%*	*81.9%*	*79.8%*	*79.1%*	*77.6%*	*77.9%*					
Gross Profit -	**3.3**	**2.3**	**2.7**	**3.4**	**3.6**	**3.8**	**10.10**	**9.74**	**10.9**	**12.0**	**16.9**
Proforma Gross Margin	*21.6%*	*18.1%*	*20.2%*	*20.9%*	*22.4%*	*22.1%*	*18.9%*	*20.2%*	*19.3%*	*20.6%*	*22.5%*
R&D + Engg	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0	0.0	0.0
% of Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
SG&A	2.23	3.49	3.40	3.27	3.33	3.65	9.15	7.97	9.61	13.49	16.00
% of Revenue	*14.4%*	*27.3%*	*25.7%*	*19.9%*	*21.0%*	*21.5%*	*17.2%*	*16.5%*	*17.1%*	*23.1%*	*21.3%*
GW Amort, Restructuring, other	-	-	-	-	-	-	-	-	-	-	-
% of Revenue											
Total Operating Expenses	2.23	3.49	3.40	3.27	3.33	3.65	9.15	7.97	9.61	13.49	16.00
% of Revenue	*14.4%*	*27.3%*	*25.7%*	*19.9%*	*21.0%*	*21.5%*	*17.2%*	*16.5%*	*17%*	*23%*	*21%*
Operating Income -	**1.1**	**-1.2**	**-0.7**	**0.2**	**0.23**	**0.1**	**0.95**	**1.78**	**1**	**-1**	**1**
Operating Margin	*7.2%*	*-9.1%*	*-5.5%*	*1.0%*	*1.5%*	*0.6%*	*2%*	*4%*	*2%*	*-3%*	*1%*
NON-OPERATING ITEMS											
Non operating Income/Expense	-1	0	0	0	0	0	(1.88)	-1.4	-3.37	-1	-1
% of Revenue	*-7.37%*	*-3.48%*	*-3.05%*	*0.71%*	*-0.56%*	*-0.47%*	*-3.53%*	*-2.81%*	*-6.00%*	*-1.41%*	*-1.33%*
Tax Provision	0.004	0.008	0.000	0.013	0.079	0.050	-0.046	0.071	0.079	0.100	0.150
Pref Divs		*$ 0.03*	*$ 0.03*	*$ 0.21*	*$ 0.22*	*$ 0.03*				*$ 0.49*	*$ 0.50*
Net Income -	**-0.03**	**-1.65**	**-1.15**	**0.05**	**-0.15**	**-0.06**	**(0.89)**	**0.35**	**-2.2**	**-2.9**	**-0.8**
Net Income Margin	*-0.2%*	*-12.9%*	*-8.7%*	*0.3%*	*-1.0%*	*-0.3%*	*-1.7%*	*0.7%*	*-4%*	*-5%*	*-1%*
EARNINGS PER SHARE											
EPS - Basic	$0.00	-$0.05	-$0.25	$0.01	-$0.02	-$0.01	-$0.18	$0.02	-$0.09	-$0.31	-$0.13
EPS - Diluted	$0.00	-$0.05	-$0.25	$0.01	-$0.02	-$0.01	-$0.18	$0.02	-$0.09	-$0.31	-$0.13

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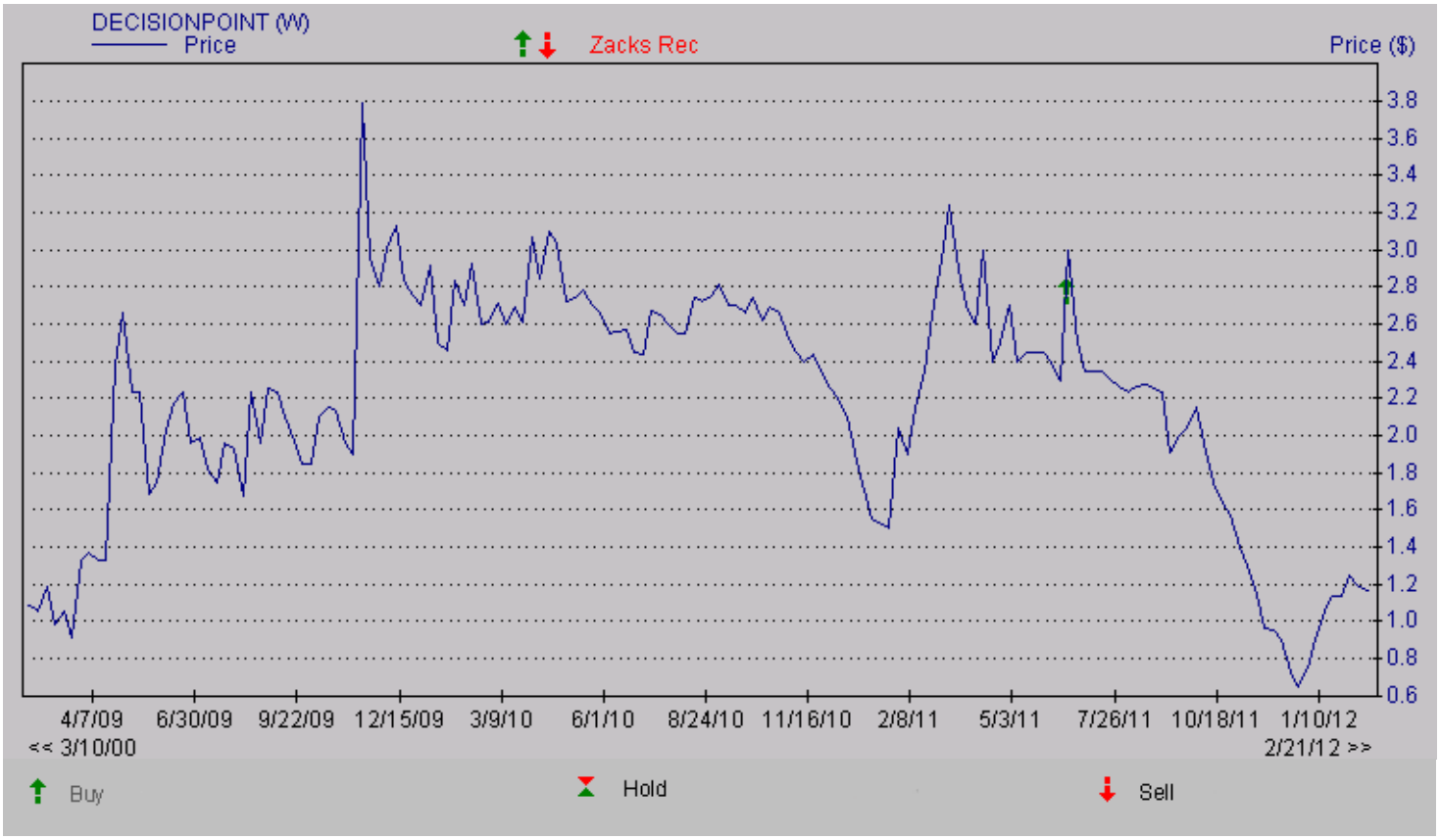
HISTORICAL ZACKS RECOMMENDATIONS



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