Zacks Small-Cap Research

September 6, 2012
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DecisionPoint Systems (DPSI-OTC)

DPSI: Mix Shift Benefits Margins- OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (09/05/12)	$1.20
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 see value in the shares of DecisionPoint.

SUMMARY DATA

52-Week High	**$2.20**
52-Week Low	**$0.52**
One-Year Return (%)	**-44.19**
Beta	**1.06**
Average Daily Volume (sh)	**1,929**
Shares Outstanding (mil)	**8**
Market Capitalization ($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 (%)	**-12.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**6.3x**
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)
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	$17.8 A	$17.8 A	$20.0 E	$22.7 E	$78.3 E
2013					$85.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	-$0.06 A	-$0.20 A	-$0.01 E	$0.14 E	-$0.13 E
2013					$0.19 E

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WHATS NEW

Shift Towards Services and Software Drives Margin Growth at DecisionPoint

On September 4, 2012, DecisionPoint Systems, Inc., the Irvine, California based enterprise mobility and RFID systems integrator, reported financial results for its fiscal 2012 second quarter and six months, ended June 30, 2012.

A solid second quarter performance resulted in a year over year jump in sales of $4.543 million or over 34 percent to $17.767 million from $13.223 million for the three months ended June 30, 2011. Sequentially, second quarter revenues fell slightly from record revenues of $17.810 million during the first quarter fiscal 2012.

The year over year upturn in revenues was driven by increased field mobility solution sales, continued increases in demand from the retail sector and increased professional services revenue as well as continued strong execution and increasing traction of recent product introductions.

Gross margin improved year over year from 20.2 percent in the second quarter of 2011, up to 21.3 percent for the three months ended June 30, 2012. The increase in gross margin was primarily due to the higher gross margins from professional services revenue and improved utilization of professional services resources reflecting the Company's ongoing revenue mix shift towards services and software.

Likewise, the Company continues its focus on cost control and improved utilization and efficiency throughout its operations.

Sequentially, second quarter gross margin improved slightly over the 21.1 percent for the three months ended March 31, 2012.

Selling, general and administrative expenses in the second quarter increased year over year by $1.349 million and sequentially by $1.014 to $4.849 million. The year over year and sequential increase in selling, general and administrative expenses was primarily the result of significantly higher professional fees and expenses relating to the acquisition of Apex which totaled approximately $1.2 million.

On June 4, 2012, DecisionPoint completed the acquisition of Apex Systems Integrators, Inc., a leading provider of wireless mobile work force software solutions.

It should be noted that Apex Systems operating results are included in the Company's results of operations beginning June 5, 2012.

Still, operating loss increased year over year by $237,311 to $1.071 million from $834,223 for the three months ended June 30, 2011.

Additionally, Adjusted EBITDA for the second quarter of 2012 was $0.5 million compared to $(0.7) million for the quarter ended June 30, 2011, which was a $1.2 million year over year improvement.

Net loss attributable to common shareholders was $1.522 million for the fiscal 2012 second quarter compared to a net loss attributable to common shareholders of $3.906 million for three months ended June 30, 2011.

The improvement in net loss attributable to common shareholders was primarily due to a one-time, non-cash expense for debt extinguishment of $2.641 million charged in the second quarter of 2011.

Based on a weighted average number of basic and diluted shares of 7.512 million, basic and diluted net loss per share resulted in a net loss of $0.20 per share for the second quarter of fiscal 2012. This compared to a basic and diluted net loss per share of $0.83 based on a weighted average number of basic and diluted shares of 4.698 million during the three months ended June 30, 2011.

For the six months ended June 30, 2012, year over year revenues improved $9.552 million or nearly 37 percent to

$35.577 million from $26.024 million for the six months ended June 30, 2011.

Here again, the year over year upturn in revenues was driven by increased field mobility solution sales, continued increases in demand from the retail sector and increased professional services revenue.

Gross margin improved year over year from 19.2 percent in the first half of 2011, up to 21.2 percent for the six months ended June 30, 2012. Again, the increase in gross margin was primarily due to the higher gross margins from professional services revenue and improved utilization of professional services resources reflecting the Company's ongoing revenue mix shift towards services and software.

Selling, general and administrative expenses in the first six months of 2012 increased year over year by $1.678 million to $8.670 million.

Operating loss for the six months improved year over year by $863,596 to $1.139 million from $2.003 million for the six months ended June 30, 2011.

For the six months, adjusted EBITDA improved year over year by $2.8 million to $1.0 million, allowing the Company to achieve total adjusted EBITDA of approximately $2 million for the last twelve months. Net loss attributable to common shareholders was $1.981 million for the first half of fiscal 2012 compared to a net loss attributable to common shareholders of $5.555 million for six months ended June 30, 2011.

Here again, the improvement in net loss attributable to common shareholders was primarily due to a one-time, non-cash expense for debt extinguishment of $2.641 million charged in the first half of 2011.

Based on a weighted average number of basic and diluted shares of 7.452 million, basic and diluted net loss per share resulted in a net loss of $0.27 per share for the first half of fiscal 2012. This compared to a basic and diluted net loss per share of $1.23 based on a weighted average number of basic and diluted shares of 4.517 million during the six months ended June 30, 2011.

The Company ended the quarter with $498,357 in cash and a working capital deficit of $6.005 million. This compares to $492,665 in cash and a working capital deficit of $4.2 million as of March 31, 2012. Still, cash flow from operating activities for the first half of 2012 was $1.6 million compared to $0.2 million for the same period of 2011.

Additionally, as of June 30, 2012, DecisionPoint had approximately $6.0 million available under its revolving credit facility with its lenders.

Similarly, the Company had term loans totaling $5.6 million related to its acquisitions on its balance sheet at June 30, 2012.

Moreover, management stated that it continues to see its field mobility solutions grow in importance both at DecisionPoint and in the broader economy.

Furthermore, the Company’s bundled solutions for enterprise and small business applications that were developed and recently introduced in conjunction with its wireless carrier partners, Verizon, Sprint and T-Mobile, are gaining market recognition and increasing sales.

Additionally, the capabilities of the three acquisitions in its Professional Services and Software that DecisionPoint has completed over the last 19 months (CMAC, Apex and Illume Mobile) allow the Company to offer the full range of mobile solutions to meet the requirements of any enterprise mobility strategy as well as generate higher margins than other divisions in the Company, which in turn should lead to improved corporate gross margins.

Similarly, on July 31, 2012, DecisionPoint acquired Illume Mobile Software, a division of MacroSolve, Inc., based in Tulsa, OK for approximately $1.0 million in cash and stock.

Illume Mobile has patent protected domain expertise in developing Enterprise mobile software for Android and Apple (iOS) mobile devices.

Management further stated that its tablet-based assisted shopping solution suite for in-store applications continues to gain acceptance with existing and new retail customers.

The Company continues to develop the many opportunities in its pipeline.

As a result of the above mentioned demands and trends, DecisionPoint continues to anticipate that it is well positioned for continued revenue growth during the second half of 2012 compared to the second half of 2011 and the first half of 2012.

DecisionPoint Adds Apex

DecisionPoint Systems, Inc., an enterprise mobility and RFID systems integrator, reported that in an effort to expand its mobility and logistics opportunities, the Company acquired the Burlington, Ontario, Canada based supplier of wireless mobile work force solutions, Apex Systems Integrators Inc., ("Apex").

The purchase price was $5.0 million in cash at closing. In addition, there is an earnout and bonus capped at an additional $8.5 million, which is dependent upon future performance through July 31, 2015. The transaction is expected to be accretive to DecisionPoint's fiscal year 2012 earnings by $0.15 per share on an annualized basis.

Servicing clients in the consumer packaged goods, retail, B2B and service sector, Apex has enjoyed an approximately 55 percent per annum growth over the past five years, growing normalized EBITDA from roughly CAD $0.5 million in 2007 to approximately CAD $1.8 million during the full year ended July 31, 2010.

The Company's APEXWare™ suite of products provides mobile productivity solutions in the areas of merchandizing, sales and delivery, field service, logistics and transportation, and warehouse management.

Furthermore, Apex's software product set is anticipated to fit directly with DecisionPoint's own retail, field force mobility, warehousing, logistics and transportation markets and to provide opportunities for cross selling by both companies' teams.

Likewise, the acquisition is projected to shift DecisionPoint's revenue mix by approximately 500 basis points towards software and services and to improve the Company's average gross margins by approximately 300 basis points.

With premium mobile data applications estimated to have generated carrier revenues of over $2.3 billion in 2008 and expected to grow at a CAGR of 35 percent or to as much as $10.3 billion in 2013, Apex's strong presence in Canada enables DecisionPoint to fill out its North American geographic service presence in another important growing market as well as meet the Company's requirements of quality of skills and dedication and commitment to sell and deliver the best possible mission critical solutions.

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.

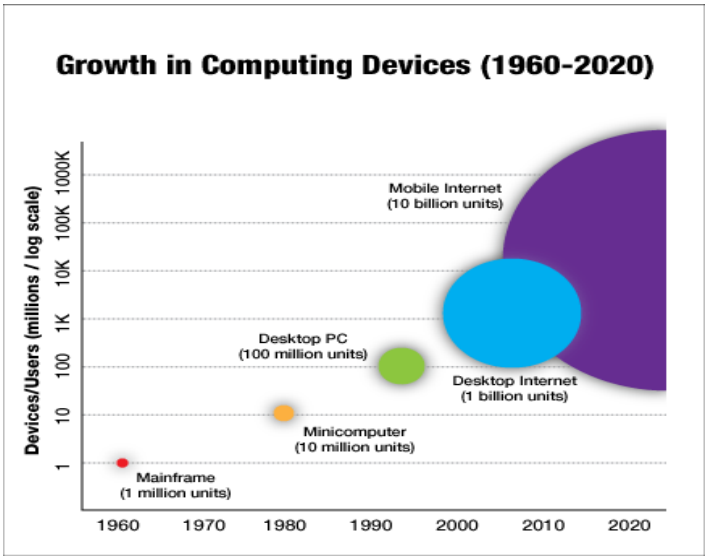
DecisionPoint does this by providing customers with everything they need through the process of achieving their enterprise mobility goals starting with the planning of their systems, to the design and build stage, to the deployment and support stage, and finally to achieving their projected Return On 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.

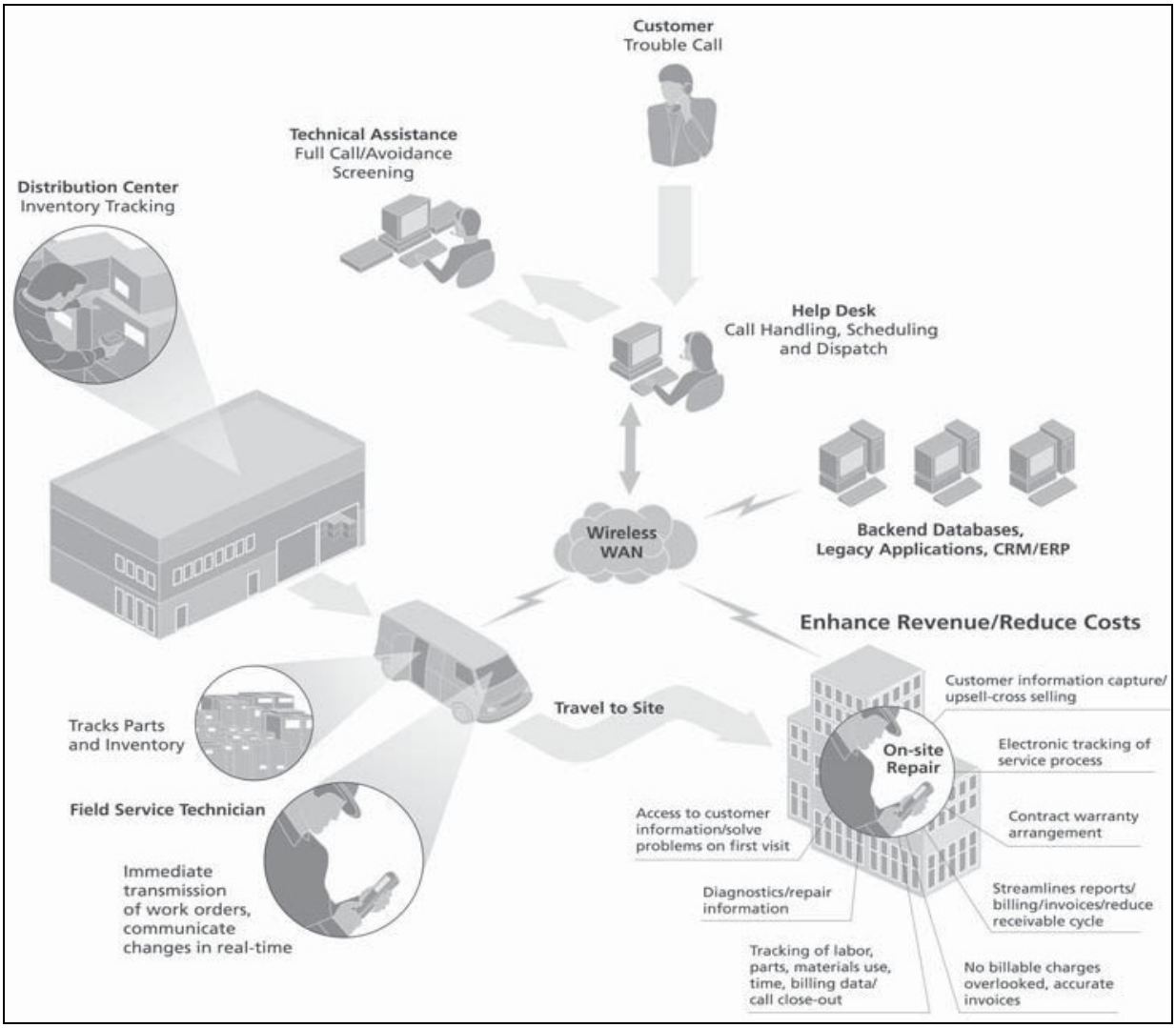
CMAC is a logistics consulting and systems integration provider headquartered in Alpharetta, Georgia. The purchase price of $3.15 million was paid 70% in cash and 30% in stock. The transaction is expected to be accretive to DecisionPoint's 2011 earnings by $0.02 to $0.03 per share fully-diluted. Management 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.

Fleet Control Set to Grow

The Fleet Control Bundle is DecisionPoint's comprehensive solution for the Transportation & Distribution market delivering Department of Transportation Compliance, real time fleet visibility, automated Federal tax reporting, push-to-talk communication between drivers and dispatchers, complete chain of custody visibility and package condition image capture.

The bundle's three primary components include the Airclic Proof of Delivery, Xata Turnpike Hours of Service and Inspection application and the Push-to-Talk user menu.

Together, the applications allow dispatchers unparallel communications and oversight capabilities, including the ability to examine individual driver performance and vehicle data. All this, while providing automation that driver's need.

The Airclic Proof of Delivery software offers a complete chain of custody visibility.

The application allows all packages to be scanned onto and off of the truck, signatures to be collected and damaged packages to be photographed, ensuring accurate and complete delivery through the use of a Motorola smartphone.

Through, time, date and GPS stamps, the application ensures delivery documentation and other paperwork is properly completed and filed. What's more, if a package is damaged, the damage can be recorded through the smartphone camera.

The Xata Turnpike Hours of Service and Inspection application collects information automatically and electronically making fraud impossible by automating driver reporting tasks.

Through an on board recorder, engine diagnostics and GPS data is collected and blue toothed to the Motorola Smartphone. All of this information is stored on the device and easily viewable by the driver and roadside inspectors.

Additionally, the application eases monthly IFTA tax reporting burdens by automating IFTA reporting through complete detailed reports showing where fuel was burned so that IFTA can distribute the taxes appropriately.

What's more, the software tracks hours of service and supports FMCSA log compliance.

The Grapevine Push-to-Talk solution offers a number of key features including a private and secure network with voice encryption; scalability that allows communication with thousands of individuals and group participants at once; voice history where the user can replay previous conversations; interoperability anywhere in the world across all WWAN, and Wi-Fi networks at the same time (including over different carriers); and is an SaaS managed service requiring no hardware or overhead.

It is important to note that recent market trends show retailers making strategic investments in wireless and tablet based solutions.

DecisionPoint has been attempting to leverage this latest trend of customized solutions and support by deepening its relationship with major wireless carriers through the launching of co-branded products that would combine DecisionPoint's new products and technology (such as Grapevine, Proof of Delivery and Mobile Device Management) with some of the major mobile provider's other products and services.

This recent business strategy by DecisionPoint, is expected to increase ROI by generating high margin products with recurring revenue while lowering costs and risk.

DecisionPoint's working with Verizon's Transportation & Distribution Vertical Market team to design and deliver the Fleet Control bundle is proof that this business strategy may be starting to bear fruit.

Still, it is important to note that while Verizon owns the trade marked Fleet Control name, DecisionPoint is the exclusive solution provider.

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%.

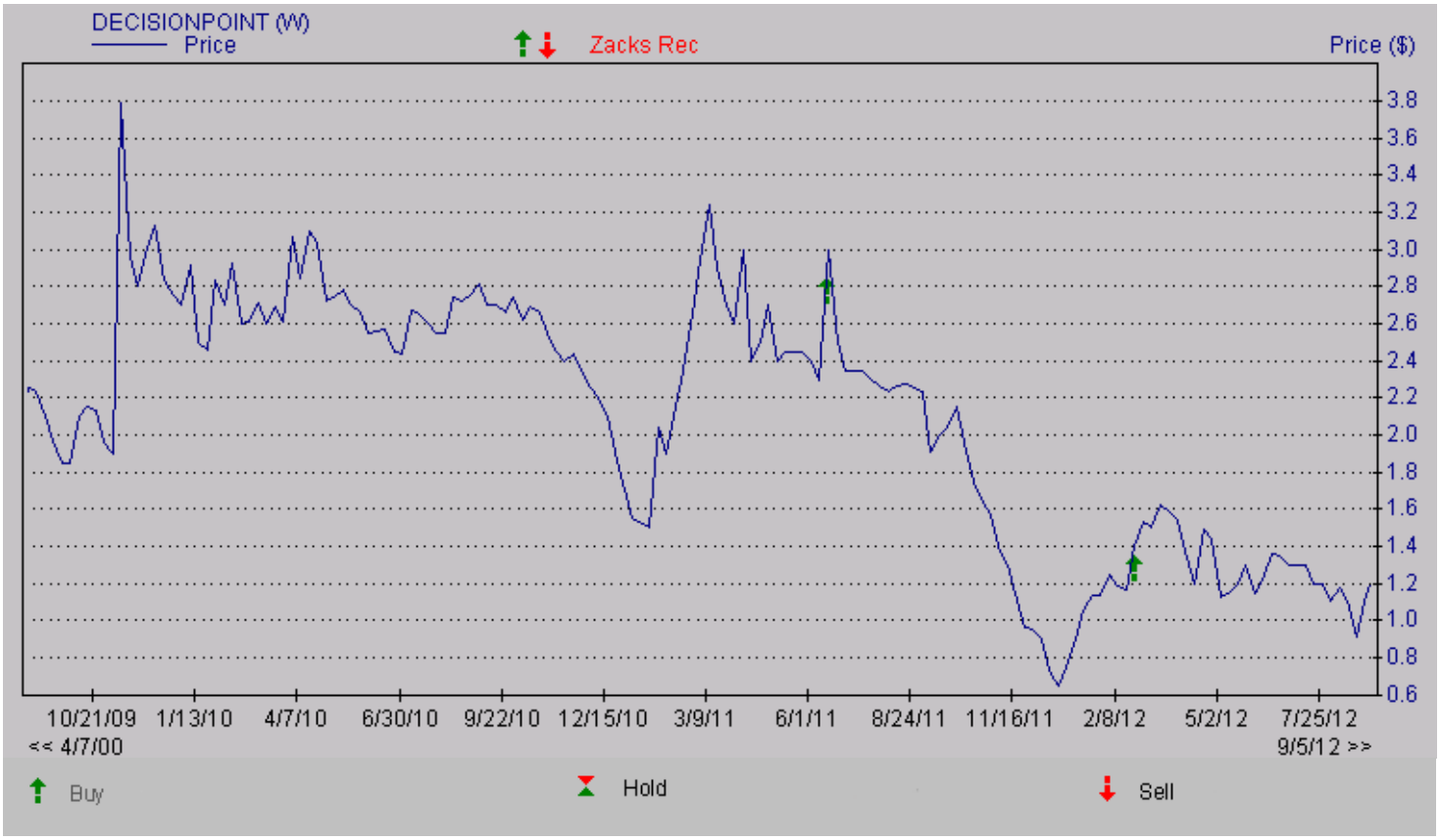
With these inputs we arrive at a target price of $3.00.

PROJECTED INCOME STATEMENT & BALANCE SHEET

INCOME STATEMENT ($ Millions)	Jun-11 Q2 11	Sep-11 Q3 11	Dec-11 Q4 11	Mar-12 Q1 12	Jun-12 Q2 12	Sep-12 Q3 12 E	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012 E	FY 2013 E
REVENUE												
Net Revenue	**13.23**	**16.45**	**15.89**	**17.81**	**17.77**	**20.00**	**53.31**	**48.31**	**56.24**	**58.37**	**78.30**	**85.00**
Sequential Growth		*24%*	*-3%*	*12%*	*0%*	*13%*						
OPERATING EXPENSES												
Cost of Revenues	10.56	13.01	12.32	14.06	13.99	15.75	43.21	38.57	45.39	46.4	61.2	64.0
% of Revenue	*79.8%*	*79.1%*	*77.6%*	*78.9%*	*78.7%*	*78.8%*						
Gross Profit -	**2.7**	**3.4**	**3.6**	**3.8**	**3.8**	**4.3**	**10.10**	**9.74**	**10.9**	**12.0**	**17.1**	**21.0**
Proforma Gross Margin	*20.2%*	*20.9%*	*22.4%*	*21.1%*	*21.3%*	*21.3%*	*18.9%*	*20.2%*	*19.3%*	*20.6%*	*21.8%*	*24.7%*
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	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%*	*0.0%*
SG&A	3.40	3.27	3.33	3.84	4.85	4.00	9.15	7.97	9.61	13.49	16.75	17.00
% of Revenue	*25.7%*	*19.9%*	*21.0%*	*21.5%*	*27.3%*	*20.0%*	*17.2%*	*16.5%*	*17.1%*	*23.1%*	*21.4%*	*20.0%*
GW Amort, Restructuring, other	-	-	-	-	-	-	-	-	-	-	-	-
% of Revenue												
Total Operating Expenses	3.40	3.27	3.33	3.84	4.85	4.00	9.15	7.97	9.61	13.49	16.75	17.00
% of Revenue	*25.7%*	*19.9%*	*21.0%*	*21.5%*	*27.3%*	*20.0%*	*17.2%*	*16.5%*	*17%*	*23%*	*21%*	*20%*
Operating Income -	**-0.7**	**0.2**	**0.23**	**-0.1**	**-1.1**	**0.3**	**0.95**	**1.78**	**1**	**-1**	**0**	**4**
Operating Margin	*-5.5%*	*1.0%*	*1.5%*	*-0.5%*	*-6.0%*	*1.3%*	*2%*	*4%*	*2%*	*-3%*	*0%*	*5%*
NON-OPERATING ITEMS												
Non operating Income/Expense	0	0	0	0	0	0	(1.88)	-1.4	-3.37	-1	-1	-1
% of Revenue	*-3.05%*	*0.71%*	*-0.56%*	*-0.63%*	*-1.05%*	*-0.40%*	*-3.53%*	*-2.81%*	*-6.00%*	*-1.41%*	*-1.28%*	*-1.18%*
Tax Provision	0.000	0.013	0.079	0.042	0.026	0.050	-0.046	0.071	0.079	0.100	0.150	0.150
Pref Divs	*$ 0.03*	*$ 0.21*	*$ 0.22*	*$ 0.22*	*$ 0.24*	*$ 0.22*				*$ 0.49*	*$ 0.80*	*$ 0.60*
Net Income -	**-1.15**	**0.05**	**-0.15**	**-0.46**	**-1.52**	**-0.10**	**(0.89)**	**0.35**	**-2.2**	**-2.9**	**-1.6**	**2.3**
Net Income Margin	*-8.7%*	*0.3%*	*-1.0%*	*-2.6%*	*-8.6%*	*-0.5%*	*-1.7%*	*0.7%*	*-4%*	*-5%*	*-2%*	*3%*
EARNINGS PER SHARE												
EPS - Basic	-$0.25	$0.01	-$0.02	-$0.06	-$0.20	-$0.01	-$0.18	$0.02	-$0.09	-$0.31	-$0.18	$0.25
EPS - Diluted	-$0.25	$0.01	-$0.02	-$0.06	-$0.20	-$0.01	-$0.18	$0.02	-$0.09	-$0.31	-$0.13	$0.19

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