Zacks Small-Cap Research

June 17, 2011
Ken Nagy, CFA

www.zacks.com 111 North Canal Street, Chicago, IL 60606

DecisionPoint Systems Inc. (COMT-OTC)

COMT: DecisionPoint Closes Deal- OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/16/2011
Current Price (06/16/11)	$2.27
Six- Month 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.

The firm will keep the name DecisionPoint and trade under the symbol COMT for the time being.

SUMMARY DATA

52-Week High	**$3.24**
52-Week Low	**$1.50**
One-Year Return (%)	**-11.68**
Beta	**1.46**
Average Daily Volume (sh)	**1,201**
Shares Outstanding (mil)	**8**
Market Capitalization ($mil)	**$5**
Short Interest Ratio (days)	**18.02**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-34.5**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**37.8**
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	$16.5 E	$18.5 E	$18.5 E	$66.3 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	$0.01 E	$0.05 E	$0.05 E	$0.06 E

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WHATS NEW

DecisionPoint Closes Deal

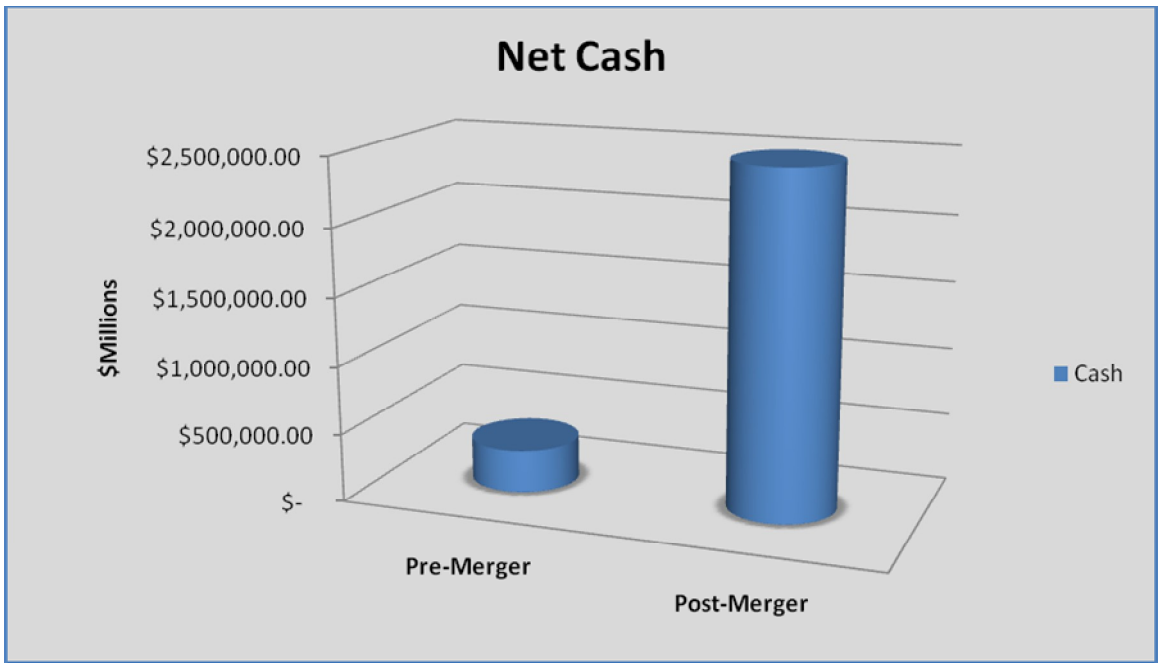
DecisionPoint designs, sells, installs and services voice and data communications products and systems for private networks and wireless broadband systems to a wide range of enterprise markets, including retail, transportation and logistics, manufacturing, wholesale and distribution. The combination 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.

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

The resulting legal entity has been renamed DecisionPoint Systems, Inc. and will trade under the symbol "COMT." The company will apply for Over-the-Counter Bulletin Board listing. 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.

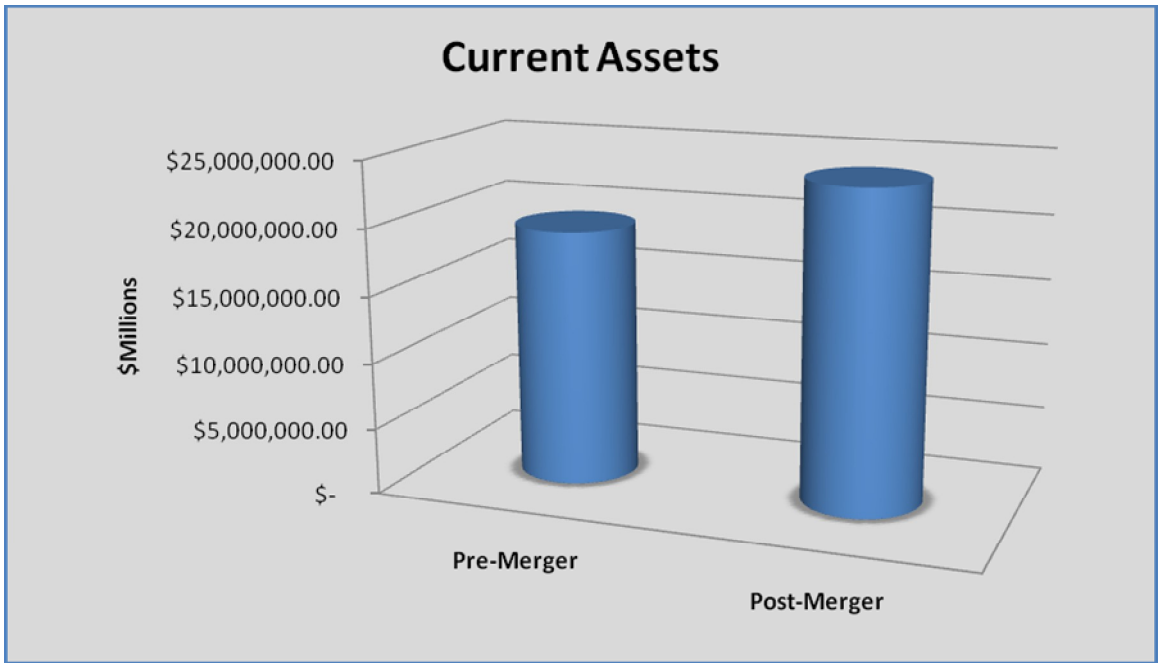
Details

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.



On a projected pro forma combined basis, the combinations balance sheet is expected to have cash of approximately $2.5 million net of expenses with an additional $1.0 million collectible in 60 days from the closing, current assets of $24.0 million, stockholders equity of $3.4 million, total assets of over $30.0 million and $6.0

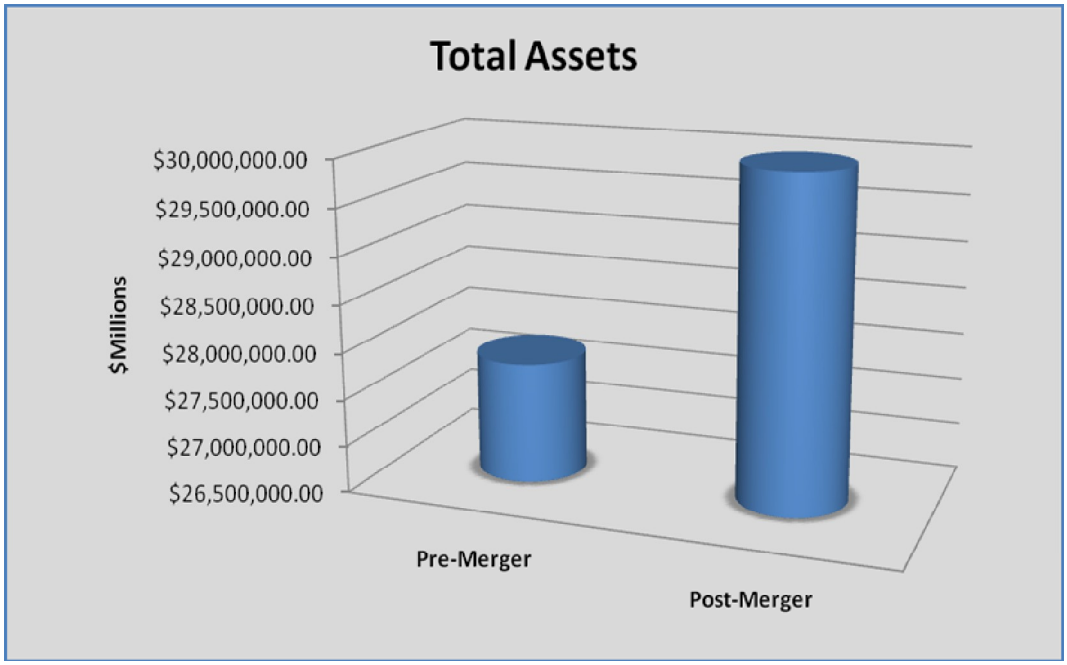
million of debt including $4.0 million under the Company's revolving credit facility. In addition, adjusted working capital will be $4.5 million.



Note Placement

Concurrent with DNPI's earnings release the company announced that it placed $4.0 million of Senior Subordinated Secured Notes with Sigma Opportunity Fund II, LLC. Here is the fine print. Principal and interest on the notes, at a rate of 12% per annum, are due and payable on August 31, 2011. If the previously announced merger with Comamtech has occurred prior to August 31, 2011, then, on the date of consummation of the merger with Comamtech, the maturity date of the Note shall be extended to May 31, 2012 and the interest rate shall be increased to 24% (or, if lower, the maximum amount allowable by law) retroactive to the issuance date. If the merger with Comamtech has not occurred on or prior to August 31, 2011 (or has been cancelled prior to such date), then the principal amount and all accrued and unpaid interest shall automatically convert into 4,000 shares of Preferred Stock and the Company shall issue to the Holder 5,000,000 shares of common stock. Total cash received under the purchase agreement was approximately $3,600,000, net of fees and expenses. After the merger with Comamtech occurs, the company expects to enter into a negotiation regarding the conversion of the Note into an equity investment.

This provides the remaining equity necessary to support the planned NASDAQ Capital Market listing application.



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.

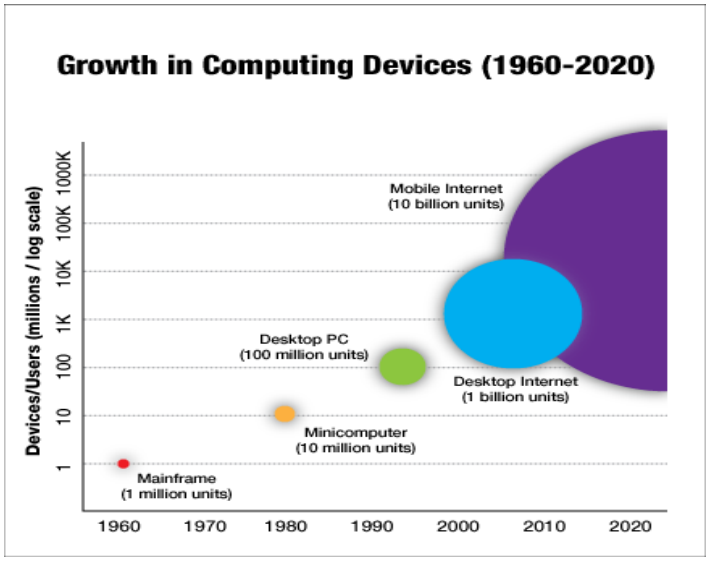
DecisionPoint does this by providing customers with everything they need through the process of achieving their enterprise mobility goals starting with the planning of their systems, to the design and build stage, to the deployment and support stage, and finally to achieving their projected Return On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



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.

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%.

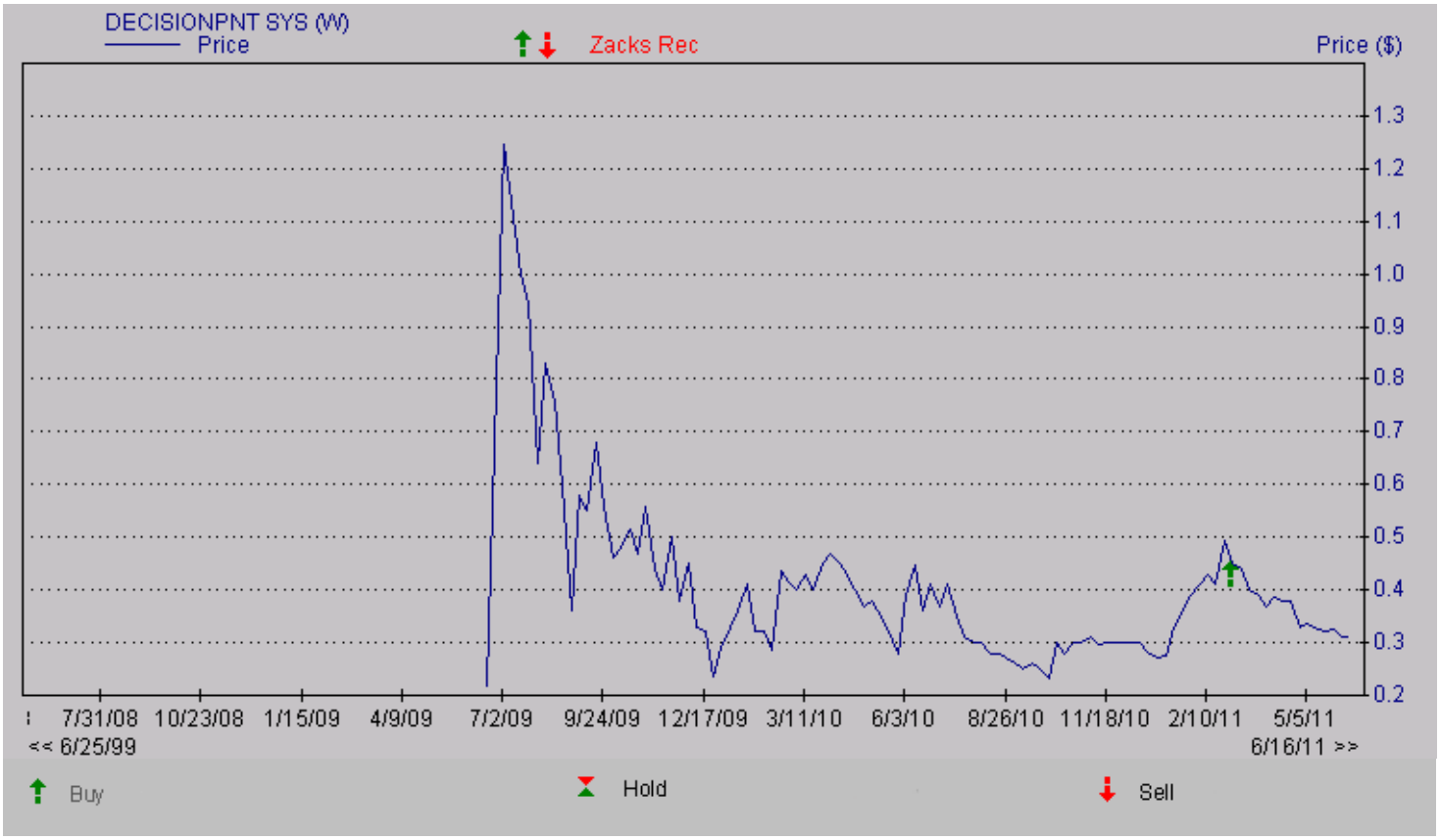
With these inputs we arrive at a target price of $3.00.

PROJECTED INCOME STATEMENT & BALANCE SHEET

INCOME STATEMENT ($ Millions)	Mar-10 Q1 10	Jun-10 Q2 10	Sep-10 Q3 10	Dec-10 Q4 10	Mar-11 Q1 11	Jun-11 Q2 11 E	FY 2008	FY 2009	FY 2010 E	FY 2011 E
REVENUE										
Net Revenue	**11.07**	**13.29**	**16.41**	**15.47**	**12.80**	**16.55**	**53.31**	**48.31**	**56.24**	**66.30**
Sequential Growth		*20%*	*23%*	*-6%*	*-17%*	*29%*				
OPERATING EXPENSES										
Cost of Revenues	9.04	10.76	13.46	12.13	10.48	13.00	43.21	38.57	45.39	51.5
% of Revenue	*81.6%*	*81.0%*	*82.0%*	*78.4%*	*81.9%*	*78.5%*				
Gross Profit -	**2.04**	**2.53**	**3.0**	**3.3**	**2.3**	**3.6**	**10.10**	**9.74**	**10.9**	**14.8**
Proforma Gross Margin	*18.4%*	*19.0%*	*18.0%*	*21.6%*	*18.1%*	*21.5%*	*18.9%*	*20.2%*	*19.3%*	*22.3%*
R&D + Engg	0.00	0.00	0.00	0.00	0.00	0.00	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%*
SG&A	2.44	2.48	2.47	2.23	3.49	2.70	9.15	7.97	9.61	12.00
% of Revenue	*22.0%*	*18.7%*	*15.0%*	*14.4%*	*27.3%*	*16.3%*	*17.2%*	*16.5%*	*17.1%*	*18.1%*
GW Amort, Restructuring, other	-	-	-	-	-	-	-	-	-	-
% of Revenue										
Total Operating Expenses	2.44	2.48	2.47	2.23	3.49	2.70	9.15	7.97	9.61	12.00
% of Revenue	*22.0%*	*18.7%*	*15.0%*	*14.4%*	*27.3%*	*16.3%*	*17.2%*	*16.5%*	*17%*	*18%*
Operating Income -	**-0.40**	**0.04**	**0.5**	**1.1**	**-1.2**	**0.9**	**0.95**	**1.78**	**1**	**3**
Operating Margin	*-3.6%*	*0.3%*	*2.9%*	*7.2%*	*-9.1%*	*5.1%*	*2%*	*4%*	*2%*	*4%*
NON-OPERATING ITEMS										
Non operating Income/Expense	-0.8	-0.9	-1	-1	0	-1	(1.88)	-1.4	-3.37	-2
% of Revenue	*-7.14%*	*-6.63%*	*-3.42%*	*-7.37%*	*-3.48%*	*-3.02%*	*-3.53%*	*-2.81%*	*-6.00%*	*-3.02%*
Tax Provision	0.041	0.011	0.023	0.004	0.008	0.003	-0.046	0.071	0.079	0.300
Pref Divs	*$ 0.02*				*$ 0.03*					
Net Income -	**-1.25**	**-0.85**	**-0.10**	**-0.03**	**-1.65**	**0.35**	**(0.89)**	**0.35**	**-2.2**	**0.5**
Net Income Margin	*-11.3%*	*-6.4%*	*-0.6%*	*-0.2%*	*-12.9%*	*2.1%*	*-1.7%*	*0.7%*	*-4%*	*1%*
EARNINGS PER SHARE										
EPS - Basic	-$0.05	-$0.04	$0.00	$0.00	-$0.05	$0.01	-$0.18	$0.02	-$0.09	$0.07
EPS - Diluted	-$0.05	-$0.04	$0.00	$0.00	-$0.05	$0.01	-$0.18	$0.02	-$0.09	$0.06

Ken Nagy, CFA Zacks Investment Research 5/24/2011

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