Zacks Small-Cap Research

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DecisionPoint Systems (DPSI-OTC)

DPSI: Road to 100 Million Begins- OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	06/16/2011
Current Price (08/26/11)	$2.25
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	**$1.50**
One-Year Return (%)	**-18.18**
Beta	**1.46**
Average Daily Volume (sh)	**5,162**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$16**
Short Interest Ratio (days)	**18.02**
Institutional Ownership (%)	**1**
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	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**2**

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	$16.6 E	$18.5 E	$61.1 E
2012					$95.0 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	$0.05 E	$0.06 E	-$0.19 E
2012					$0.21 E

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WHATS NEW

On August 23, 2011, DecisionPoint Systems, Inc., reported financial results for its fiscal 2011 second quarter, ended June 30, 2011. The second quarter performance resulted in a small year over year decrease in revenue, with revenue dropping $64,235 to $13.223 million from $13.288 million for the three months ended June 30, 2010.

The marginal decrease in revenues for the three months ended June 30, 2011 was due to lighter retail division sales as a result of certain product availability issues as well as by temporary equipment shortages and general economic issues which were partially offset by the revenue contribution of CMAC. Still, the equipment shortages have stopped and the Company has initiated fulfilling orders that were held back in the second quarter.

Furthermore, DecisionPoint anticipates that the full benefit of the CMAC acquisition will be realized in the third quarter of 2011. CMAC, a supply chain consulting and systems integration firm, was acquired by DecisionPoint in late December 2010. The acquisition is anticipated to increase DecisionPoint's 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.

Year over year net loss fell to a net loss of $3.879 million. This compares to a net loss of $850,048 for the comparable quarter of 2010. The year over year descent in net loss was primarily the product of a $1.015 million increase in selling, general and administrative expenses during the 2011 second quarter as well as a one-time, non-cash expense of $2.641 million for debt extinguishment that was expensed in the 2011 Q2.

Here again, it should be noted that the increase in SG&A was largely a result of the additional costs and personnel related to the integration of the acquisition of CMAC.

Although year over year net income fell during the quarter, DecisionPoint was able to increase gross margin by 1.2 basis points! Gross margin jumped from 19.0 percent, in the second quarter of 2010, up to 20.2% for the three months ended June 30, 2011.

Among other highlights during the second quarter, 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. DecisionPoint was able to improve its shareholder's equity by $5.1 million to $2.2 million as of June 30, 2011, as well as generate $0.2 million in operating cash flow during the quarter. Furthermore, during the second quarter, the Company released a series of new products including a complete long haul trucking management system as well as the Grapevine version 1.2. The Grapevine system continues to gain traction in the marketplace with a recurring revenue generation pace that DecisionPoint has been pleased with.

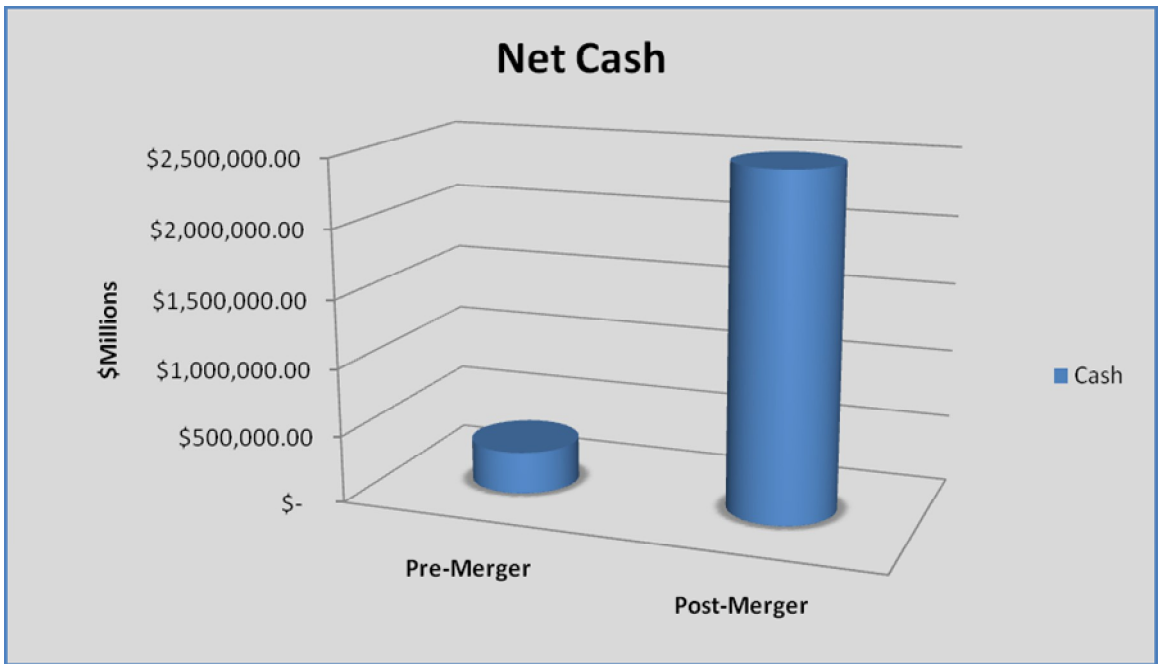
Also, the Company reported that bookings are running ahead of last year
Likewise, DecisionPoint anticipates that it will expand its mobility and logistics vertical opportunities as demand for customized enterprise mobile solutions remains strong. Therefore, the Company projects a seasonally stronger second half of 2011 compared to its first half and anticipates remaining cash flow positive for the rest of the year. Accordingly, DecisionPoint anticipates reaching $100 million in revenue and sustained profitability in 2012 as a result of the increased traction in field mobility and new product introductions.

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

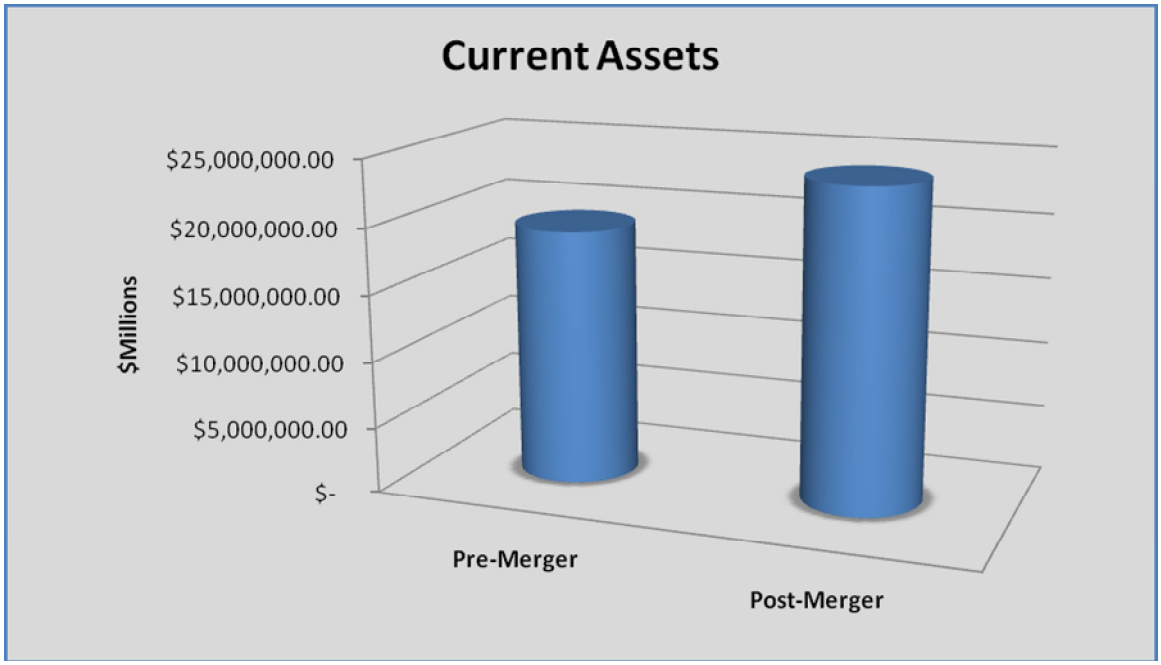
The entire management team of DecisionPoint has become the management team of the merged company. In our opinion the merger trades dilution of the firm's shares for the stability of a solid balance sheet and the option of future acquisitions. Further, management believes the merger serves as a building 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.



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.

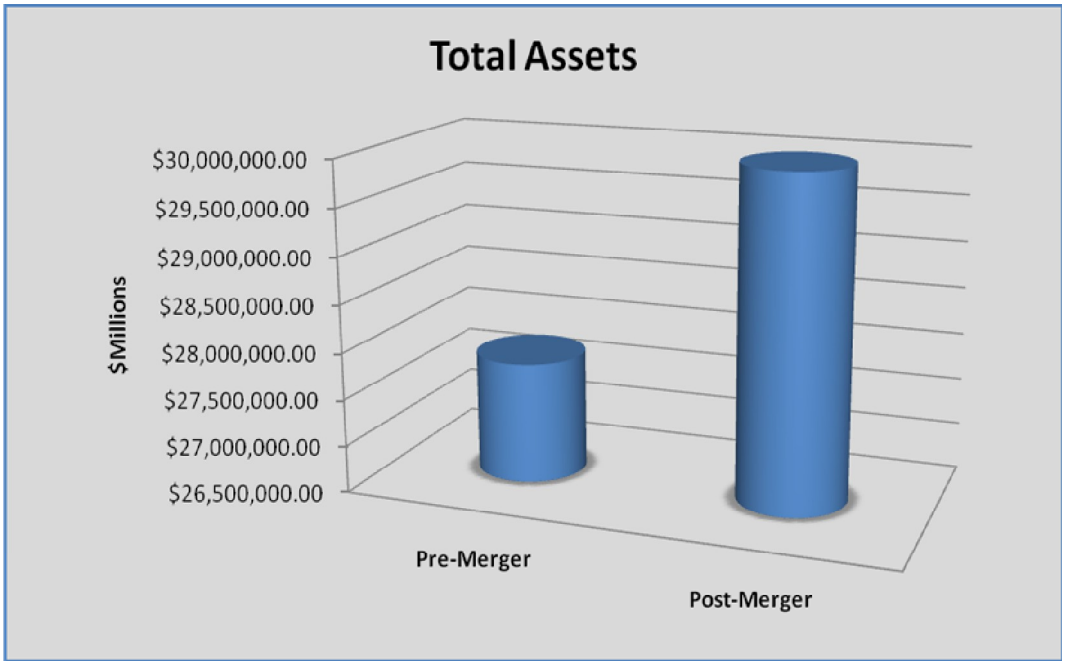


Note Placement

Concurrent with DPSI'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").

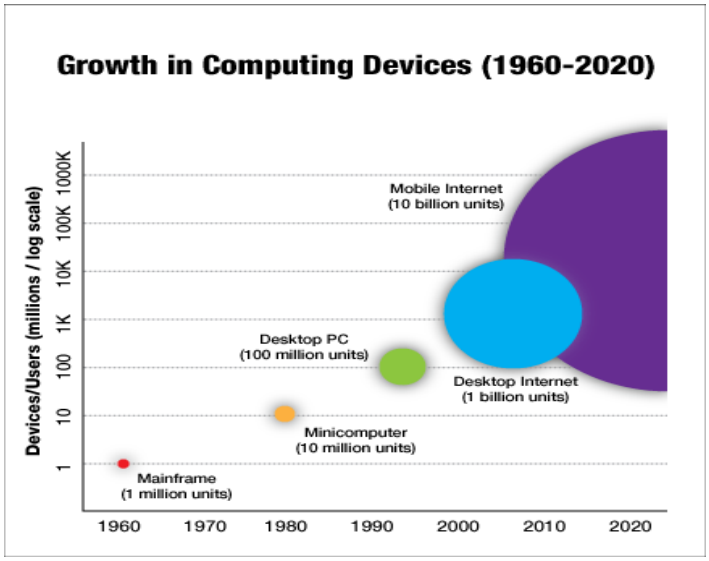
Target Markets

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.



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.

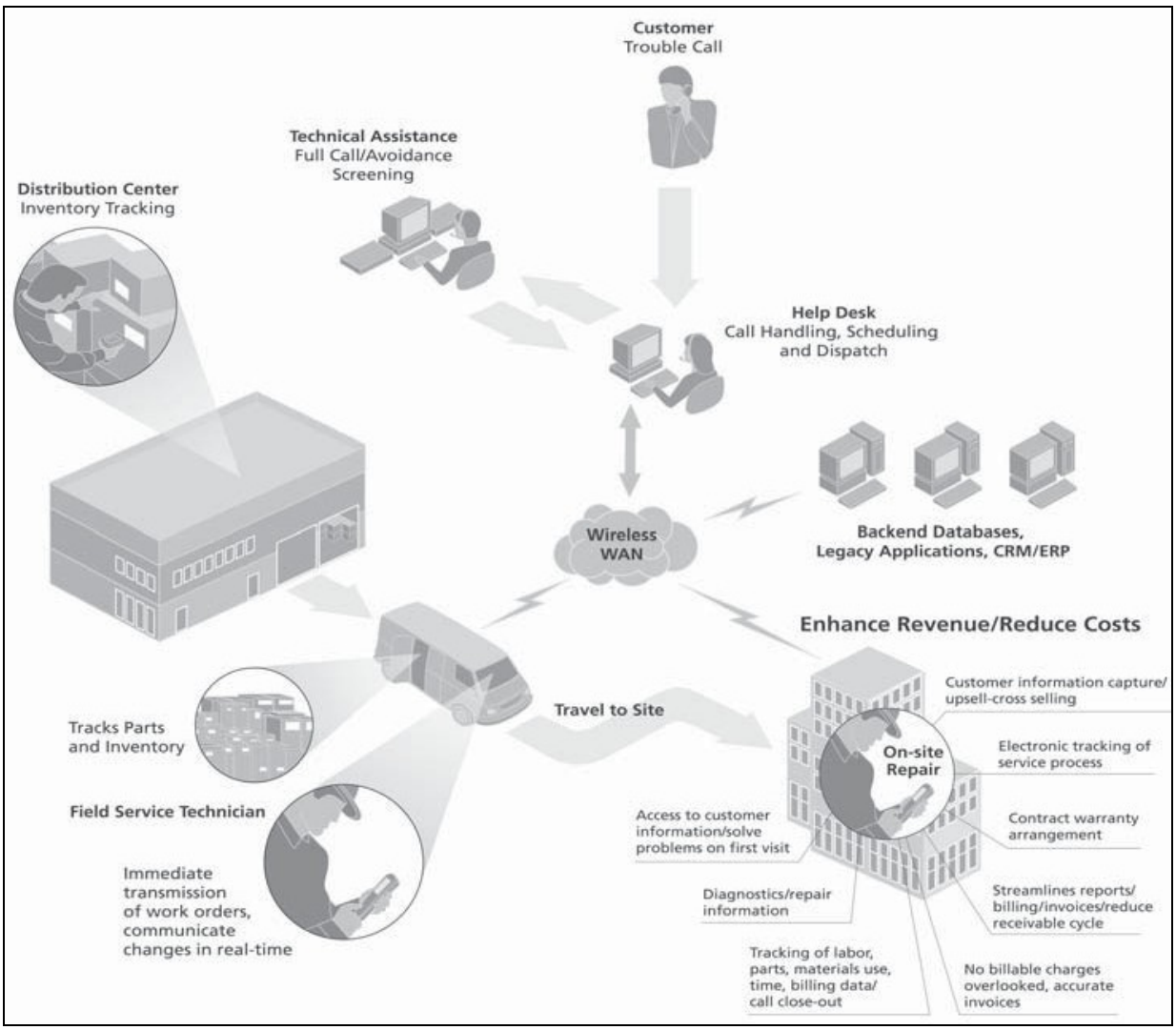
CMAC is a logistics consulting and systems integration provider headquartered in Alpharetta, Georgia. The purchase price of $3.15 million was paid 70% in cash and 30% in stock. The transaction is expected to be accretive to DecisionPoint's 2011 earnings by $0.02 to $0.03 per share fully-diluted. Management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

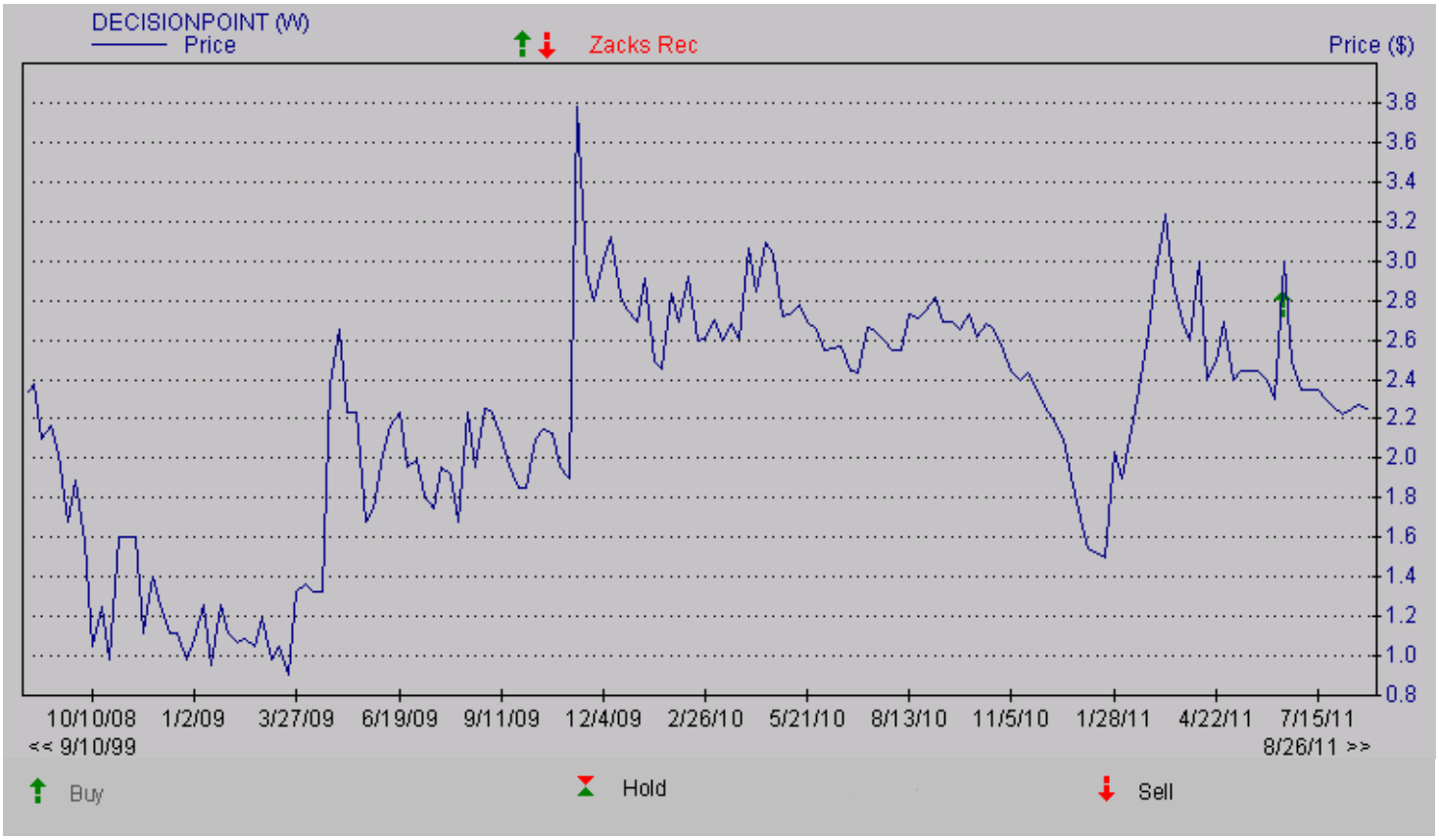
With these inputs we arrive at a target price of $3.00.

PROJECTED INCOME STATEMENT & BALANCE SHEET

INCOME STATEMENT ($ Millions)	Jun-10 Q2 10	Sep-10 Q3 10	Dec-10 Q4 10	Mar-11 Q1 11	Jun-11 Q2 11	Sep-11 Q3 11 E	FY 2008	FY 2009	FY 2010	FY 2011 E	FY 2012 E
REVENUE											
Net Revenue	**13.29**	**16.41**	**15.47**	**12.80**	**13.23**	**16.55**	**53.31**	**48.31**	**56.24**	**61.10**	**95.00**
Sequential Growth		*23%*	*-6%*	*-17%*	*3%*	*25%*					
OPERATING EXPENSES											
Cost of Revenues	10.76	13.46	12.13	10.48	10.56	13.00	43.21	38.57	45.39	48.0	74.5
% of Revenue	*81.0%*	*82.0%*	*78.4%*	*81.9%*	*79.8%*	*78.5%*					
Gross Profit -	**2.53**	**3.0**	**3.3**	**2.3**	**2.7**	**3.6**	**10.10**	**9.74**	**10.9**	**13.1**	**20.5**
Proforma Gross Margin	*19.0%*	*18.0%*	*21.6%*	*18.1%*	*20.2%*	*21.5%*	*18.9%*	*20.2%*	*19.3%*	*21.4%*	*21.6%*
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	2.48	2.47	2.23	3.49	3.40	2.70	9.15	7.97	9.61	12.00	16.63
% of Revenue	*18.7%*	*15.0%*	*14.4%*	*27.3%*	*25.7%*	*16.3%*	*17.2%*	*16.5%*	*17.1%*	*19.6%*	*17.5%*
GW Amort, Restructuring, other	-	-	-	-	-	-	-	-	-	-	-
% of Revenue											
Total Operating Expenses	2.48	2.47	2.23	3.49	3.40	2.70	9.15	7.97	9.61	12.00	16.63
% of Revenue	*18.7%*	*15.0%*	*14.4%*	*27.3%*	*25.7%*	*16.3%*	*17.2%*	*16.5%*	*17%*	*20%*	*18%*
Operating Income -	**0.04**	**0.5**	**1.1**	**-1.2**	**-0.7**	**0.9**	**0.95**	**1.78**	**1**	**1**	**4**
Operating Margin	*0.3%*	*2.9%*	*7.2%*	*-9.1%*	*-5.5%*	*5.1%*	*2%*	*4%*	*2%*	*2%*	*4%*
NON-OPERATING ITEMS											
Non operating Income/Expense	-0.9	-1	-1	0	0	-1	(1.88)	-1.4	-3.37	-2	-2
% of Revenue	*-6.63%*	*-3.42%*	*-7.37%*	*-3.48%*	*-3.05%*	*-3.02%*	*-3.53%*	*-2.81%*	*-6.00%*	*-3.27%*	*-2.11%*
Tax Provision	0.011	0.023	0.004	0.008	0.000	0.003	-0.046	0.071	0.079	0.300	0.300
Pref Divs				*$ 0.03*	*$ 0.03*	*$ 0.03*				*$ 0.11*	*$ 0.11*
Net Income -	**-0.85**	**-0.10**	**-0.03**	**-1.65**	**-1.15**	**0.32**	**(0.89)**	**0.35**	**-2.2**	**-1.3**	**1.5**
Net Income Margin	*-6.4%*	*-0.6%*	*-0.2%*	*-12.9%*	*-8.7%*	*1.9%*	*-1.7%*	*0.7%*	*-4%*	*-2%*	*2%*
EARNINGS PER SHARE											
EPS - Basic	-$0.04	$0.00	$0.00	-$0.05	-$0.25	$0.05	-$0.18	$0.02	-$0.09	-$0.16	$0.18
EPS - Diluted	-$0.04	$0.00	$0.00	-$0.05	-$0.25	$0.05	-$0.18	$0.02	-$0.09	-$0.19	$0.21

Ken Nagy, CFA Zacks Investment Research 8/29/2011

HISTORICAL ZACKS RECOMMENDATIONS



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