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 (11/11/11)	$1.30
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	**$1.01**
One-Year Return (%)	**-45.83**
Beta	**1.03**
Average Daily Volume (sh)	**17,837**
Shares Outstanding (mil)	**7**
Market Capitalization ($mil)	**$9**
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	**N/A**
P/E using 2012 Estimate	**6.2**
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	$16.4 A	$18.5 E	$60.9 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	$0.01 A	$0.03 E	-$0.26 E
2012					$0.21 E

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WHATS NEW

CMAC contributes at DecisionPoint Systems

On November 11, 2011, DecisionPoint Systems, Inc., an enterprise mobility and RFID systems integrator, reported financial results for its third quarter and nine months ended September 30, 2011.

DecisionPoint reported solid results with year over year third quarter revenues steady at $16.446 million compared to $16.414 million for the restated third quarter 2010.

However, third quarter revenue grew 24% sequentially over the second quarter ended June 30, 2011 and gross margin expanded to 20.9% during the third quarter versus 18.0% in third quarter of 2010.

The flat year-over-year revenues were primarily a result of lower sales to large retail-based customers which was offset by the revenue earned by CMAC, a logistics consulting and systems integration provider that was acquired by DecisionPoint in December 2010.

The jump in sequential revenue was driven by the full integration of CMAC, increased sales of field mobility solutions as well as the abatement of product shortages which negatively impacted DecisionPoint's 2011 first half revenue.

Still, the Company was able to achieve positive net income for the quarter with third quarter 2011 net income of $54,489 compared to a net loss of $121,942 during the three months ended September 30, 2010.

The improvement was primarily a result of higher gross margin and total other income which was offset by higher total operating expenses in the third quarter of 2011 versus the comparable quarter of 2010.

Other income included a net gain of approximately $0.3 million, due to the sale and transfer of the Company's interest in a debenture, while the increase in operating expense was primarily due to additional costs and personnel related to the Company's acquisition of CMAC.

Based on a weighted average number of diluted common shares of 7.417 million, diluted net income per share resulted in net income of $0.01 per share for the third quarter 2011. This compared to a diluted net loss per share of $0.03 based on a weighted average number of diluted shares of 3.449 million during the three months ended September 30, 2010.

For the nine months ended September 30, 2011, year over year revenues improved by 4.2 percent or $1.696 million to $42.471 million from $40.774 million for the comparable nine months of 2010.

Still, net loss for the nine months increased by $3.259 million year over year to a net loss of $5.501 million for the nine months ended September 30, 2011. This compares to a net loss of $2.242 million for the comparable nine months of 2010.

The increase in net loss for the nine months was primarily due to an increase in selling, general and administrative expense in the first nine months of 2011 compared to the same period of 2010.

However, gross margin for the nine months improved to 19.9 percent compared to gross margin of 18.4 percent for the nine months ended September 30, 2010.

Based on a weighted average number of diluted common shares of 5.493 million, diluted net loss per share resulted in a $1.00 loss per share for the nine months ended September 30, 2011. This compared to a diluted net loss per share of $0.68 based on a weighted average number of diluted shares of 3.308 million during the nine months ended September 30, 2010.

DecisionPoint ended the quarter with $193,916 in cash and a working capital deficit of $3.696 million.

Still, total stockholder's equity increased to $2.672 million as of September 30, 2011 from a deficit of $2.870 million at the beginning of the year.

Moreover, management has been encouraged by demand trends in retail solution sales as well as major wireless carrier partner's interest in the Company's Grapevine Push-to-Talk solution for enterprise and small business applications.

Grapevine Push-to-Talk technology is DecisionPoint's "always on" communications solution delivering Push-to-Talk capability as data over the Internet across unrelated carrier and Wi-Fi networks.

The Company's strategy has been to combine this growth driver with some of the major mobile provider's other products and services in an effort to attempt to increase overall margins as well as gross profit.

DecisionPoint's Grapevine Push-to-Talk Technology is currently being included in product bundles co-sold with tier one cellular carriers as well as demo accounts that are being used by leading device manufacturers including Motorola.

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").

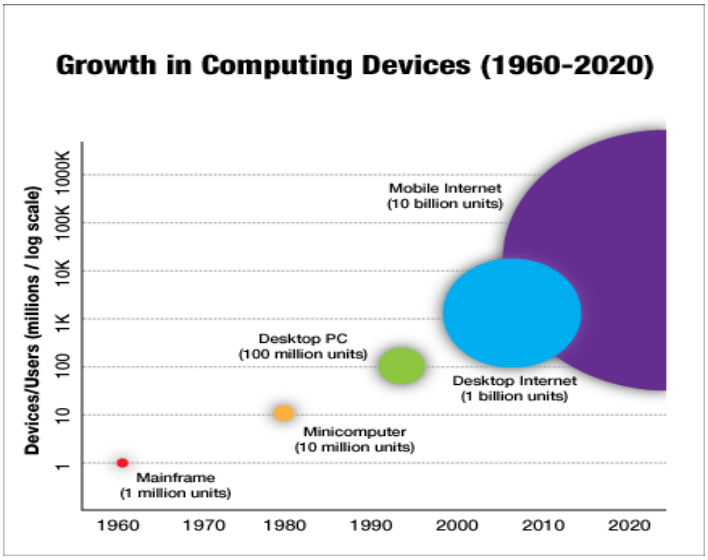
Target Markets

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.

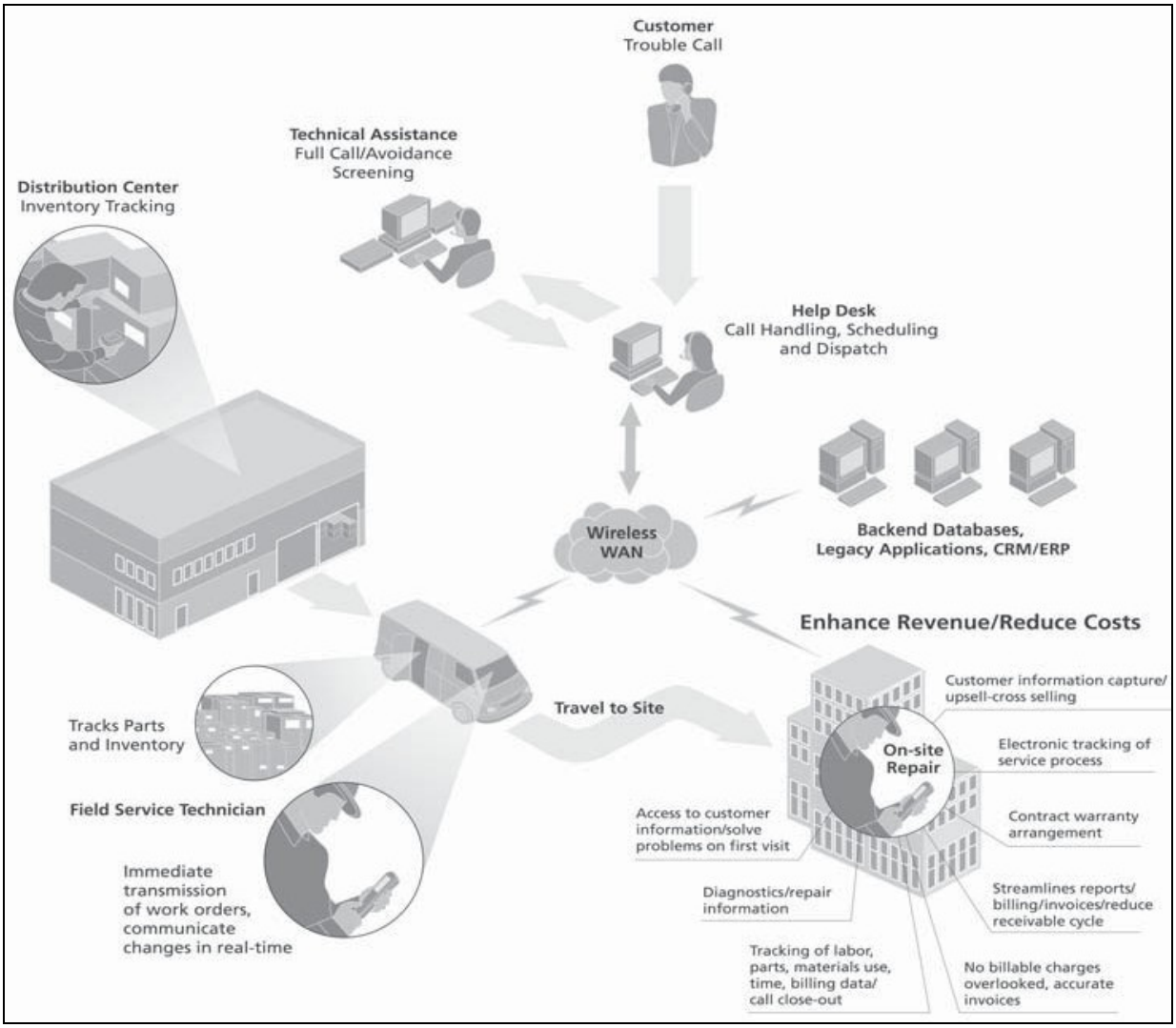
CMAC is a logistics consulting and systems integration provider headquartered in Alpharetta, Georgia. The purchase price of $3.15 million was paid 70% in cash and 30% in stock. The transaction is expected to be accretive to DecisionPoint's 2011 earnings by $0.02 to $0.03 per share fully-diluted. Management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

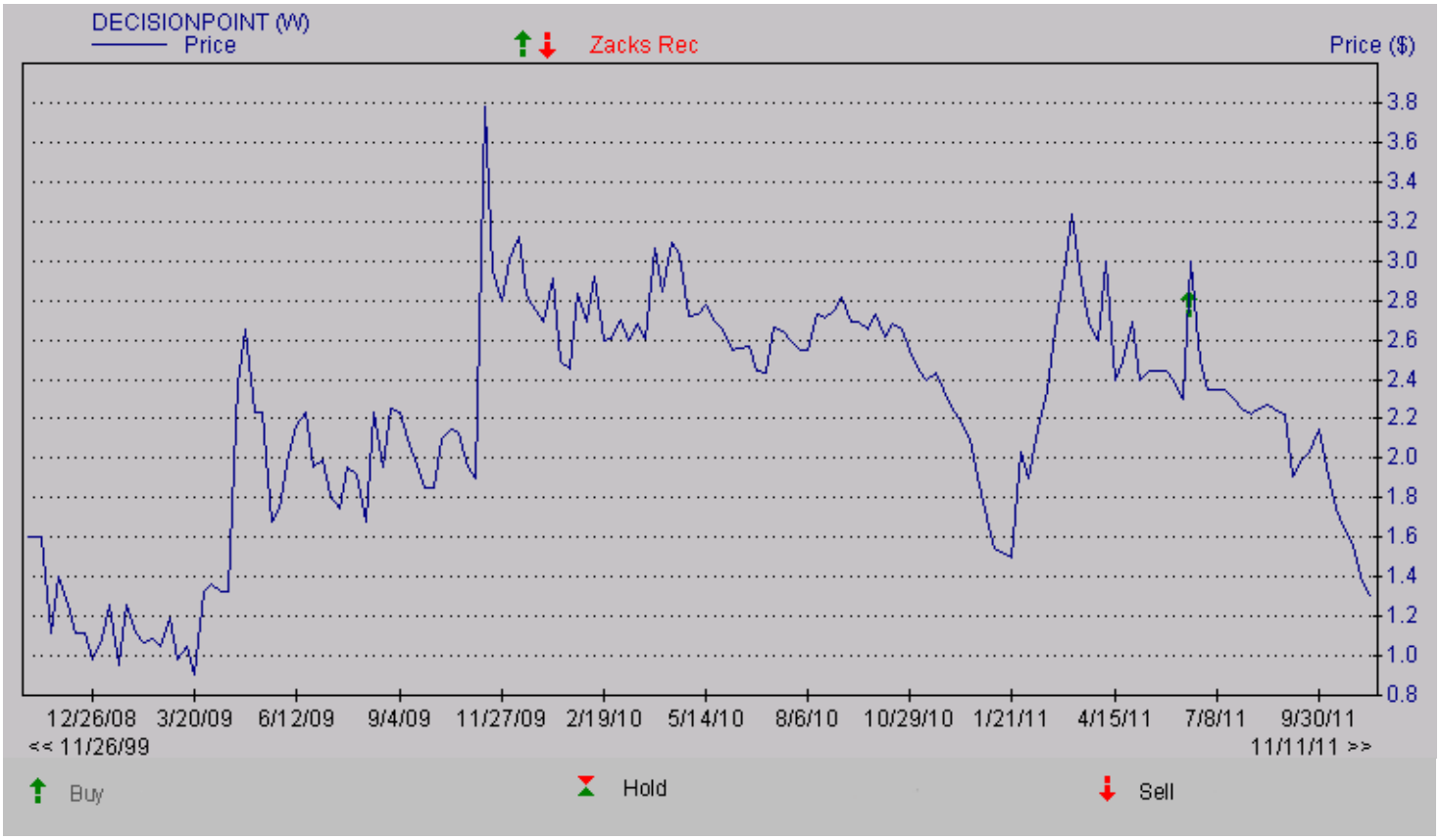
With these inputs we arrive at a target price of $3.00.

PROJECTED INCOME STATEMENT & BALANCE SHEET

INCOME STATEMENT ($ Millions)	Sep-10 Q3 10	Dec-10 Q4 10	Mar-11 Q1 11	Jun-11 Q2 11	Sep-11 Q3 11	Dec-11 Q4 11 E	FY 2008	FY 2009	FY 2010	FY 2011 E	FY 2012 E
REVENUE											
Net Revenue	**16.41**	**15.47**	**12.80**	**13.23**	**16.45**	**18.50**	**53.31**	**48.31**	**56.24**	**60.98**	**95.00**
Sequential Growth		*-6%*	*-17%*	*3%*	*24%*	*12%*					
OPERATING EXPENSES											
Cost of Revenues	13.46	12.13	10.48	10.56	13.01	14.50	43.21	38.57	45.39	48.5	74.5
% of Revenue	*82.0%*	*78.4%*	*81.9%*	*79.8%*	*79.1%*	*78.4%*					
Gross Profit -	**3.0**	**3.3**	**2.3**	**2.7**	**3.4**	**4.0**	**10.10**	**9.74**	**10.9**	**12.4**	**20.5**
Proforma Gross Margin	*18.0%*	*21.6%*	*18.1%*	*20.2%*	*20.9%*	*21.6%*	*18.9%*	*20.2%*	*19.3%*	*20.4%*	*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	2.47	2.23	3.49	3.40	3.27	3.75	9.15	7.97	9.61	13.92	16.63
% of Revenue	*15.0%*	*14.4%*	*27.3%*	*25.7%*	*19.9%*	*20.3%*	*17.2%*	*16.5%*	*17.1%*	*22.8%*	*17.5%*
GW Amort, Restructuring, other	-	-	-	-	-	-	-	-	-	-	-
% of Revenue											
Total Operating Expenses	2.47	2.23	3.49	3.40	3.27	3.75	9.15	7.97	9.61	13.92	16.63
% of Revenue	*15.0%*	*14.4%*	*27.3%*	*25.7%*	*19.9%*	*20.3%*	*17.2%*	*16.5%*	*17%*	*23%*	*18%*
Operating Income -	**0.5**	**1.1**	**-1.2**	**-0.7**	**0.2**	**0.3**	**0.95**	**1.78**	**1**	**-1**	**4**
Operating Margin	*2.9%*	*7.2%*	*-9.1%*	*-5.5%*	*1.0%*	*1.4%*	*2%*	*4%*	*2%*	*-2%*	*4%*
NON-OPERATING ITEMS											
Non operating Income/Expense	-1	-1	0	0	0	0	(1.88)	-1.4	-3.37	-1	-2
% of Revenue	*-3.42%*	*-7.37%*	*-3.48%*	*-3.05%*	*0.71%*	*0.00%*	*-3.53%*	*-2.81%*	*-6.00%*	*-1.20%*	*-2.11%*
Tax Provision	0.023	0.004	0.008	0.000	0.013	0.003	-0.046	0.071	0.079	0.024	0.300
Pref Divs			*$ 0.03*	*$ 0.03*	*$ 0.21*	*$ 0.03*				*$ 0.30*	*$ 0.11*
Net Income -	**-0.10**	**-0.03**	**-1.65**	**-1.15**	**0.05**	**0.22**	**(0.89)**	**0.35**	**-2.2**	**-2.5**	**1.5**
Net Income Margin	*-0.6%*	*-0.2%*	*-12.9%*	*-8.7%*	*0.3%*	*1.2%*	*-1.7%*	*0.7%*	*-4%*	*-4%*	*2%*
EARNINGS PER SHARE											
EPS - Basic	$0.00	$0.00	-$0.05	-$0.25	$0.01	$0.03	-$0.18	$0.02	-$0.09	-$0.26	$0.21
EPS - Diluted	$0.00	$0.00	-$0.05	-$0.25	$0.01	$0.03	-$0.18	$0.02	-$0.09	-$0.26	$0.21

Ken Nagy, CFA Zacks Investment Research 11/14/2011

HISTORICAL ZACKS RECOMMENDATIONS



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