Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Analyst

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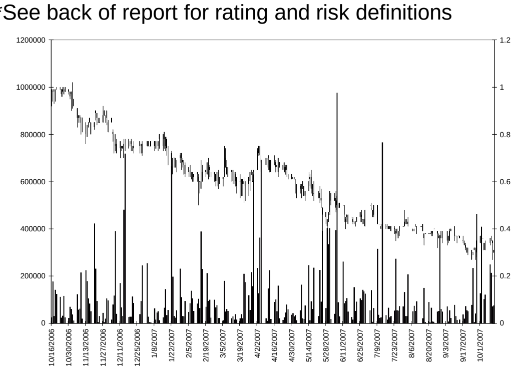
Versatile Systems Inc. (TSXV: VV; AIM: VVS) – Initiating Coverage; Steady Core Business With Growth Potential

Sector/Industry: Technology/Software **www.versatile.com**

Market Data (as of October 12, 2007)

Current Price	$0.31
Fair Value	$0.45
Rating*	HOLD
Risk*	3 - Average
52 Week Range	$0.27 - $1.02
Shares O/S	120.4 MM
Market Cap	$37.3MM
Current Yield	N/A
P/E (forward)	15.0x
P/B	1.9x
YoY Return	-68.4%
YoY TSX-V	25.7%

*See back of report for rating and risk definitions



Highlights

- Versatile has an impressive customer list including a number of large blue chip and Fortune 1,000 companies, many of whom are repeat customers; the company has an equally impressive list of technology partners such a Sun Microsystems, Microsoft, and Nokia.
- We believe the company's "core" businesses operate in competitive environments and growth has slowed or declined in some segments. We believe that upside will occur if the company can successfully implement any of its growth initiatives including retails kiosks and SyncSeer (a partnership with Tyco Electronics). Potential growth can also come from expanding into new geographic areas. To date, sales are primarily in the U.S.
- Margins are low for a high tech company. We believe the company could increase profitability by focusing on higher margin products such as proprietary software.
- Using very conservative assumptions, we believe the company is fairly valued based on three valuation methods. However, any success in its new product areas will likely be catalysts to send the stock price higher as we have not given any credit in our models for these new initiatives.

Risks

- The company is exposed to the risks of operating in a high tech environment including rapid changes in consumer preferences, and technology. It also operates in many highly competitive segments, and relies on key partners.

Key Financial Data and Statistics (US$ MM's)
YE June 30

	2006	2007	2008E	2009E
Sales	68,621	71,649	71,321	74,646
Gross Margin %	22.1%	23.6%	23.0%	23.0%
Net Income	4,059	1,380	1,927	2,179
EPS	$ 0.04	$ 0.01	$ 0.02	$ 0.02
Debt to Capital	24.4%	13.7%	0.9%	0.9%
ROE	1.2%	3.7%	6.4%	8.4%

Versatile Systems Inc. is a technology company that provides software tools that allow its customers to manage their credit and sales processes. Versatile creates software that extends their customers back office to mobile workers. In addition, the company delivers technology systems and services to many Fortune 1,000 companies.

Overview

Versatile Systems Inc. "VSI" is a technology company based in Vancouver, B.C., Canada, that provides software tools that allow its customers to manage their credit and sales processes. Versatile creates software that extends their customers back office to mobile workers. In addition, the company delivers technology systems and services to many Fortune 1,000 companies. VSI has operations in Canada, the U.S., and the U.K., though it derives most of its revenue from in the U.S. The company will use the U.K. office as a basis for expanding into Europe. Revenue is generated from the sale of services, software (both third party and proprietary under the brand Mobiquity), and hardware.

History

The company was originally incorporated on September 28, 1955, as Alice Lake Mines Limited. Through various names changes and transactions, the company became International Sales Information Systems Inc (ISIS) on June 1, 1994, and ceased its mining activities.

ISIS was in the business of developing software products for the Customer Relationship Management (CRM) market. CRM is basically software that allows companies to capture, process and analyze data that helps them manage customer relationships. For example, Salesforce.com (NASDAQ: CRM) is a web based application which allows management and salespeople at a company to track sales processes, prospects and customers. This includes the ability to record a complete history of customer/prospect contact, schedule follow ups, track stage of sale, and other important sales related information.

The focus of ISIS was a mobile based product called Salespoint, that allowed workers in the field ("mobile workers") to stay in constant contact with, and access data from head office through wireless hardware. This product was originally developed and sold in the U.K. in 1996. In 1999, the company opened an office in New York to begin marketing the product in North America. On September 18, 2000, the company changed its name from International Sales Information Systems Inc. to Versatile Mobile Systems (Canada) Inc. After this, the company continued to make further acquisitions.

On April 26, 2005, the company acquired all of the issued and outstanding shares of two private companies – Perfect Order Inc. "POI" and Perfect Manufacturing Inc "PMI" – through a wholly owned subsidiary – Versatile Acquisitions Corporation "VAC". The total purchase price was about $10.8 million. In revenue terms, POI and PMI, were about four times the size of VMS at the time of the acquisition. The acquisition allowed the company to expand its potential market by targeting and entering new industries for its products.

VMS effectively paid less than 10x earnings and less than 0.2x sales to acquire Perfect Order. For a profitable and growing business, we believe VMS paid an extremely low price for this acquisition.

On November 16, 2005, the company changed its name from Versatile Mobile Systems (Canada) Inc., to the present form – Versatile Systems Inc. The company is listed on the TSX Venture Exchange under the symbol VV, and as of April 16, 2007, on the Alternative Investment Market (AIM) of the London Stock Exchange, under the symbol VVS.

Products and Services

The company reports its results under two business segments, the first is VMS and the second is VAC, POI, VSI. Each segment is further divided into geographical locations. Overall, the companies focus can be narrowed into three main categories: Supply chain management, CRM, and wireless mobile applications. The table below summarizes the company's segmented results.

Segmented Results
Versatile Systems Inc
Annual - US$000s

	2006	2007	YOY Growth %
Sales			
VAC, POI, VSI			
U.S.	49,566	50,791	2.5%
Spain	14	25	74.0%
Canada	6	2	-67.1%
Netherlands	104	349	233.6%
Sub-Total	49,691	51,166	3.0%
VMS			
U.S.	10,028	9,901	-1.3%
U.K.	203	852	320.4%
Canada	-	118	N/A
France	-	189	N/A
Other	-	4	N/A
Sub-Total	10,230	11,064	8.1%
Total	59,921	62,230	3.9%
% of Total Sales			
VAC, POI, VSI			
U.S.	82.72%	81.62%	
Spain	0.02%	0.04%	
Canada	0.01%	0.00%	
Netherlands	0.17%	0.56%	
Sub-Total	82.93%	82.22%	
VMS			
U.S.	16.73%	15.91%	
U.K.	0.34%	1.37%	
Canada	0.00%	0.19%	
France	0.00%	0.30%	
Other	0.00%	0.01%	
Sub-Total	17.07%	17.78%	
Total	100.00%	100.00%	

Although the company's results are segmented as per the above, this is based more on a breakdown by legal entities rather than sales by product and service line. This makes an analysis of trends in various products and services difficult. We asked management about this and were informed that because many different products and services may be used for one particular project, it is hard to separate and/or allocate revenues by product and service segment. However management has provided us with guidance on the breakdown of revenues as follows:

- 60% of revenues are related to services such as architect and design, and reselling third party products;
- 20% of revenues are related to support and maintenance contracts and can be considered recurring;
- 20% of sales are related to proprietary products (software)

Versatile Mobile Systems

We now look at the company's products and services in more detail.

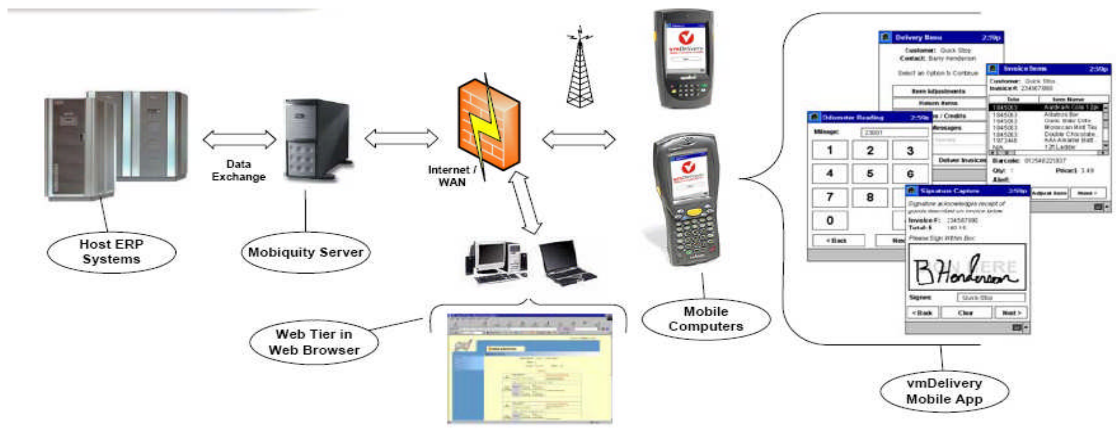
We assume that the VMS segment is the company's original business before the Perfect Order acquisition. This segment operates out of offices in Seattle, New York, and the U.K. This business segment accounted for 15.9% of the company's total sales in FY2007. Almost all of the segment's sales were to the United States although the segment's U.K. sales experienced huge revenue growth of 320% in 2007. U.K. sales increased from $202,729 in FY2006, to $852,252 in FY2007 while growth in the U.S. declined slightly by 1.3%. Overall this segment achieved 06/07 sales growth of 8.1%.

In FY2007, the company also reported VMS sales in Canada, France, and an immaterial amount in other countries. Although we believe that many of offerings in this business segment operate in a highly competitive environment, this indicates to us that there is growth potential in this business segment by expanding geographically.

Within this business segment, the company has a number of different products and services which we now give a brief overview of.

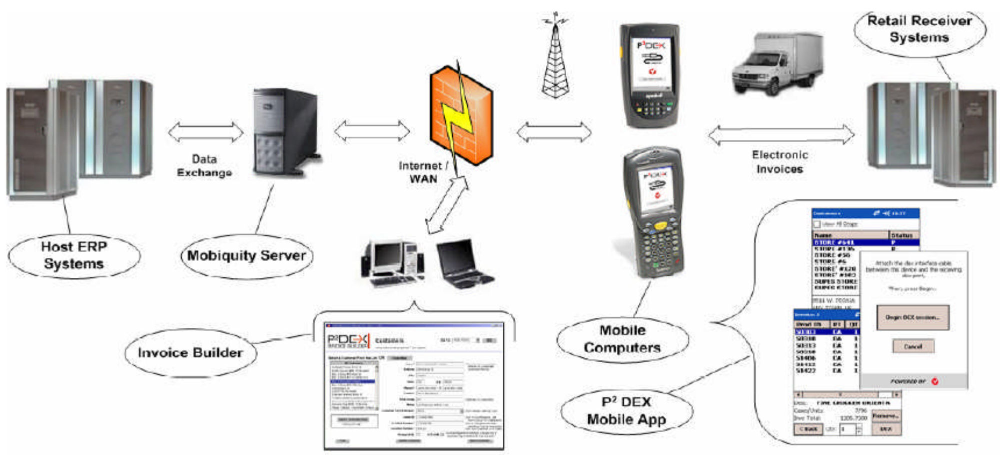
Mobiquity Route – This is a product that works on a handheld mobile device that enables workers in the field to access and perform a wide variety of functions such as track inventory, access customer details, take orders, communicate with and track delivery drivers to ensure on time delivery or give special instructions, and other functions.

Mobiquity Deliver – This product is used on any Windows CE handheld mobile device and is used by drivers who deliver products. The products allows drivers to import route data from warehouse or other systems, access important customer information such as address and contact information, scan bar codes, verify product receipt by accepting electronic signatures, and other functions. This product line operates in a competitive environment with other larger players such as UPS Logistics offering competing products. The image on the next page shows how the mobile devices are linked to a customer's systems.



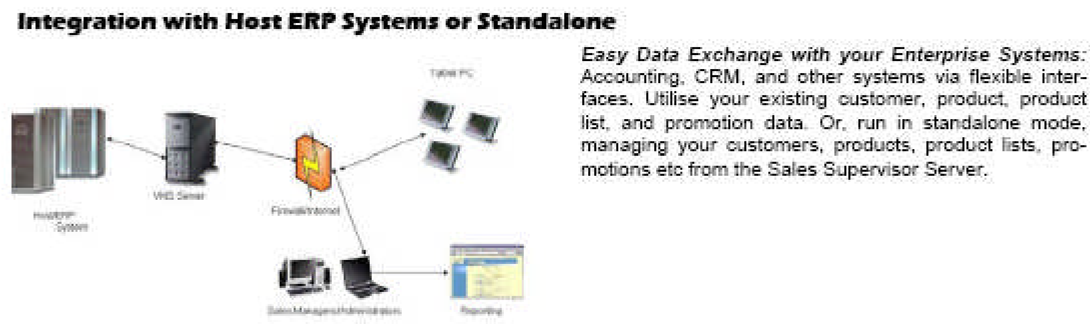
Source: Company

Mobiquity Dex – DEX is an industry standard method that enables a retailer to electronically receive a distributor's invoice upon product delivery. At delivery, adjustments and corrections to the order can also be made through a mobile device. The product runs on any Windows CE mobile device. DEX allows wholesalers to reduce or eliminate paper invoicing, resulting in lowered costs, greater accuracy and shorter payment cycles. The following diagram illustrates how an invoice and the associated data are transmitted and recorded by both the retailer and wholesaler's systems through the use of a mobile device.



Source: Company

Mobiquity Sales Supervisor – This product is basically CRM software that is meant to run on a tablet PC. Again, this product line is operating in a competitive environment. There are many companies that provide CRM software is various forms from software/server based products to web based products. One way the company is differentiating itself is by combining this product with the company's Mobiquity Kiosk (see the Mobiquity Kiosk discussion below). The image on the next page shows how the product is integrated with a company's existing systems.



Source: Company

Mobiquity Sell – This product is a CRM type product that runs on any Windows CE mobile device and allows salespeople in the field to access product catalogues, customer information, and process sales orders. The picture below illustrates the process.

Source: Company

Mobiquity Spaceplanner – This is a PC Tablet application that allows a merchandiser to create shelf displays also called planograms while in-store. This is used to optimize shelf space to determine the best way to allocate and arrange products on shelf space in a retail environment while taking into account important factors such as demographics. It is an improvement over paper based methods of planning shelf space in that it is customized based on each individual retail location. The image below is an example of the output produced by using this product.

Source: Company

Outlook for Segment – While the company's products emphasize mobility, we believe they are operating in a highly competitive industry. Although some of its competitors may not focus on mobility, some web based products can compete by being accessible through mobile web enabled devices such as laptops or Blackberry's.

We believe that the main competitive advantage or barrier to entry is the relatively high cost of switching. For example, if a company already has all of its customers, order history, and product data entered into one system, it will incur high costs to switch or enter the data into a competing system, even if the competing system proves to be better. Also, there would be costs to train a sales force on using the new system, integration issues and time costs.

We believe that this segment will not be a high growth segment for the company unless it bundles these products with its new initiatives which we discuss below. A review of the company's sales growth in the last few years prior to the Perfect Order acquisition confirms this. As a result, we are forecasting organic revenue growth of 3% for this business segment going forward.

Versatile Acquisitions Corp – VSI and POI

Versatile Systems Inc. represents the operations of Perfect Order and the company's other new initiatives. The segment's headquarters are in Pennsylvania. It has three main product offerings, two of which we believe are the platforms for growth going forward.

Mobiquity Autostore – This is a web-based product that is targeted towards Honda/Acura dealerships. The program is able to display inventory availability in real-time to a salesperson, automate the customization of a customer's vehicle during purchase so that the customer can see what impact adding or deleting various options/accessories has on price in real-time, show and calculate payments related to financing, track order delivery, and also incorporates CRM features (for example, remind salespersons to make follow up sales calls after each sale to ask the customer if they are happy with their purchase).

The program also gives management real-time access to critical decision making data. For example, the program can be used to view data summaries of each sale rep to determine who may need improvement.

This program was originally designed and installed for the Bobby Rahal Honda in Pennsylvania. According to Ken Gray, General Manager of Bobby Rahal Honda in Pennsylvania, implementing Autostore has allowed it to increase the gross profit on each car sold by $200.

VMS does not disclose how many dealerships have since adopted this product, or if it can be configured for other auto brands. We estimate that there are about 1,250 Honda and Acura dealerships in the U.S. though we have not made any assumptions in our model as to further sales of this product. The industry is competitive, and there are many different dealer management systems available.

Mobiquity Kiosk – This product was acquired from the company's acquisition of Perfect Order. The target market for this product is "retailers who sell big ticket items by commissioned sales staff in a retail showroom environment". According to the company, these are retailers who generate between $100 million to $1 billion in revenues and have between 10 –1,000 locations. The company has so far identified 200 retailers who meet this criteria. Management estimates that this translates into a potential market size of about $250 million. So far, the company has been successful in penetrating the furniture market though we believe the product has applications in other markets such as electronics. This product combines a portal solution with in store kiosks.

The kiosks enable customers who come into a store to apply for credit using the kiosk, which is then linked to the store's credit processing system. The kiosk also delivers real-time information about the customer to salespersons via a web-based interface. The kiosk also allows a customer to view a store's current promotions and inventory. This enables both the salesperson and retailer to track data related to customer buying habits, customer satisfaction and other pertinent information to improve a buyer's experience leading to increased sales and service. One customer, Levin Furniture, base in Pennsylvania, was able to see a "quick ROI" by implementing the product. According to the company's promotional literature, Levin was quoted as saying that the implementation of this product increased the value of Levin's average transaction by 30%.

The company has announced various other furniture store installations. For example, in July 2006, RoomStore announced that it was implementing kiosks in its stores to allow customers to apply for, and obtain, private-label credit through the company's banking partner – HSBC. There have been numerous other furniture chains that have announced selection of the kiosks as the table below shows.

Retailer	Banking Partner
La-Z-Boy	Wells Fargo
D&D Home Furnishings	GE Money
Steinhafels	GE Money
Wolf Furniture	HSBC

Source: Company

One vote of confidence for the kiosks occurred on September 29, 2006, when Lazy Boy of Portland announced that they would install the kiosks at 6 locations in Oregon. Subsequently, on August 9, 2007, the company announced that Lazy Boy had selected the kiosks to be installed at all Lazy Boy locations. This includes 336 Furniture Galleries, and 304 Comfort Studios. Assuming that an average kiosk costs between US$8,500 to US$9,500 as per company guidance, and assuming that all Lazy Boy locations install the product over a two year period, we estimate this translates into $7 million in revenues. Note that this figure includes ancillary fees that are associated with the product installations such as support and maintenance. We have factored into our models an extra $3.5 million per year in revenues as a result of the Lazy Boy deal though for conservatism, we have not made any further assumptions about revenues from this product. Although we believe this area presents a good opportunity for growth, we would like to wait and see how the news flow develops before making further assumptions.

The Mobiquity Kiosk combines technology from the company's partners including Sun Microsystems, APUNIX and CommNav (renamed the Mobiquity Transaction Engine). Versatile can also combine the Kiosk product with its Sales Supervisor product. This allows salespersons to process orders on the showroom floor without having to go to a salesperson's desk, and eliminates paperwork. Below is an image of a Mobiquity Kiosk.

Source: Company

The whole process is driven by the company's Mobiquity Transaction Engine as shown in the image below.

Source: Company

Versatile is not the only company that provides touch screens and kiosks that are integrated with a customer's existing systems and ability to apply for credit. However, we believe that as in its VMS products, once a customer is signed up, there are significant switching costs involved. Thus, we believe the key to success is to quickly capture as large a market share as possible.

Syncseer – On October 12, 2006, Tyco Electronics (NYSE: TEL) and Versatile announced that they had formed an alliance to develop and share licensing revenues for Syncseer, an intermediary software platform that connects different technology systems. It is targeted at three main industries. The following are taken from the Syncseer website:

Healthcare - to improve patient service and safety by tracking the location, utilization and accessibility of key mobile assets;

Education - to increase campus safety and operational efficiency by providing an improved level of personal and asset security while integrating with existing identity and access management systems;

Entertainment, Gaming and Retail - to drive revenue through improved experience.

Basically, this product solution combines RFID technology with other systems such as video surveillance, security systems, and financial systems, to help organizations track and secure assets. The product also has a wide range of other applications that have yet to be realized. **This is the second area where we believe most of the company's opportunity for growth will come from going forward, though it is still too early to estimate and incorporate any assumptions in our models.** We believe growth will be driven by the increasing number of computers and data which go "missing" each year, causing widespread panic about identity theft. A quick Google search of incidents of potential identity theft as a result of lost computers and files turns up millions of results. For example, late last year, a computer file containing information on up to 470,000 Talvest Mutual Funds (owned by CIBC; TSX: CM) clients was lost in transit between offices.

One application for example, would see computer equipment in an office tagged with RFID technology. Readers would be placed at doors and other areas and security would be alerted if the tagged computer equipment were removed from a pre-defined area. The equipment could then be tracked and recovered. Another application could be integrated tags on hospital equipment which would alert security personnel if such equipment was moved without authorization, or could also help locate equipment in an emergency.

In November 2006, the company announced that Wake Forest University had selected Syncseer to provide asset management and security services. More specifically, Wake Forest will affix RFID tags to various equipment, and install readers around campus. This will enable the university to combat theft of its equipment.

Syncseer has teamed up with a number of partners to provide a complete solution. For example, Panasonic will provide video surveillance systems for Syncseer.

RFID stand for Radio Frequency Identification. One of the more common and well known uses of RFID is to collect tolls. RFID tags are placed in a vehicle and when the vehicle enters a roadway where a toll is required, the toll is automatically collected because a reader identifies the RFID tag, and its owner, and the owner is later billed.

Overall, the POI/VAC segment was responsible for 82.5% of the company's 2007 sales. Revenues grew about 3% from 2006 levels. Revenues in the U.S., while growing modestly, were responsible for most of the sales. Sales in Canada declined, though are still at very low levels. Most of the sales growth came from sales in international markets comprised of Spain and the Netherlands. Revenue from the Netherlands resulted from a Cisco upgrade project completed for Essent Kablecom. We are going to assume conservative sales growth of 5% going forward from this segment (in addition to incremental revenues from the Lazy Boy deal). While we believe this segment has the greatest potential for growth due to the numerous applications and advanced technology involved, it is difficult at this time to estimate the potential growth without further announcements of adoption of such technology. Thus, we have chosen to remain conservative at this time.

Professional & Other Products & Services

The company also provides consulting, professional, support and maintenance services to its customers related to the above. Companies such as FedEx, UPS, Comcast, and Staples have hired Versatile to create custom software, provide storage solutions, optimize data centers and other services. The company has over 35 industry certifications, and about 70 consultants. These consultants can manage projects, design networks, as well as provide maintenance and support. Some of these services, such as maintenance contracts, provide the company with recurring revenue.

Once hired, Versatile will assign a Project Manager to oversee the project. This person basically acts as a general contractor. The company then dispatches system architects to design a solution. The solution is then developed by various programmers and coders who then pass their creation over to installers. Installers implement the solution and integrate it with a company's existing infrastructure. The rest of the team includes trainers, and support personnel who make sure things continue to run as planned. The company also derives a large portion of revenues from selling third party hardware and software that are part of the solutions in addition to its own software.

Well Known Technology Partners and Customers

Versatile has partnered with the top names in technology in order to combine their products with the company's own and act as a reseller. As mentioned above, the company has over 35 industry certifications. Some of the company's partners include: Sun Microsystems, Microsoft, Oracle, IBM, Cisco, Nokia, Symantec, and Hitachi.

We like that fact that VSI's partners also act as an indirect sales force for the company. For example, GE Money has added Versatile's Mobiquity Kiosk product to GE's product offering, and will market and sell this product. Versatile has also entered into an agreement with Tyco Electronics where by Tyco resells Versatile's Mobiquity Transaction Engine (SyncSeer). VSI also has in house sales staff.

On the customer side, we are impressed by the company's client list which includes many large well known, and global companies. Some of these companies include: Tyco, Motorola, Cadbury, Harvard, Penn State, Albertson's, Toys "R" Us, various pharmaceutical companies, and Iron Mountain. Many of the company's customers are repeat customers including Comcast, Motorola, Tyco Electronics, Thermo Fisher Scientific, Ohio State University and Cadbury Schweppes.

Management

We believe VMS has a strong management team who have been with the company for a long period and includes original management of Perfect Order. Management also has years of combined experience in the high tech industry.

John Hardy, Chairman and Chief Executive Officer - Mr. Hardy is the Chairman and Chief Executive Officer of Versatile. Mr. Hardy was appointed Chairman in December 1996, President in January 1997 and Chief Executive Officer in February 1997. Prior to joining the Company, Mr. Hardy founded the law firm of Hardy & Company in September 1996. Prior to founding Hardy & Company, Mr. Hardy was a partner with a leading Vancouver law firm. Mr. Hardy has acted for numerous insurance companies, multi-national corporations and financial institutions and has experience in the litigation and resolution of multi-jurisdictional disputes. Mr. Hardy was also an Adjunct Law Professor in the Faculty of Law at the University of British Columbia from 1984 to 2000. Mr. Hardy has an LL.B. degree from the University of Ottawa, a B.A. from Carleton University and was called to the Bar in British Columbia in 1978.

Robert Joyce, President - Mr. Joyce was previously the President and CEO of Perfect Order from 1998 to 2004. During this period, sales grew from US$15 million to more than US$50 million. Prior to 1998, Mr. Joyce was a global account executive for Sun Microsystems and also served as a software consultant with clients located in the United States and Europe. After undergraduate work at Northeastern University, Mr. Joyce worked for Cambridge, MA based consulting firm, Arthur D. Little, Inc. where he was responsible for the development of leading edge graphics software for the nuclear power industry. Currently, Mr. Joyce sits on the Board of Harrisburg University, Murata Business Incubator and acts as Chairman for the Technology Council of Central Pennsylvania.

Fraser Atkinson, Chief Financial Officer and Corporate Secretary - Fraser Atkinson has had a diverse involvement in both the technology and financial sectors. He was a partner at KPMG, LLP for over 14 years, having left there in 2002. Mr. Atkinson has significant engagement experience with initial public offerings, regulatory matters, and US GAAP, together with SEC matters. He also has extensive experience with companies listed on NASDAQ, AMEX, TSE, ME and TSX Venture exchange (formerly CDNX). Throughout his career he has advised companies on over 300 financings, and has significant experience with syndicated financings, tax shelters, VCC offerings and ESOP plans.

Mr. Atkinson served as advisor to A.L.I. Technologies Inc., for over 10 years, during their transition from a private company to their subsequent IPO and listing on the TSE. A.L.I. was added to the TSE 300 Index in the beginning of 2002. Additionally, he was an advisor to Spectrum Signal Processing from its inception in 1988, assisting the company with its initial public offering and subsequent TSE listing. He was involved with several technology companies, including Registrars.com (the third largest domain registrar in the world when it was sold) and Tripeze.com (subsequently sold to Sears).

Mr. Atkinson graduated from the University of British Columbia in 1980 with a Bachelor of Commerce degree, and received his Chartered Accountant designation in 1982, and is a member of the CICA.

Ian Jobson, Executive Vice-President of Professional Services and Solutions - Ian Jobson is the Executive Vice-President of Professional Services and Solutions. From 1999 to 2004 he held that position with Perfect Order and was responsible for managing all pre-sales, support and consulting personnel. Additional responsibilities included maintaining relationships with strategic partners such as Sun Microsystems, Accenture, Veritas Software and Check Point. Prior to joining Perfect Order, Mr. Jobson was the Regional Director for AMP Inc. - a division of Tyco Electronics - in the Asia/Pacific and European regions. Mr. Jobson received a HNC in Mechanical Engineering from Hartfordshire University, Watford, England.

Oliver Poppenberg, Executive Vice President of Sales - Oliver Poppenberg has responsibility for overseeing global sales for the Versatile group. Mr. Poppenberg has sold IT solutions, software, support and services to Fortune 1000 companies since 1986. Previously, Mr. Poppenberg was the Vice President of Sales of Perfect Order from 1999 to 2004. During this period, sales grew from US$15 million to more than US$50 million. Prior to 1999 he was an Engineer at First City Bancorporation and held various sales positions at Digital Equipment Corporation, EDS Corporation and Sun Microsystems. He was also the Director of the IT Network of the Pittsburgh Technology Council. Mr. Poppenberg received a Bachelor of Science in Engineering from Penn State.

Andrew Lynch, Executive Vice-President - Andrew Lynch is the Executive Vice-President of Versatile Mobile Systems, Inc. Mr. Lynch was one of the original co-founders of Versatile Systems (whose operations were subsequently amalgamated into Versatile Mobile Systems, Inc.), which was twice named to the Inc. 500 list of fastest growing private companies. Mr. Lynch has a combined 18 years of tier-one retail sales experience with more than 12 years executive level experience with Versatile Systems and Versatile Mobile Systems, Inc. gaining expertise in multiple disciplines throughout the Company.

Larry Oliver, Managing Director, International Operations - Larry Oliver is the Company's Managing Director, International Operations. Prior to joining the Company, Mr. Oliver was Vice President of Customer Services for Epic Data International Inc., a company based in Vancouver, British Columbia, which provides automated data collection systems to the enterprise resource planning market. Previously, he was co-founder and President of Real Data Systems Inc., a mobile and shop floor data collection solutions provider that was acquired by Epic Data International Inc.

Mr. Oliver has a B.Sc. degree in Education from the University of North Dakota.

As of July 1, 2006, the company changed its functional and reporting currency from the C$ to the US$. We believe this removes the effects of an adverse US$, and better reflects the company's operations as it derives about 90% of sales from the U.S. It has restated its FY2006 financials to the US$. As the company only has two years of operating results post Perfect Order acquisition, a long-term analysis of the company's historical results does not give insights into the company's future.

Financial Analysis

Sales – One drawback of B2B sales is that revenues are contract based, and thus, are lumpy and hard to predict. However, we believe that the company's support and maintenance services provides some degree of recurring revenue which management had indicated to us to be around 20% of total revenues. Also, we take comfort in the fact that many of the company's customers give repeat business.

Going forward we are projecting revenue growth of 5% for the POI segment and 3% for VMS. We have also assumed sales of $3.5 million in 2008, and 2009, due to the Lazy Boy kiosk contract. Although growth is likely to be higher, we do not have enough information at this point to make a forecast and thus, we chose to be conservative. Overall revenue growth is projected to be 10.3% for 2007-2008, and about 4.4% from 2008-2009. This translates into revenue projections of $68.6 and $71.6 million for 2008, and 2009, respectively.

Margins – The table below presents historical margins for the company as well as our 2008 and 2009 estimates.

Margins	2006	2007	2008E	2009E
Gross	22.1%	23.6%	23.0%	23.0%
EBITDA	2.4%	3.2%	3.1%	3.2%
EBIT	0.3%	1.3%	1.9%	2.4%
EBT	-0.5%	0.9%	1.9%	2.4%
Net	6.8%	2.2%	2.8%	3.0%
G&A/Sales	7.1%	7.4%	7.4%	7.4%
Marketing/Sales	9.9%	10.4%	10.4%	10.4%
R&D/Sales	2.5%	1.7%	1.7%	1.7%

Gross margins increased from 2006 to 2007, though we assume gross margins of 23% going forward as competition will naturally result in lower margins. Gross margins are lower than typical enterprise solution companies, or high tech companies in general, which typically experience gross margins averaging in the 70% range. Gross margins are more inline with IT Service companies. This is a result of the large proportion of sales from lower margin products such as reselling third party products. Typically, a software company experiences a high degree of operating leverage. In other words, there is a large fixed cost to develop software, but once it is developed, the marginal cost of producing each unit sold is very low. Management realizes this and is focused on selling more higher margin products going forward. Operating expenses as a percentage of sales have been fairly constant over the past two years, and our estimates are inline with such results.

R&D expenditures have declined both in dollar terms and as a percentage of sales. According to the company, this the result of an increase in customer funded R&D, and an overall reduction in R&D projects. We view the increase in customer funded R&D as a positive sign, and is a validation of the company's value to its partners and customers.

Capital Structure and Liquidity

The company has an excellent capital structure with relatively little debt (almost all debt except for bank lines were recently paid off). We are projecting debt to cap of less than 1% by the end of FY2008. The company has a lot of room on its bank lines, and is expected to generate positive free cash flow going forward as it has relatively low capex requirements.

We expect the company to be able to easily fund new acquisitions for growth.

Net Income and EPS

Based on our above assumptions, we are forecasting 2008, and 2009, net income of $1.9 million and $2.2 million respectively. This translates into EPS of $0.02 in both years. Note that a large portion of the company's net income for the next five years is assumed to come from its large tax assets.

Valuation

Based on our assumptions above, our DCF model output is provided below.

Versatile - Discount Cash Flow Model
(US$ MM)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	Terminal
Funds From Operations	1,945	1,908	1,854	1,903	1,966	2,039	2,119	2,206	2,299	2,397
Investment in Working Capital	1,469	453	(20)	200	210	220	230	241	253	265
Cash From Operations	3,414	2,361	1,834	2,103	2,176	2,259	2,350	2,448	2,552	2,662
Capex	(222)	(222)	(222)	(222)	(222)	(222)	(222)	(222)	(222)	(222)
Free Cash Flow	3,192	2,139	1,612	1,881	1,954	2,037	2,128	2,226	2,330	2,440
PV	2,932	1,754	1,180	1,230	1,141	1,062	990	925	864	10,059

Discount Rate	12%
Terminal Growth	3%
Sum PV (MM)	22,137
Debt (MM)	173
Equity Value (MM)	21,964
Share O/S (MM)	120,378
DCF Value/Share (US$)	$ 0.18
C$/US$	1
DCF Value/Share (C$)	$ 0.18

Based on our DCF model, the company is currently overvalued. We also value the company based on comparables as the table below shows.

Versatile Valuation by Multiples

	VV	Sector
P/E	15.0	30.0**
P/S	0.6	1.2***

VV Valuation based on Sector:

P/E	$ 0.60
P/S	$ 0.68

*based on 2008EPS
**software industry
***IT Services

Based on industry multiples, the company is undervalued and should be trading at about double its current price.

Rating

Based on our valuation of the company obtained using three different methods, we are initiating coverage of Versatile Systems Inc. with a HOLD rating and a fair value estimate of $0.45. How did we arrive at our fair value? We believe that our DCF value is extremely conservative as it does not factor in growth from Kiosks or Syncseer. On the opposite end, we believe that the valuation by multiples would be the "correct valuation" except: 1. The forward P/E is understated as a large portion of earnings results from tax benefits as opposed to operating earnings, and 2. The P/S is also understated because margins are not typical of a high tech company. Our fair value is somewhere in between the multiples and DCF value to recognize the fact that the DCF value is the base case value with no growth, but should be higher to account for some potential growth.

Although we believe that the company has good growth potential, it is too early to quantify such potential. Its traditional business lines are operating in mature markets that are highly competitive. As a result, it is reliant of new business initiatives such as Syncseer, and kiosks, for growth.

We note that we have been conservative in our estimates and any announcement of large contracts and penetration in its new business lines, and/or new geographic sales, will be catalysts that we believe will move the stock price higher.

Risks

The company operates in the high tech sector which is prone to rapid change. The company is constantly at risk that new entrants or developments in the industry will make its products obsolete. The company must spend money to keep its technology up to date, and even then, there is no guarantee that customers will adopt its products.

The company operates in many sectors where competition is intense and fragmented. Also, the company is dependent on key relationships with partners. For example, it has partnered with Tyco to promote Syncseer. A breakdown in any of these relationships would have a material adverse affect on the company.

We rate the shares a 3 – Average in terms of risk.

APPENDIX

Income Statement

Versatile Systems Inc

Income Statement - Annual - Company Specific in Units of Thousands

Fiscal Period:	2006	2007	2008E	2009E
Sales	59,921	62,230	68,621	71,649
Total Revenue	**59,921**	**62,230**	**68,621**	**71,649**
Cost of Sales	46,676	47,514	52,838	55,169
Gross Margin	**13,246**	**14,716**	**15,783**	**16,479**
General/Admin.	4,243	4,597	5,078	5,302
Selling/Marketing	5,919	6,502	7,137	7,451
Research/Development	1,523	1,068	1,167	1,218
Stock Based Compensation	123	555	250	250
EBITDA	**1,438**	**1,994**	**2,152**	**2,258**
Amort.-Intangibles	1,052	875	468	304
Amort.-Prop./Equip.	183	288	394	256
EBIT	**203**	**831**	**1,290**	**1,697**
Int. & Financing	525	301	9	9
Net Income Before Taxes	**(322)**	**530**	**1,281**	**1,689**
Current Taxes	**34**	**101**	**448**	**591**
Deferred Taxes	**(4,415)**	**(952)**	**(1,095)**	**(1,082)**
Provision for Income Taxes	(4,381)	(850)	(646)	(490)
Net Income	**4,059**	**1,380**	**1,927**	**2,179**
Basic Weighted Average Shares	97,394	110,706	120,378	120,378
Basic EPS Excluding ExtraOrdinary Items	**0.04**	**0.01**	**0.02**	**0.02**

Balance Sheet

Versatile Systems Inc

Balance Sheet (Differentiates) - Annual - Company Specific in Units of Thousands

Fiscal Period:	**2006**	**2007**	**2008E**	**2009E**
Cash and Cash Equivalents	99	3,369	4,048	6,187
Accounts Receivable, Net	10,659	15,201	16,743	17,482
Prepaid Expenses	846	347	412	430
Inventory	938	1,269	1,427	1,490
Work-In-Progress	28	42	42	42
Deferred Contract Cost	3,118	4,489	4,489	4,489
Future Income Tax Benefits	901	1,095	1,083	1,083
Total Current Assets	**16,588**	**25,812**	**28,243**	**31,202**
PPE	325	493	321	286
Long Term Accounts Receivable	-	812	271	
Intangibles, Net	2,208	1,336	868	564
Goodwill, Net	9,914	9,914	9,914	9,914
Deferred Contract Cost	462	396	396	396
Future Income Tax Benefit	3,530	4,326	3,245	2,163
Total Assets	**33,026**	**43,089**	**43,257**	**44,525**
Line of Credit	371	3	3	3
Bank Overdraft	758	170	170	170
Accounts Payable and Accrued Liabilities	10,428	13,721	15,851	16,551
Deferred Revenue	4,938	6,300	6,862	7,165
Term Loan	-	175	-	
Bank Term Loan	-	2,749	-	
Convertible Debenture	108	-		
Current Portion of Capital Lease	6	5	-	
Total Current Liabilities	**16,609**	**23,123**	**22,886**	**23,889**
Capital Lease	5	-	-	-
BankTerm Loan	2,749	-	-	-
Term Loan	175	-	-	-
Total Long Term Debt	**2,929**	**-**	**-**	**-**
Deferred Revenue	534	487	487	487
Total Liabilities	**20,072**	**23,610**	**23,373**	**24,376**
Capital Stock	44,474	51,644	52,060	52,060
Shares to be Issued	2,502	-	-	-
Special Warrants	-	-	-	-
Warrants	538	383	383	383
Contributed Surplus	2,392	2,999	2,999	2,999
Deficit	(36,643)	(35,263)	(33,336)	(31,157)
Translation Adjustment	(309)	(284)	(2,223)	(4,136)
Total Equity	**12,955**	**19,479**	**19,883**	**20,149**
Total Liabilities & Shareholders' Equity	**33,026**	**43,089**	**43,257**	**44,525**

Cash Flow Statement

Versatile Systems Inc

Cash Flow (Indirect) - Annual - Company Specific in Units of Thousands

Fiscal Period:	**2006**	**2007**	**2008E**	**2009E**
Net Income	4,059	1,379	1,927	2,179
Depreciation	1,235	1,163	394	256
Amortization of Intangibles		--	468	304
Gain/Loss on Sale of Capital Assets	6	5		
Future Income Tax Benefit	(4,415)	(952)	(1,095)	(1,082)
Foreign Exchange	44	9		
Stock Based Compensation	123	555	250	250
Amortiozation of Deferred Finance Cost	47	-		
Funds From Operations	**1,099**	**2,159**	**1,945**	**1,908**
Working Capital	107	(1,908)	1,469	453
Cash from Operating Activities	**1,206**	**251**	**3,414**	**2,361**
Sale of Capital Assets	31	3		
Addition to Capital Assets	(152)	(455)	(222)	(222)
Cash from Investing Activities	**(120)**	**(452)**	**(222)**	**(222)**
Repayment of LT Debt/Term Loan		--	(175)	
Repayment of VAC note	(667)	-		
Repayment of Quaterly Payment	(206)	-		
Repayment of Promissory Notes	(4,200)	-		
Repayment of Line of Credit/Term Loan		(367)	(2,749)	
Repayment of Bank Overdraft		(588)		
Proceeds from Line of Credit	64	--		
Banks Overdraft Proceeds	640	--		
Repayment of Capital Lease Obligation	(6)	(6)	(5)	
Shares Issued	365	4,564	416	
Share Subscription	30	-		
Conertible Debenture Issued	3,618	-		
Conertible Debenture Cost	(323)	-		
Repayment of Conertible Debenture	(510)	(108)		
Cash from Financing Activities	**(1,195)**	**3,495**	**(2,513)**	**-**
Foreign Exchange Effects	59	(24)		
Net Change in Cash	**(51)**	**3,270**	**679**	**2,139**
Net Cash - Beginning Balance	150	99	3,369	4,048
Net Cash - Ending Balance	99	3,369	4,048	6,187

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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