

NANO-CAP REPORT

August 23, 2005



BrandPartners Group Inc

(BPTR—OTC BB)

Location: Rochester, NH
 CEO: James Brooks
 Phone: (603) 335-1400
 Industry: Business Services
 Auditors: Moore Stephens P.C.
 Website: www.bptr.com

Analyst:

William Gregozeski
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Technical Analysis:

Support: \$ 0.70
 Resistance: \$ 1.20

BPTR: Stock Performance & Our Recommendations



SB - Strong Buy B - Buy LTB - Long Term Buy
 H - Hold S - Sell

Chart taken from Zacks Investment Research, Inc.
See full history of recommendations on page 4

Rating: **Strong Buy** Target: **\$ 2.00**

Recent Price:	\$ 0.82
52 Week Range:	\$0.52—\$1.15
Ave. Daily Volume:	140,000
Common S/O:	34.21 M
Diluted S/O:	53.97 M
Float:	29.55 M
Market Cap:	\$ 28.05 M
Dividend:	\$ 0.00
Cash:	\$ 0.55 M
Long Term Debt:	\$ 7.24 M
LT Debt/Equity:	36.5%
ROE:	27.4%
Profit Margin:	9.6%
Institutional Ownership:	19%
Insider Ownership*:	2%

Fiscal Year: Dec 31	<u>2004A</u>	<u>2005e</u>	<u>2006e</u>	<u>2007e</u>
Revenue (MM):				
Q1	\$ 15.67	\$ 14.57A	\$ 18.21	\$ 22.22
Q2	\$ 11.29	\$ 12.55A	\$ 15.31	\$ 18.68
Q3	\$ 11.70	\$ 13.69	\$ 16.70	\$ 20.38
Q4	\$ 11.94	\$ 16.71	\$ 21.06	\$ 25.90
FY	\$ 50.61	\$ 57.53	\$ 71.29	\$ 87.18
	<u>2004A</u>	<u>2005e</u>	<u>2006e</u>	<u>2007e</u>
Earnings**:				
Q1	\$ 0.06	\$ 0.05A	\$ 0.05	\$ 0.04
Q2	\$ 0.03	\$ 0.02A	\$ 0.03	\$ 0.03
Q3	\$ 0.04	\$ 0.02	\$ 0.02	\$ 0.03
Q4	\$ 0.03	\$ 0.04	\$ 0.04	\$ 0.05
FY	\$ 0.14	\$ 0.12	\$ 0.14	\$ 0.16
	<u>2004A</u>	<u>2005e</u>	<u>2006e</u>	<u>2007e</u>
Book Value:	\$ 0.46	\$ 0.58	\$ 0.68	\$ 0.78
Cash Flow:	\$ 0.16	\$ 0.15	\$ 0.17	\$ 0.18

~All calculations are based on Diluted S/O~

Business Summary:

BrandPartners Group Inc., through its wholly-owned subsidiaries BrandPartners Retail, BrandPartners Europe, and Grafico, provide financial services firms and other retailers with unique and creative solutions to build brands through environments, maximize sales and create platforms for sustained growth. The Company's services include three well-defined segments, which are offered independently or as a package.

Creative Services/Brand Strategy—includes client and market research; branding design; translating the brand strategy through in-store communication vehicles, including point-of-sale communications, digital merchandising, marketing materials and advertising campaigns.

Design & Build—includes identifying site locations in new markets; furnishing facilities; planning, redesigning, and constructing new facilities. The Company also has a 15% equity stake in BancRealty Advisors, LLC, who offers banks and other financial institutions alternative means for financing corporate real estate properties.

Merchandising—includes analysis of current retail locations; developing and installing fixture programs and corresponding signage, including brochure displays, digital merchandising and kiosks; window displays; managing roll-outs over the retail network; logistics, distribution, warehousing and inventory management.

Grafico was formed after the Company acquired certain assets of a design company. Grafico offers a broader array of creative services, including graphic design, branding and retail environment services, primarily to companies that operate in the sub-prime retail financial services.

The Company's target market has historically been financial service companies, where it has worked with over 1,600 clients including Wells Fargo, H&R Block, and Wachovia. Management is working to expand and diversify its client base by expanding into Europe (via BrandPartners Europe and its partner Button Plc), South America and Mexico, and into new retail markets including wireless retailers, healthcare facilities and auto dealerships.

Competition is highly fragmented, with most concentrating only on the financial sector. Most competitors are design houses, architectural firms, fixture companies and advertising agencies that focus only on one of the Company's business segments. BrandPartners' take a more holistic approach and serves all facets of the retail system.

*Current management took over in late 2003 and currently owns 0.83 million shares and 8.77 million options with an average exercise price of \$0.47.

**Due to tax loss carryforwards, BrandPartners will start paying taxes in Q3 2006, the reason for the somewhat flat EPS growth.

IMPORTANT DISCLOSURES REGARDING THE ANALYST AND THE MEMBER FIRM MAY BE FOUND ON THE FINAL 2 PAGES OF THE REPORT

Significant Developments:

- BrandPartners reported second quarter results with sales of \$12.55 million, an increase of \$1.25 million, or 11%, over Q2 2004 results, but approximately \$3.0 million below our Q2 estimate. This miss was due to delays on a few Design/Build contracts, a slower uptake in digital merchandising contracts, and delays in sales to traditional retailers, which management believed would help smooth quarterly sales. These sales have been slower to develop than management originally expected because of the Company's lack of prior work in this field. Gross margins were down nearly 300bp to 29.15%, due mostly to a sales mix that included more Design/Build contracts than the same period in 2004. SG&A was up slightly, depreciation doubled to \$325,000, and interest expense increased due to \$82,000 in non-cash stock-based expenses. For the quarter, BrandPartners reported net income of \$683,000, or \$0.02 per diluted share, well below our estimate of \$1.50 million or \$0.04 per diluted share, which again was the result of lower than expected sales.
- The Company entered into a consulting agreement with Mark Murray, the founder of the Retail Experience Design (RED) and a former Creative Director for one of BrandPartners competitors. RED is centered around the ideal sales process at the branch level and is being incorporated in BPTR Retail and BPTR Europe. Management believes this concept will lead to standalone consulting revenues and increased sales to current accounts.
- BrandPartners extended its employment agreement with CFO Suzanne Verrill through 2006, where she will earn \$135,000 per year.
- On April 11, the Company finalized an agreement with five former Directors and officers and one current Director, whereby these option holders surrendered 1,050,000 out of 1,400,000 options previously granted in exchange for BrandPartners registering the underlying shares and providing a cashless exercise provision.

Catalysts:

- The Company is working to get on the AMEX in the near future with the ultimate goal of being listed on the NASDAQ.
- The Company has been marketing BPTR Europe aggressively through direct mailing and tradeshows. Management believes this will lead to sales in the second half of 2005 as the Company is working with several UK building societies and a UK communications company.
- As of June 30, the Company had a backlog of approximately \$26 million, down about \$4 million from the end of Q1, but up about \$12 million over Q2 2004's backlog. Since then the Company has announced \$7.2 million in additional contracts.
- Sources of potential growth for BrandPartners in the financial services industry include bank branch growth, M&A activity in the banking industry, deregulation in banking and growth in sub-prime lenders and credit unions. The Company is working to gain share in the designing/building of banks (it did approximately 40 in 2004 and should do around 50 in 2005) and hired three new account executives in 2005 to pursue new business.
- Management expects the cross selling of Creative and Merchandising services, the conversion of Grafico's opportunity pipeline to sales and the increased focus on furniture and space planning services, on a standalone basis and in conjunction with other services, to lead to increased sales in 2006.
- BrandPartners has been approached by several companies who want to sell their related products and services through the Company's distribution channels, primarily in banking. Management is currently exploring these opportunities and think it could lead to another form of recurring revenue for the Company.
- The Company continues to seek acquisitions, partnerships, and internally develop new business units as a way to expand and diversify its customer base and distribution channels in other markets.
- BrandPartners has begun offering its in-branch marketing services to help its clients attract business from the Hispanic community, a consumer group management believes is being underserved.
- As a result of strong operational performance and an improved balance sheet, the Company has been able to secure better terms on its notes and credit facilities.
- BrandPartners has approximately \$7.0 million in tax loss carryforwards, which will offset estimated income tax until Q3 2006.

Valuation Comparison:

Company	Ticker	Market Cap	Price	EPS(ttm)	P/E	P/S	P/B
BrandPartners Group, Inc.	BPTR	\$ 28.05 M	\$ 0.82	\$ 0.14	5.86	0.55	1.39
CoActive Marketing Group, Inc.	CMKG	\$ 20.54 M	\$ 3.28	\$ 0.09	36.44	0.24	1.22
Envoy Communications Group, Inc.	ECGI	\$ 53.04 M	\$ 2.37	\$ 0.22	10.77	1.28	0.70
SPAR Group, Inc.	SGRP	\$ 36.06 M	\$ 1.93	\$ 0.10	19.30	0.68	7.26

Private Competitors: New Ground (www.newground.com), John Ryan (www.johnryan.com), Future Brand (www.futurebrand.com)

Important Disclosures

Concluding Opinion:

We are maintaining our Strong Buy rating on BrandPartners Group Inc. and lowering our target price from \$3.00 to \$2.00. The new target price is based on a P/E multiple of 25 times our forward twelve month diluted earnings estimate, adjusted to assume it was fully taxed, of \$0.084 (\$0.14 untaxed, the Company will first be fully taxed in Q3 2006). The reduction in target price is due to a delay in several growth projects, namely work with traditional retailers and BPTR Europe, which led to a significant reduction in our sales and earnings estimates. However, we believe there is a possibility that sales could exceed our expectations depending on the progress of signing new traditional retailers and the success of BPTR Europe and Grafico in turning leads into contracts over the remainder of the year.

Risks

- The Company's expansion plans include expanding overseas and into new retail markets. Failure to capture the overseas market or replicate success in new markets could result in slower than anticipated revenue growth, as with what happened with contracts with traditional retailers. If the Company expands by acquisition, it may need to issue new shares to raise capital.
- BrandPartners' business is dependent on the ongoing relationships with its clients and the loss of key account executives could cause the Company to lose contracts.
- Over the past three years, BrandPartners has had customers that accounted for over 10% of its total revenues for the year. This appears to be the norm for the Company as some customers sign significantly larger contracts than others and these large customers are generally different every year.
- The Company may experience fluctuations in quarterly revenues due to the size and timing of customer projects.
- BrandPartners is traded on the Bulletin Board and has been subject to extreme swings in price and volume.
- BrandPartners' equity interest in BancRealty Advisors, LLC, a startup company, may not become a viable business partner/investment for the Company.

Analyst Certification

I, William Gregozeski, hereby certify that the views expressed in this research report accurately reflect my personal views about BrandPartners Group Inc's Stock and BrandPartners Group Inc. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Other Important Disclosures

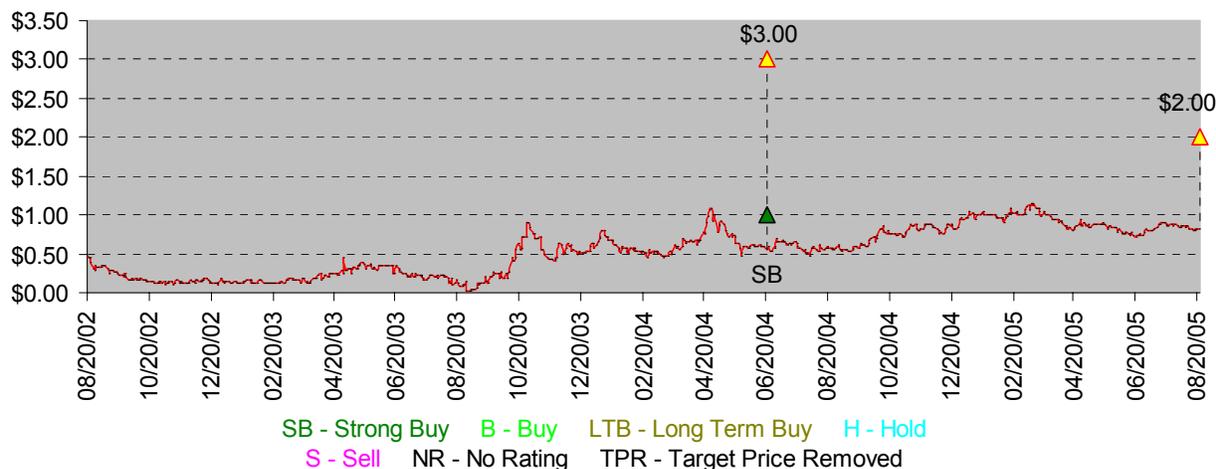
- CapStone Investments was not making a market in the subject company's securities at the time that this research report was published.
- CapStone Investments and or persons material to the preparation of this report including the research analyst, have not received compensation for investment banking services, including warrants, from BrandPartners Group Inc. in the past 12 months but they do expect to receive and intend to seek compensation for investment banking services from BrandPartners Group Inc. in the next three months.

Explanation of Ratings

- **Strong Buy:** describes stocks that we believe have the potential to appreciate by 30% or more, assuming a flat market, over the next twelve months.
- **Buy:** describes stocks that we believe have the potential to appreciate by 15% to 30%, assuming a flat market, over the next twelve months.
- **Hold:** describes stocks that we believe could change plus or minus 10%, assuming a flat market, over the next twelve months.
- **Sell:** describes stocks we believe could decline by more than 10%, assuming a flat market, over the next twelve months.
- **Long-Term Buy:** describes stocks we believe have tremendous upside potential but are also a significant investment risk. Long term recommendations are based on a two to four year period.

Distribution of Ratings

- **Buy:** 95% of stocks have this rating (21% were investment banking clients within the last 12 months)
- **Hold:** 5% of stocks have this rating (0% were investment banking clients within the last 12 months)
- **Sell:** 0% of stocks have this rating (0% were investment banking clients within the last 12 months)

Important Disclosures (continued..)**BPTR: Stock Performance & Our Recommendations**

Time Period: 08/20/02 - 08/22/05

Chart taken from Zacks Investment Research, Inc.

Recommendation History

06/21/2004—Initiated Coverage with a Strong Buy and \$3.00 Target Price

08/23/2005—Maintained Strong Buy and lowered Target Price to \$2.00

Other Disclosures

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- Nano-cap report companies are those with high growth potential, little Wall Street coverage and higher levels of risk.

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