

Initial Research Report

Investors should consider this report as only a single factor in making their investment decision.

DecisionPoint Systems, Inc.

Neutral

John Nobile

February 14, 2013

DPSI \$1.00 — (OTC BB)

	<u>2011A</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>
Revenues (millions)	\$58.4	\$73.1	\$86.0	\$99.0
Earnings (loss) per share	\$(0.94)	\$(0.47)	\$(0.11)	\$(0.01)

52-Week range	\$1.64 – \$0.55	Fiscal year ends:	December
Common shares out as of 11/9/12	9.1 million	Revenue per share (TTM)	\$9.13
Approximate float	3.6 million	Price/Sales (TTM)	0.1X
Market capitalization	\$9 million	Price/Sales (FY2014)E	0.1X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2014)E	NMF

DecisionPoint Systems, headquartered in Irvine CA, is a provider and integrator of business mobility and wireless systems. The company designs, deploys and supports mobile computing and wireless systems that enable customers to access enterprise data at various locations (i.e. the retail selling floor, warehouse loading dock or on the road making deliveries). (www.decisionpt.com)

Key investment considerations:

Initiating coverage of DecisionPoint Systems, Inc. (DPSI) with a Neutral rating as we believe the stock is fairly valued at the current price.

DecisionPoint's services improve productivity and operational efficiencies through the implementation of industry-specific, enterprise wireless and mobile computing systems for front-line employees.

In September 2012, research firm MarketsandMarkets projected the enterprise mobility market to grow from \$67.2 billion in 2011 to \$181.4 billion by 2017, a compound annual growth rate (CAGR) of 15.2%.

During the last two years, DecisionPoint has made acquisitions in an effort to increase its higher margin services and software revenue. The company aims to expand its higher margin software and services offerings to 60% of total revenue (currently 36%).

We project FY12 sales of \$73.1 million and a net loss of \$3.8 million or \$(0.47) per share. We project FY13 sales will grow 18% to \$86 million and a net loss of \$1.1 million or \$(0.11) per share. We project FY14 sales will grow 15% to \$99 million and a net loss of \$133,000 or \$(0.01) per share. Our projections are primarily based on sales gains obtained through market penetration with higher margin software and service sales.

****Please view our disclosures on pages 16 - 18.***

Recommendation and Valuation

We are initiating coverage of DecisionPoint Systems, Inc. (DPSI) with a **Neutral** rating as we believe the stock is fairly valued at the current price.

DPSI currently trades at a multiple of 0.1X TTM sales. A comparison group of 26 business software and services companies with market values of approximately \$100 million and under are trading at an average price to sales multiple of 1.3X. We believe the large disparity between DPSI's multiple and the industry average is due to the markets' perception of growth prospects. If the company achieves robust organic sales growth the stock's multiple should expand. Applying an improved multiple of 0.2X sales to our fiscal 2014 sales of \$6.00 per share (on a fully diluted basis of 16,500 shares), discounted to a twelve-month value of \$5.56 per share, values the stock at approximately \$1.10 per share. Our discount factor of 8% reflects the stock's beta of 0.96.

Business

Headquartered in Irvine CA, DecisionPoint Systems is a provider and integrator of mobility and wireless systems to business organizations. The company designs, deploys and supports mobile computing and wireless systems that enable customers to access employer's data networks at various locations (i.e. the retail selling floor, warehouse loading dock or on the road making deliveries via laptops, tablets, and smart phones).

The company also develops and integrates data capture equipment including bar code scanners and radio frequency identification (RFID) readers.

The company offers professional services such as integration, customization and consulting with the products it offers as a value added reseller (VAR) for many hardware and software suppliers. The bulk of the company's resold products are primarily from Motorola Solutions, Inc. DecisionPoint's services include consulting, proprietary and third party software, and software customization. The company's supply chain systems integration offerings include warehouse management systems, transportation management systems, and enterprise resource planning systems.

DecisionPoint offers businesses improved productivity and operational efficiencies through the implementation of industry-specific, enterprise wireless and mobile computing systems for front-line employees. The company is focused on markets such as retail, manufacturing, distribution, transportation and logistics. DecisionPoint serves customers throughout the US with offices in Irvine CA, Tulsa OK, and Edison NJ.

Products and Services

Mobile Applications – DecisionPoint deploys mobile applications for a wide variety of business processes in various industries. Following is a brief description of some of those applications:

Retail Store: Stock locator, shelf price marking, markdowns, inventory control, physical inventory, merchandising, customer service and mobile point-of-sale ("POS").

Warehousing and Distribution: Order shipping, order picking and packing, stock move and replenishments, product receipt and put-away, labeling, physical inventory and cycle counts.

Manufacturing: Production count, work-in-process tracking, raw material consumption, just-in-time manufacturing requirements, quality control and assurance, lot/batch/serial number control and scrap reporting.

Transportation and Logistics: Proof-of-delivery, commercial turn-by-turn directions, route optimization, cross-docking, returns and Department of Transportation driver hours of service and route logging.

Field Mobility: Field service and repair or wireless work order management, enterprise asset management, inspection, preventative maintenance, surveys, rounds and readings.

Software – DecisionPoint provides mobile software tailored to meet its customers’ unique requirements.

Professional Services – The company’s professional services are as follows: i) business consulting - involves helping customers understand the benefits of implementing mobile computing or supply chain services, ii) technical consulting - helps customers determine the technology to be used and how it is to be implemented, and iii) technical development - software programming and configuration of the mobile computing application.

Supply Chain Services - Supply chain services include managing a customer’s project from end-to-end (i.e. from pre-contract ROI targets to post-contract ROI analysis).

Rollout, Support and Management Services - These services involve installing a solution into the customer’s computer systems infrastructure (implementation) and then replicating that implementation out to all their operating locations (rollout). The company also remotely manages customers’ mobile computers and wireless networks as well as offer mobile software on a software as a service (SaaS) subscription basis.

Hardware – By bundling software and services with hardware, the company positions itself as a value-added reseller.

Consumables – The company offers bar code and RFID products such as RFID tags and printers/encoders.

Acquisitions

Illume Mobile In July 2012, DecisionPoint acquired Illume Mobile, based in Tulsa, Oklahoma. Illume Mobile develops and integrates mobile business applications, delivers advanced, mobile applications for many device platforms including iPad, iPhone and Android with functionality including 3D animation, mobile video, augmented reality, GPS, and more. DecisionPoint paid \$1 million: \$250,000 in cash and 617,284 shares of DPSI common stock. According to a 10-K filing by MacroSolve, Inc. (previous owner of Illume Mobile), Illume Mobile had software sales of approximately \$1.2 million in 2011 putting the acquisition cost at approximately 0.8X sales. We believe the low acquisition cost relative to sales was due to the businesses’ lack of profitability and negative cash flow giving the auditors reason to question the company’s ability to continue as a going concern.

DecisionPoint may be required to make an earn out payment of up to \$0.5 million, of which 50% will be paid in cash and 50% will be paid in shares of DPSI common stock within 30 days of the one-year anniversary of the closing date (July 31, 2013).

Details of the earn-out payment are as follows:

- (a) None if revenue attributable to Illume Mobile during the one year period commencing on the closing date is \$1.5 million or less.
- (b) If revenue is greater than \$1.5 million but less than \$2 million the earn-out will be \$100,000.
- (c) If revenue is at least \$2 million but less than \$3 million the earn-out payment will be equal to the sum of \$100,000 plus 40% of the excess of revenue over \$2 million.
- (d) If revenue is \$3 million or more, the earn-out will be \$500,000.

Apex Systems Integrators, Inc. In June 2012, DecisionPoint acquired Apex Systems Integrators Inc., a provider of wireless mobile work force software. Apex products have applications in merchandising, sales and delivery; field service; logistics and transportation; and, warehouse management. Apex’ annual sales are approximately \$3 million (Source: August 2012 8-K filing).

The company paid \$4.8 million in cash and could pay up to an additional \$3.4 million in consideration of achieving certain levels of adjusted earnings before interest, depreciation, taxes and amortization (EBITDA) in the period ending June 2013 as detailed below:

(a) If EBITDA of Apex for the twelve months ending July 31, 2013 is equal to or less than \$1.9 million, then Apex shall pay an amount equal to the product of the 2013 EBITDA multiplied by four, less \$4.8 million up to a maximum of \$2.9 million.

(b) If 2013 EBITDA is greater than \$1.9 million, Apex will pay an amount (in shares of common stock) by which EBITDA exceeds \$1.9 million up to a maximum of \$480,000.

Pro Forma Financial Information: The table at right summarizes the company’s unaudited combined results of operations for the three and nine months ended September 30, 2012 and 2011 that includes Apex and Illume Mobile.

	3mos12A	3mos11A	9mos12A	9mos11A
Net sales	18,669	17,258	56,346	44,867
Net loss	(1,446)	(706)	(5,312)	(7,539)
EPS	(0.18)	(0.08)	(0.69)	(1.17)

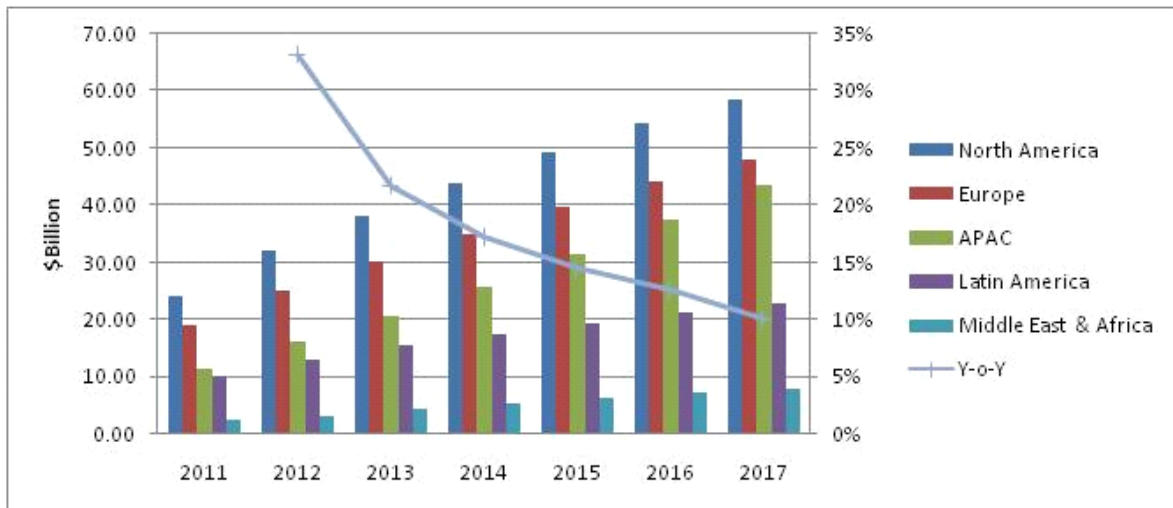
Source: Company filings

Enterprise Mobility Market

A September 2012 report by research firm MarketsandMarkets (Bring-your-own-device (BYOD), Consumerization of IT (Co-IT) and Enterprise Mobility Market – Global Advancements, Business Models, Market Forecasts & Analysis 2012 – 2017), projects global BYOD and enterprise mobility market growth from \$67.2 billion in 2011 to \$181.4 billion by 2017, a compound annual growth rate (CAGR) of 15.2%.

A major driver of growth in this market is the overall increase in network coverage as the subscriber base grows and telecommunication infrastructures provide more reliable connectivity. MarketsandMarkets says that the growing acceptance by large, small and medium businesses and the introduction of mobile devices such as smart phones, tablets and laptops will also drive growth.

Global Bring-your-own-device BYOD & Enterprise Mobility Market By Geography, 2011-2017 (\$Billion)



Source: MarketsandMarkets Analysis

A trend toward greater mobility in the workforce should help drive demand for DecisionPoint's offerings through our forecast horizon. In October 2012, research firm Gartner, Inc. said that mobile devices and applications were among the top ten strategic technologies for organizations in 2013. Gartner defines a strategic technology as one with the potential for significant impact on the enterprise in the next three years.

Gartner predicts that in 2013 mobile phones will over take PCs as the most common Web access device worldwide and that by 2015 over 80% of the handsets sold in mature markets will be smart phones. Gartner also predicts that by 2015 media tablet shipments will reach approximately 50% of laptop shipments.

Gartner says that enterprises won't be able to force users to give up their iPads and that they will need to support a greater variety of devices where the PC is just one of many environments that will need support.

Many employees bring their own devices to work which creates a security issue for the employer. Timely access to information is critical when mobile workers are located in remote places. Enterprise mobility as a service (such as provided by DecisionPoint) enables the mobile workforce to stay connected and productive as if they were in the office.

Competition

DecisionPoint competes with other value added resellers (VARs) and system integrators/engineering organizations (SIs). However, as a Tier-1 reseller (a large and well known VAR in its field) for major equipment vendors including Motorola Solutions and Zebra, the company has fewer than ten competitive Tier-1 VARs and SIs.

Large system integrators are seeking to move further into the segment in which DecisionPoint competes. Competitors in this segment may also serve as subcontractors to large system integrators and are selected based on a number of competitive factors and customer requirements. To remain competitive, the company may partner with other system integrators.

Motorola Solutions has granted DecisionPoint price discounts which enable the company to price its services competitively.

The following companies are some of the primary competitors in the VAR and SI spaces:

Stratix, Inc. - Stratix is an enterprise mobile service provider and a substantial competitor of DecisionPoint. Their customer base includes large nationally based Tier-1 retailers, distributors, major commercial airlines and general manufacturers.

Agilysys, Inc. (Nasdaq: AGYS) - Agilysys is a distributor of enterprise computer system solutions with \$209 million in annual revenue. One of their divisions provides services similar to those offered by DecisionPoint.

Sedlak Management Consultants – Sedlak is a supply chain consulting firm specializing in distribution consulting.

Peak Technologies, Inc. – Peak is an integrator of automated identification and data collection equipment including wireless radio frequency (RF), network and enterprise resource planning (ERP) integration solutions, enterprise printing, bar code scanning, mobile computing, and terminal and software technologies.

Catalyst International, Inc. - Catalyst is a supplier of supply chain solutions on multiple technology platforms. It is a certified services provider for SAP AG, including wireless enabling of SAP applications.

Other competitors in the US - Certain catalog and online equipment resellers offer end-users deeply discounted products. However, they typically offer limited or no maintenance support beyond the manufacturer's warranty (which generally results in slower repair turnaround time). Because end users have become increasingly dependent on VARs and SIs to provide platform design, integration and maintenance, they typically do not place major purchase orders with such resellers.

Strategy

The company aims to expand its higher margin software and services offerings to 60% of total revenue. Currently, 36% of total revenue is derived from software and services with the remaining 64% from hardware sales.

During the last two years, DecisionPoint has made strategic acquisitions in an effort to increase its higher margin services and software revenue. The company acquired logistics consulting and systems integrator CMAC in December 2010. CMAC was responsible for \$10.8 million or 18% of total revenue in 2011. DecisionPoint acquired wireless mobile work force software provider Apex Systems Integrators in June 2012 and mobile business applications developer and integrator Illume Mobile in July 2012. These two acquisitions historically generated approximately \$4.2 million in combined annual sales that we expect will grow to approximately \$4.8 million in combined revenue in 2013. The 15% growth we project from these companies is in line with the industry growth rate which we believe is appropriate given the acquisitions fill a large number of current customers' needs and in January 2013 the company dedicated a team to expand Apex' sales throughout the US (previously sold in Canada).

The company's offerings in the mobile enterprise market represent a long-term opportunity for growth as the global workforce becomes more mobile. Organizations seeking to increase productivity and derive benefits from mobilizing their applications and workforces are driving adoption in this market.

Sales and Marketing

The company's sales team covers the US and handles projects from its east and west coast facilities. DecisionPoint makes extensive use of salesforce.com's customer relationship management (CRM) system to support its sales and marketing operations. All business processes from demand creation through closing orders are tracked using salesforce.com, enabling a better understanding of project profitability.

DecisionPoint's knowledge of how companies address IT systems issues and how they buy and manage complex technology gives them a competitive advantage against commodity-type resellers in the space. Vendor-supplied leads also play a key part in the company's sales. Vendors see it advantageous to funnel sales opportunities to DecisionPoint as a means of minimizing their selling costs.

DecisionPoint has established key wireless carrier relationships with Sprint, T-Mobile and Verizon. The company continues to invest in its website and offers an online demand generation tool that tracks and manages leads in an effort to increase its sales pipeline. This includes email marketing with closed-loop feedback as well as email campaigns that track recipient behavior after their receipt in real time.

Economic Outlook

In January 2013, the International Monetary Fund (IMF) revised its projections for US economic growth to 2% in 2013 and 3% in 2013. These are slightly changed from earlier projections (October 2012) of 2.1% in 2013 and 2.9% in 2013. The IMF said that the US needs to avoid excessive fiscal consolidation (reduction of deficit and debt accumulation) in the short-term, promptly raise the debt ceiling, and agree on a medium-term fiscal consolidation plan focused on entitlement and tax reform.

As the company offers its products and services primarily in the US, a growing (albeit slowly) US economy should support sales growth as capital and software expenditures increase.

3Q12 and Nine Months FY12 Financial Results

Total revenue in 3Q12 increased 13% to \$18.6 million primarily due to increased field mobility sales and increased professional services revenue. The net loss was \$1.3 million or (\$0.15) per share versus net income of \$54,000 or \$0.01 per share.

Gross margins increased to 23.4% from 20.9% primarily due to increased revenue from higher margin professional services (36% of total revenue) and improved utilization of this resource.

SG&A expenses increased to \$5 million from \$3.3 million primarily due to increased personnel and related expenses associated with the Illume Mobile and Apex acquisitions.

Interest expense increased to \$350,000 from \$231,000 as a result of increased debt levels related to the Apex acquisition.

Total revenue in the first nine months of 2012 increased 27% to \$54.1 million primarily due to sales of \$8.5 million (Taglich Brothers estimate) from the acquired supply chain consulting and systems integrator CMAC (December 2010), and an increase in core revenue.

The net loss was \$3.2 million or (\$0.42) per share versus a net loss of \$5.5 million or (\$1.00) per share. Included in the net loss for 2011 was a \$2.7 million pre-tax loss related to the extinguishment of debt.

Gross margins increased to 21.9% from 19.8% primarily due to increased cost control measures (personnel reductions) and increased higher margin service sales.

SG&A expenses increased to \$13.6 million from \$10.3 million primarily due to increased personnel and related expenses associated with the Illume Mobile and Apex acquisitions. Excluding the costs associated with completing these acquisitions, SG&A expenses would have been \$11.5 million for an SG&A expense margin of 21.3%.

	Nine Months Ended (in thousands \$)	
	9/12A	9/11A
Net sales	54,144	42,471
Cost of sales	42,269	34,043
Gross profit	11,875	8,428
SG&A	13,623	10,267
Operating income (loss)	(1,748)	(1,839)
Interest expense	698	1,004
Other (income) expense	(43)	2,369
Income (loss) before taxes	(2,403)	(5,212)
Income taxes	132	21
Net Income / (Loss)	(2,535)	(5,233)
Cumulative preferred stock dividends	(710)	(268)
Net income (loss) to common	(3,245)	(5,501)
EPS	(0.42)	(1.00)
Shares Outstanding	7,698	5,494
<u>Margin Analysis</u>		
Gross margin	21.9%	19.8%
SG&A	25.2%	24.2%
Operating margin	(3.2)%	(4.3)%
Pretax margin	(4.4)%	(12.3)%
Tax rate	(5.5)%	(0.4)%
Source: Company filings		

Interest expense decreased to \$0.7 million from \$1 million as a result of an exchange of subordinated debt for preferred stock and lower debt levels prior to the June 2012 issuance of debt to finance the Apex acquisition.

Liquidity

As of September 30, 2012, current liabilities exceeded current assets by \$9.2 million. The company's current ratio was 0.6X versus 1.7X for the business services industry and its debt/equity ratio was 13.6X versus 0.8X for the industry. By our projections (includes the recent financing discussed below), the company should have sufficient finances to meet its operational needs though our forecast horizon.

DecisionPoint Systems, Inc.

Cash provided by operations for the first nine months of FY12 was \$0.7 million consisting primarily of a \$1.6 million decrease in working capital offset by a cash loss of \$0.9 million. Cash used in investing was \$5.1 million consisting primarily of cash paid for acquisitions. Cash provided by financing was \$4.5 million and consisted primarily of proceeds from the issuance of debt. Cash increased by \$27,000 to \$392,000 at September 30, 2012.

The company has a \$10 million line of credit with an outstanding balance of \$4.6 million and a term loan with a balance of \$1.2 million with Silicon Valley Bank. The line of credit carries an interest rate of 7.5% and has an available balance of \$2.7 million as of September 30, 2012. The term loan matures in February 2013 and carries an interest rate of 9%.

DecisionPoint also has a \$2.4 million term loan with Royal Bank of Canada (RBC) and a \$1.6 million term loan with BDC Capital. The RBC loan matures June 2015 and carries an interest rate of 7%. The BDC loan matures June 2016 and carries an interest rate of 12%. As of September 30, 2012, the company was in compliance with the covenants of the Silicon Valley Bank line of credit and term loan but was not in compliance with the covenants of the RBC term loan.

Subsequent to the end of the quarter, the company raised a total of \$7 million through the private placements of convertible preferred stock. In December 2012, DecisionPoint raised \$6.3 million through a private placement of 633,600 shares of 8% Series D convertible preferred stock. In January 2013, the company raised \$0.7 million through a private placement of 70,600 shares of 8% Series D convertible preferred stock. The stated value of the preferred stock was \$10.00 per share with each share having the option of being converted into 10 shares of common stock at any time at a conversion price of \$1.00 per share.

DecisionPoint used \$4.5 million of the proceeds to redeem all of its 20% Series C convertible preferred shares with the balance being used for general corporate purposes.

Projections

We project FY12 sales growth of 25% to \$73.1 million with the strong growth of the business mobility market being the primary driver of this growth. We project a net loss of \$3.8 million or (\$0.47) per share, an improvement over the prior year's loss of \$5.7 million or (\$0.94) per share primarily due to the company's sales growth and margin improvement.

Gross margins are projected to improve to 22.3% from 20.5% in FY11 as the company generates more of its sales from higher margin software and services. Hardware gross margins (currently the majority of sales) run in the low to mid-teens while margins for software and professional services run in the 35% to 55% range and up.

The company's recent acquisitions and shift toward higher margin software and services revenue has resulted in 3Q12 gross margins of 23.4%. With the company's focus on growing this high margin segment, we projected sales and related costs for our forecast horizon (at right). SG&A expenses should increase to \$18 million from \$13.6 million with the increase in sales and added

headcount from recent acquisitions. The drop in 4Q12 SG&A expenses versus 3Q12 will come from the absence of acquisition related costs that were completed in 3Q12. The growth in sales we project for FY13 and FY14 should help in covering the relatively fixed cost components (office payroll and expenses) of SG&A expenses

Cost of Sales Model (in thousands \$)			
	2012E	2013E	2014E
Hardware sales	46,802	51,500	56,650
Software & services sales	26,342	34,500	42,350
Net sales	73,144	86,000	99,000
Cost of hardware sales	40,999	45,114	49,625
Cost of software & services sales	15,805	20,700	25,410
Cost of sales	56,804	65,814	75,035
Gross profit	16,340	20,186	23,965
Hardware gross margin	12.4%	12.4%	12.4%
Software & services gross margin	40.0%	40.0%	40.0%
Total gross margin	22.3%	23.5%	24.2%
Source: Taglich Brothers' estimates			

DecisionPoint Systems, Inc.

resulting in lower SG&A expense margins of 23% in FY13 and 22.7% in FY14 compared to 23.3% in FY11. Excluding the \$2.1 million costs associated with completing the acquisitions, we project SG&A expenses would have been \$15.9 million in FY12 for an SG&A expense margin of 21.7%.

Interest expense should approximate \$1.1 million as the company continues to service its current level of debt. Taxes are estimated at a rate of 5% as the company continues to pay state taxes on its sales.

We project \$2.1 million cash used in operations from a \$0.5 million cash loss and a \$1.6 million increase in working capital. The change in working capital will come primarily from an increase in accounts receivable offset in part by an increase in accounts payable. Cash used in investing of \$5.1 million will consist primarily of acquisition costs. Cash provided by financing will consist primarily of the proceeds from the issuance of convertible preferred stock and debt, offset in part by the redemption of previously issued convertible debt. Cash should increase by \$42,000 to \$408,000 at December 31, 2012.

We project FY13 sales will grow 18% to \$86 million, in line with the industry growth rate when the current quarter's sales (includes acquisitions) are annualized. We project a net loss of \$1.1 million or \$(0.11) per share, an improvement over the prior year's loss of \$3.8 million or \$(0.47) per share primarily due to growing sales and continued improvement in margins as the company expands its mobile business. In January 2013, DecisionPoint announced it dedicated a team to accelerate the company's move into enterprise mobile software and services. The initiative was made in an effort to expand sales and marketing of newly acquired APEXWare software (mobile application software) throughout the US as APEX had previously sold this product in Canada.

Gross margins are projected to improve to 23.5% from 22.3%, in line with the most recent quarter's margin. SG&A expenses should increase to \$19.8 million from \$18 million with the increase in sales.

Interest expense is projected at \$1 million as the company pays down its debt. The tax rate is projected at 4% as the company continues to pay state taxes on its sales.

We project \$0.5 million cash provided by operations from cash earnings of \$1.8 million and a \$1.2 million increase in working capital. The change in working capital will come primarily from an increase in accounts receivable offset in part by an increase in accounts payable. Capital expenditures of \$50,000, \$0.7 million from the issuance of convertible preferred stock, a net \$0.5 million pay down of debt, and \$0.6 million in dividend payments should result in an 89,000 increase in cash to \$0.5 million at December 31, 2013.

We project FY14 sales will grow 15% to \$99 million, in line with the industry growth rate. We project a net loss of \$133,000 or \$(0.01) per share, an improvement over the prior year's loss of \$1.1 million or \$(0.11) per share primarily due to growing sales of higher margin software and services.

Gross margins are projected to improve to 24.2% from 23.5% in FY13 as sales of higher margin software and services constitute a greater percentage of total revenue. SG&A expenses should increase to \$22.5 million from \$19.8 million with the increase in sales.

Interest expense is projected at \$0.8 million as the company continues to pay down its debt. The tax rate is projected at 40% as the company generates taxable income on federal and state levels.

We project \$1.5 million cash provided by operations from cash earnings of \$2.8 million and a \$1.2 million increase in working capital. The change in working capital will come primarily from an increase in accounts receivable offset in part by an increase in accounts payable. Capital expenditures of \$50,000, a net \$0.9 million pay down of debt, and \$0.6 million of dividends should result in virtually no change in cash for a balance of \$0.5 million at December 31, 2014.

Management

Nicholas R. Toms, Chairman, Chief Executive Officer, President and Director - CEO of DecisionPoint as of December 2003. Former corporate finance/M&A attorney with Skadden Arps Slate Meagher & Flom. Entrepreneur involved with middle market businesses for the past several years. Also serves as CEO of Cape Systems Group, Inc. (formerly Vertex Interactive, Inc.), a provider of warehouse management software systems. In 1989 founded Peak Technologies where he served as chairman, president and CEO. Graduate of Stellenbosch University (South Africa) in economics and law (LL.B) and New York University (LL.M).

Paul E. Ross, Chief Financial Officer - From April 2011 to April 2012, was CFO of GenMark Diagnostics, a manufacturer of molecular diagnostic medical devices. From October 2009 to April 2011, was CFO of Teledata Technology Solutions, a technology services company. From March 2007 to April 2009, was senior vice president, finance and CFO at Meade Instruments Corp., a consumer optical products manufacturing company. From May 2005 to March 2007, was CFO and treasurer of Power-One, Inc., an electronics manufacturer. MBA University of Southern California and BA University of California, Los Angeles.

Ralph Hubregsen, Chief Operating Officer - Most recently vice president worldwide channels at Symplified, a cloud security company. Prior to joining Symplified in 2010, was founder and president of Venado Technologies, an integrator of innovative software and service solutions. Prior served as vice president of sales at MonoSphere, Inc. Founded the Saillant Consulting Group in 1998 which specialized in the delivery of content management and document management solutions. Between 1995 and 1997, served as vice president of Western Field Operations for Peak Technologies Group. Prior, held sales management positions at Digital Equipment Corporation and General Electric. MBA University of Denver and BA Saint Michael's College.

Risks

In our view, these are the principal risks underlying the stock.

Limited operating history - DecisionPoint has a limited operating history which makes it difficult to evaluate its business on the basis of historical operations. Because of the uncertainties related to its lack of historical operations, the company may be hindered in its ability to anticipate and adapt to changes in sales, product costs or expenses.

Acquisition risk - Recent business combinations and acquisition transactions may not prove to be successful. Integration of new businesses or technologies may exhibit difficulty in transitioning customers and other business relationships.

Competition - DecisionPoint competes primarily with well-established companies, many of which have greater resources than the company. Barriers to entry are not significant and start-up costs are relatively low which could lead to increased competition.

Intervening technology - Demand for the company's products may decrease upon the introduction of new or improved technology. DecisionPoint's profitability could be adversely affected by customers who may choose to purchase new or improved products instead of the company's existing products.

Dilution - DecisionPoint has a significant amount of potentially dilutive securities (options, warrants, and convertible preferred stock). This could result in additional dilution to existing investors should this stock be sold in the open market or the warrants and convertible securities get converted to common stock.

Reliance on a limited number of customers - DecisionPoint derived approximately 24% of its revenue from two customers in 2011. The loss of a significant customer would likely have an adverse impact on financial results.

Lack of IP protection - The company has not sought patent protection for its products and services, relying instead on its technical know-how and ability to design solutions tailored to its customers' needs.

Material weakness in internal controls – As of September 30, 2012, it was determined that DecisionPoint had material weaknesses in its internal controls over financial close and reporting processes and its ability to account for complex transactions. Management intends to develop a plan to correct the primary issues that led to this material weakness by implementing additional review and reconciliation procedures.

Liquidity risk - Shares of DecisionPoint have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 3.6 million shares in the float and the average daily volume is approximately 6,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

DecisionPoint Systems, Inc.

Consolidated Balance Sheets
(in thousands \$)

	2010A	2011A	9/12A	2012E*	2013E	2014E
Cash	315	366	392	408	497	505
Accounts and other receivables	12,576	15,393	10,676	19,293	22,684	26,113
Due from related party	-	-	357	-	-	-
Inventory	898	706	897	865	1,002	1,143
Deferred costs	3,563	3,469	3,603	3,603	3,603	3,603
Deferred tax assets	55	-	-	-	-	-
Prepaid expenses and other	458	408	302	302	302	302
Total current assets	17,865	20,342	16,227	24,470	28,087	31,665
Net property and equipment	100	99	161	161	161	161
Intangible assets	2,729	2,214	6,626	6,626	6,626	6,626
Goodwill	5,509	5,539	8,617	8,617	8,617	8,617
Deferred costs	1,415	1,800	2,250	2,250	2,250	2,250
Other assets	173	175	344	344	344	344
Total assets	27,791	30,169	34,225	42,468	46,085	49,663
Accounts payable	9,244	8,947	8,502	10,961	12,695	14,480
Accrued expenses and other	4,882	2,505	2,705	3,140	3,691	4,249
Line of credit	4,364	4,024	4,742	6,274	6,774	6,924
Current portion of debt	1,000	1,000	1,848	1,848	1,848	1,848
Due to related parties	1,606	872	81	-	-	-
Accrued earn out consideration	-	-	1,202	1,202	1,202	1,202
Unearned revenue	5,715	6,756	6,368	7,424	8,469	9,507
Total current liabilities	26,811	24,104	25,448	30,848	34,679	38,210
Unearned revenue	1,850	2,509	3,012	3,807	4,200	4,600
Long-term debt	1,940	970	3,452	3,452	2,452	1,452
Accrued earn out consideration	-	-	162	162	162	162
Deferred tax liabilities	-	18	1,290	1,720	1,720	1,720
Deferred rent	-	-	62	62	62	62
Interest payable	60	60	60	60	60	60
Total liabilities	30,661	27,661	33,486	40,111	43,335	46,266
Preferred stock	1,486	6,320	6,581	8,675	8,675	8,675
Common stockholders' equity (deficit)	(4,356)	(3,812)	(5,842)	(6,318)	(5,925)	(5,278)
Total liabilities & stockholders' equity	27,791	30,169	34,225	42,468	46,085	49,663

* Includes \$0.7 million of additional paid-in capital

Source: Company filings and Taglich Brothers' estimates

DecisionPoint Systems, Inc.

Income Statements for the Fiscal Years Ended
(in thousands \$)

	2010A	2011A	2012E	2013E	2014E
Net sales	56,244	58,359	73,144	86,000	99,000
Cost of sales	45,392	46,368	56,804	65,790	75,042
Gross profit	10,852	11,991	16,340	20,210	23,958
SG&A	9,610	13,597	17,987	19,800	22,475
Operating income (loss)	1,242	(1,606)	(1,647)	410	1,483
Interest expense	2,213	1,160	1,098	950	800
Other (income) expense	1,159	2,302	(63)	(28)	(28)
Income (loss) before taxes	(2,130)	(5,068)	(2,682)	(512)	711
Income taxes	78	100	143	21	284
Net Income / (Loss)	(2,208)	(5,168)	(2,825)	(533)	427
Cumulative preferred stock dividends	(80)	(486)	(934)	(560)	(560)
Net income (loss) to common	(2,288)	(5,654)	(3,759)	(1,093)	(133)
EPS	(0.66)	(0.94)	(0.47)	(0.11)	(0.01)
Shares Outstanding	3,462	6,020	8,053	9,525	10,125
<u>Margin Analysis</u>					
Gross margin	19.3%	20.5%	22.3%	23.5%	24.2%
SG&A	17.1%	23.3%	24.6%	23.0%	22.7%
Operating margin	2.2%	(2.8)%	(2.3)%	0.5%	1.5%
Pretax margin	(3.8)%	(8.7)%	(3.7)%	(0.6)%	0.7%
Tax rate	(3.7)%	(2.0)%	(5.3)%	(4.1)%	39.9%
<u>Year / Year Growth</u>					
Total Revenues		3.8%	25.3%	17.6%	15.1%
Net Income		134.1%	NMF	NMF	NMF
EPS		42.1%	NMF	NMF	88.6%

Source: Company filings and Taglich Brothers' estimates

DecisionPoint Systems, Inc.

Quarterly Income Statements 2012 -2014E
(in thousands \$)

	<u>3/12A</u>	<u>6/12A</u>	<u>9/12A</u>	<u>12/12E</u>	<u>2012E</u>	<u>3/13E</u>	<u>6/13E</u>	<u>9/13E</u>	<u>12/13E</u>	<u>2013E</u>	<u>3/14E</u>	<u>6/14E</u>	<u>9/14E</u>	<u>12/14E</u>	<u>2014E</u>
Net sales	17,810	17,767	18,567	19,000	73,144	20,000	21,000	22,000	23,000	86,000	24,000	24,500	25,000	25,500	99,000
Cost of sales	<u>14,057</u>	<u>13,989</u>	<u>14,223</u>	<u>14,535</u>	<u>56,804</u>	<u>15,300</u>	<u>16,065</u>	<u>16,830</u>	<u>17,595</u>	<u>65,790</u>	<u>18,192</u>	<u>18,571</u>	<u>18,950</u>	<u>19,329</u>	<u>75,042</u>
Gross profit	3,753	3,778	4,344	4,465	16,340	4,700	4,935	5,170	5,405	20,210	5,808	5,929	6,050	6,171	23,958
SG&A	<u>3,835</u>	<u>4,850</u>	<u>4,952</u>	<u>4,350</u>	<u>17,987</u>	<u>4,600</u>	<u>4,850</u>	<u>5,050</u>	<u>5,300</u>	<u>19,800</u>	<u>5,450</u>	<u>5,550</u>	<u>5,675</u>	<u>5,800</u>	<u>22,475</u>
Operating income (loss)	(82)	(1,072)	(608)	115	(1,647)	100	85	120	105	410	358	379	375	371	1,483
Interest expense	142	206	350	400	1,098	300	250	200	200	950	200	200	200	200	800
Other (income) expense	<u>(29)</u>	<u>(20)</u>	<u>(7)</u>	<u>(7)</u>	<u>(63)</u>	<u>(7)</u>	<u>(7)</u>	<u>(7)</u>	<u>(7)</u>	<u>(28)</u>	<u>(7)</u>	<u>(7)</u>	<u>(7)</u>	<u>(7)</u>	<u>(28)</u>
Income (loss) before taxes	(195)	(1,258)	(951)	(278)	(2,682)	(193)	(158)	(73)	(88)	(512)	165	186	182	178	711
Income taxes	<u>42</u>	<u>26</u>	<u>64</u>	<u>11</u>	<u>143</u>	<u>8</u>	<u>6</u>	<u>3</u>	<u>4</u>	<u>21</u>	<u>66</u>	<u>74</u>	<u>73</u>	<u>71</u>	<u>284</u>
Net Income / (Loss)	<u>(237)</u>	<u>(1,284)</u>	<u>(1,015)</u>	<u>(289)</u>	<u>(2,825)</u>	<u>(201)</u>	<u>(164)</u>	<u>(76)</u>	<u>(92)</u>	<u>(533)</u>	<u>99</u>	<u>112</u>	<u>109</u>	<u>107</u>	<u>427</u>
Cumulative preferred stock dividends	<u>(222)</u>	<u>(239)</u>	<u>(248)</u>	<u>(225)</u>	<u>(934)</u>	<u>(140)</u>	<u>(140)</u>	<u>(140)</u>	<u>(140)</u>	<u>(560)</u>	<u>(140)</u>	<u>(140)</u>	<u>(140)</u>	<u>(140)</u>	<u>(560)</u>
Net income (loss) to common	<u>(459)</u>	<u>(1,523)</u>	<u>(1,263)</u>	<u>(514)</u>	<u>(3,759)</u>	<u>(341)</u>	<u>(304)</u>	<u>(216)</u>	<u>(232)</u>	<u>(1,093)</u>	<u>(41)</u>	<u>(28)</u>	<u>(31)</u>	<u>(33)</u>	<u>(133)</u>
EPS	<u>(0.06)</u>	<u>(0.20)</u>	<u>(0.15)</u>	<u>(0.06)</u>	<u>(0.47)</u>	<u>(0.04)</u>	<u>(0.03)</u>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.11)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.01)</u>
Shares Outstanding	7,392	7,513	8,182	9,125	8,053	9,300	9,450	9,600	9,750	9,525	9,900	10,050	10,200	10,350	10,125
<u>Margin Analysis</u>															
Gross margin	21.1%	21.3%	23.4%	23.5%	22.3%	23.5%	23.5%	23.5%	23.5%	23.5%	24.2%	24.2%	24.2%	24.2%	24.2%
SG&A	21.5%	27.3%	26.7%	22.9%	24.6%	23.0%	23.1%	23.0%	23.0%	23.0%	22.7%	22.7%	22.7%	22.7%	22.7%
Operating margin	(0.5)%	(6.0)%	(3.3)%	0.6%	(2.3)%	0.5%	0.4%	0.5%	0.5%	0.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Pretax margin	(1.1)%	(7.1)%	(5.1)%	(1.5)%	(3.7)%	(1.0)%	(0.8)%	(0.3)%	(0.4)%	(0.6)%	0.7%	0.8%	0.7%	0.7%	0.7%
Tax rate	(21.5)%	(2.1)%	(6.7)%	(4.0)%	(5.3)%	(4.1)%	(3.8)%	(4.1)%	(4.5)%	(4.1)%	40.0%	39.8%	40.1%	39.9%	39.9%
<u>Year / Year Growth</u>															
Total Revenues	39.1%	34.4%	12.9%	19.6%	25.3%	12.3%	18.2%	18.5%	21.1%	17.6%	20.0%	16.7%	13.6%	10.9%	15.1%
Net Income	(85.4)%	(66.9)%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF
EPS	(83.7)%	(75.6)%	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

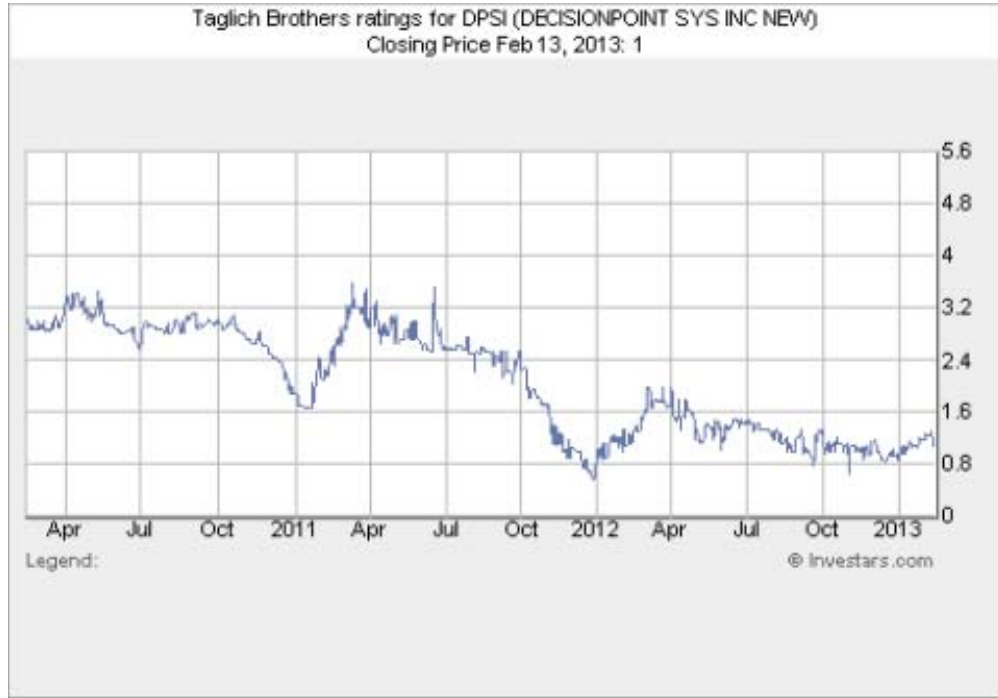
DecisionPoint Systems, Inc.

Statement of Cash Flows for the Periods Ended
(in thousands \$)

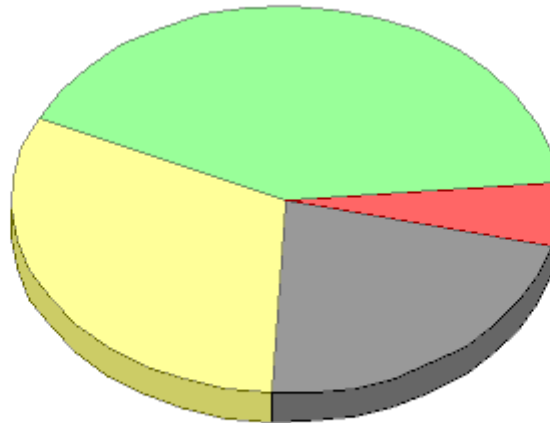
	2010A	2011A	9mos12A	2012E	2013E	2014E
Net income (loss)	(2,209)	(5,168)	(2,535)	(2,825)	(533)	427
Depreciation & amortization	32	560	43	50	50	50
Amortization of intangible assets	-	-	949	1,265	1,265	1,265
Amortization of deferred financing costs	905	140	160	213	213	213
Employee stock-based compensation	183	200	50	200	200	200
Non-employee stock-based compensation	428	283	341	450	450	450
Non-cash interest expense (income)	-	80	(24)	(32)	(32)	(32)
Loss on debt extinguishment	-	2,269	-	-	-	-
Loss on disposal of property and equipment	-	4	-	-	-	-
ESOP compensation expense	118	125	98	130	130	130
Allowance for doubtful accounts	-	-	14	14	20	20
Other income related to collection of note receivable	-	(405)	-	-	-	-
Deferred taxes	330	73	28	28	28	28
<i>Changes in assets and liabilities</i>						
Accounts receivable	(2,076)	(1,221)	3,899	(3,900)	(3,391)	(3,429)
Due from related party	-	-	(357)	-	-	-
Inventory	349	193	(184)	(159)	(137)	(141)
Deferred costs	(676)	(291)	(583)	(134)	-	-
Prepaid expenses and other	(347)	80	179	106	-	-
Other assets	(14)	(33)	(11)	(169)	-	-
Accounts payable	2,563	(39)	(572)	2,014	1,734	1,785
Accrued expenses and other	(2,143)	(258)	178	635	552	558
Due to related parties	65	(735)	(791)	(872)	-	-
Unearned revenue	(46)	1,701	(186)	917	-	-
Net cash provided by (used in) operations	(2,538)	(2,442)	696	(2,069)	549	1,524
Acquisitions, net	186	(2,205)	(5,051)	(5,051)	-	-
Collection of note and other receivables	-	555	-	-	-	-
Capital expenditures	(43)	(49)	(50)	(50)	(50)	(50)
Net cash (used in) provided by investing	143	(1,699)	(5,101)	(5,101)	(50)	(50)
(Repayments) borrowings from line of credit	1,789	(340)	718	2,250	500	150
Proceeds from issuance of debt	-	4,000	4,033	4,033	-	-
Cash received in reverse capitalization	-	1,985	1,500	1,500	-	-
Borrowing under long-term debt	3,000	-	-	-	-	-
Repayment of debt	(2,835)	(1,000)	(962)	(962)	(1,000)	(1,000)
Proceeds from exercise of employee stock options	623	-	-	-	-	-
Issuance of convertible preferred stock	380	-	-	6,336	706	-
Redemption of convertible preferred stock	-	-	-	(4,500)	-	-
Purchase of treasury stock	-	(250)	-	-	-	-
Paid financing costs	(159)	(109)	(296)	(803)	(56)	(56)
Holding share liability	(229)	(4)	-	-	-	-
Dividends paid	-	(90)	(482)	(642)	(560)	(560)
Net Cash Provided by (Used in) Financing	2,569	4,192	4,511	7,212	(410)	(1,466)
Foreign currency translation	-	-	(79)	-	-	-
Net Change in Cash	174	51	27	42	89	8
Cash - Beginning of Period	141	315	366	366	408	497
Cash - End of Period	315	366	393	408	497	505

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



41.56 % Buy 31.17 % Hold 22.08 % Not Rated 5.19 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	4
Hold	1	14
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 64,500 shares of DPSI convertible preferred stock, 155,526 shares of DPSI common stock, and 151,343 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 20,000 shares of DPSI convertible preferred stock, 155,527 shares of DPSI common stock, and 151,344 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 5,000 shares of DPSI convertible preferred stock and 76,050 warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 50,000 warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 5,500 shares of DPSI convertible preferred stock and 275,463 warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In December 2012, Taglich Brothers Inc. served as the exclusive placement agent in private placements of convertible preferred stock for the company.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of \$4,500 (USD) in January 2013 for the creation and dissemination of research reports for the first three months. After the first three months of publication, the company will pay a monthly monetary fee of \$1,500 (USD) to Taglich Brothers, Inc., for a minimum of twelve months for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Agilysys, Inc. (Nasdaq: AGYS)
Motorola Solutions, Inc. (NYSE: MSI)

Meaning of Ratings

Buy

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Dropping Coverage

We have discontinued research coverage due to acquisition of the company, termination of research services, non-payment for such services or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.