

## Research Note

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

### DecisionPoint Systems, Inc.

John Nobile  
April 5, 2017

**DPSI \$4.50 — (OTC)**

	<u>2015A*</u>	<u>2016A*</u>
Revenues (millions)	\$33.8	\$31.1
Earnings (loss) per share	(\$210.31)	\$0.28

52-Week range	\$8.00 – \$0.01	Fiscal year ends:	December
Common shares out as of 12/31/16	6.0 million	Revenue per share (TTM)	\$5.18
Approximate float	NA	Price/Sales (TTM)	0.9X
Market capitalization	\$27 million	Price/Sales (FY2017)E	NA
Tangible book value/share	NMF	Price/Earnings (TTM)	16.1X
Price/tangible book value	NMF	Price/Earnings (FY2017)E	NA

*\*Unaudited*

*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](http://www.decisionpt.com))*

#### **Key investment considerations:**

*The lack of current and comprehensive audited financial statements precludes an investment rating.*

*In March 2017, DecisionPoint said it was planning several programs in 2017, including investments in marketing and sales personnel, a new service portal, and an internal software initiative.*

*The company has not filed financial statements with the SEC since November 2015, but recently reported its unaudited financial results in a press release on March 31, 2016.*

*DecisionPoint reported 4Q16 revenue increased 20% to \$8.7 million. Net income was \$861,000 or \$0.14 per share versus a net loss of \$1.5 million or (\$57.89) per share in 4Q15. Included in the results for 4Q16 was a one-time gain of \$788,000 or \$0.13 per share related to discontinued operations in Canada. Excluding the one-time gain, 4Q16 net income from continuing operations was \$73,000 or \$0.01 per share.*

*2016 revenue decreased 8% to \$31.1 million. Net income was \$1.7 million or \$0.28 per share versus a net loss of \$5.4 million or (\$210.31) per share in 2015. Excluding a one-time gain of \$1.3 million or \$0.21 per share related to discontinued operations in Canada, 2016 net income from continuing operations was \$412,000 or \$0.07 per share. Excluding cash and imputed dividends of \$1.9 million or \$74.20 per share, and a \$3.5 million or (\$135.51) per share loss related to discontinued operations in Canada, the net loss from continuing operations in 2015 was \$15,000 or \$0.59 per share.*

***\*Please view our disclosures on pages 7 - 9.***

**Business**

DecisionPoint Systems, headquartered in Irvine CA, 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.

As a value added reseller (VAR) for many hardware and software suppliers (table at right), DecisionPoint offers professional services such as integration, customization and consulting with the products it offers. 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.

<u>Hardware Suppliers</u>	<u>Software Suppliers</u>
Apple	AirWatch
Intermec	Verifone GlobalBay Mobile Technologies
Motorola	XRS
Zebra Technologies	Wavelink
Datamax-O’Neil	

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 Alpharetta, GA.

**4Q and FY 2016 Financial Results**

The company has not filed financial statements with the SEC since November 2015. The following unaudited financial information is taken from a press release dated March 31, 2017.

**4Q16** - Revenue increased 20% to \$8.7 million. DecisionPoint reported net income of \$861,000 or \$0.14 per share versus a net loss of \$1.5 million or (\$57.89) per share in 4Q15. Included in the results for 4Q16 was a one-time gain of \$788,000 or \$0.13 per share related to discontinued operations in Canada. Excluding the one-time gain, 4Q16 net income from continuing operations was \$73,000 or \$0.01 per share.

Gross margins decreased to 20.7% from 24%. SG&A expenses increased to \$1.5 million from \$1.4 million. Interest expense increased to \$141,000 from \$88,000.

All preferred stock that was outstanding at the end of 2015 has been converted to common stock as a result of a recently completed recapitalization. As a result of the recapitalization, DecisionPoint currently has approximately six million shares of common stock outstanding as of December 31, 2016 versus approximately 25,000 shares as of December 31, 2015.

**FY 2016** - Revenue decreased 8% to \$31.1 million. DecisionPoint reported net income of \$1.7 million or \$0.28 per share versus a net loss of \$5.4 million or (\$210.31) per share in 2015. Included in the results for 2016 was a one-time gain of \$1.3 million or \$0.21 per share related to discontinued operations in Canada. Excluding the one-time gain, 2016 net income from continuing operations was \$412,000 or \$0.07 per share. Included in the results for 2015 were cash and imputed dividends of \$1.9 million or \$74.20 per share, and a \$3.5 million or (\$135.51) per share loss related to discontinued operations in Canada. Excluding the dividends and loss from discontinued operations, the net loss from continuing operations was \$15,000 or \$0.59 per share.

Gross margins decreased to 20.1% from 20.8. SG&A expenses decreased to \$5.4 million from \$7.2 million. Interest expense increased to \$433,000 from \$387,000.

Liquidity - As of December 31, 2016, cash was \$1.2 million. Current liabilities exceeded current assets by \$3.1 million and the company's current ratio was 0.8X versus 1.3X for the business services industry. Total debt was \$3.4 million of which \$3 million was classified as current.

In 2016, cash provided by financing of \$530,000 was partially offset by \$100,000 cash used in operations and \$15,000 cash used in investing, for a net increase in cash of \$414,000 to \$1.2 million as of December 31, 2016.

In August 2016, DecisionPoint entered into a commercial banking relationship with Union Bank and CapitalSource Business Financial Group as the company's primary line-of-credit lender. The new relationship replaces the company's previous commercial banker and primary lender, where the line-of-credit was fully repaid and closed.

DecisionPoint's three-year, \$6 million revolving line-of-credit carries an interest rate of 1.25 points over the prime rate and is secured by substantially all of DecisionPoint's assets.

## ***Risks***

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

Non-reporting company –As a non-reporting company, DecisionPoint is not required to provide annual audited financial statements with the SEC.

Rapidly changing industry - Customer requirements for mobile computing products and services are rapidly evolving. To keep up with new customer requirements, DecisionPoint must frequently introduce new products and services and enhance existing products and services which requires significant investments in research and development, which it does not undertake. This lack of investment in R&D could cause adversely affect the company's operations.

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.

Reliance on a limited number of customers – DecisionPoint derives a significant portion of its revenue from a limited number of customers. 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.

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. The average daily volume is nominal.

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.

Unaudited Consolidated Balance Sheets  
(in thousands \$)

	<u>2016A</u>	<u>2015A</u>
Cash	1,235	821
Accounts receivable	5,611	4,751
Inventory	428	307
Deferred costs	1,889	2,234
Assets of discontinued ops/business held for sale	1	32
Prepaid expenses and other	<u>115</u>	<u>28</u>
Total current assets	9,279	8,173
Net property and equipment	148	169
Goodwill	5,304	5,304
Deferred costs	803	970
Assets of discontinued ops/business held for sale	-	6
Other assets	<u>22</u>	<u>22</u>
<b>Total assets</b>	<b><u>15,556</u></b>	<b><u>14,644</u></b>
Accounts payable	5,302	7,019
Accrued expenses and other	1,251	1,690
Line of credit	2,828	3,154
Current portion of debt	80	379
Due to related parties	79	215
Liabilities from discontinued ops/business held for sale	60	1,880
Unearned revenue	<u>2,760</u>	<u>3,102</u>
Total current liabilities	12,360	17,439
Unearned revenue	1,029	1,355
Long-term debt	414	-
Deferred tax liabilities	34	29
Warrant liability	-	78
Liabilities from discontinued ops/business held for sale	-	152
Other long-term liabilities	<u>1</u>	<u>6</u>
<b>Total liabilities</b>	<b>13,839</b>	<b>19,059</b>
Preferred stock	-	14,123
Common stockholders' equity (deficit)	<u>1,712</u>	<u>(18,538)</u>
<b>Total stockholders' equity (deficit)</b>	<b><u>1,712</u></b>	<b><u>(4,415)</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>15,551</u></b>	<b><u>14,644</u></b>

Source: Company press release

## DecisionPoint Systems, Inc.

Unaudited Income Statements  
(in thousands \$)

	3 Months Ended		Years Ended	
	12/16A	12/15A	2016A	2015A
Net sales	8,742	7,314	31,104	33,838
Cost of sales	<u>6,929</u>	<u>5,555</u>	<u>24,844</u>	<u>26,801</u>
Gross profit	1,813	1,759	6,260	7,037
Asset impairment		-		-
SG&A	<u>1,539</u>	<u>1,400</u>	<u>5,416</u>	<u>7,158</u>
Operating income (loss)	274	359	844	(121)
Interest expense	141	88	433	387
Adjustment of warrant liabilities	-	(4)	(78)	(440)
Other (income) expense	<u>67</u>	<u>1</u>	<u>62</u>	<u>(17)</u>
Income (loss) before taxes	66	274	427	(51)
Income taxes / (benefit)	<u>(7)</u>	<u>(70)</u>	<u>15</u>	<u>(36)</u>
Net loss from continuing operations	<u>73</u>	<u>344</u>	<u>412</u>	<u>(15)</u>
Income (loss) from discontinued ops.	<u>788</u>	<u>(10)</u>	<u>1,268</u>	<u>(3,450)</u>
Net income/(loss)	861	334	1,680	(3,465)
Dividends	<u>-</u>	<u>(1,808)</u>	<u>-</u>	<u>(1,889)</u>
Net income (loss) to common	<u>861</u>	<u>(1,474)</u>	<u>1,680</u>	<u>(5,354)</u>
EPS continuing operations	0.01	(57.50)	0.07	(74.79)
EPS discontinued operations	<u>0.13</u>	<u>(0.39)</u>	<u>0.21</u>	<u>(135.52)</u>
EPS	<u>0.14</u>	<u>(57.89)</u>	<u>0.28</u>	<u>(210.31)</u>
Shares Outstanding	6,007	25	6,007	25
<u>Margin Analysis</u>				
Gross margin	20.7%	24.0%	20.1%	20.8%
SG&A	17.6%	19.1%	17.4%	21.2%
Operating margin	3.1%	4.9%	2.7%	(0.4)%
Pretax margin	0.8%	3.7%	1.4%	(0.2)%
Tax rate	(10.6)%	(25.5)%	3.5%	70.6%

Source: Company press releases

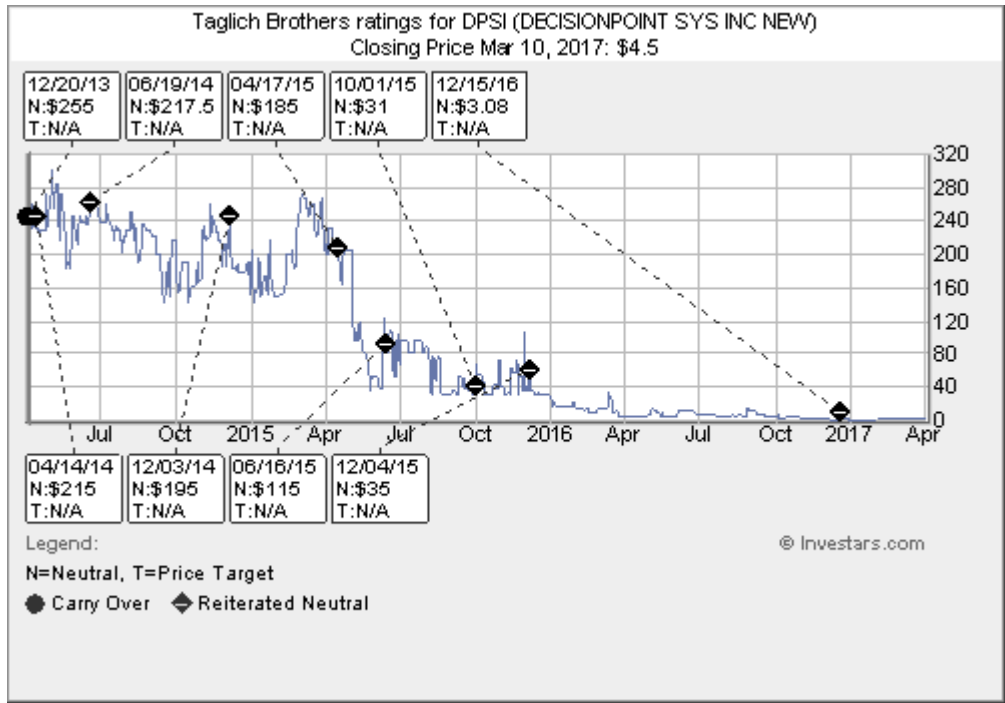
DecisionPoint Systems, Inc.

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

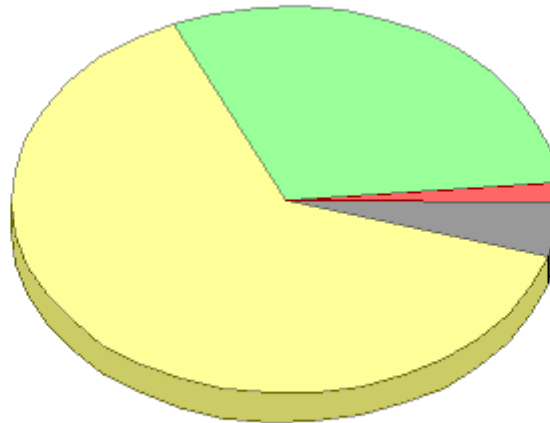
	<u>2016A</u>	<u>2015A</u>
Net income (loss) continuing operations	412	(15)
Net income (loss) discontinued operations	647	(183)
Net income (loss) from business unit held for sale	621	(3,268)
Non-cash operating items	114	(30)
Changes in assets and liabilities	<u>(1,894)</u>	<u>5,797</u>
<b>Net cash provided by (used in) operations</b>	<b>(100)</b>	<b>2,301</b>
<b>Net cash provided by (used in) investing</b>	<b>(15)</b>	<b>226</b>
<b>Net cash provided by (used in) Financing</b>	<b>530</b>	<b>(3,344)</b>
Foreign currency translation	(1)	22
<b>Net change in cash</b>	<b>414</b>	<b>(795)</b>
<b>Cash - beginning of period</b>	<b><u>821</u></b>	<b><u>1,616</u></b>
<b>Cash - end of period</b>	<b><u><u>1,235</u></u></b>	<b><u><u>821</u></u></b>

Source: Company press releases

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



30.3 % Buy 63.64 % Hold 4.55 % Not Rated 1.52 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	13
Hold	1	50
Sell		
Not Rated		

### **Important Disclosures**

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates own more than 1% of DPSI common stock. Michael Taglich, President of Taglich Brothers, Inc. and Director of DecisionPoint Systems, Inc. owns or has a controlling interest in 170,448 shares of DPSI common stock and 151,343 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 169,799 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 76,050 warrants. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and Director of DecisionPoint Systems, Inc. owns or has a controlling interest in 126,750 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 148,713 warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In December 2012 and November 2013, Taglich Brothers Inc. served as the 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**

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### **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:

Apple, Inc. (Nasdaq: AAPL)  
Agilysys, Inc. (Nasdaq: AGYS)  
Intermec Inc. (NYSE: IN)

Motorola Solutions, Inc. (NYSE: MSI)  
Verifone Systems (NYSE: PAY)  
Zebra Technologies (Nasdaq: ZBRA)

**Meaning of Ratings**

**Buy** – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

**Speculative Buy** – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

**Neutral** – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

**Sell** – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

**Dropping Coverage** – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, 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.**

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