

Research Report – Update

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

DecisionPoint Systems, Inc.

Neutral

John Nobile
April 14, 2014

DPSI \$0.43 — (OTC BB)

	<u>2012A</u>	<u>2013A</u>	<u>2014E</u>	<u>2015E</u>
Revenues (millions)	\$71.5	\$60.7	\$65.7	\$73.7
Earnings (loss) per share	(\$0.61)	(\$0.80)	(\$0.38)	(\$0.27)

52-Week range	\$1.30 – \$0.36	Fiscal year ends:	December
Common shares out as of 3/31/14	12.7 million	Revenue per share (TTM)	\$6.19
Approximate float	9.5 million	Price/Sales (TTM)	0.1X
Market capitalization	\$5 million	Price/Sales (FY2015)E	0.1X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2015)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:

Maintaining Neutral rating.

The global enterprise mobility market is projected to grow (MarketsandMarkets, April 2014) at a CAGR of 27% through 2019. DPSI's operations are focused on this market, boding well for the company's target market.

During 2H13, DecisionPoint added the Android and Apple operating systems to its family of APEXWare offerings. The addressable market for these software applications from these additional operating systems has significantly expanded from just 3% of the market (using Microsoft's Windows mobile operating system), to over 97%.

We project a 2014 loss of \$4.9 million, or (\$0.40) per share, on an 8% gain in revenue to \$65.7 million. Our net loss projection has remained relatively unchanged on lower revenue expectations (\$71.7 million previously) due to cost cutting efforts which are expected to reduce SG&A expenses by 15% over 2013.

We project a 2015 loss of \$3.5 million, or (\$0.27) per share, on a 12% gain in revenue to \$73.7 million. Revenue gains should be driven by increased software and services revenue while hardware sales remain flat.

DecisionPoint reported (March 31, 2014) 4Q13 revenue decreased 16% to \$14.6 million. The loss per share was (\$0.32) versus (\$0.19) in 4Q12. We projected 4Q13 revenue of \$17.6 million and a loss per share of (\$0.10). 4Q13 results were adversely impacted by delays in shipments from a key vendor (approximately \$4 million to \$4.5 million) that should ship in 2014.

****Please view our disclosures on pages 13 - 15.***

Recommendation and Valuation

We are reiterating our **Neutral** rating on DecisionPoint Systems, Inc. (DPSI).

DPSI currently trades at a multiple of 0.1X TTM sales. A comparison group of 23 business software and services companies with market values of approximately \$100 million or less are trading at an average price to sales multiple of 1.5X. We believe the discount in DPSI’s valuation relative to the comparison group’s is due to the market’s perception of growth prospects. If the company achieves robust organic sales growth the stock’s multiple should expand. Applying a multiple of 0.2X sales, twice the current multiple, to our fiscal 2015 sales of \$2.26 per share (on a fully diluted basis of 32,662 shares), values the stock at approximately \$0.45 per share.

Recent Developments

New CFO – In February 2014, DecisionPoint announced that Michael Roe was promoted to Chief Financial Officer. Roe was formerly DecisionPoint's Senior Vice President-Finance and Chief Accounting Officer. He joined DecisionPoint in October 2012.

Before joining DecisionPoint, Roe worked as an independent financial consultant from 2011-2012. From 2006-2011, Roe was Chief Accounting Officer, Vice President-Finance for Metagenics. From 2004-2006, Roe was Chief Financial Officer for Duncan Solutions. Roe also worked for QLogic Corp. and KPMG LLP. Bachelor's Degree in accounting from Western Washington University. CPA and member of the American Institute of Certified Public Accountants.

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.

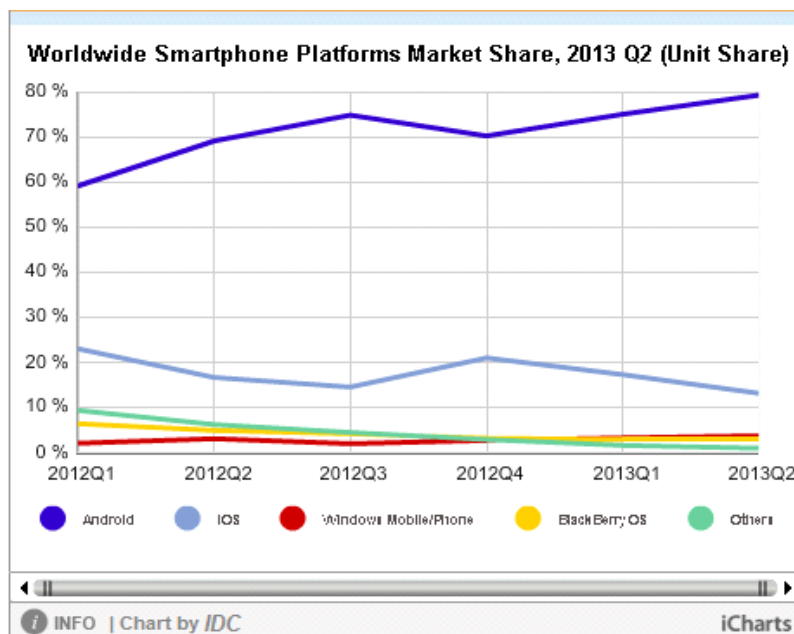
As a value added reseller (VAR) for many hardware and software suppliers (table at right), DecisionPoint offers professional services such as integration, customization and consulting with the products it offers. The bulk of the company’s resold products are primarily from Motorola Solutions, Inc. DecisionPoint’s 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.

<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.

Projections

We anticipate software and services sales will increase in 2014 as the company has recently added the Android and Apple operating systems to its family of APEXWare offerings. Apex revenue was approximately \$2.5 million or 12% of DPSI's software and services revenue in 2013. The addressable market for APEXWare software applications from these additional operating systems has significantly expanded from just 3% of the market (using Microsoft's Windows mobile operating system), to over 97% with the addition of the Android and Apple iOS operating systems (see chart at right).



The projected effect of DPSI's improvement in revenue mix is shown in the table (below right).

We project a 2014 loss of \$4.9 million, or (\$0.40) per share, on an 8% gain in revenue to \$65.7 million. Our net loss projection has remained relatively unchanged on lower revenue expectations (\$71.7 million previously) due to cost cutting efforts which are expected to reduce SG&A expenses by 15% over 2013. By 1Q14 DecisionPoint reduced staffing levels by 29% which is expected to cut SG&A expenses by \$3 million in 2014. Our reduced revenue projection is primarily due to lower software and services revenue than previously anticipated.

	2012A	2013A	2014E	2015E
Hardware and other sales	50,600	39,600	39,600	39,600
Software & services sales	20,900	21,100	26,100	34,100
Net sales	71,500	60,700	65,700	73,700
Cost of hardware and other sales	41,500	32,200	32,195	32,195
Cost of software & services sales	15,000	15,800	19,549	25,541
Cost of sales	56,500	48,000	51,744	57,736
Gross profit	15,000	12,700	13,956	15,964
Hardware and other gross margin	18.0%	18.7%	18.7%	18.7%
Software & services gross margin	28.2%	25.1%	25.1%	25.1%
Total gross margin	21.0%	21.0%	21.2%	21.7%

Source: Company filings and Taglich Brothers' estimates

2014 gross margins are projected to improve to 21.2% versus 21% in 2013 as sales of higher margin software and services make up a greater percentage of total revenue (40% in 2014 versus 35% in 2013). SG&A expenses should decrease to \$15.7 million from \$18.3 million due to the cost cutting efforts described above. We project SG&A expense margins will lower to 23.9% in 2014 from 26.4% in 2013. The operating loss should narrow to \$1.8 million or 3% of sales from an operating loss of \$4.8 million or 8% of sales in 2013. Interest expense is projected at \$1 million. We project no taxes.

We project a 2014 cash loss of \$83,000 offset by a \$33,000 decrease in working capital. \$50,000 cash used in operations, \$45,000 of capital expenditures, and \$160 net cash provided by financing activities should increase cash by \$65,000 to \$0.7 million at December 31, 2014.

We project a 2015 loss of \$3.5 million, or (\$0.27) per share, on a 12% gain in revenue to \$73.7 million. Revenue gains should be driven by increased software and services revenue while hardware sales remain flat.

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2015 gross margins are projected at 21.7% versus 21.2% in 2014 as sales of higher margin software and services make up a greater percentage of total revenue (46% in 2015 versus 40% in 2014). SG&A expenses should increase modestly to \$16.4 million from \$15.7 million as the company continues to keep a close watch on expenses. We project SG&A expense margins will lower to 22.3% in 2015 from 23.9% in 2014. The operating loss should narrow to \$407,000 or 1% of sales from an operating loss of \$1.8 million or 3% of sales in 2014. Interest expense is projected at \$1 million. We project no taxes.

We project \$1.3 million cash provided by operations mainly from cash earnings. Cash provided by operations will be largely offset by capital expenditures and \$1.3 million cash used in financing activities, reducing cash by \$80,000 to \$0.6 million at December 31, 2015.

Products and Services

Mobile Applications	<i>Retail Store</i> : Stock locator, shelf price marking, markdowns, inventory control, physical inventory, merchandising, customer service and mobile point-of-sale (“POS”).
	<i>Warehousing and Distribution</i> : Order shipping, order picking and packing, stock movement and replenishments, product receipt and put-away, labeling, physical inventory and cycle counts.
	<i>Transportation and Logistics</i> : Proof-of-delivery, commercial turn-by-turn directions, route optimization, cross-docking, returns and Department of Transportation driver hours of service and route logging.
	<i>Field Mobility</i> : Field service and repair or wireless work order management, enterprise asset management, inspection, preventative maintenance, surveys, rounds and readings.
Software	<i>APEXWare Field Service</i> : Field deployment of wireless handheld devices with integrated bar code scanners.
	<i>APEXWare Merchandising, Sales and Delivery</i> : Automates and streamlines merchandising, sales and delivery business functions.
	<i>APEXWare Warehouse Management System</i> : Transforms current warehouse operations to a paperless, real-time operation.
	<i>ContentSentral</i> : Content delivery system that enables mobile workers in virtually any industry to access corporate information.
	DecisionPoint provides mobile software tailored to meet customers’ unique requirements.
Professional Services	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).
Deployment and Support Services	Implementing a solution into the customer’s computer systems infrastructure and replicating that implementation through all their operating locations. 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 printer ribbons.

Enterprise Mobility Market

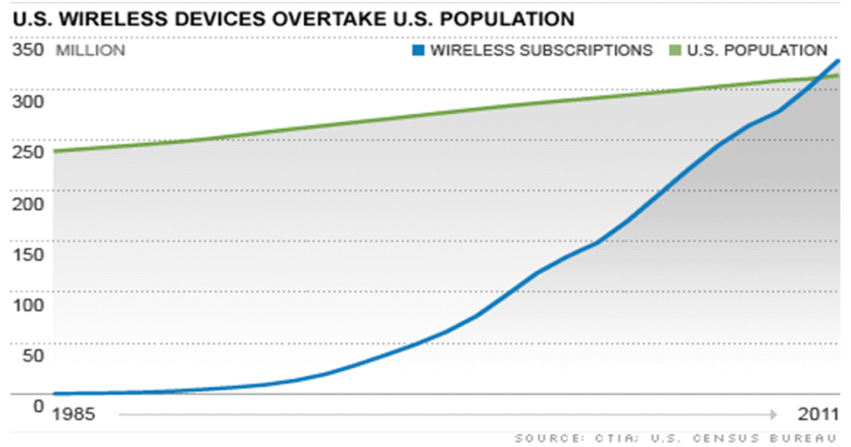
An April 2014 report¹ by research firm MarketsandMarkets projects the global bring-your-own-device (BYOD) and enterprise mobility market to grow from \$72.3 billion in 2013 to \$284.7 billion by 2019 for a compound annual growth rate of approximately 27%. Some of the key drivers of this growth are the emergence of the mobile user workforce, reduced hardware costs for enterprises, and an increase in smart phone penetration.

¹ Bring-your-own-device (BYOD) & Enterprise Mobility Market [Mobile Device Management, Mobile Application Management, Telecom Expense Management, Content Management and Email Management] – Global Advancements, Market Forecast and Analysis (2014-2019).

North America was cited by the MarketsandMarkets report as the largest market. Employees are using their own devices such as smart phones, tablets, and laptops, to be connected with the enterprise network, anytime, anywhere. DPSI's operations are focused on this market.

The wireless industry association CTIA states that the number of wireless devices in the US outnumbered the population in 2011 for the first time in history (see chart at right).

Many Americans now have two or more devices (such as a smart phone or tablet) with a wireless plan. According to the latest numbers (November 2013) from the CTIA, there were 326.5 million wireless subscriber connections for 319.4 million people in the US for a wireless penetration rate of 102%.



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 competes with fewer than ten competitive Tier-1 VARs and SIs. The company competes on the basis of price, product/system performance, product quality and availability of service.

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

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.

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

Stratix, Inc.	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.	A distributor of enterprise computer system solutions with \$238 million in TTM revenue. One of their divisions provides services similar to those offered by DecisionPoint.
Sedlak Management Consultants	A supply chain consulting firm specializing in distribution consulting.
Peak-Ryzex, Inc.	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.
Denali Advanced Integration	A full system integration company with services ranging from IT consulting, managed services and enterprise mobility solutions.

Other competitors in the US include certain catalog and online equipment resellers that 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 enrich its revenue mix by increasing its higher-margin software and services offerings. Toward that end, DecisionPoint made three strategic acquisitions (logistics consulting and systems integrator CMAC in December 2010, wireless mobile work force software provider Apex Systems Integrators in June 2012, and mobile business applications developer and integrator Illume Mobile in July 2012.

In 2013, 35% of total revenue was derived from software and services with the remaining 65% from hardware sales. In 2012, 29% of total revenue was derived from software and services with the remaining 71% from hardware sales.

Economic Outlook

In April 2014, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.6% in 2014, down from an earlier (January 2014) growth forecast of 3.7%. Global growth is projected to increase to 3.9% in 2015. Driving this growth will be a recovery in the advanced economies. The IMF said that global economic activity picked up in the second half of 2013 and is expected to improve further in 2014 – 2015.

In February 2014, the Bureau of Economic Analysis revised US GDP growth downward to 2.4% from an earlier estimate of 3.2%. Some of the factors contributing to the downward revision were a deceleration in private investment and a large decrease in Federal spending. However, the estimate did reflect positive contributions from personal consumption expenditures and exports.

The IMF's economic growth estimate for the US was unchanged at 2.8% in 2014 and 3.0% in 2015 from earlier (January 2014) growth forecasts. The IMF said that some of the factors helping to drive US growth will come from accommodative monetary conditions and higher household wealth.

The Federal Reserve's (Fed) latest economic projection for the US economy in 2014 mirrors the IMF's current projection. In March 2014, the Fed projected the US economy to grow at a slightly slower but steady pace in 2014. The Fed projects US growth of 2.8% to 3% this year, a bit lower than its December 2013 projection of between 2.8% and 3.2%.

As the company offers its products and services primarily in the US, a growing US economy should bode well for sales of the company's products as the rate of capital and software expenditures increase.

4Q and FY13 Financial Results

4Q13 - Revenue decreased 16% to \$14.6 million primarily due to delays in shipments from a key vendor of approximately \$4 million to \$4.5 million that should ship in 2014. Hardware sales fell 21% to \$9.3 million while software and service sales fell 4% to \$4.9 million. Other revenue (consumables) fell 20% to \$400,000. The net loss to common shareholders was \$3.8 million or (\$0.32) per share versus a net loss to common shareholders of \$1.6 million or (\$0.19) per share. We projected 4Q13 revenue of \$17.6 million and a net loss to common shareholders of \$1.3 million or \$(0.10) per share.

Gross margins remained relatively flat at 19.7%. SG&A expenses decreased to \$4.4 million from \$4.8 million as the company reduced its overall workforce. Interest expense decreased to \$236,000 from \$300,000 as a result of decreased debt levels.

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FY13 - Revenue decreased 15% to \$60.7 million primarily due to a 22% decrease in hardware sales to \$38 million partially offset by a 1% increase in software and services sales to \$21.1 million. Other revenue fell 22% to \$1.6 million. The net loss to common shareholders grew to \$7.8 million or (\$0.80) per share from \$4.8 million or (\$0.61) per share. Revenue was adversely affected by a decrease in retail mobile computing system upgrades partially offset by the contribution of the mid-2012 Apex and Illume Mobile acquisitions.

Gross margins remained flat at 21%. SG&A expenses increased to \$18.3 million from \$18.2 million primarily due to an expanded sales force. Interest expense remained relatively flat at \$1 million.

Liquidity

As of December 31, 2013, current liabilities exceeded current assets by \$9.9 million and the company's current ratio was 0.6X versus 1.2X for the business services industry. By our forecasts, the company should have sufficient capital to meet its operational needs for the next twelve months.

Cash used in operations in 2013 was \$4.2 million consisting primarily of a \$4.1 million cash loss. Cash used in operations and capital expenditures, partly offset by cash raised in financing activities, reduced cash by \$0.5 million to \$0.6 million at December 31, 2013.

The company has a \$10 million line of credit and term loans extended by Silicon Valley Bank. As of December 31, 2013 the outstanding balances were \$3.9 million on the line of credit and \$1 million on the term loans. The line of credit carries an interest rate of 7% and had an available balance of \$3.3 million as of December 31, 2013. The term loans mature in March 2016 and carry an interest rate of 7.5%. As of December 31, 2013, the company was in compliance with the covenants of the Silicon Valley Bank line of credit and term loan.

DecisionPoint also has a \$2.1 million term loan with Royal Bank of Canada (RBC) and a \$1.7 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 December 31, 2013, the company was in compliance with the covenants of the BDC term loan. However, the company was not in compliance with the RBC term loan. Should RBC not waive the covenant requirements, DecisionPoint could be deemed to be in default and immediate repayment could be demanded leading to a foreclosure of the company's assets.

Risks

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

Going concern issues – In its latest annual report, the company's auditors have raised doubts about its ability to continue as a going concern. Among other factors, the company's history of losses, working capital deficit and minimal liquidity have contributed to the auditors' determination.

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

Acquisition risk – Recent business combinations and acquisition transactions may not 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 18% of its revenue from two customers in 2013. 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. There are 9.5 million shares in the float and the average daily volume is approximately 12,800 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 \$)

	2011A	2012A	2013A	2014E	2015E
Cash	366	1,103	641	706	627
Accounts receivable	15,393	12,287	10,504	11,371	12,755
Due from related party	-	202	188	188	188
Inventory	706	811	1,533	1,655	1,844
Deferred costs	3,469	3,955	3,809	3,809	3,809
Deferred tax assets	-	48	49	49	49
Prepaid expenses and other	408	302	188	188	188
Total current assets	20,342	18,708	16,912	17,966	19,460
Net property and equipment	99	179	136	123	114
Intangible assets	2,214	6,023	3,907	2,314	957
Goodwill	5,539	8,571	8,395	8,395	8,395
Deferred costs	1,800	2,124	1,807	1,807	1,807
Other assets	175	205	165	165	165
Total assets	30,169	35,810	31,322	30,770	30,898
Accounts payable	8,947	11,080	9,774	10,550	11,759
Accrued expenses and other	2,505	2,895	2,976	3,222	3,614
Line of credit	4,024	3,430	3,883	4,383	3,883
Current portion of debt	1,000	1,800	1,474	1,474	1,474
Due to related parties	872	1	77	77	77
Accrued earn out consideration	-	1,186	319	319	319
Warrant liability	-	-	803	803	803
Unearned revenue	6,756	7,409	7,481	7,481	7,481
Total current liabilities	24,104	27,801	26,787	28,308	29,410
Unearned revenue	2,509	2,883	2,481	2,481	2,481
Long-term debt	970	2,922	1,961	1,961	1,961
Accrued earn out consideration	-	159	149	149	149
Deferred tax liabilities	18	1,078	740	740	740
Other long-term liabilities	60	80	77	77	77
Total liabilities	27,661	34,923	32,195	33,716	34,818
Preferred stock*	6,320	7,370	12,193	13,801	15,409
Common stockholders' equity (deficit)**	(3,812)	(6,483)	(13,066)	(16,748)	(19,329)
Total stockholders' equity (deficit)	2,508	887	(873)	(2,947)	(3,920)
Total liabilities & stockholders' equity	30,169	35,810	31,322	30,770	30,898

* Includes accrued dividends of \$1.6 million in 2014 and 2015

** Includes accrued dividends of \$1.5 million in 2014 and 2015

Source: Company filings and Taglich Brothers' estimates

DecisionPoint Systems, Inc.

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

	2011A	2012A	2013A	2014E	2015E
Net sales	58,359	71,501	60,692	65,700	73,700
Cost of sales	<u>46,368</u>	<u>56,458</u>	<u>47,965</u>	<u>51,772</u>	<u>57,707</u>
Gross profit	11,991	15,043	12,727	13,928	15,993
Adjustment to earn-out obligations		-	(820)	-	-
SG&A	<u>13,597</u>	<u>18,152</u>	<u>18,338</u>	<u>15,700</u>	<u>16,400</u>
Operating income (loss)	(1,606)	(3,109)	(4,791)	(1,772)	(407)
Interest expense	1,160	998	959	1,000	1,000
Other (income) expense	<u>2,302</u>	<u>(116)</u>	<u>(333)</u>	<u>(200)</u>	<u>(200)</u>
Income (loss) before taxes	(5,068)	(3,991)	(5,417)	(2,572)	(1,207)
Income taxes / (benefit)	<u>100</u>	<u>(125)</u>	<u>(199)</u>	<u>-</u>	<u>-</u>
Net Income / (Loss)	<u>(5,168)</u>	<u>(3,866)</u>	<u>(5,218)</u>	<u>(2,572)</u>	<u>(1,207)</u>
Imputed conversion of pref. stock	-	-	(1,343)	-	-
Dividends	<u>(486)</u>	<u>(954)</u>	<u>(1,240)</u>	<u>(2,320)</u>	<u>(2,320)</u>
Net income (loss) to common	<u>(5,654)</u>	<u>(4,820)</u>	<u>(7,801)</u>	<u>(4,892)</u>	<u>(3,527)</u>
EPS	<u>(0.94)</u>	<u>(0.61)</u>	<u>(0.80)</u>	<u>(0.38)</u>	<u>(0.27)</u>
Shares Outstanding	6,020	7,901	9,803	12,750	13,250
<u>Margin Analysis</u>					
Gross margin	20.5%	21.0%	21.0%	21.2%	21.7%
SG&A	23.3%	25.4%	30.2%	23.9%	22.3%
Operating margin	(2.8)%	(4.3)%	(7.9)%	-2.7%	-0.6%
Pretax margin	(8.7)%	(5.6)%	(8.9)%	(3.9)%	(1.6)%
Tax rate	(2.0)%	3.1%	3.7%	0.0%	0.0%
<u>Year / Year Growth</u>					
Total Revenues	3.8%	22.5%	-15.1%	8.3%	12.2%
Net Income	NMF	NMF	NMF	NMF	NMF
EPS	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

DecisionPoint Systems, Inc.

Quarterly Income Statements 2013 -2015E
(in thousands \$)

	3/13A	6/13A	9/13A	12/13A	2013A	3/14E	6/14E	9/14E	12/14E	2014E	3/15E	6/15E	9/15E	12/15E	2015E
Net sales	13,772	14,721	17,575	14,625	60,692	15,150	16,000	16,850	17,700	65,700	18,050	18,300	18,550	18,800	73,700
Cost of sales	10,948	11,155	14,113	11,749	47,965	11,938	12,608	13,278	13,948	51,772	14,133	14,329	14,525	14,720	57,707
Gross profit	2,824	3,566	3,462	2,876	12,727	3,212	3,392	3,572	3,752	13,928	3,917	3,971	4,025	4,080	15,993
Adjustment to earn-out obligations	-	-	(820)	-	(820)	-	-	-	-	-	-	-	-	-	-
SG&A	5,033	4,464	4,485	4,357	18,338	4,000	3,900	3,900	3,900	15,700	4,100	4,100	4,100	4,100	16,400
Operating income (loss)	(2,209)	(898)	(203)	(1,481)	(4,791)	(788)	(508)	(328)	(148)	(1,772)	(183)	(129)	(75)	(20)	(407)
Interest expense	226	256	241	236	959	250	250	250	250	1,000	250	250	250	250	1,000
Other (income) expense	(6)	(8)	(168)	(151)	(333)	(50)	(50)	(50)	(50)	(200)	(50)	(50)	(50)	(50)	(200)
Income (loss) before taxes	(2,429)	(1,146)	(276)	(1,566)	(5,417)	(988)	(708)	(528)	(348)	(2,572)	(383)	(329)	(275)	(220)	(1,207)
Income taxes / (benefit)	(327)	(30)	(109)	267	(199)	-	-	-	-	-	-	-	-	-	-
Net Income / (Loss)	(2,102)	(1,116)	(167)	(1,833)	(5,218)	(988)	(708)	(528)	(348)	(2,572)	(383)	(329)	(275)	(220)	(1,207)
Imputed conversion of pref. stock	-	-	-	(1,343)	(1,343)	-	-	-	-	-	-	-	-	-	-
Dividends	(220)	(218)	(223)	(579)	(1,240)	(580)	(580)	(580)	(580)	(2,320)	(580)	(580)	(580)	(580)	(2,320)
Net income (loss) to common	(2,322)	(1,334)	(390)	(3,755)	(7,801)	(1,568)	(1,288)	(1,108)	(928)	(4,892)	(963)	(909)	(855)	(800)	(3,527)
EPS	(0.27)	(0.15)	(0.04)	(0.32)	(0.80)	(0.13)	(0.10)	(0.09)	(0.07)	(0.38)	(0.07)	(0.07)	(0.06)	(0.06)	(0.27)
Shares Outstanding	8,621	8,699	10,019	11,835	9,803	12,300	12,800	12,900	13,000	12,750	13,100	13,200	13,300	13,400	13,250

Margin Analysis

Gross margin	20.5%	24.2%	19.7%	19.7%	21.0%	21.2%	21.2%	21.2%	21.2%	21.2%	21.7%	21.7%	21.7%	21.7%	21.7%
SG&A	36.5%	30.3%	25.5%	29.8%	30.2%	26.4%	24.4%	23.1%	22.0%	23.9%	22.7%	22.4%	22.1%	21.8%	22.3%
Operating margin	(16.0)%	(6.1)%	(1.2)%	(10.1)%	(7.9)%	-5.2%	-3.2%	-1.9%	-0.8%	-2.7%	-1.0%	-0.7%	-0.4%	-0.1%	-0.6%
Pretax margin	(17.6)%	(7.8)%	(1.6)%	(10.7)%	(8.9)%	(6.5)%	(4.4)%	(3.1)%	(2.0)%	(3.9)%	(2.1)%	(1.8)%	(1.5)%	(1.2)%	(1.6)%
Tax rate	13.5%	2.6%	39.5%	(17.0)%	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Year / Year Growth

Total Revenues	-22.7%	-17.1%	-5.3%	-15.7%	-15.1%	10.0%	8.7%	-4.1%	21.0%	8.3%	19.1%	14.4%	10.1%	6.2%	12.2%
Net Income	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF
EPS	NMF	NMF	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 \$)

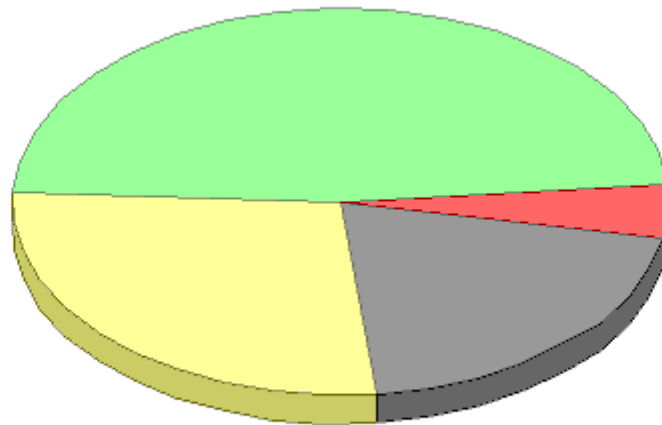
	<u>2011A</u>	<u>2012A</u>	<u>2013A</u>	<u>2014E</u>	<u>2015E</u>
Net income (loss)	(5,168)	(3,866)	(5,218)	(2,572)	(1,207)
Depreciation & amortization	560	1,510	1,967	1,952	1,948
Amortization of deferred financing costs	140	183	181	181	181
Employee stock-based compensation	200	52	76	76	76
Non-employee stock-based compensation	283	514	-	-	-
Non-cash interest expense (income)	80	-	-	-	-
Loss on debt extinguishment	2,269	-	-	-	-
Loss on disposal of property and equipment	4	-	13	-	-
Acquisition earn-out adjustment	-	-	(820)	-	-
Change in fair value of warrants	-	-	(296)	-	-
ESOP compensation expense	125	132	138	138	138
Allowance for doubtful accounts	-	108	142	142	142
Other income related to collection of note receivable	(405)	-	-	-	-
Deferred taxes	73	(256)	(270)	-	-
<i>Changes in assets and liabilities</i>					
Accounts receivable	(1,221)	1,801	1,615	(867)	(1,385)
Due from related party	-	147	-	-	-
Inventory	193	(98)	(723)	(122)	(190)
Deferred costs	(291)	(810)	462	-	-
Prepaid expenses and other	80	182	126	-	-
Other assets	(33)	(37)	(18)	-	-
Accounts payable	(39)	946	(1,296)	776	1,209
Accrued expenses and other	(258)	506	(104)	246	392
Due to related parties	(735)	-	76	-	-
Unearned revenue	1,701	705	(284)	-	-
Net cash provided by (used in) operations	(2,442)	1,719	(4,233)	(50)	1,305
Acquisitions, net	(2,205)	(5,051)	-	-	-
Collection of note and other receivables	555	-	-	-	-
Capital expenditures	(49)	(64)	(45)	(45)	(45)
Net cash (used in) provided by investing	(1,699)	(5,115)	(45)	(45)	(45)
(Repayments) borrowings from line of credit	(340)	(594)	459	500	(500)
Proceeds from issuance of debt	4,000	4,033	1,000	1,000	1,000
Cash received in reverse capitalization	1,985	1,500	-	-	-
Borrowing under long-term debt	-	-	-	-	-
Repayment of debt	(1,000)	(1,393)	(2,082)	(1,000)	(1,000)
Proceeds from exercise of employee stock options	-	-	-	-	-
Issuance of convertible preferred stock	-	7,042	4,090	-	-
Paid preferred stock financing costs	-	(1,020)	(597)	-	-
Redemption of convertible preferred stock	-	(4,529)	-	-	-
Issuance of common stock	-	-	403	500	-
Purchase of treasury stock	(250)	-	-	-	-
Paid financing costs	(109)	(270)	(119)	-	-
Holding share liability	(4)	-	-	-	-
Warrants classified as liability	-	-	1,099	-	-
Dividends paid	(90)	(651)	(423)	(840)	(840)
Net Cash Provided by (Used in) Financing	4,192	4,118	3,830	160	(1,340)
Foreign currency translation	-	15	(14)	-	-
Net Change in Cash	51	737	(462)	65	(80)
Cash - Beginning of Period	315	366	1,103	641	706
Cash - End of Period	366	1,103	641	706	627

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



■ 47.83 % Buy ■ 27.54 % Hold ■ 20.29 % Not Rated ■ 4.35 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	7
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 54,500 shares of DPSI convertible preferred stock, 155,526 shares of DPSI restricted 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 restricted 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. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and Director of DecisionPoint Systems, Inc. owns or has a controlling interest in 96,338 shares of DPSI convertible preferred stock and 247,450 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 4,000 shares of DPSI convertible preferred stock and 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

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:

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.

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.