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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 17, 2015

DPSI $0.37 — (OTC BB)

	2013A	2014A	2015E	2016E
Revenues (millions)	$60.7	$64.5	$67.2	$68.2
Earnings (loss) per share	($0.80)	($0.07)	($0.04)	($0.04)

52-Week range	$0.58 – $0.26	Fiscal year ends:	December
Common shares out as of 3/6/15	12.7 million	Revenue per share (TTM)	$5.22
Approximate float	7.7 million	Price/Sales (TTM)	0.1X
Market capitalization	$5 million	Price/Sales (FY2016)E	0.1X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2016)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 as we believe shares are adequately valued at the current price.

Global enterprise mobility, DPSI's target market, is projected to grow at a CAGR of 27% through 2019 (MarketsandMarkets). A key driver of this growth is the emergence of the mobile user workforce. Employees are using their own devices such as smart phones, tablets and laptop, to be connected with the enterprise network.

In 4Q and FY2014, revenue was driven by increased hardware sales of 29% and 12%, respectively, to large retailers.

By successfully controlling costs, DecisionPoint was able to significantly improve its bottom line and achieve profitability in 4Q14.

We project 2015 revenue will increase 4% to $67.2 million, due to expansion of DPSI's customer base. Our net loss projection of ($0.04) per share has narrowed from a previously estimated loss ($0.10) per share primarily to cost reductions (consolidations and reduced staffing levels).

We project 2016 revenue will increase 2% to $68.2 million driven by increased hardware sales. Our revenue growth projection is lower that industry projections as we believe competition is intensifying. We project a net loss of ($0.04) per share.

DecisionPoint reported (March 19, 2015) 4Q14 revenue increased 17% to $17.2 million. EPS was $0.03 versus a loss of ($0.32) per share in 4Q13. We projected 4Q14 sales of $15 million and EPS of $0.01. We do not believe the current revenue growth rate is sustainable as revenue growth has historically been erratic on a quarterly basis.

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

Recommendation and Valuation

We are reiterating our **Neutral** rating on DecisionPoint Systems, Inc. (DPSI) as we believe shares are adequately valued at the current price.

DPSI currently trades at a multiple of 0.21X TTM sales on a fully diluted basis of 36 million shares. A comparison group of 31 business software and services companies with market values of up to $100 million are trading at an average price to sales multiple of 2.5X. We believe the discount in DPSI's valuation relative to the comparison group's is due to the company's slow revenue growth relative to the industry (average annual growth of 6% for DPSI over the past five years versus 14% for the industry). Applying the current multiple of 0.21X sales to our fiscal 2016 sales of $1.89 per share (on a fully diluted basis), values the stock at approximately $0.40 per share.

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.

Hardware Suppliers	Software Suppliers
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.

Strategy

DecisionPoint aims to grow sales by differentiating itself from low-price, discount hardware only sellers by positioning itself as a value-added provider offering its software and services bundled with hardware. The company also aims to effectively compete in a highly competitive systems integration market by partnering with other system integrators to make available its portfolio of services, applications and devices.

The company plans to grow its business by addressing the mobile application needs of customers in the retail, manufacturing, transportation, warehousing, distribution, logistics and other market segments. DecisionPoint continues to invest in building out its capabilities to support these markets and business needs. 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.

The company also aims to extend its mobile device management services from its historical ruggedized mobile computing customer base to supporting the growing use of consumer devices (Bring Your Own Device "BYOD") by clients.

Products and Services

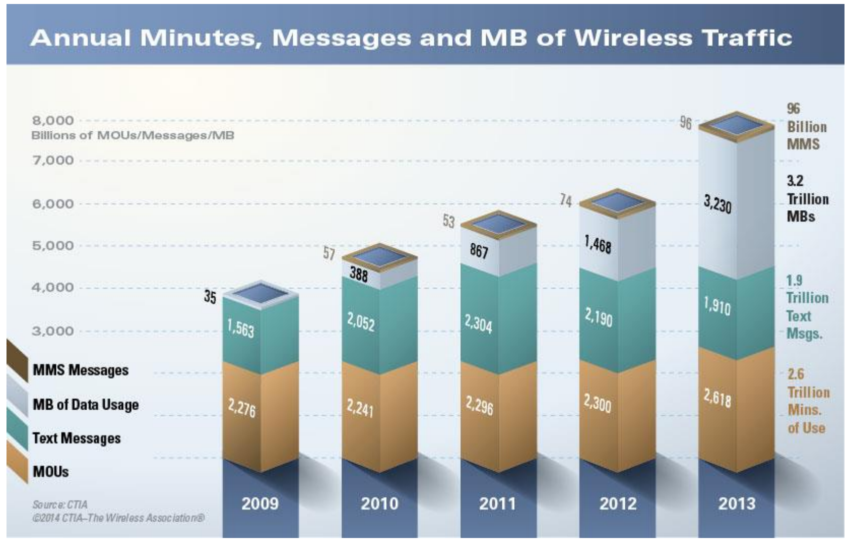
Mobile Applications	*Retail Store*: Stock locator, shelf price marking, markdowns, inventory control, physical inventory, merchandising, customer service and mobile point-of-sale ("POS").
	Warehousing and Distribution: Order shipping, order picking and packing, stock movement and replenishments, product receipt and put-away, labeling, physical inventory and cycle counts.
	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	*APEXWare Field Service*: Field deployment of wireless handheld devices with integrated bar code scanners.
	APEXWare Merchandising, Sales and Delivery: Automates and streamlines merchandising, sales and delivery business functions.
	APEXWare Warehouse Management System: Transforms current warehouse operations to a paperless, real-time operation.
	Reseller of independent software vendor applications tailored to meet customers' specific needs.
	DecisionPoint provides in-house 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

The latest report[1] on the enterprise mobility market by research firm MarketsandMarkets projects the global bring-your-own-device (BYOD) and enterprise mobility market to grow from $72.3 billion in 2014 to $284.7 billion by 2019, a 27% compound annual growth rate. 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.

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.

[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).*



In the Wireless Industry Association (CTIA)'s 2014 Annual Wireless Industry Survey, it was reported that US mobile data usage more than doubled to 3.2 trillion megabytes (MB) of data in 2013 from the previous year (see chart at right). Projections are for data usage to increase eight times the 2013 number by 2018. Driving this increase in data usage is the prevalence of smartphones and tablets in the US. The number of smartphones more than doubled in the US over the last three years – from 78 million in 2010 to 175 million in 2013. Tablets have grown 86% in the US between 2010 (13.5 million) and 2013 (25.2 million). Many Americans now have two or more devices (such as a smart phone or tablet) with a wireless plan. According to CTIA's latest statistics (June 2014), there are over 335 million wireless subscriber connections for 322.7 million people living in the US for a wireless penetration rate of 104%.

Although market projections are for strong growth, the company has not been realizing the market potential as evidenced by DPSI's modest 6% year-to-date growth. We believe this is due to the highly competitive environment the company operates in. We believe competition has increased due to the relatively low barriers to entry and low start-up costs associated with this business.

Helping to offset increasing competition is the outlook for an improving economy. In April 2015, the International Monetary Fund (IMF) lowered its economic growth estimate for the US to 3.1% for 2015 and 2016, down from 3.6% in 2015 (January 2015) and 3.3% in 2016. The IMF said that US growth should be driven by domestic demand supported by low oil prices. In March 2015, the US GDP third estimate showed the US economy grew at an annual rate of 2.2% in 4Q14. For all of 2014, the US economy grew at a rate of 2.4%, in line with the latest figures from the IMF.

As the company offers it 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.

Competition

DecisionPoint says that it continues to experience greater competitive forces within its market. The company said that large system integrators were seeking to move further into the segment in which DPSI competes. We believe the increase in competition is primarily due to a growing market with relatively low barriers to entry and low start-up costs. While we do not have any statistics on the number of enterprises currently active in this area, in April 2015, market research firm Technavio said that a number of new players are trying to enter the largely untapped market with reduced prices.

In an effort to compete more effectively, DecisionPoint attempts to differentiate itself from low-price, discount hardware only sellers by positioning itself as a value-added provider offering its software and services bundled with hardware. The company also aims to grow in the highly competitive systems integration market by partnering with other system integrators to make available its portfolio of services, applications and devices.

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.

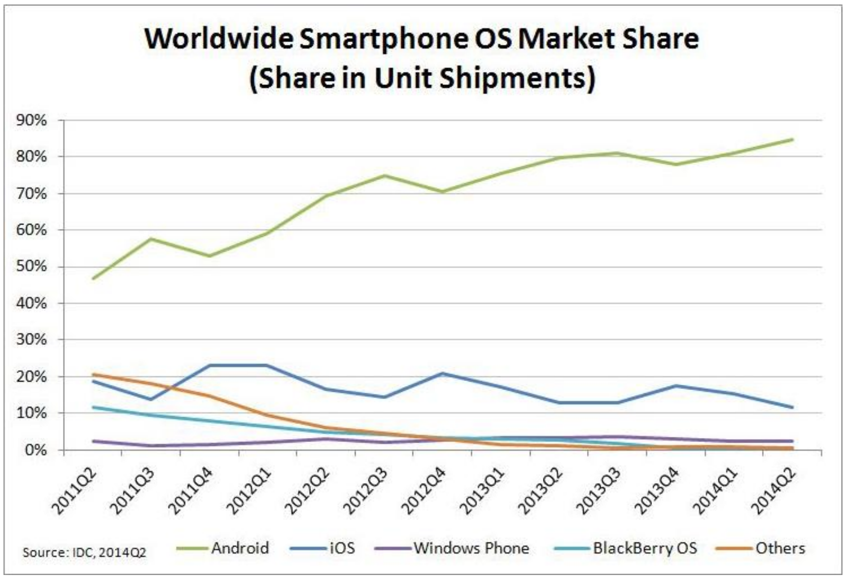
The following companies are among the primary competitors in the VAR and SI spaces:

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.
Tolt Solutions, Inc.	A provider of custom IT solutions including retail point-of-sale, self-service and wireless mobility development.
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.

Projections

In 2H13 DPSI added the Android and Apple operating systems to its family of APEXWare offerings. The addressable market for APEXWare software applications from these additional operating systems has expanded from just 3% of the market (using Microsoft's Windows mobile operating system), to approximately 99% with the addition of the Android and Apple iOS operating systems (see chart at right). However, as software and services revenue stayed relatively flat in 2014 and the company said that APEXWare revenue has also remained relatively flat over 2014, we have reduced our expectations for this segment in our forecast horizon. The projected effect on DPSI's revenue mix is shown in the table (at top right on page 6).



DPSI's hardware sales grew by approximately 12% in 2014, approximately half the average sales growth rate of the manufacturers that DPSI resells products for. We believe the disparity is due to the highly competitive market the company operates in. Sales projections for the hardware manufacturers that the company resells products for are for average growth of approximately 11% in 2015 and 4% in 2016. Due to the high level of competition the company faces, we are projecting DPSI's hardware sales will grow by 6% in 2015 and 2% in 2016. We project flat software and services sales for the next two years. Our projected revenue mix will yield flat gross margins in 2015 and 2016.

Revenue/Cost of Sales Model (in thousands $)

	2013A	2014A	2015E	2016E
Hardware and other sales	39,600	44,000	46,600	47,600
Software & services sales	21,100	20,600	20,600	20,600
Net sales	60,700	64,600	67,200	68,200
Cost of hardware and other sales	32,200	35,700	37,793	38,604
Cost of software & services sales	15,800	14,700	14,708	14,708
Cost of sales	48,000	50,400	52,501	53,312
Gross profit	12,700	14,200	14,699	14,888
Hardware and other gross margin	18.7%	18.9%	18.9%	18.9%
Software & services gross margin	25.1%	28.6%	28.6%	28.6%
Total gross margin	21.0%	22.0%	21.9%	21.8%

Source: Company filings and Taglich Brothers' estimates

We believe competition has increased due to the relatively low barriers to entry and low start-up costs associated with this business. We believe the company's greatest competition lies in its software and services segment as this segment has seen relatively flat sales over the past year (large orders that were realized in 2013 were not recognized at similar levels in 2014).

2015 - We project revenue will increase 4% to $67.2 million and net loss to common of $461,000 or ($0.04) per share. Our revenue projection has increased from $65.6 million previously due primarily to increased hardware sales projections (discussed above). Our net loss to common projection of $461,000 or ($0.04) per share has narrowed from a loss of $1.3 million or ($0.10) per share previously due primarily to lower SG&A expenses stemming from reduced staffing levels.

2015 gross margins are projected at 21.9% versus 22% in 2014 as sales of lower margin hardware sales make up a greater percentage of total revenue (69% in 2015 versus 68% in 2014). SG&A expenses should decrease to $13.2 million from $13.3 million due primarily to a full year of reduced staff levels. We project SG&A expense margins of 19.6% in 2015. DecisionPoint's operating profit should increase to $1.5 million or 2.2% of sales in 2015 from $929,000 or 1.4% of sales in 2014. Interest expense is projected at $800,000. We project no taxes due to the company's large net operating loss carryforwards of $17.6 million that expire in varying amounts through 2033.

We project $2.4 million cash provided by operations mainly from cash earnings. Cash provided by operations will not cover capital expenditures, $2.2 million in debt repayments, and $750,000 in dividend payments (this amount differs from the amount realized on the income statement primarily due to accruals), decreasing cash by $593,000 to $1 million at December 31, 2015.

2016 - We project revenue will increase 2% to $68.2 million and a net loss to common of $472,000 or ($0.04) per share. 2016 gross margins are projected at 21.8% versus 21.9% in 2015 as sales of lower margin hardware sales make up a greater percentage of total revenue (70% in 2015 versus 69% in 2015). SG&A expenses should increase to $13.4 million from $13.2 million as the company focuses on controlling costs. We project SG&A expense margins of 19.6% in 2016. DecisionPoint's operating profit should remain flat at $1.5 million or 2.2% of sales. Interest expense is projected at $800,000. We project no taxes due to the company's large net operating loss carryforwards.

We project $1.6 million cash provided by operations mainly from cash earnings. Cash provided by operations, largely offset by capital expenditures, $700,000 in debt repayments, and $750,000 in dividend payments (this amount differs from the amount realized on the income statement primarily due to accruals), will increase cash by $42,000 to $1.1 million at December 31, 2015.

4Q and FY2014 Financial Results

4Q14 - Revenue increased 17% to $17.2 million primarily due to increased hardware sales as several large retail customers placed significant orders. Hardware sales increased 29% to $11.9 million while software and service sales increased 2% to $5 million. Other revenue (consumables) decreased 40% to $300,000. Net income to common shareholders was $881,000 or $0.03 per share versus a net loss to common shareholders of $3.8 million or ($0.32) per share. Net income in 4Q14 included a $716,000 or ($0.02) per share tax benefit. We projected 4Q14 sales of $15 million and net income of $395,000 or $0.01 per share.

Gross margins increased to 22.1% from 19.7% due primarily to a focus on controlling costs for the products and services DPSI resells. SG&A expenses decreased to $3.2 million from $4.4 million as the company reduced its overall workforce. Interest expense decreased to $209,000 from $236,000 as a result of decreased debt levels.

FY2014 - Revenue increased 6% to $64.5 million primarily due increased hardware sales driven by large orders from retailers. Hardware sales increased 12% to $42.6 million while software and service sales fell 2% to $20.6 million. Other revenue (consumables) decreased 13% to $1.4 million. The net loss to common shareholders was $817,000 or ($0.07) per share versus a net loss to common shareholders of $7.8 million or ($0.80) per share.

Gross margins increased to 22% from 21% due primarily to a focus on controlling costs for the products and services DPSI resells. SG&A expenses decreased to $13.3 million from $18.3 million as the company reduced its overall workforce. Interest expense decreased to $867,000 from $959,000 as a result of decreased debt levels.

Liquidity - As of December 31, 2014, current liabilities exceeded current assets by $7.9 million and the company's current ratio was 0.7X versus 1.2X for the business services industry. By our forecasts, the company should have sufficient capital to fund operations for the next twelve months.

Cash provided by operations in 2014 was $1.2 million consisting of cash earnings of $2.1 million and an $804,000 increase in working capital. The increase in working capital was primarily due to an increase in accounts receivable and inventory, and a decrease in unearned revenue, offset in part by a decrease in deferred costs. Cash provided by operations covered capital expenditures, debt repayments and dividends, increasing cash by $975,000 to $1.6 million at December 31, 2014.

The company has a $10 million line of credit and term loans extended by Silicon Valley Bank. As of December 31, 2014 the outstanding balances were $5.8 million on the line of credit and $389,000 on the term loans. The line of credit is due February 2017, carries an interest rate of 6.5% and had an available balance of $2.2 million as of December 31, 2014. The term loans mature in March 2016 and carry an interest rate of 7.5%. As of December 31, 2014, the company was in compliance with the covenants of the Silicon Valley Bank line of credit and term loan.

DecisionPoint also has a $358,000 term loan with Royal Bank of Canada (RBC) and a $1.5 million term loan with BDC Capital. The RBC loan matures June 2015, is secured by the assets of Apex (acquired June 2012) and carries an interest rate of 7%. The BDC loan matures June 2016 and carries an interest rate of 12.5%. As of December 31, 2014, the company was in compliance with the covenants of the BDC and RBC term loans.

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.

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.

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.

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 21% of its revenue from three customers in 2014. 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 7.7 million shares in the float and the average daily volume is approximately 7,500 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.

Consolidated Balance Sheets
(in thousands $)

	2012A	2013A	2014A	2015E	2016E
Cash	1,103	641	1,616	1,023	1,065
Accounts receivable	12,287	10,504	11,497	11,970	12,148
Due from related party	202	188	-	-	-
Inventory	811	1,533	2,035	2,121	2,154
Deferred costs	3,955	3,809	3,177	3,177	3,177
Deferred tax assets	48	49	21	21	21
Prepaid expenses and other	302	188	81	81	81
Total current assets	18,708	16,912	18,427	18,393	18,646
Net property and equipment	179	136	145	156	164
Intangible assets	6,023	3,907	2,045	896	600
Goodwill	8,571	8,395	8,202	8,202	8,202
Deferred costs	2,124	1,807	1,314	1,314	1,314
Other assets	205	165	124	124	124
Total assets	**35,810**	**31,322**	**30,257**	**29,085**	**29,050**
Accounts payable	11,080	9,774	10,000	10,423	10,584
Accrued expenses and other	2,895	2,804	2,755	2,868	2,911
Line of credit	3,430	3,883	5,811	5,211	4,511
Current portion of debt	1,800	1,474	813	813	813
Due to related parties	1	77	73	73	73
Accrued earn out consideration	1,186	319	-	-	-
Unearned revenue	7,409	7,481	6,918	6,918	6,918
Total current liabilities	27,801	25,812	26,370	26,306	25,810
Unearned revenue	2,883	2,481	2,015	2,015	2,015
Long-term debt	2,922	1,961	1,580	-	-
Accrued earn out consideration	159	149	-	-	-
Deferred tax liabilities	1,078	740	460	460	460
Warrant liability	-	803	519	519	519
Other long-term liabilities	80	249	61	61	61
Total liabilities	**34,923**	**32,195**	**31,170**	**29,361**	**28,865**
Preferred stock*	7,370	12,193	12,822	13,451	14,080
Common stockholders' equity (deficit)	(6,483)	(13,066)	(13,735)	(13,727)	(13,895)
Total stockholders' equity (deficit)	**887**	**(873)**	**(913)**	**(276)**	**185**
Total liabilities & stockholders' equity	**35,810**	**31,322**	**30,257**	**29,085**	**29,050**

* Includes accrued dividends of $0.6 million in 2015 and 2016
Source: Company filings and Taglich Brothers' estimates

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

	2012A	2013A	2014A	2015E	2016E
Net sales	71,501	60,692	64,547	67,200	68,200
Cost of sales	56,458	47,965	50,372	52,501	53,312
Gross profit	15,043	12,727	14,175	14,699	14,888
Adjustment to earn-out obligations	-	(820)	(86)	-	-
SG&A	18,152	18,338	13,332	13,200	13,400
Operating income (loss)	(3,109)	(4,791)	929	1,499	1,488
Interest expense	998	959	867	600	600
Adjustment of warrant liabilities		-	(285)	-	-
Other (income) expense	(116)	(333)	19	-	-
Income (loss) before taxes	(3,991)	(5,417)	328	899	888
Income taxes / (benefit)	(125)	(199)	(197)	-	-
Net Income / (Loss)	(3,866)	(5,218)	525	899	888
Imputed conversion of pref. stock	-	(1,343)	-	-	-
Dividends	(954)	(1,240)	(1,336)	(1,360)	(1,360)
Net income (loss) to common	(4,820)	(7,801)	(811)	(461)	(472)
EPS	(0.61)	(0.80)	(0.07)	(0.04)	(0.04)
Shares Outstanding	7,901	9,803	12,356	12,850	13,250
Margin Analysis					
Gross margin	21.0%	21.0%	22.0%	21.9%	21.8%
SG&A	25.4%	30.2%	20.7%	19.6%	19.6%
Operating margin	(4.3)%	(7.9)%	1.4%	2.2%	2.2%
Pretax margin	(5.6)%	(8.9)%	0.5%	1.3%	1.3%
Tax rate	3.1%	3.7%	-60.1%	0.0%	0.0%
Year / Year Growth					
Total Revenues	22.5%	-15.1%	6.4%	4.1%	1.5%
Net Income	NMF	NMF	NMF	NMF	NMF
EPS	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2014A -2016E
(in thousands $)

	3/14A	6/14A	9/14A	12/14A	2014A	3/15E	6/15E	9/15E	12/15E	2015E	3/16E	6/16E	9/16E	12/16E	2016E
Net sales	16,709	16,514	14,143	17,181	64,547	16,650	16,750	16,850	16,950	67,200	16,900	17,000	17,100	17,200	68,200
Cost of sales	13,135	12,731	11,123	13,383	50,372	13,008	13,086	13,164	13,243	52,501	13,211	13,289	13,367	13,445	53,312
Gross profit	3,574	3,783	3,020	3,798	14,175	3,642	3,664	3,686	3,707	14,699	3,689	3,711	3,733	3,755	14,888
Adjustment to earn-out obligations	-	-	-	(86)	(86)	-	-	-	-	-	-	-	-	-	-
SG&A	3,717	3,417	3,028	3,170	13,332	3,300	3,300	3,300	3,300	13,200	3,350	3,350	3,350	3,350	13,400
Operating income (loss)	(143)	366	(8)	714	929	342	364	386	407	1,499	339	361	383	405	1,488
Interest expense	207	222	229	209	867	150	150	150	150	600	150	150	150	150	600
Adjustment of warrant liabilities	(251)	84	(88)	(30)	(285)	-	-	-	-	-	-	-	-	-	-
Other (income) expense	(8)	(21)	17	31	19	-	-	-	-	-	-	-	-	-	-
Income (loss) before taxes	(91)	81	(166)	504	328	192	214	236	257	899	189	211	233	255	888
Income taxes / (benefit)	22	100	397	(716)	(197)	-	-	-	-	-	-	-	-	-	-
Net Income / (Loss)	(113)	(19)	(563)	1,220	525	192	214	236	257	899	189	211	233	255	888
Imputed conversion of pref. stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	(329)	(334)	(334)	(339)	(1,336)	(340)	(340)	(340)	(340)	(1,360)	(340)	(340)	(340)	(340)	(1,360)
Net income (loss) to common	(442)	(353)	(897)	881	(811)	(148)	(126)	(104)	(83)	(461)	(151)	(129)	(107)	(85)	(472)
EPS	(0.04)	(0.03)	(0.07)	0.03	(0.07)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)
Shares Outstanding	12,314	12,342	12,370	31,422	12,356	12,700	12,800	12,900	13,000	12,850	13,100	13,200	13,300	13,400	13,250
Margin Analysis															
Gross margin	21.4%	22.9%	21.4%	22.1%	22.0%	21.9%	21.9%	21.9%	21.9%	21.9%	21.8%	21.8%	21.8%	21.8%	21.8%
SG&A	22.2%	20.7%	21.4%	18.5%	20.7%	19.8%	19.7%	19.6%	19.5%	19.6%	19.8%	19.7%	19.6%	19.5%	19.6%
Operating margin	-0.9%	2.2%	-0.1%	4.2%	1.4%	2.1%	2.2%	2.3%	2.4%	2.2%	2.0%	2.1%	2.2%	2.4%	2.2%
Pretax margin	(0.5)%	0.5%	(1.2)%	2.9%	0.5%	1.2%	1.3%	1.4%	1.5%	1.3%	1.1%	1.2%	1.4%	1.5%	1.3%
Tax rate	-24.2%	123.5%	-239.2%	-142.1%	-60.1%	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	21.3%	12.2%	-19.5%	17.5%	6.4%	-0.4%	1.4%	19.1%	-1.3%	4.1%	1.5%	1.5%	1.5%	1.5%	1.5%
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

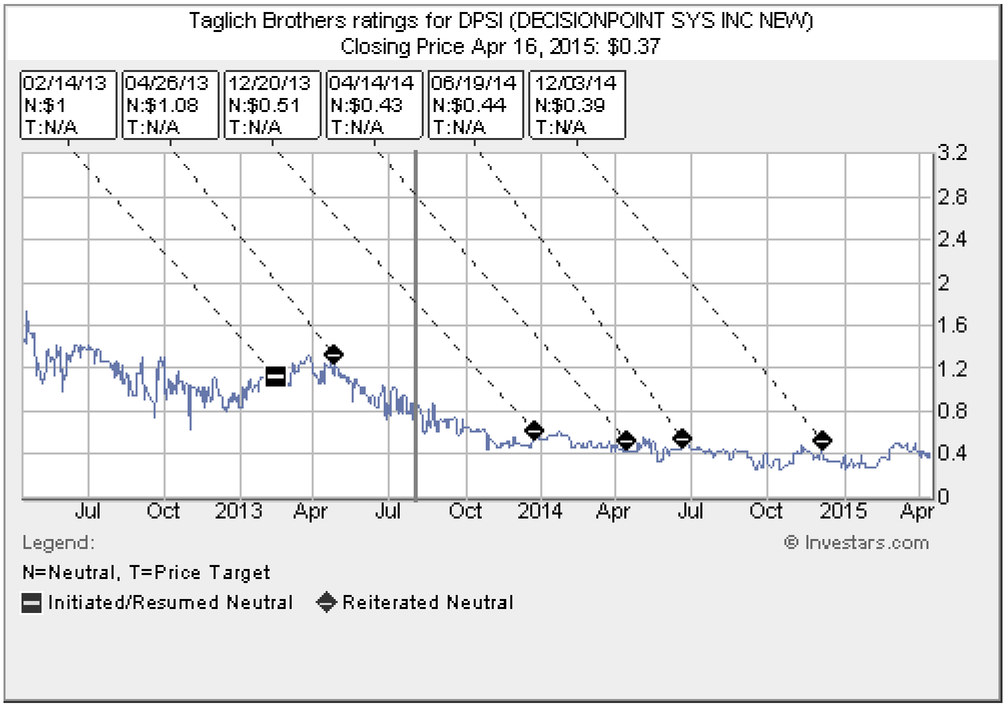
DecisionPoint Systems, Inc.

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

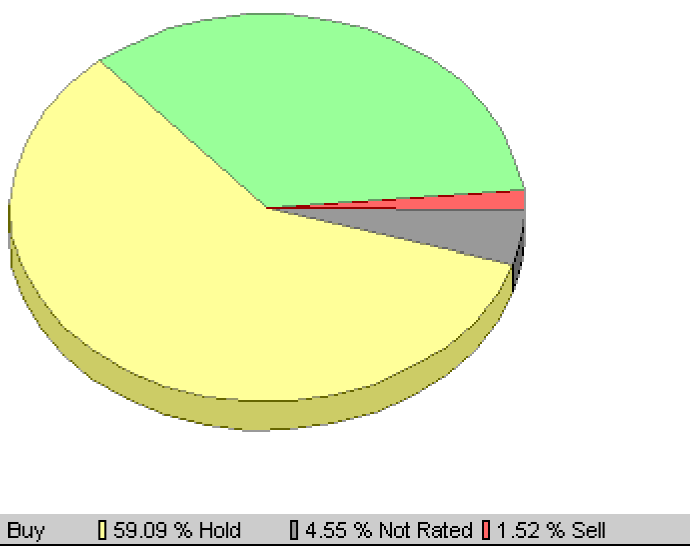
	2012A	2013A	2014A	2015E	2016E
Net income (loss)	(3,866)	(5,218)	524	899	888
Depreciation & amortization	1,510	1,967	1,754	1,198	348
Amortization of deferred financing costs	183	181	153	153	153
Employee stock-based compensation	52	76	119	120	120
Non-employee stock-based compensation	514	-	-	-	-
Loss on disposal of property and equipment	-	13	5	-	-
Acquisition earn-out adjustment	-	(820)	-	-	-
Change in fair value of warrants	-	(296)	(284)	-	-
ESOP compensation expense	132	138	47	50	50
Allowance for doubful accounts	108	142	(46)	-	-
Other income related to collection of note receivable	-	-	-	-	-
Deferred taxes	(256)	(270)	(197)	-	-
Cash earnings (loss)	(1,623)	(4,087)	2,075	2,420	1,559
Changes in assets and liabilities					
Accounts receivable	1,801	1,615	(976)	(473)	(178)
Due from related party	147	-	181	-	-
Inventory	(98)	(723)	(502)	(86)	(33)
Deferred costs	(810)	462	1,123	-	-
Prepaid expenses and other	182	126	106	-	-
Other assets	(37)	(18)	11	-	-
Accounts payable	946	(1,296)	314	423	161
Acrrued expenses and other	506	(104)	6	113	43
Due to related parties	-	76	(84)	-	-
Unearned revenue	705	(284)	(983)	-	-
(Increase) decrease in working capital	3,342	(146)	(804)	(23)	(7)
Net cash provided by (used in) operations	**1,719**	**(4,233)**	**1,185**	**2,397**	**1,552**
Acquisitions, net	(5,051)	-	-	-	-
Capital expenditures	(64)	(45)	(63)	(60)	(60)
Net cash (used in) provided by investing	**(5,115)**	**(45)**	**(63)**	**(60)**	**(60)**
(Repayments) borrowings from line of credit	(594)	459	1,931	(600)	(700)
Proceeds from issuance of debt	4,033	1,000	-	-	-
Cash received in reverse capitalization	1,500	-	-	-	-
Repayment of debt	(1,393)	(2,082)	(1,153)	(1,580)	-
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	-	-	-
Purchase of treasury stock	-	-	-	-	-
Paid financing costs	(270)	(119)	(100)	-	-
Warrants classified as liability	-	1,099	-	-	-
Payments for contingent acquisition liability	-	-	(84)	-	-
Dividends paid	(651)	(423)	(748)	(750)	(750)
Net Cash Provided by (Used in) Financing	**4,118**	**3,830**	**(154)**	**(2,930)**	**(1,450)**
Foreign currency translation	15	(14)	7	-	-
Net Change in Cash	**737**	**(462)**	**975**	**(593)**	**42**
Cash - Beginning of Period	**366**	**1,103**	**641**	**1,616**	**1,023**
Cash - End of Period	**1,103**	**641**	**1,616**	**1,023**	**1,065**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**2**	**8**
Hold		
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 268,232 shares of DPSI common stock, 90,526 shares of DPSI convertible preferred stock, 27,069 stock options (right to buy) and 351,343 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 155,437 shares of DPSI common stock, 20,000 shares of DPSI convertible preferred stock, and 151,344 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 5,186 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 6,185 shares of DPSI convertible preferred stock, 247,450 warrants, and 171,177 stock options (right to buy). 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 4,148 shares of DPSI convertible preferred stock and 138,713 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.