Research Report – Update

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

DecisionPoint Systems, Inc.

Neutral

John Nobile
June 19, 2014

DPSI $0.44 — (OTC BB)

	2012A	2013A	2014E	2015E
Revenues (millions)	$71.5	$60.7	$73.0	$77.0
Earnings (loss) per share	($0.61)	($0.80)	($0.09)	($0.06)

52-Week range	$1.02 – $0.26	Fiscal year ends:	December
Common shares out as of 5/2/14	12.7 million	Revenue per share (TTM)	$5.94
Approximate float	9.5 million	Price/Sales (TTM)	0.1X
Market capitalization	$6 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 $1.2 million, or ($0.09) per share, on a 20% gain in revenue to $73 million. Our net loss projection has narrowed from earlier projections of $4.9 million or ($0.40) per share due to higher revenue expectations and lower SG&A expenses.

We project a 2015 loss of $0.8 million, or ($0.06) per share, on a 6% gain in revenue to $77 million. Our increased projections (previously a 2015 loss of $3.5 million, or ($0.27) per share, on revenue of $73.7 million) are primarily due to greater hardware demand than originally anticipated.

DecisionPoint reported (May 12, 2014) 1Q14 revenue increased 21% to $16.7 million. The loss per share was ($0.04) versus ($0.27) in 1Q13. We projected 1Q13 revenue of $15.2 million and a loss per share of ($0.13).

****Please view our disclosures on pages 12 - 14.***

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 1.7X. We believe the discount in DPSI's valuation relative to the comparison group's is due to the company's falling revenues over the past year (down 15% in 2013 versus a 12% increase for the industry). However, 1Q14 revenues rebounded with growth of over 21% and we project continuing growth for the company in 2014 and 2015. 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 $2.18 per share (on a fully diluted basis of 35,375 shares), values the stock at approximately $0.45 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.

Hardware Suppliers	Software Suppliers
Apple	AirWatch
Intermec	Verifone GlobalBay Mobile Technologies
Motorola	XRS
Zebra Technologies	Wavelink
Datamax-O'Neil	

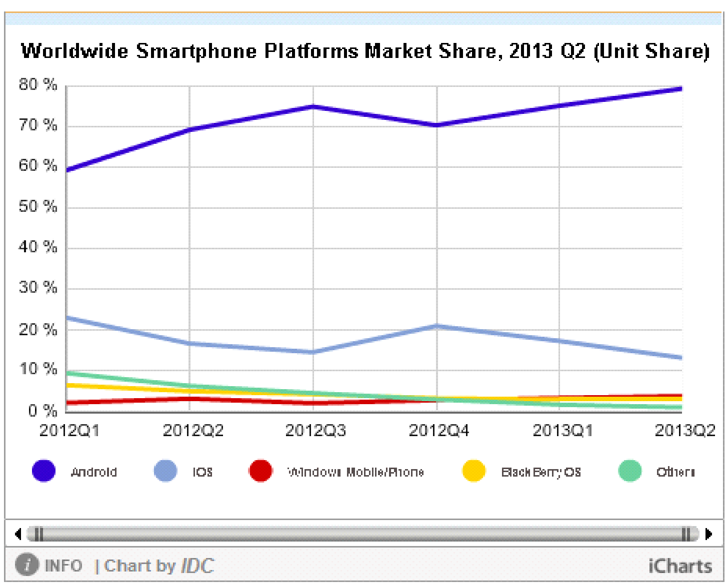
As a value added reseller (VAR) for many hardware and software suppliers (table at right), DecisionPoint offers professional services such as integration, customization and consulting with the products it offers. The bulk of the company's resold products are primarily from Motorola Solutions, Inc. DecisionPoint's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

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 and 2015 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 $1.2 million, or ($0.09) per share, on a 20% gain in revenue to $73 million. Our net loss projection has narrowed from earlier projections of $4.9 million or ($0.40) per share due to higher revenue expectations and lower SG&A expenses. Increased demand has given a boost to 1Q14 revenues and delayed vendor shipments that adversely affected 4Q13 sales are expected to boost 2014 sales by almost $2 million. Also, new large hardware orders from firms such as Lifewatch, Omnichannel, and several other major retailers, along with gains in software and services sales (discussed above), should help to drive revenue gains. The company did not disclose the exact amount of the new hardware orders except to say that they were seven figure orders. By 1Q14, DecisionPoint reduced staffing levels by 29% which is expected to cut SG&A expenses by $3 million in 2014.

Cost of Sales Model (in thousands $)

	2012A	2013A	2014E	2015E
Hardware and other sales	50,600	39,600	48,000	48,000
Software & services sales	20,900	21,100	25,000	29,000
Net sales	71,500	60,700	73,000	77,000
Cost of hardware and other sales	41,500	32,200	38,736	38,736
Cost of software & services sales	15,000	15,800	18,750	21,750
Cost of sales	56,500	48,000	57,486	60,486
Gross profit	15,000	12,700	15,514	16,514
Hardware and other gross margin	18.0%	18.7%	19.3%	19.3%
Software & services gross margin	28.2%	25.1%	25.0%	25.0%
Total gross margin	21.0%	21.0%	21.3%	21.4%

Source: Company filings and Taglich Brothers' estimates

2014 gross margins are projected to improve to 21.3% versus 21% in 2013 as the company continues to control costs (i.e. consolidation of East Coast facility into larger California facility). SG&A expenses should decrease to $15.3 million from $18.3 million due to the cost cutting efforts described above. We project SG&A expense margins will lower to 20.9% in 2014 from 30.2% in 2013. DecisionPoint should realize an operating profit of $259,000 or 0.4% of sales versus an operating loss of $4.8 million or 7.9% of sales in 2013. Interest expense is projected at $0.8 million. We project virtually no taxes.

We project $2.5 million cash provided by operations in 2014 mainly from cash earnings. Cash from operations, partly offset by capital expenditures and $1 million in debt repayment, will increase cash by $0.7 million to $1.3 million at December 31, 2014.

We project a 2015 loss of $0.8 million, or ($0.06) per share, on a 6% gain in revenue to $77 million. Our increased projections (previously a 2015 loss of $3.5 million, or ($0.27) per share, on revenue of $73.7 million) are primarily due to greater hardware demand than originally anticipated.

2015 gross margins are projected at 21.4% versus 21.3% in 2014 as sales of higher margin software and services make up a greater percentage of total revenue (38% in 2015 versus 34% in 2014). SG&A expenses should increase modestly to $15.8 million from $15.3 million as the company continues to keep a close watch on expenses. We project SG&A expense margins will lower to 20.5% in 2015 from 20.9% in 2014. DecisionPoint's operating profit should increase to $0.7 million or 0.9% of sales in 2015 from $259,000 or 0.4% of sales in 2014. Interest expense is projected at $0.8 million. We project no taxes.

We project $3.1 million cash provided by operations mainly from cash earnings. Cash provided by operations, largely offset by capital expenditures and $2 million in debt repayments, increasing cash by $0.5 million to $1.8 million at December 31, 2015.

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.
	ContentSentral: 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

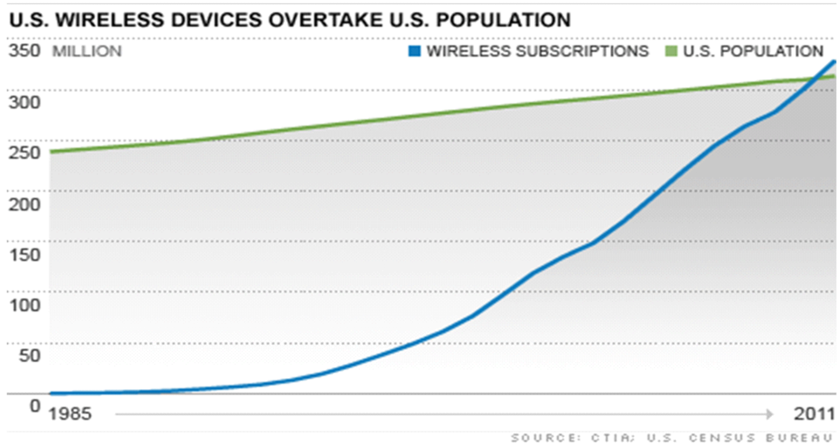
An April 2014 report[1] by research firm MarketsandMarkets projects the global bring-your-own-device (BYOD) and enterprise mobility market to grow from $72.3 billion in 2013 to $284.7 billion by 2019 for a compound annual growth rate of approximately 27%. Some of the key drivers of this growth are the emergence of the mobile user workforce, reduced hardware costs for enterprises, and an increase in smart phone penetration.

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).*

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 CTIA's November 2013 statistics, 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 $101 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 June 2014, The IMF lowered its 2014 economic growth estimate for the US to 2.0%, down from its April 2014 estimate of 2.8%. The IMF's growth estimate for 2015 remained unchanged at 3.0%. The IMF said that a brutal winter and slowing housing recovery caused the economy to shrink in 1Q14. However, the IMF said that recent figures suggest a meaningful rebound will propel US economic growth for the rest of 2014. Some of the factors helping to drive US growth will come from accommodative monetary conditions and higher household wealth.

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.

1Q14 Financial Results

Revenue increased 21% to $16.7 million primarily due increased hardware sales driven by large orders from retail customers and an expanded customer base. Hardware sales increased 38% to $11.5 million while software and service sales fell 4% to $4.8 million. Other revenue (consumables) fell 8% to $400,000. The net loss to common shareholders was $442,000 or ($0.04) per share versus a net loss to common shareholders of $2.3 million or ($0.27) per share. We projected 1Q14 revenue of $15.2 million and a net loss to common shareholders of $1 million or $(0.13) per share.

Gross margins increased to 21.4% from 20.5% as the company continues with cost controls (i.e. reduced professional service personnel). SG&A expenses decreased to $3.7 million from $5 million as the company reduced its overall workforce. Interest expense decreased to $207,000 from $226,000 as a result of decreased debt levels.

Liquidity

As of March 31, 2014, current liabilities exceeded current assets by $9.8 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 provided by operations in the first three months of 2014 was $0.6 million consisting of cash earnings of $170,000 and a $390,000 decrease in working capital. The decrease in working capital was primarily due to a decrease in accounts receivable offset in part by a decrease in accounts payable. Cash provided by operations covered capital expenditures and debt repayments leaving cash virtually unchanged at $0.6 million at March 31, 2014.

The company has a $10 million line of credit and term loans extended by Silicon Valley Bank. As of March 31, 2014 the outstanding balances were $3.7 million on the line of credit and $0.6 million on the term loans. The line of credit carries an interest rate of 7% and had an available balance of $2.8 million as of March 31, 2014. The term loans mature in March 2016 and carry an interest rate of 7.5%. As of March 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 $0.9 million term loan with Royal Bank of Canada (RBC) and a $1.5 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 March 31, 2014, 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.

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 51,000 shares.

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

Consolidated Balance Sheets
(in thousands $)

	2011A	2012A	2013A	3/13A	2014E	2015E
Cash	366	1,103	641	612	1,337	1,802
Accounts receivable	15,393	12,287	10,504	9,581	12,636	13,326
Due from related party	-	202	188	182	182	182
Inventory	706	811	1,533	1,487	1,837	1,933
Deferred costs	3,469	3,955	3,809	3,984	3,984	3,984
Deferred tax assets	-	48	49	47	47	47
Prepaid expenses and other	408	302	188	263	263	263
Total current assets	20,342	18,708	16,912	16,156	20,286	21,537
Net property and equipment	99	179	136	141	158	184
Intangible assets	2,214	6,023	3,907	3,391	2,314	957
Goodwill	5,539	8,571	8,395	8,315	8,315	8,315
Deferred costs	1,800	2,124	1,807	1,682	1,682	1,682
Other assets	175	205	165	156	156	156
Total assets	**30,169**	**35,810**	**31,322**	**29,841**	**32,911**	**32,831**
Accounts payable	8,947	11,080	9,774	9,302	11,713	12,327
Accrued expenses and other	2,505	2,895	2,976	3,095	3,580	3,776
Line of credit	4,024	3,430	3,883	3,701	3,701	2,201
Current portion of debt	1,000	1,800	1,474	1,252	1,252	1,252
Due to related parties	872	1	77	149	149	149
Accrued earn out consideration	-	1,186	319	308	308	308
Warrant liability	-	-	803	552	552	552
Unearned revenue	6,756	7,409	7,481	7,614	7,614	7,614
Total current liabilities	24,104	27,801	26,787	25,973	28,869	28,178
Unearned revenue	2,509	2,883	2,481	2,337	2,337	2,337
Long-term debt	970	2,922	1,961	1,829	961	461
Accrued earn out consideration	-	159	149	144	144	144
Deferred tax liabilities	18	1,078	740	718	718	718
Other long-term liabilities	60	80	77	73	73	73
Total liabilities	**27,661**	**34,923**	**32,195**	**31,074**	**33,102**	**31,911**
Preferred stock*	6,320	7,370	12,193	12,276	13,801	15,409
Common stockholders' equity (deficit)	(3,812)	(6,483)	(13,066)	(13,509)	(13,163)	(12,890)
Total stockholders' equity (deficit)	**2,508**	**887**	**(873)**	**(1,233)**	**638**	**2,519**
Total liabilities & stockholders' equity	**30,169**	**35,810**	**31,322**	**29,841**	**33,741**	**34,430**

* Includes accrued dividends of $1.6 million in 2014 and 2015
Source: Company filings and Taglich Brothers' estimates

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

	2011A	2012A	2013A	2014E	2015E
Net sales	58,359	71,501	60,692	73,009	77,000
Cost of sales	46,368	56,458	47,965	57,483	60,491
Gross profit	11,991	15,043	12,727	15,526	16,509
Adjustment to earn-out obligations		-	(820)	-	-
SG&A	13,597	18,152	18,338	15,267	15,800
Operating income (loss)	(1,606)	(3,109)	(4,791)	259	709
Interest expense	1,160	998	959	807	800
Other (income) expense	2,302	(116)	(333)	(709)	(600)
Income (loss) before taxes	(5,068)	(3,991)	(5,417)	161	509
Income taxes / (benefit)	100	(125)	(199)	22	-
Net Income / (Loss)	(5,168)	(3,866)	(5,218)	139	509
Imputed conversion of pref. stock	-	-	(1,343)	-	-
Dividends	(486)	(954)	(1,240)	(1,319)	(1,320)
Net income (loss) to common	(5,654)	(4,820)	(7,801)	(1,180)	(811)
EPS	(0.94)	(0.61)	(0.80)	(0.09)	(0.06)
Shares Outstanding	6,020	7,901	9,803	12,679	13,150
Margin Analysis					
Gross margin	20.5%	21.0%	21.0%	21.3%	21.4%
SG&A	23.3%	25.4%	30.2%	20.9%	20.5%
Operating margin	(2.8)%	(4.3)%	(7.9)%	0.4%	0.9%
Pretax margin	(8.7)%	(5.6)%	(8.9)%	0.2%	0.7%
Tax rate	(2.0)%	3.1%	3.7%	13.6%	0.0%
Year / Year Growth					
Total Revenues	3.8%	22.5%	-15.1%	20.3%	5.5%
Net Income	NMF	NMF	NMF	NMF	NMF
EPS	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

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

	3/13A	6/13A	9/13A	12/13A	2013A	3/14A	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	16,709	17,800	19,500	19,000	73,009	18,500	19,000	20,000	19,500	77,000
Cost of sales	10,948	11,155	14,113	11,749	47,965	13,135	14,021	15,360	14,966	57,483	14,534	14,926	15,712	15,319	60,491
Gross profit	2,824	3,566	3,462	2,876	12,727	3,574	3,779	4,140	4,034	15,526	3,966	4,074	4,288	4,181	16,509
Adjustment to earn-out obligations	-	-	(820)	-	(820)	-	-	-	-	-	-	-	-	-	-
SG&A	5,033	4,464	4,485	4,357	18,338	3,717	3,800	3,850	3,900	15,267	3,950	3,950	3,950	3,950	15,800
Operating income (loss)	(2,209)	(898)	(203)	(1,481)	(4,791)	(143)	(21)	290	134	259	16	124	338	231	709
Interest expense	226	256	241	236	959	207	200	200	200	807	200	200	200	200	800
Other (income) expense	(6)	(8)	(168)	(151)	(333)	(259)	(150)	(150)	(150)	(709)	(150)	(150)	(150)	(150)	(600)
Income (loss) before taxes	(2,429)	(1,146)	(276)	(1,566)	(5,417)	(91)	(71)	240	84	161	(34)	74	288	181	509
Income taxes / (benefit)	(327)	(30)	(109)	267	(199)	22	-	-	-	22	-	-	-	-	-
Net Income / (Loss)	(2,102)	(1,116)	(167)	(1,833)	(5,218)	(113)	(71)	240	84	139	(34)	74	288	181	509
Imputed conversion of pref. stock	-	-	-	(1,343)	(1,343)	-	-	-	-	-	-	-	-	-	-
Dividends	(220)	(218)	(223)	(579)	(1,240)	(329)	(330)	(330)	(330)	(1,319)	(330)	(330)	(330)	(330)	(1,320)
Net income (loss) to common	(2,322)	(1,334)	(390)	(3,755)	(7,801)	(442)	(401)	(90)	(246)	(1,180)	(364)	(256)	(42)	(149)	(811)
EPS	(0.27)	(0.15)	(0.04)	(0.32)	(0.80)	(0.04)	(0.03)	(0.01)	(0.02)	(0.09)	(0.03)	(0.02)	(0.00)	(0.01)	(0.06)
Shares Outstanding	8,621	8,699	10,019	11,835	9,803	12,314	12,700	12,800	12,900	12,679	13,000	13,100	13,200	13,300	13,150
Margin Analysis															
Gross margin	20.5%	24.2%	19.7%	19.7%	21.0%	21.4%	21.2%	21.2%	21.2%	21.3%	21.4%	21.4%	21.4%	21.4%	21.4%
SG&A	36.5%	30.3%	25.5%	29.8%	30.2%	22.2%	21.3%	19.7%	20.5%	20.9%	21.4%	20.8%	19.8%	20.3%	20.5%
Operating margin	(16.0)%	(6.1)%	(1.2)%	(10.1)%	(7.9)%	-0.9%	-0.1%	1.5%	0.7%	0.4%	0.1%	0.7%	1.7%	1.2%	0.9%
Pretax margin	(17.6)%	(7.8)%	(1.6)%	(10.7)%	(8.9)%	(0.5)%	(0.4)%	1.2%	0.4%	0.2%	(0.2)%	0.4%	1.4%	0.9%	0.7%
Tax rate	13.5%	2.6%	39.5%	(17.0)%	3.7%	-24.2%	0.0%	0.0%	0.0%	13.6%	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%	21.3%	20.9%	11.0%	29.9%	20.3%	10.7%	6.7%	2.6%	2.6%	5.5%
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

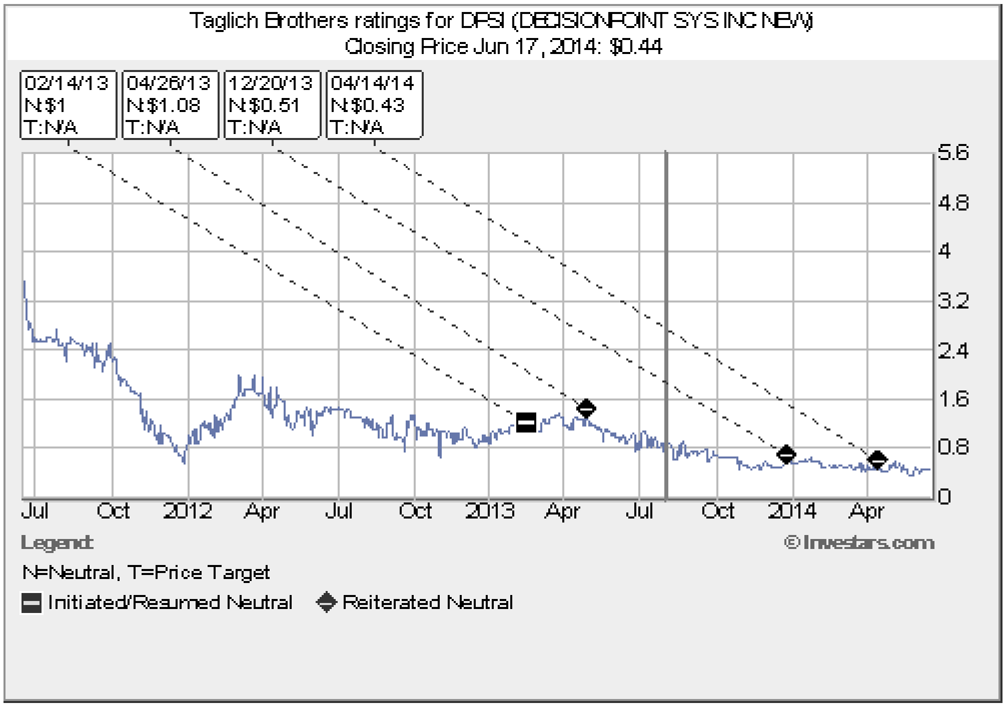
DecisionPoint Systems, Inc.

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

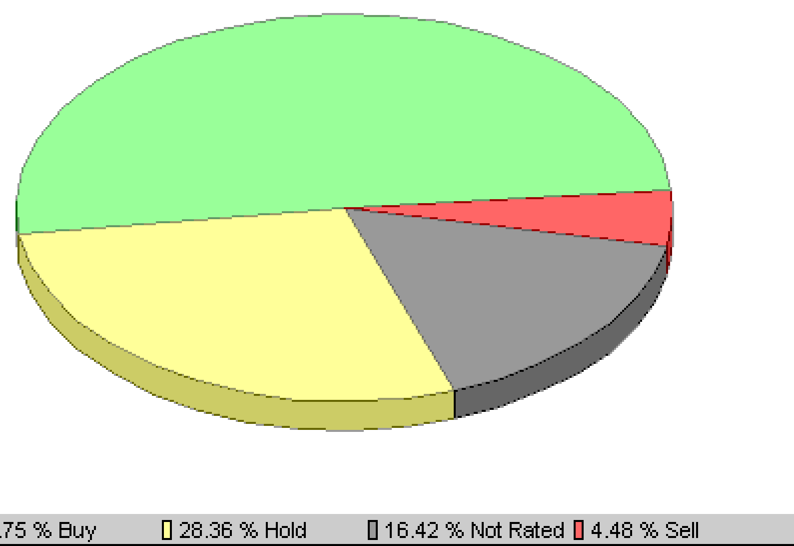
	2011A	2012A	2013A	3mos14A	2014E	2015E
Net income (loss)	(5,168)	(3,866)	(5,218)	(113)	139	509
Depreciation & amortization	560	1,510	1,967	451	1,952	1,948
Amortization of deferred financing costs	140	183	181	65	260	260
Employee stock-based compensation	200	52	76	10	76	76
Non-employee stock-based compensation	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)	(251)	(251)	-
ESOP compensation expense	125	132	138	14	138	138
Allowance for doubful accounts	-	108	142	142	142	142
Other income related to collection of note receivable	(405)	-	-	-	-	-
Deferred taxes	73	(256)	(270)	-	-	-
Changes in assets and liabilities						
Accounts receivable	(1,221)	1,801	1,615	777	(2,132)	(691)
Due from related party	-	147	-	-	-	-
Inventory	193	(98)	(723)	46	(304)	(96)
Deferred costs	(291)	(810)	462	(51)	(50)	-
Prepaid expenses and other	80	182	126	-	(75)	-
Other assets	(33)	(37)	(18)	(25)	9	-
Accounts payable	(39)	946	(1,296)	(468)	1,939	613
Acrrued expenses and other	(258)	506	(104)	(116)	604	196
Due to related parties	(735)	-	76	71	71	-
Unearned revenue	1,701	705	(284)	8	(11)	-
Net cash provided by (used in) operations	**(2,442)**	**1,719**	**(4,233)**	**560**	**2,508**	**3,095**
Acquisitions, net	(2,205)	(5,051)	-	-	-	-
Collection of note and other receivables	555	-	-	-	-	-
Capital expenditures	(49)	(64)	(45)	(19)	(80)	(80)
Net cash (used in) provided by investing	**(1,699)**	**(5,115)**	**(45)**	**(19)**	**(80)**	**(80)**
(Repayments) borrowings from line of credit	(340)	(594)	459	(182)	(182)	(1,500)
Proceeds from issuance of debt	4,000	4,033	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)	(271)	(1,000)	(500)
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	-	-	-
Purchase of treasury stock	(250)	-	-	-	-	-
Paid financing costs	(109)	(270)	(119)	(100)	(100)	(100)
Holding share liability	(4)	-	-	-	-	-
Warrants classified as liability	-	-	1,099	-	-	-
Dividends paid	(90)	(651)	(423)	-	(450)	(450)
Net Cash Provided by (Used in) Financing	**4,192**	**4,118**	**3,830**	**(553)**	**(1,732)**	**(2,550)**
Foreign currency translation	-	15	(14)	(17)	-	-
Net Change in Cash	**51**	**737**	**(462)**	**(29)**	**696**	**465**
Cash - Beginning of Period	**315**	**366**	**1,103**	**641**	**641**	**1,337**
Cash - End of Period	**366**	**1,103**	**641**	**612**	**1,337**	**1,802**

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	7
Hold	1	14
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. owns or has a controlling interest in 112,716 shares of DPSI common stock, 56,525 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 112,716 shares of DPSI common stock, 20,744 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 5,186 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 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 1,555 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.