

Research Report – Update

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

DecisionPoint Systems, Inc.

Neutral

John Nobile

December 20, 2013

DPSI \$0.51 — (OTC BB)

	<u>2011A</u>	<u>2012A</u>	<u>2013E</u>	<u>2014E</u>
Revenues (millions)	\$58.4	\$71.5	\$63.7	\$71.7
Earnings (loss) per share	\$(0.94)	\$(0.61)	\$(0.54)	\$(0.40)

52-Week range	\$1.30 – \$0.43	Fiscal year ends:	December
Common shares out as of 10/31/13	12.1 million	Revenue per share (TTM)	\$7.07
Approximate float	6.9 million	Price/Sales (TTM)	0.1X
Market capitalization	\$6 million	Price/Sales (FY2014)E	0.1X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2014)E	NMF

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

Key investment considerations:

Maintaining coverage of DecisionPoint Systems, Inc. (DPSI) with a Neutral rating.

The global enterprise mobility market is projected to grow (MarketsandMarkets, June 2013) at a CAGR of 15% through 2017. DPSI's operations are focused on this market, boding well for the company's future sales.

In November 2013, DecisionPoint announced a partnership agreement with Landis+Gyr, a provider of advanced metering and smart grid solutions, to incorporate APEXWare field service software as an option for Landis+Gyr customers. In October 2013, DecisionPoint announced it added Apple iOS7 mobile operating system support for its APEXWare field service software product.

We project 2013 sales of \$63.7 million, down from earlier projections of \$71 million, and a loss per share of (\$0.54) versus our earlier projection of (\$0.65). The reduced loss on lower revenue expectations is primarily due to an earn-out obligation adjustment which increased pre-tax earnings by \$0.8 million.

We project 2014 sales of \$71.7 million and a loss per share of (\$0.40), reduced from \$81.9 million revenue and loss per share of (\$0.34) due primarily to lower hardware sales than previously anticipated.

DecisionPoint reported (November 14, 2013) 3Q13 revenue decreased 5% to \$17.6 million. The loss per share was \$(0.04) versus \$(0.15) in 3Q12.

****Please view our disclosures on pages 14 - 16.***

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 24 business software and services companies with market values of approximately \$100 million and under are trading at an average price to sales multiple of 1.5X. We believe the discount in DPSI’s multiple from the comparison group’s is due to the markets’ perception of growth prospects. If the company achieves robust organic sales growth the stock’s multiple should expand. Applying a multiple of 0.15X sales, 50% appreciation from the current multiple, to our fiscal 2014 sales of \$3.03 per share (on a fully diluted basis of 23,650 shares), values the stock at approximately \$0.45 per share.

Recent Developments

DecisionPoint and Landis+Gyr Work Together on Software Tools – In November 2013, DecisionPoint announced it entered into a partnership agreement with Landis+Gyr, a provider of advanced metering and smart grid solutions.

The agreement is focused on software tools used by technicians to install, provision, and troubleshoot advanced meters in the field. This work will incorporate DecisionPoint’s APEXWare field service solution as an option for Landis+Gyr customers.

APEXWare for Apple iOS7 Mobile Operating System - In October 2013, DecisionPoint announced Apple iOS7 mobile operating system support for its APEXWare field service software product. APEXWare is a mobile-centric field service application that increases field service productivity.

APEXWare field service is available on Apple’s iPad tablet and includes business functions such as work order management, parts tracking, alerts, location services and time tracking.

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.

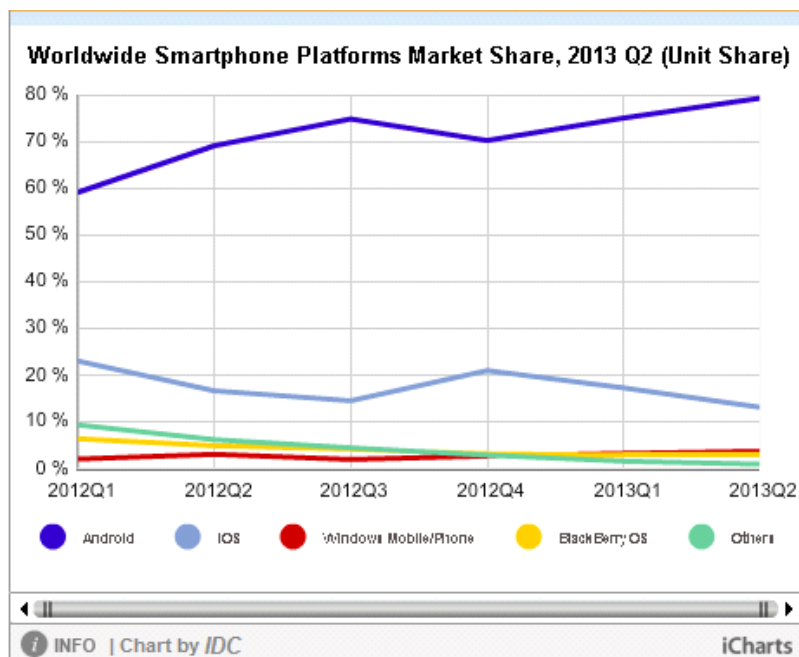
<u>Hardware Suppliers</u>	<u>Software Suppliers</u>
Motorola	AirWatch
Zebra Technologies	CXT Software
Datalogic Scanning	Verifone GlobalBay Mobile Technologies
Intermec Technologies	Xata
Datamax-O'Neil	Wavelink

DecisionPoint’s services include consulting, proprietary and third party software, and software customization. The company’s supply chain systems integration offerings include warehouse management systems, transportation management systems, and enterprise resource planning systems.

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

Projections

We project 2013 sales of \$63.7 million, down from earlier projections of \$71 million. Our revision reflects 3Q13 results and a significant reduction in projected hardware sales. We anticipate software and services sales will remain flat for 2013 but 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 \$1.9 million or 12% of DPSI's software and services revenue in the first nine months of 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 96% with the addition of the Android and Apple iOS operating systems (see chart at right).



We project a net loss to common shareholders of \$5.3 million or (\$0.54) per share for 2013 versus our earlier loss to common shareholders projection of \$6.1 million or (\$0.65) per share. The reduced loss on lower revenue expectations is primarily due to an adjustment to earn-out obligations taken in 3Q13 which increased pre-tax earnings by \$0.8 million.

Gross margins are projected to decrease to 21.2% in 2013 from 21.8% in 2012 as reduced pricing on a few large orders will lower margins.

The projected effect of DPSI's improvement in revenue mix is shown in the table (at right). SG&A expenses in 2013 should decrease to \$18.5 million and SG&A margins are projected to rise to 29% from 26.1% in 2012 due to decreased sales commissions and a focus on cost containment.

Interest expense should remain largely unchanged at \$1 million. We project no taxes as tax benefits offset taxes (as they have over the past three years).

We project \$3.3 million cash used in operations reflecting a cash loss of \$2.3 million and a \$1.1 million increase in working capital. Working capital will increase due primarily to a decrease in

accounts payable and unearned revenue, offset in part by a decrease in accounts receivable. The issuance of \$1.5 million in common stock and \$4.1 million in preferred stock will be sufficient to cover cash used in operations and dividend payments, resulting in cash increasing by \$1 million to \$2.1 million at December 31, 2013.

	2012A	2013E	2014E
Hardware sales	48,500	40,600	40,600
Software & services sales	23,000	23,100	31,100
Net sales	71,500	63,700	71,700
Cost of hardware sales	40,200	33,089	33,089
Cost of software & services sales	15,800	17,117	23,045
Cost of sales	56,000	50,206	56,134
Gross profit	15,500	13,494	15,566
Hardware gross margin	17.1%	18.5%	18.5%
Software & services gross margin	31.3%	25.9%	25.9%
Total gross margin	21.8%	21.2%	21.7%

Source: Company filings and Taglich Brothers' estimates

DecisionPoint Systems, Inc.

We project a 2014 loss of \$4.9 million, or (\$0.40) per share, on a 13% gain in revenue to \$71.7 million. Our projections have been lowered from revenue of \$81.9 million and a net loss of \$3.4 million or (\$0.34) per share due primarily to lower hardware sales than previously anticipated.

2014 gross margins are projected at 21.7% versus 21.2% in 2013 as sales of higher margin software and services increase. SG&A expenses should increase moderately to \$18.8 million from \$18.5 million as the company keeps non-essential expenses in check. The growth in sales we project for 2014 should improve coverage of fixed cost components of SG&A expenses (office payroll and expenses), lowering SG&A expense margins to 26.2% in 2014 from 29% in 2013. Interest expense is projected at \$1 million. We project no taxes.

We project \$138,000 cash used in operations from a cash loss of \$1.3 million and a \$1.2 million decrease in working capital. Working capital will decrease due primarily to an increase in accounts payable and unearned revenue, offset in part by an increase in accounts receivable. Cash used in operations and the payment of dividends will decrease cash by \$1.2 million to \$0.9 million at December 31, 2014.

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>Manufacturing:</i> Production count, work-in-process tracking, raw material consumption, just-in-time manufacturing requirements, quality control and assurance, lot/batch/serial number control and scrap reporting.
	<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	DecisionPoint provides mobile software tailored to meet its 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).
Rollout, Support and Management 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 printers/encoders.

Software developments

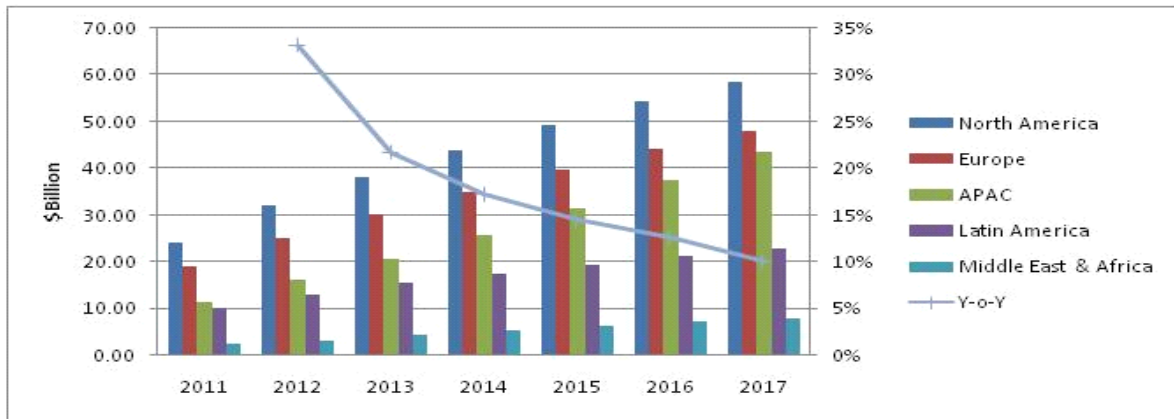
July 2013 - DecisionPoint announced the release of its APEXWare™ Merchandising, Sales and Delivery (MSD) software to support Android operating systems for mobile computers. Some key benefits of this technology include real-time inventory tracking and the elimination of time-consuming and error-prone manual data entry.

July 2013 - DecisionPoint released v2.7 of its ContentSentral software product. ContentSentral is a mobile content delivery application for Android and iOS devices that enables mobile workers in industries such as field service, retail, hospitality and sales to access current corporate information such as videos, images, documents, spreadsheets and forms.

Enterprise Mobility Market

A June 2013 report¹ by research firm MarketsandMarkets projects the global bring-your-own-device (BYOD) and enterprise mobility market to grow at a CAGR of 15% to \$181.4 billion by 2017 led by an increasing number of enterprises that need to be in touch with their mobile workforce. Employees are using their own devices such as smart phones, tablets, and laptops, to be connected with the enterprise network, anytime, anywhere. As DPSI's operations are focused in this market, a growing market should bode well for the company's future sales.

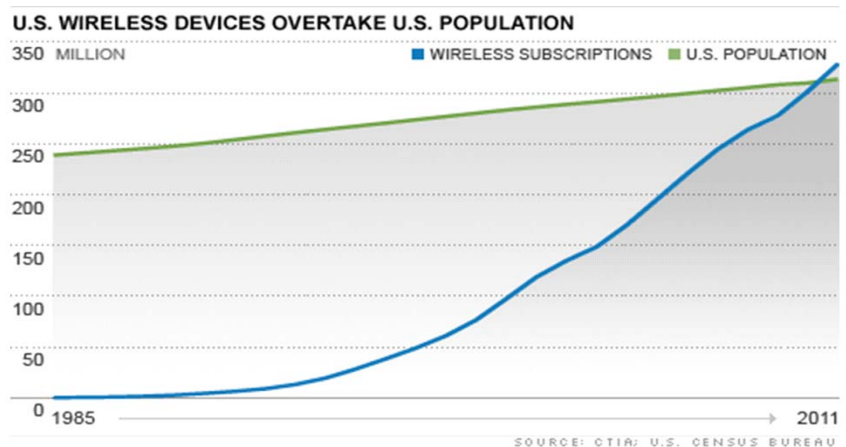
Global Bring-your-own-device BYOD & Enterprise Mobility Market By Geography, 2011-2017 (\$Billion)



Source: MarketsandMarkets Analysis

In April 2013, technology research firm TechNavio forecasted the global BYOD and enterprise mobility market to grow at a CAGR of 16% from 2012 - 2016. Growth will be driven by the need for real-time decision making and increasing adoption of the bring your own device policy.

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).



¹ Bring-your-own-device Market (BYOD), Consumerization of IT (Co-IT) and Enterprise Mobility Market – Global Advancements, Business Models, Market Forecasts & Analysis (2012-2017).

Many Americans now have two or more devices (such as a smart phone or tablet) with a wireless plan. According to CTIA, there were 321.7 million wireless subscriber connections for 318.5 million people in the US in 2012 for a wireless penetration rate of 101%. This is up from 81% penetration in 2007. CTIA said Americans were using wireless devices more everyday and that the consensus of experts was projecting demand to continue to skyrocket by more than 50 fold within the next five years.

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 some of 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 \$241 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 Technologies, 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.
Catalyst International, Inc.	A supplier of supply chain solutions on multiple technology platforms. It is a certified services provider for SAP AG, including wireless enabling of SAP applications.

Other competitors in the US 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 to 60% of total revenue in 2015. 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 the first nine months of 2013, 38% of total revenue was derived from software and services with the remaining 62% from hardware sales. In the first nine months of 2012, 32% of total revenue was derived from software and services with the remaining 68% from hardware sales.

Economic Outlook

In October 2013, the International Monetary Fund (IMF) reduced its US economic growth forecast to 1.6% in 2013 and 2.6% in 2014, down from an earlier (July 2013) growth forecast of 1.7% for 2013 and 2.8% for 2014. The IMF said that sharp fiscal tightening in 2013 has taken its toll on economic growth. With fiscal tightening expected to ease in 2014, the IMF is projecting economic growth to increase in 2014.

The IMF said that following the sharp fiscal tightening earlier in 2013, activity in the US is starting to increase. This is reflected in a recovering real estate sector, higher household wealth, easier bank lending conditions, and increased borrowing. However, downside risks remain such as a tightening of US monetary policy in the midst of a weak recovery.

As the company offers its products and services primarily in the US, the downward revision in economic growth could result in slow sales growth of the company's products as the rate of capital and software expenditures decrease.

3Q and Nine-Months 2013 Financial Results

3Q13 - Revenue decreased 5% to \$17.6 million primarily due to decreases in both hardware and software and services sales. The net loss to common shareholders was \$390,000 or (\$0.04) per share versus a net loss to common shareholders of \$1.3 million or (\$0.15) per share. Revenue dropped due to a decrease in retail mobile computing system upgrades, partially offset by the contribution from the mid-2012 Apex and Illume Mobile acquisitions.

Gross margins decreased to 19.7% from 22.2% primarily due to a few large orders which usually have reduced pricing.

SG&A expenses decreased to \$4.5 million from \$4.7 million primarily due to reduced legal and other professional fees.

Interest expense decreased to \$241,000 from \$350,000 as a result of decreased debt levels.

Nine-months - Revenue decreased 15% to \$46.1 million primarily due to a 23% decrease in hardware sales partially offset by increased software (up 27%) and

	Nine Months Ended (in thousands \$)	
	9/13A	9/12A
Net sales	46,067	54,144
Cost of sales	36,216	42,559
Gross profit	9,851	11,585
Adjustment to earn-out obligations	(820)	-
SG&A	13,981	13,370
Operating income (loss)	(3,310)	(1,785)
Interest expense	723	698
Other (income) expense	(182)	(80)
Income (loss) before taxes	(3,851)	(2,403)
Income taxes	(466)	132
Net Income / (Loss)	(3,385)	(2,535)
Cumulative preferred stock dividends	(661)	(710)
Net income (loss) to common	(4,046)	(3,245)
EPS	(0.44)	(0.42)
Shares Outstanding	9,118	7,699
Margin Analysis		
Gross margin	21.4%	21.4%
SG&A	30.3%	24.7%
Operating margin	(7.2)%	(3.3)%
Pretax margin	(8.4)%	(4.4)%
Tax rate	12.1%	(5.5)%
Source: Company filings		

services (up 2%) sales. The net loss to common shareholders grew to \$4 million or (\$0.44) per share from \$3.2 million or (\$0.42) 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 21.4%.

SG&A expenses increased to \$14 million from \$13.4 million primarily due to an expanded sales force.

Interest expense remained relatively flat at \$0.7 million.

Liquidity

As of September 30, 2013, current liabilities exceeded current assets by \$11.5 million and the company's current ratio was 0.6X versus 1.1X for the business services industry. With the recent financing completed in November 2013 (discussed below), the company should have sufficient funds to meet its operational needs through 2014.

Cash used in operations for the first nine months of 2013 was \$2.2 million consisting of a \$2.6 million cash loss offset by a \$410,000 decrease in working capital. Working capital decreased due primarily to an increase in accounts payable partially offset by a decrease in unearned revenue. Cash used in operations and minimal capital expenditures, partly offset by cash raised in financing activities, reduced cash by \$0.8 million to \$270,000 at September 30, 2013.

The company has a \$10 million line of credit and term loans extended by Silicon Valley Bank. As of September 30, 2013 the outstanding balances were \$4.2 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 \$4.3 million as of September 30, 2013. The term loans mature in March 2016 and carry an interest rate of 7.5%. As of September 30, 2013, the company was in compliance with the covenants of the Silicon Valley Bank line of credit and term loan.

DecisionPoint also has a \$1.4 million term loan with Royal Bank of Canada (RBC) and a \$1.6 million term loan with BDC Capital. The RBC loan matures June 2015 and carries an interest rate of 7%. The BDC loan matures June 2016 and carries an interest rate of 12%. As of September 30, 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 but had received a waiver.

November 2013 financing – In November 2013, DecisionPoint received net proceeds of approximately \$3.6 million from the sale of 409,000 shares of convertible preferred stock at \$10 per share. The initial conversion price was set at \$0.50.

Risks

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

Limited operating history - DecisionPoint has a limited operating history which makes it difficult to evaluate its business on the basis of historical operations. 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 19% of its revenue from two customers in 2012. 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 6.9 million shares in the float and the average daily volume is approximately 10,000 shares.

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

DecisionPoint Systems, Inc.

Consolidated Balance Sheets
(in thousands \$)

	2010A	2011A	2012A	9/13A	2013E	2014E
Cash	315	366	1,103	270	2,110	928
Accounts receivable	12,576	15,393	12,287	12,685	10,941	12,321
Due from related party	-	-	202	195	195	-
Inventory	898	706	811	918	727	814
Deferred costs	3,563	3,469	3,955	3,773	3,773	3,773
Deferred tax assets	55	-	48	47	47	47
Prepaid expenses and other	458	408	302	919	919	919
Total current assets	17,865	20,342	18,708	18,807	18,713	18,802
Net property and equipment	100	99	179	139	177	176
Intangible assets	2,729	2,214	6,023	4,472	4,089	2,126
Goodwill	5,509	5,539	8,571	8,485	8,485	8,485
Deferred costs	1,415	1,800	2,124	1,810	1,810	1,810
Other assets	173	175	205	151	151	151
Total assets	27,791	30,169	35,810	33,864	33,425	31,550
Accounts payable	9,244	8,947	11,080	13,036	9,937	11,118
Accrued expenses and other	4,882	2,505	2,895	3,040	2,578	2,903
Line of credit	4,364	4,024	3,430	4,247	4,247	4,247
Current portion of debt	1,000	1,000	1,800	1,963	1,963	1,963
Due to related parties	1,606	872	1	160	160	160
Accrued earn out consideration	-	-	1,186	331	331	331
Warrant liability	-	-	-	933	933	933
Unearned revenue	5,715	6,756	7,409	6,639	6,597	7,430
Total current liabilities	26,811	24,104	27,801	30,349	26,746	29,085
Unearned revenue	1,850	2,509	2,883	2,472	2,567	2,891
Long-term debt	1,940	970	2,922	2,099	2,099	2,099
Accrued earn out consideration	-	-	159	154	154	154
Deferred tax liabilities	-	18	1,078	1,038	1,038	1,038
Other long-term liabilities	60	60	80	76	76	76
Total liabilities	30,661	27,661	34,923	36,188	32,680	35,343
Preferred stock	1,486	6,320	7,370	7,609	11,325	11,645
Common stockholders' equity (deficit)	(4,356)	(3,812)	(6,483)	(9,933)	(9,910)	(14,445)
Total stockholders' equity (deficit)	(2,870)	2,508	887	(2,324)	1,415	(2,800)
Total liabilities & stockholders' equity	27,791	30,169	35,810	33,864	34,095	32,543

Source: Company filings and Taglich Brothers' estimates

DecisionPoint Systems, Inc.

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

	<u>2010A</u>	<u>2011A</u>	<u>2012A</u>	<u>2013E</u>	<u>2014E</u>
Net sales	56,244	58,359	71,501	63,668	71,700
Cost of sales	<u>45,392</u>	<u>46,368</u>	<u>55,949</u>	<u>50,176</u>	<u>56,141</u>
Gross profit	10,852	11,991	15,552	13,492	15,559
Adjustment to earn-out obligations			-	(820)	-
SG&A	<u>9,610</u>	<u>13,597</u>	<u>18,661</u>	<u>18,482</u>	<u>18,800</u>
Operating income (loss)	1,242	(1,606)	(3,109)	(4,170)	(3,241)
Interest expense	2,213	1,160	998	963	1,000
Other (income) expense	<u>1,159</u>	<u>2,302</u>	<u>(116)</u>	<u>(232)</u>	<u>(200)</u>
Income (loss) before taxes	(2,130)	(5,068)	(3,991)	(4,901)	(4,041)
Income taxes / (benefit)	<u>78</u>	<u>100</u>	<u>(125)</u>	<u>(466)</u>	<u>-</u>
Net Income / (Loss)	<u>(2,208)</u>	<u>(5,168)</u>	<u>(3,866)</u>	<u>(4,435)</u>	<u>(4,041)</u>
Cumulative preferred stock dividends	<u>(80)</u>	<u>(486)</u>	<u>(954)</u>	<u>(881)</u>	<u>(880)</u>
Net income (loss) to common	<u>(2,288)</u>	<u>(5,654)</u>	<u>(4,820)</u>	<u>(5,316)</u>	<u>(4,921)</u>
EPS	<u>(0.66)</u>	<u>(0.94)</u>	<u>(0.61)</u>	<u>(0.54)</u>	<u>(0.40)</u>
Shares Outstanding	3,462	6,020	7,901	9,871	12,350
<u>Margin Analysis</u>					
Gross margin	19.3%	20.5%	21.8%	21.2%	21.7%
SG&A	17.1%	23.3%	26.1%	29.0%	26.2%
Operating margin	2.2%	(2.8)%	(4.3)%	(6.5)%	-4.5%
Pretax margin	(3.8)%	(8.7)%	(5.6)%	(7.7)%	(5.6)%
Tax rate	(3.7)%	(2.0)%	3.1%	9.5%	0.0%
<u>Year / Year Growth</u>					
Total Revenues		3.8%	22.5%	-11.0%	12.6%
Net Income		NMF	NMF	NMF	NMF
EPS		NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

DecisionPoint Systems, Inc.

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

	<u>3/12A</u>	<u>6/12A</u>	<u>9/12A</u>	<u>12/12A</u>	<u>2012A</u>	<u>3/13A</u>	<u>6/13A</u>	<u>9/13A</u>	<u>12/13E</u>	<u>2013E</u>	<u>3/14E</u>	<u>6/14E</u>	<u>9/14E</u>	<u>12/14E</u>	<u>2014E</u>
Net sales	17,810	17,767	18,567	17,357	71,501	13,772	14,721	17,575	17,600	63,668	17,750	17,850	18,000	18,100	71,700
Cost of sales	<u>14,057</u>	<u>14,048</u>	<u>14,445</u>	<u>13,399</u>	<u>55,949</u>	<u>10,948</u>	<u>11,155</u>	<u>14,113</u>	<u>13,960</u>	<u>50,176</u>	<u>13,898</u>	<u>13,977</u>	<u>14,094</u>	<u>14,172</u>	<u>56,141</u>
Gross profit	3,753	3,719	4,122	3,958	15,552	2,824	3,566	3,462	3,640	13,492	3,852	3,873	3,906	3,928	15,559
Adjustment to earn-out obligations	-	-	-	-	-	-	-	(820)	-	(820)	-	-	-	-	-
SG&A	<u>3,835</u>	<u>4,802</u>	<u>4,741</u>	<u>5,038</u>	<u>18,661</u>	<u>5,033</u>	<u>4,464</u>	<u>4,485</u>	<u>4,500</u>	<u>18,482</u>	<u>4,700</u>	<u>4,700</u>	<u>4,700</u>	<u>4,700</u>	<u>18,800</u>
Operating income (loss)	(82)	(1,083)	(619)	(1,080)	(3,109)	(2,209)	(898)	(203)	(860)	(4,170)	(848)	(827)	(794)	(772)	(3,241)
Interest expense	142	207	350	299	998	226	256	241	240	963	250	250	250	250	1,000
Other (income) expense	<u>(29)</u>	<u>(32)</u>	<u>(19)</u>	<u>(73)</u>	<u>(116)</u>	<u>(6)</u>	<u>(8)</u>	<u>(168)</u>	<u>(50)</u>	<u>(232)</u>	<u>(50)</u>	<u>(50)</u>	<u>(50)</u>	<u>(50)</u>	<u>(200)</u>
Income (loss) before taxes	(195)	(1,258)	(950)	(1,306)	(3,991)	(2,429)	(1,146)	(276)	(1,050)	(4,901)	(1,048)	(1,027)	(994)	(972)	(4,041)
Income taxes / (benefit)	<u>42</u>	<u>26</u>	<u>64</u>	<u>(257)</u>	<u>(125)</u>	<u>(327)</u>	<u>(30)</u>	<u>(109)</u>	-	<u>(466)</u>	-	-	-	-	-
Net Income / (Loss)	<u>(237)</u>	<u>(1,284)</u>	<u>(1,014)</u>	<u>(1,049)</u>	<u>(3,866)</u>	<u>(2,102)</u>	<u>(1,116)</u>	<u>(167)</u>	<u>(1,050)</u>	<u>(4,435)</u>	<u>(1,048)</u>	<u>(1,027)</u>	<u>(994)</u>	<u>(972)</u>	<u>(4,041)</u>
Cumulative preferred stock dividends	<u>(222)</u>	<u>(239)</u>	<u>(249)</u>	<u>(244)</u>	<u>(954)</u>	<u>(220)</u>	<u>(218)</u>	<u>(223)</u>	<u>(220)</u>	<u>(881)</u>	<u>(220)</u>	<u>(220)</u>	<u>(220)</u>	<u>(220)</u>	<u>(880)</u>
Net income (loss) to common	<u>(459)</u>	<u>(1,523)</u>	<u>(1,263)</u>	<u>(1,293)</u>	<u>(4,820)</u>	<u>(2,322)</u>	<u>(1,334)</u>	<u>(390)</u>	<u>(1,270)</u>	<u>(5,316)</u>	<u>(1,268)</u>	<u>(1,247)</u>	<u>(1,214)</u>	<u>(1,192)</u>	<u>(4,921)</u>
EPS	<u>(0.06)</u>	<u>(0.20)</u>	<u>(0.15)</u>	<u>(0.15)</u>	<u>(0.61)</u>	<u>(0.27)</u>	<u>(0.15)</u>	<u>(0.04)</u>	<u>(0.10)</u>	<u>(0.54)</u>	<u>(0.10)</u>	<u>(0.10)</u>	<u>(0.10)</u>	<u>(0.10)</u>	<u>(0.40)</u>
Shares Outstanding	7,392	7,513	8,182	8,505	7,901	8,621	8,699	10,019	12,144	9,871	12,200	12,300	12,400	12,500	12,350
<u>Margin Analysis</u>															
Gross margin	21.1%	20.9%	22.2%	22.8%	21.8%	20.5%	24.2%	19.7%	20.7%	21.2%	21.7%	21.7%	21.7%	21.7%	21.7%
SG&A	21.5%	27.0%	25.5%	29.0%	26.1%	36.5%	30.3%	25.5%	25.6%	29.0%	26.5%	26.3%	26.1%	26.0%	26.2%
Operating margin	(0.5)%	(6.1)%	(3.3)%	(6.2)%	(4.3)%	(16.0)%	(6.1)%	(1.2)%	(4.9)%	(6.5)%	-4.8%	-4.6%	-4.4%	-4.3%	-4.5%
Pretax margin	(1.1)%	(7.1)%	(5.1)%	(7.5)%	(5.6)%	(17.6)%	(7.8)%	(1.6)%	(6.0)%	(7.7)%	(5.9)%	(5.8)%	(5.5)%	(5.4)%	(5.6)%
Tax rate	(21.5)%	(2.1)%	(6.7)%	19.7%	3.1%	13.5%	2.6%	39.5%	0.0%	9.5%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Year / Year Growth</u>															
Total Revenues	39.1%	34.4%	12.9%	9.2%	22.5%	-22.7%	-17.1%	-5.3%	1.4%	-11.0%	28.9%	21.3%	2.4%	2.8%	12.6%
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 \$)

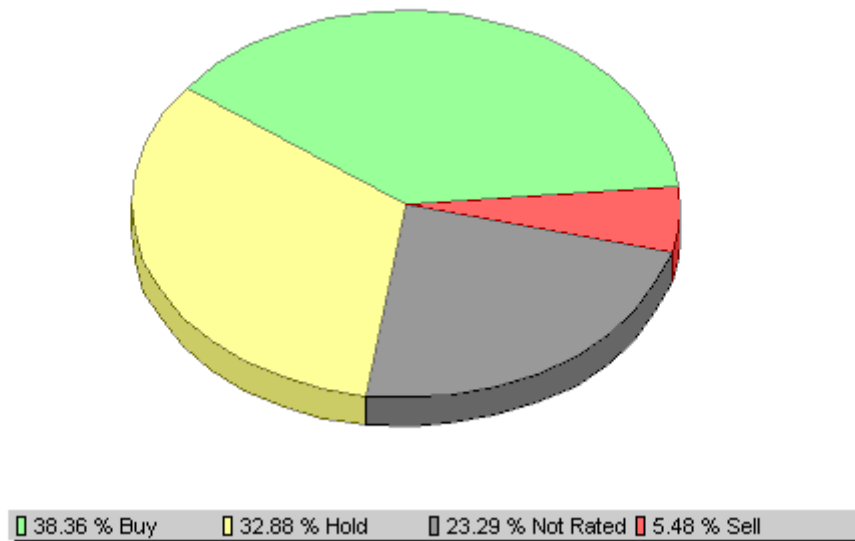
	2010A	2011A	2012A	9mos13A	2013E	2014E
Net income (loss)	(2,209)	(5,168)	(3,866)	(3,385)	(4,435)	(4,041)
Depreciation & amortization	32	560	1,510	1,497	2,000	1,728
Amortization of deferred financing costs	905	140	183	140	216	216
Employee stock-based compensation	183	200	52	6	52	52
Non-employee stock-based compensation	428	283	514	-	514	514
Non-cash interest expense (income)	-	80	-	-	-	-
Loss on debt extinguishment	-	2,269	-	-	-	-
Loss on disposal of property and equipment	-	4	-	13	13	-
Acquisition earn-out adjustment	-	-	-	(820)	(820)	-
Change in fair value of warrants	-	-	-	(166)	-	-
ESOP compensation expense	118	125	132	104	140	140
Allowance for doubtful accounts	-	-	108	56	56	56
Other income related to collection of note receivable	-	(405)	-	-	-	-
Deferred taxes	330	73	(256)	(5)	-	-
<i>Changes in assets and liabilities</i>						
Accounts receivable	(2,076)	(1,221)	1,801	(468)	1,346	(1,380)
Due from related party	-	-	147	-	-	-
Inventory	349	193	(98)	(107)	84	(86)
Deferred costs	(676)	(291)	(810)	496	496	-
Prepaid expenses and other	(347)	80	182	(578)	(617)	-
Other assets	(14)	(33)	(37)	5	54	-
Accounts payable	2,563	(39)	946	1,961	(1,143)	1,181
Accrued expenses and other	(2,143)	(258)	506	106	(317)	325
Due to related parties	65	(735)	-	158	158	-
Unearned revenue	(46)	1,701	705	(1,163)	(1,128)	1,157
Net cash provided by (used in) operations	(2,538)	(2,442)	1,719	(2,150)	(3,332)	(138)
Acquisitions, net	186	(2,205)	(5,051)	-	-	-
Collection of note and other receivables	-	555	-	-	-	-
Capital expenditures	(43)	(49)	(64)	(33)	(64)	(64)
Net cash (used in) provided by investing	143	(1,699)	(5,115)	(33)	(64)	(64)
(Repayments) borrowings from line of credit	1,789	(340)	(594)	817	817	-
Proceeds from issuance of debt	-	4,000	4,033	1,000	1,000	-
Cash received in reverse capitalization	-	1,985	1,500	-	-	-
Borrowing under long-term debt	3,000	-	-	-	-	-
Repayment of debt	(2,835)	(1,000)	(1,393)	(1,552)	(1,552)	-
Proceeds from exercise of employee stock options	623	-	-	-	-	-
Issuance of convertible preferred stock	380	-	7,042	-	4,090	-
Paid preferred stock financing costs	-	-	(1,020)	-	(455)	-
Redemption of convertible preferred stock	-	-	(4,529)	-	-	-
Issuance of common stock	-	-	-	1,502	1,502	-
Purchase of treasury stock	-	(250)	-	-	-	-
Paid financing costs	(159)	(109)	(270)	(119)	(119)	(100)
Holding share liability	(229)	(4)	-	-	-	-
Dividends paid	-	(90)	(651)	(296)	(880)	(880)
Net Cash Provided by (Used in) Financing	2,569	4,192	4,118	1,352	4,403	(980)
Foreign currency translation	-	-	15	(2)	-	-
Net Change in Cash	174	51	737	(833)	1,007	(1,182)
Cash - Beginning of Period	141	315	366	1,103	1,103	2,110
Cash - End of Period	315	366	1,103	270	2,110	928

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	1	4
Hold	1	14
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 64,500 shares of DPSI convertible preferred stock, 155,526 shares of DPSI 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 1,500 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.