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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 26, 2013

## DPSI $1.08 — (OTC BB)

| | 2011A | 2012A | 2013E | 2014E |
|---|---|---|---|---|
| Revenues (millions) | $58.4 | $71.5 | $82.3 | $94.7 |
| Earnings (loss) per share | $(0.94) | $(0.61) | $(0.19) | $(0.11) |

| | | | |
|---|---|---|---|
| 52-Week range | $1.48 – $0.55 | Fiscal year ends: | December |
| Common shares out as of 3/15/13 | 9.1 million | Revenue per share (TTM) | $9.05 |
| Approximate float | 4.7 million | Price/Sales (TTM) | 0.1X |
| Market capitalization | $10 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.***

***In September 2012 (latest report), research firm MarketsandMarkets projected the enterprise mobility market to grow from $67.2 billion in 2011 to $181.4 billion by 2017, a compound annual growth rate (CAGR) of 15.2%. A growing market should bode well for DecisionPoint's sales.***

***During the last two years, DecisionPoint has made acquisitions in an effort to improve its revenue mix. The company aims to expand its higher margin software and services offerings to 60% of total revenue (currently 32%) by 2015.***

***In March 2013, DecisionPoint Systems announced a partnership with Worldlink Integration Group, Inc. With DecisionPoint's business mobility expertise and Worldlink's broad range of technology deployment services, the partnership allows the two companies to increase their respective offerings to clients.***

***4Q12 revenue was adversely impacted by a delay in a significant order. The order is not expected to occur until 2H13, so we have reduced our estimates accordingly.***

***We project FY13 revenue of $82.3 million and a net loss of $(0.19) per share, down from $86.0 million revenue and a net loss of $(0.11) per share previously. We project FY14 revenue of $94.7 million and a net loss of $(0.11) per share, down from $99 million revenue and a net loss of $(0.01) per share previously.***

***DecisionPoint reported (March 28, 2013) 4Q12 revenue of $17.4 million and a net loss of $(0.19) per share. We projected revenue of $19 million and a net loss of $(0.06) per share.***

****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 27 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 large disparity between DPSI's multiple and the industry average 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 0.2X sales, twice the current valuation, to our fiscal 2014 sales of $5.41 per share (on a fully diluted basis of 17,500 shares), discounted to a twelve-month value of $5.01 per share, values the stock at approximately $1.00 per share. Our discount factor of 8% reflects the stock's beta of 1.01.

## *Recent Developments*

*APEXWare Released for the Apple iOS and Motorola MC45* – In April 2013, DecisionPoint released APEXWare field service software for the Apple iPad tablet and Motorola MC45 mobile computer. APEXWare is a mobile-centric field service application to increase field service productivity, improve first-time fix rates, and maximize parts availability. The APEXWare field service business functions available on the iPad and Motorola MC45 include work order management, parts inventory management, parts ordering, asset management, time and labor reporting, and custom forms data collection.

*Worldlink Partnership* - In March 2013, DecisionPoint Systems announced a partnership with Worldlink Integration Group, Inc. where the two companies will work together to provide services and technologies for retail and enterprise clients. Worldlink deploys a scalable workforce to support technology deployment requirements. With DecisionPoint's business mobility expertise and Worldlink's broad range of offerings (i.e. project management, product integration, logistics management, equipment installation, and maintenance services), the partnership allows the two companies to increase their respective offerings to clients.

*Mission Linen Supply Contract* – In March 2013, DecisionPoint announced the launch of a pilot program to create and install a paperless mobile customer interface solution for Mission Linen Supply. The program will outfit all of Mission Linen's drivers, dispatchers and office support personnel with mobile devices that automate and replace their current paper-based system for all their operations including deliveries, invoicing, ordering, real-time communications and customer support.

The pilot program, the second part of a multi-phase, three-year contract, will cover approximately 20 industrial and commercial routes operated from Santa Barbara, CA, the corporate base of privately-held Mission Linen Supply. Mission Linen Supply provides rental products, services and supplies to hospitality, medical and industrial businesses in California, Arizona, Texas, New Mexico and Oregon.

*New CFO Appointment* – In February 2013, DecisionPoint announced the appointment of Dave Goodman as Chief Financial Officer. Mr. Goodman replaces Interim CFO Paul Ross, who is pursuing other non-competing opportunities, and has relocated to a different state.

From 2010 to 2012 Mr. Goodman was the COO and CFO Mercury Capital Advisors, a privately held, start-up private equity-backed financial advisory firm and broker-dealer. From 2008 to 2010 was Executive VP and CFO of privately held Golden Source Holdings, a provider of enterprise data management solutions for financial services companies. From 2006 to 2008, was CFO of a publicly traded developer and publisher of mobile games, Superscape Group PLC, which was purchased by Glu Mobile at a premium of 50% above the market price in 2008. From 2002 through 2006, was International Finance Director and Senior VP Finance for Christie's International PLC, one of the world's largest auction houses. Previous senior financial positions were with Franklin Health/Personal Path Systems, SONY Music Entertainment, and Milbank Tweed Hadley & McCloy. Career began in 1978 with PriceWaterhouseCoopers, rising to Senior Audit Manager. BA from Cornell University and MBA in Finance and Accounting from NYU Stern School of Business. CPA and member of AICPA and the NY State Society of CPAs.

***Business***

Headquartered in Irvine CA, DecisionPoint Systems is a provider and integrator of mobility and wireless systems to business organizations. FSI 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, 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 Edison NJ.

***Projections***

We project FY13 sales of $82.3 million, down from earlier projections of $86 million. Our revision reflects a delay in a significant customer's order (mid-seven figure) that has been deferred until 2H13. We project a net loss of $1.9 million or ($0.19) per share, larger than our earlier loss projection of $1.1 million or $(0.11) per share.

Gross margins are projected to improve to 22.1% from 21.8% in FY12 as the company generates more of its sales from higher margin software and services. Hardware gross margins (currently the majority of sales) were 17.1% in FY12 while margins for software and professional services were 31.3%.

The projected effect of DPSI's improvement in revenue mix is shown in the table (at right). SG&A expenses should remain relatively flat at $18.7 million and margins are projected to drop to 22.7% from 26.1% in FY12 due to the absence of FY12 acquisition related costs. Excluding the $2.2 million costs associated with completing the acquisitions, we estimate SG&A expenses would have been $16.5 million in FY12 for an SG&A expense margin of 23%.

Cost of Sales Model (in thousands $)

| | 2012A | 2013E | 2014E |
|---|---|---|---|
| Hardware sales | 48,500 | 53,350 | 58,700 |
| Software & services sales | 23,000 | 28,950 | 36,000 |
| Net sales | 71,500 | 82,300 | 94,700 |
| | | | |
| Cost of hardware sales | 40,200 | 44,227 | 48,662 |
| Cost of software & services sales | 15,800 | 19,889 | 24,732 |
| Cost of sales | 56,000 | 64,116 | 73,394 |
| Gross profit | 15,500 | 18,184 | 21,306 |
| | | | |
| Hardware gross margin | 17.1% | 17.1% | 17.1% |
| Software & services gross margin | 31.3% | 31.3% | 31.3% |
| Total gross margin | 21.7% | 22.1% | 22.5% |

Source: Company filings and Taglich Brothers' estimates

Interest expense should approximate $1 million as the company continues to service it current level of debt. We project the company will pay no taxes as tax benefits offset taxes (as they have averaged over the past three years).

We project $2.7 million cash provided by operations from cash earnings of $1.7 million and a $1.1 million decrease in working capital. The change in working capital will come primarily from an increase in accounts payable and unearned revenue, offset in part by an increase in accounts receivable. Cash from operations and proceeds from the issuance of convertible preferred stock should be sufficient to cover capital expenditures of $64,000, a net $2 million pay down of debt, and $0.6 million in dividend payments. Cash will increase by $0.7 million to $1.8 million at December 31, 2013.

We project FY14 sales will grow 15% to $94.7 million, in line with the industry growth rate, and a net loss of $1.1 million or ($0.11) per share. Our projections have been lowered from revenue of $99 million and a net loss of $133,000 due to lower software and services sales and lower margins than previously anticipated.

Gross margins are projected at 22.5% from 22.1% in FY13 as sales of higher margin software and services increase. SG&A expenses should increase to $21.2 million from $18.7 million with the increase in sales. The growth in sales we project for FY14 should help to cover the relatively fixed cost components of SG&A expenses (office payroll and expenses), lowering SG&A expense margins to 22.4% in FY14. Interest expense is projected at $0.8 million as the company continues to pay down its debt. We project the company will pay no taxes.

We project $3.5 million cash provided by operations from cash earnings of $2.1 million and a $1.4 million decrease in working capital. The change in working capital will come primarily from an increase in accounts payable and unearned revenue, offset in part by an increase in accounts payable. Cash from operations should cover capital expenditures of $64,000, a net $2 million pay down of debt, and $0.6 million of dividends, and increase cash by $0.9 million to $2.7 million at December 31, 2014.

## *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 move and replenishments, product receipt and put-away, labeling, physical inventory and cycle counts. |
| | *Manufacturing*: 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. |
| | *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 | DecisionPoint provides mobile software tailored to meet its customers’ unique requirements. |
| Professional Services | The company’s professional services are as follows: 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 | These services involve installing a solution into the customer’s computer systems infrastructure (implementation) and then replicating that implementation out to all their operating locations (rollout). 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. |

## *Acquisitions*

Illume Mobile   In July 2012, DecisionPoint acquired Illume Mobile, based in Tulsa, Oklahoma. Illume Mobile develops and integrates mobile business applications, delivers advanced, mobile applications for many device platforms including iPad, iPhone and Android with functionality including 3D animation, mobile video, augmented reality, GPS, and more. DecisionPoint paid $1 million: $250,000 in cash and 617,284 shares of DPSI common stock. According to a 10-K filing by MacroSolve, Inc. (previous owner of Illume Mobile), Illume Mobile had software sales of approximately $1.2 million in 2011 putting the acquisition cost at approximately 0.8X sales.

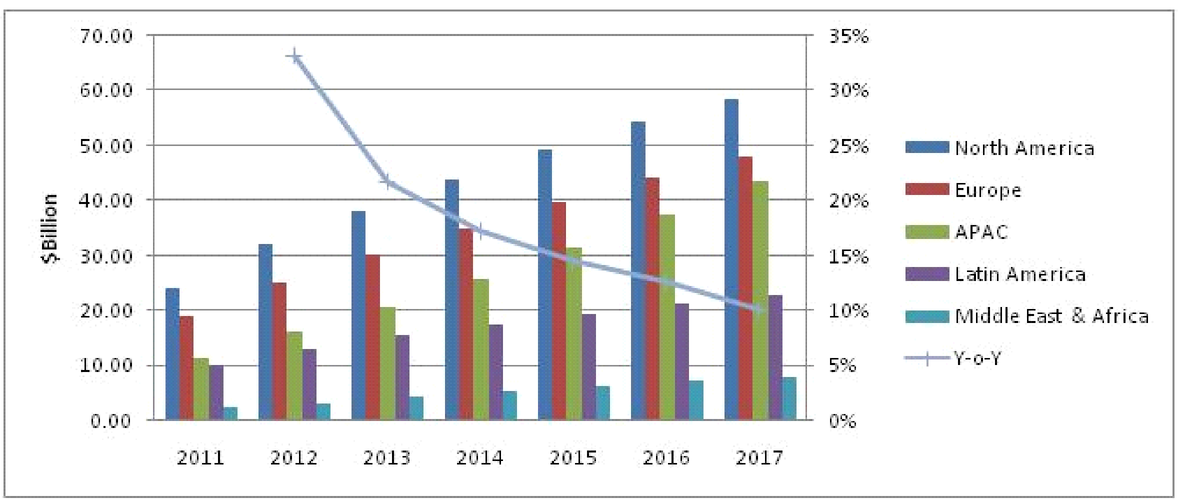
Apex Systems Integrators, Inc.   In June 2012, DecisionPoint acquired Apex Systems Integrators Inc., a provider of wireless mobile work force software. Apex products have applications in merchandising, sales and delivery; field service; logistics and transportation; and, warehouse management. The company paid $4.8 million in cash and could pay up to an additional $3.4 million in consideration of achieving certain levels of adjusted earnings before interest, depreciation, taxes and amortization (EBITDA) in the period ending June 2013. Apex' annual sales are approximately $3 million (Source: August 2012 8-K filing).

## *Enterprise Mobility Market*

A September 2012 report[1] (latest report) by research firm MarketsandMarkets projects the global bring your own device (BYOD) and enterprise mobility market to grow from $67.2 billion in 2011 to $181.4 billion by 2017 for a compound annual growth rate (CAGR) of 15.2%. A March 2013 report[2] by research firm Deloitte released by the National Association of Software and Services Companies (Nasscom) supports that view. The Nasscom report projects the global enterprise mobility market to grow at a CAGR of 15% into 2020 led by the abundance of smart devices at affordable prices. As DPSI's operations are focused in this market, a growing market should bode well for the company's future sales.

A major driver of growth in this market is the overall increase in network coverage as the subscriber base grows and telecommunication infrastructures provide more reliable connectivity. MarketsandMarkets says that the growing acceptance by large, small and medium businesses and the introduction of mobile devices such as smart phones, tablets and laptops will also drive growth.

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



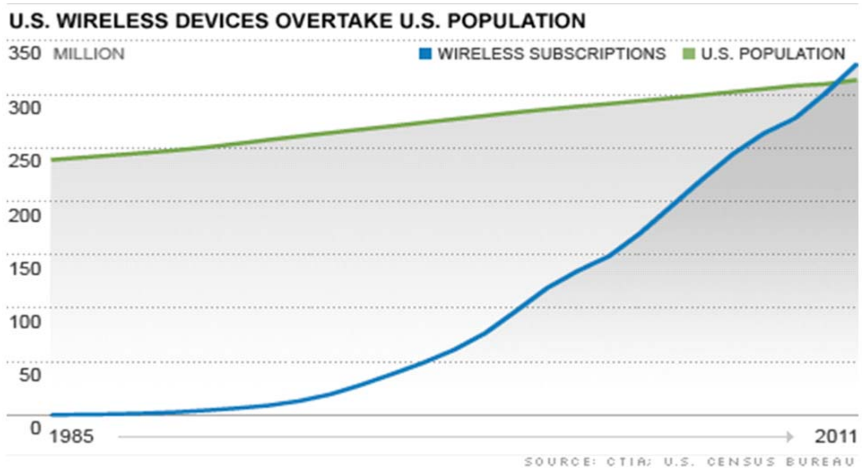

Source: MarketsandMarkets Analysis

[1] Bring-your-own-device (BYOD), Consumerization of IT (Co-IT) and Enterprise Mobility Market – Global Advancements, Business Models, Market Forecasts & Analysis 2012 – 2017.
[2] Enterprise Mobility: Building Tomorrow's Enterprise.

A trend toward greater mobility in the workforce should help drive demand for DecisionPoint's offerings through our forecast horizon. In October 2012 (latest report), research firm Gartner, Inc. said that mobile devices and applications were among the top ten strategic technologies for organizations in 2013. Gartner defines a strategic technology as one with the potential for significant impact on the enterprise in the next three years.

Gartner predicts that in 2013 mobile phones will over take PCs as the most common Web access device worldwide and that by 2015 over 80% of the handsets sold in mature markets will be smart phones. Gartner also predicts that by 2015 media tablet shipments will reach approximately 50% of laptop shipments.

Gartner says that enterprises won't be able to force users to give up their iPads and that they will need to support a greater variety of devices where the PC is just one of many environments that will need support.




The number of wireless devices in the US outnumbered the population in 2011 for the first time in history (see chart at right). Many Americans now have two or more devices (such as a smart phone or tablet) with a wireless plan. According to the wireless industry association 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.

Many employees bring their own devices to work which creates a security issue for the employer. Timely access to information is critical when mobile workers are located in remote places. Enterprise mobility as a service (such as provided by DecisionPoint) enables the mobile workforce to stay connected and productive as if they were in the office.

### *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 has 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. - Stratix is 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. (Nasdaq: AGYS) - Agilysys is a distributor of enterprise computer system solutions with $224 million in TTM revenue. One of their divisions provides services similar to those offered by DecisionPoint.

Sedlak Management Consultants – Sedlak is a supply chain consulting firm specializing in distribution consulting.

Peak Technologies, Inc. – Peak is 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. - Catalyst is 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 - Certain catalog and online equipment resellers 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 by 2015. In 2012, 32% of total revenue was derived from software and services with the remaining 68% from hardware sales.

Toward that end, DecisionPoint made three strategic acquisitions. The company acquired logistics consulting and systems integrator CMAC in December 2010. The CMAC business accounted for an estimated $12 million in revenue in 2012. DecisionPoint acquired 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 Apex and Illume Mobile acquisitions historically generated approximately $4.2 million in combined annual sales that we expect will grow to approximately $4.8 million in combined revenue in 2013. The 15% growth we project from these companies is in line with the industry growth rate which we believe is appropriate, as the acquisitions fill a large number of customers' needs. In January 2013 the company dedicated a team to expand Apex' sales throughout the US (previously sold in Canada).

### *Economic Outlook*

In April 2013, the International Monetary Fund (IMF) revised its projections for US economic growth to 1.9% in 2013 and 3% in 2014. These are slightly changed from earlier projections (January 2013) of 2.1% in 2013 and 3.1% in 2014. The IMF said that recent policy actions in the US have improved the short-term risk picture but a larger-than-expected fiscal adjustment from automatic spending cuts (the sequester) or failure to raise the debt ceiling could exert a stronger drag on growth.

In March 2013, The Conference Board also revised downward its projection for US economic growth in 2013 to 1.3% from an earlier projection of 1.6% made in January 2013.

As the company offers it products and services primarily in the US, a growing (albeit slowly) US economy should support sales growth as capital and software expenditures increase.

***4Q12 and FY12 Financial Results***

Total revenue in 4Q12 increased 9% to $17.4 million as field mobility sales grew. The net loss was $1.6 million or ($0.19) per share versus a net loss of $152,000 or ($0.02) per share. We projected 4Q12 revenue of $19 million and a net loss of $0.5 million or ($0.06) per share. Revenue was adversely affected by a delay in a significant customer's order due to the customer initiating an acquisition.

Gross margins decreased to 21.2% from 22.4% primarily due to lower sales of higher margin third party software and professional services.

SG&A expenses increased to $5 million from $3.3 million with the increased personnel and related expenses associated with the Illume Mobile and Apex acquisitions.

Interest expense increased to $300,000 from $156,000 as a result of increased debt levels related to the Apex acquisition.

Total revenue in 2012 increased 23% to $71.5 million primarily from an $8.2 million increase in hardware sales.

The net loss was $4.8 million or ($0.61) per share versus a net loss of $5.7 million or ($0.94) per share. Included in the net loss for 2011 was a $2.7 million pre-tax loss related to the extinguishment of debt.

Gross margins increased to 21.8% from 20.5% as higher margin services revenue increased.

SG&A expenses increased to $18.7 million from $13.6 million with the increased personnel and related expenses associated with the Illume Mobile and Apex acquisitions. Excluding the costs associated with completing those acquisitions, SG&A expenses would have been $16.5 million for an SG&A expense margin of 23.1%.

Interest expense decreased to $1 million from $1.2 million as a result of an exchange of subordinated debt for preferred stock and lower debt levels prior to the June 2012 issuance of debt to finance the Apex acquisition.

*Liquidity*

As of December 31, 2012, current liabilities exceeded current assets by $9.1 million. The company's current ratio was 0.6X versus 2X for the business services industry and its debt/equity ratio was 13.6X versus 1X for the industry. By our projections, the company should have sufficient finances to meet its operational needs though our forecast horizon.

Cash provided by operations for FY12 was $1.7 million consisting primarily of a $3.3 million decrease in working capital offset by a cash loss of $1.6 million. Cash used in investing, mainly for acquisitions, was $5.1 million. Cash provided by financing was $4.1 million mainly from the issuance of convertible stock and debt. Cash increased by $0.7 million to $1.1 million at December 31, 2012.

The company has a $10 million line of credit with an outstanding balance of $3.3 million and a term loan with a balance of $1 million with Silicon Valley Bank as of December 31, 2012. The line of credit carries an interest rate of 7.5% and had an available balance of $5 million as of December 31, 2012. The term loan matures in March 2016 and carries an interest rate of 7.5%.

DecisionPoint also has a $2.1 million term loan with Royal Bank of Canada (RBC) and a $1.7 million term loan with BDC Capital. The RBC loan matures June 2015 and carries an interest rate of 7%. The BDC loan matures June 2016 and carries an interest rate of 12%. As of December 31, 2012, the company was in compliance with the covenants of the Silicon Valley Bank line of credit and term loan but was not in compliance with the covenants of the RBC and BDC term loans but had received waivers from both institutions.

In December 2012, DecisionPoint raised $6.3 million through a private placement of 633,600 shares of 8% Series D convertible preferred stock. In January 2013, the company raised $0.7 million through a private placement of 70,600 shares of 8% Series D convertible preferred stock. The stated value of the preferred stock was $10.00 per share with each share having the option of being converted into 10 shares of common stock at any time at a conversion price of $1.00 per share.

DecisionPoint used $4.5 million of the proceeds to redeem all of its 20% Series C convertible preferred shares with the balance being used for general corporate purposes.

### ***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. Because of the uncertainties related to its lack of historical operations, the company may be hindered in its ability to anticipate and adapt to changes in sales, product costs or expenses.

*Acquisition risk* – Recent business combinations and acquisition transactions may not prove to 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 4.7 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 | 2013E | 2014E |
|---|---|---|---|---|---|
| Cash | 315 | 366 | 1,103 | 1,832 | 2,712 |
| Accounts and other receivables | 12,576 | 15,393 | 12,287 | 14,143 | 16,274 |
| Due from related party | - | - | 202 | - | - |
| Inventory | 898 | 706 | 811 | 929 | 1,064 |
| Deferred costs | 3,563 | 3,469 | 3,955 | 3,955 | 3,955 |
| Deferred tax assets | 55 | - | 48 | - | - |
| Prepaid expenses and other | 458 | 408 | 302 | 302 | 302 |
| Total current assets | 17,865 | 20,342 | 18,708 | 21,161 | 24,307 |
| Net property and equipment | 100 | 99 | 179 | 177 | 176 |
| Intangible assets | 2,729 | 2,214 | 6,023 | 4,089 | 2,528 |
| Goodwill | 5,509 | 5,539 | 8,571 | 8,571 | 8,571 |
| Deferred costs | 1,415 | 1,800 | 2,124 | 2,124 | 2,124 |
| Other assets | 173 | 175 | 205 | 205 | 205 |
| **Total assets** | **27,791** | **30,169** | **35,810** | **36,327** | **37,911** |
| | | | | | |
| Accounts payable | 9,244 | 8,947 | 11,080 | 12,697 | 14,534 |
| Accrued expenses and other | 4,882 | 2,505 | 2,895 | 3,332 | 3,834 |
| Line of credit | 4,364 | 4,024 | 3,430 | 2,430 | 1,430 |
| Current portion of debt | 1,000 | 1,000 | 1,800 | 1,800 | 1,800 |
| Due to related parties | 1,606 | 872 | 1 | - | - |
| Accrued earn out consideration | - | - | 1,186 | 1,186 | 1,186 |
| Unearned revenue | 5,715 | 6,756 | 7,409 | 8,528 | 9,813 |
| Total current liabilities | 26,811 | 24,104 | 27,801 | 29,973 | 32,598 |
| Unearned revenue | 1,850 | 2,509 | 2,883 | 2,676 | 3,070 |
| Long-term debt | 1,940 | 970 | 2,922 | 1,922 | 922 |
| Accrued earn out consideration | - | - | 159 | 159 | 159 |
| Deferred tax liabilities | - | 18 | 1,078 | 1,078 | 1,078 |
| Interest payable | 60 | 60 | 80 | 80 | 80 |
| **Total liabilities** | **30,661** | **27,661** | **34,923** | **35,888** | **37,907** |
| Preferred stock | 1,486 | 6,320 | 7,370 | 8,076 | 8,076 |
| Common stockholders' equity (deficit) | (4,356) | (3,812) | (6,483) | (7,637) | (8,072) |
| **Total stockholders' equity (deficit)** | **(2,870)** | **2,508** | **887** | **439** | **4** |
| **Total liabilities & stockholders' equity** | **27,791** | **30,169** | **35,810** | **36,327** | **37,911** |

Source: Company filings and Taglich Brothers' estimates

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

| | 2010A | 2011A | 2012A | 2013E | 2014E |
|---|---|---|---|---|---|
| Net sales | 56,244 | 58,359 | 71,501 | 82,300 | 94,700 |
| Cost of sales | 45,392 | 46,368 | 55,949 | 64,112 | 73,393 |
| Gross profit | 10,852 | 11,991 | 15,552 | 18,188 | 21,308 |
| SG&A | 9,610 | 13,597 | 18,661 | 18,650 | 21,200 |
| Operating income (loss) | 1,242 | (1,606) | (3,109) | (462) | 108 |
| Interest expense | 2,213 | 1,160 | 998 | 950 | 800 |
| Other (income) expense | 1,159 | 2,302 | (116) | (120) | (120) |
| Income (loss) before taxes | (2,130) | (5,068) | (3,991) | (1,292) | (573) |
| Income taxes | 78 | 100 | (125) | - | - |
| Net Income / (Loss) | (2,208) | (5,168) | (3,866) | (1,292) | (573) |
| Cumulative preferred stock dividends | (80) | (486) | (954) | (560) | (560) |
| Net income (loss) to common | (2,288) | (5,654) | (4,820) | (1,852) | (1,133) |
| EPS | (0.66) | (0.94) | (0.61) | (0.19) | (0.11) |
| Shares Outstanding | 3,462 | 6,020 | 7,901 | 9,525 | 10,125 |
| Margin Analysis | | | | | |
| Gross margin | 19.3% | 20.5% | 21.8% | 22.1% | 22.5% |
| SG&A | 17.1% | 23.3% | 26.1% | 22.7% | 22.4% |
| Operating margin | 2.2% | (2.8)% | (4.3)% | -0.6% | 0.1% |
| Pretax margin | (3.8)% | (8.7)% | (5.6)% | (1.6)% | -0.6% |
| Tax rate | (3.7)% | (2.0)% | 3.1% | 0.0% | 0.0% |
| Year / Year Growth | | | | | |
| Total Revenues | | 3.8% | 22.5% | 15.1% | 15.1% |
| Net Income | | 134.1% | NMF | NMF | NMF |
| EPS | | 42.1% | NMF | NMF | NMF |

Source: Company filings and Taglich Brothers' estimates

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

| | 3/12A | 6/12A | 9/12A | 12/12A | 2012A | 3/13E | 6/13E | 9/13E | 12/13E | 2013E | 3/14E | 6/14E | 9/14E | 12/14E | 2014E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 17,810 | 17,767 | 18,567 | 17,357 | 71,501 | 18,300 | 18,450 | 22,700 | 22,850 | 82,300 | 23,150 | 23,500 | 23,850 | 24,200 | 94,700 |
| Cost of sales | 14,057 | 13,989 | 14,223 | 13,680 | 55,949 | 14,256 | 14,373 | 17,683 | 17,800 | 64,112 | 17,941 | 18,213 | 18,484 | 18,755 | 73,393 |
| Gross profit | 3,753 | 3,778 | 4,344 | 3,677 | 15,552 | 4,044 | 4,077 | 5,017 | 5,050 | 18,188 | 5,209 | 5,288 | 5,366 | 5,445 | 21,308 |
| SG&A | 3,835 | 4,850 | 4,952 | 5,038 | 18,661 | 4,150 | 4,175 | 5,150 | 5,175 | 18,650 | 5,175 | 5,250 | 5,350 | 5,425 | 21,200 |
| Operating income (loss) | (82) | (1,072) | (608) | (1,361) | (3,109) | (106) | (98) | (133) | (125) | (462) | 34 | 38 | 16 | 20 | 108 |
| Interest expense | 142 | 206 | 350 | 300 | 998 | 300 | 250 | 200 | 200 | 950 | 200 | 200 | 200 | 200 | 800 |
| Other (income) expense | (29) | (20) | (7) | (73) | (116) | (30) | (30) | (30) | (30) | (120) | (30) | (30) | (30) | (30) | (120) |
| Income (loss) before taxes | (195) | (1,258) | (951) | (1,588) | (3,991) | (376) | (318) | (303) | (295) | (1,292) | (136) | (133) | (154) | (150) | (573) |
| Income taxes | 42 | 26 | 64 | (257) | (125) | - | - | - | - | - | - | - | - | - | - |
| Net Income / (Loss) | (237) | (1,284) | (1,015) | (1,331) | (3,866) | (376) | (318) | (303) | (295) | (1,292) | (136) | (133) | (154) | (150) | (573) |
| Cumulative preferred stock dividends | (222) | (239) | (248) | (244) | (954) | (140) | (140) | (140) | (140) | (560) | (140) | (140) | (140) | (140) | (560) |
| Net income (loss) to common | (459) | (1,523) | (1,263) | (1,575) | (4,820) | (516) | (458) | (443) | (435) | (1,852) | (276) | (273) | (294) | (290) | (1,133) |
| EPS | (0.06) | (0.20) | (0.15) | (0.19) | (0.61) | (0.06) | (0.05) | (0.05) | (0.04) | (0.19) | (0.03) | (0.03) | (0.03) | (0.03) | (0.11) |
| Shares Outstanding | 7,392 | 7,513 | 8,182 | 8,505 | 7,901 | 9,300 | 9,450 | 9,600 | 9,750 | 9,525 | 9,900 | 10,050 | 10,200 | 10,350 | 10,125 |
| Margin Analysis | | | | | | | | | | | | | | | |
| Gross margin | 21.1% | 21.3% | 23.4% | 21.2% | 21.8% | 22.1% | 22.1% | 22.1% | 22.1% | 22.1% | 22.5% | 22.5% | 22.5% | 22.5% | 22.5% |
| SG&A | 21.5% | 27.3% | 26.7% | 29.0% | 26.1% | 22.7% | 22.6% | 22.7% | 22.6% | 22.7% | 22.4% | 22.3% | 22.4% | 22.4% | 22.4% |
| Operating margin | (0.5)% | (6.0)% | (3.3)% | (7.8)% | (4.3)% | (0.6)% | (0.5)% | (0.6)% | (0.5)% | (0.6)% | 0.1% | 0.2% | 0.1% | 0.1% | 0.1% |
| Pretax margin | (1.1)% | (7.1)% | (5.1)% | (9.1)% | (5.6)% | (2.1)% | (1.7)% | (1.3)% | (1.3)% | (1.6)% | (0.6)% | (0.6)% | (0.6)% | (0.6)% | (0.6)% |
| Tax rate | (21.5)% | (2.1)% | (6.7)% | 16.2% | 3.1% | 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 | 39.1% | 34.4% | 12.9% | 9.2% | 22.5% | 2.8% | 3.8% | 22.3% | 31.6% | 15.1% | 26.5% | 27.4% | 5.1% | 5.9% | 15.1% |
| Net Income | (85.4)% | (66.9)% | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF |
| EPS | (83.7)% | (75.6)% | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF | NMF |

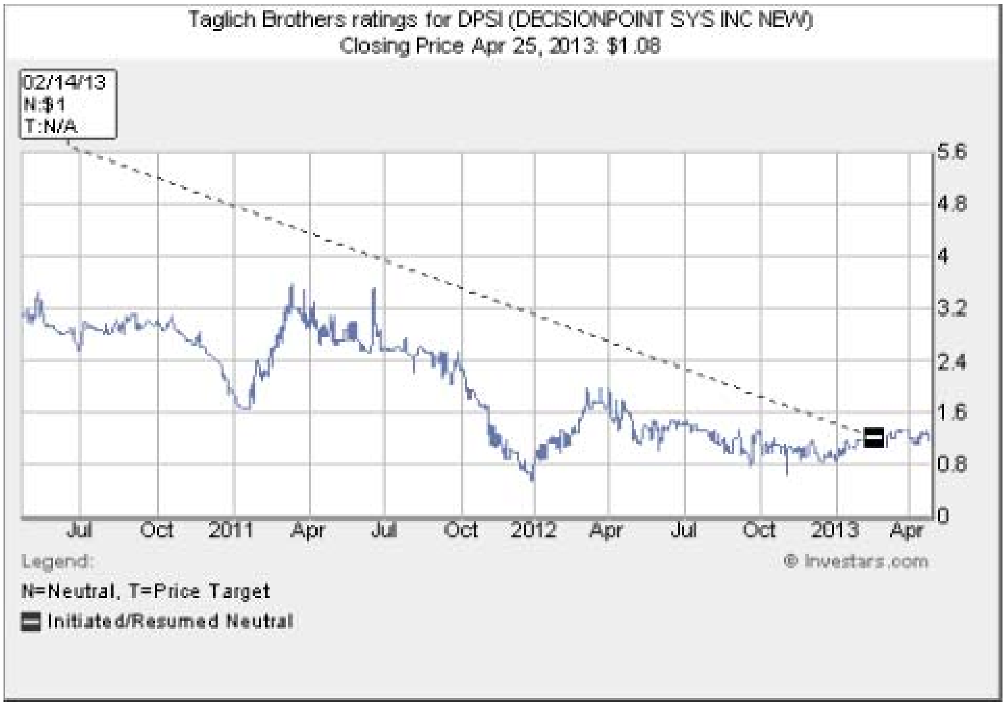
Source: Company filings and Taglich Brothers' estimates

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

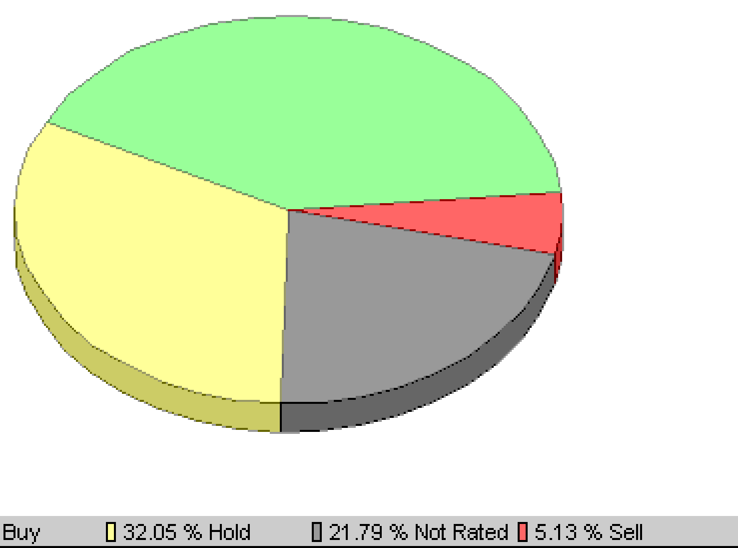
| | 2010A | 2011A | 2012A | 2013E | 2014E |
|---|---|---|---|---|---|
| Net income (loss) | (2,209) | (5,168) | (3,866) | (1,292) | (573) |
| Depreciation & amortization | 32 | 560 | 1,510 | 2,000 | 1,728 |
| Amortization of deferred financing costs | 905 | 140 | 183 | 183 | 183 |
| Employee stock-based compensation | 183 | 200 | 52 | 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 | - | | |
| ESOP compensation expense | 118 | 125 | 132 | 132 | 132 |
| Allowance for doubful accounts | - | - | 108 | 108 | 108 |
| Other income related to collection of note receivable | - | (405) | - | | |
| Deferred taxes | 330 | 73 | (256) | - | - |
| *Changes in assets and liabilities* | | | | | |
| Accounts receivable | (2,076) | (1,221) | 1,801 | (1,856) | (2,131) |
| Due from related party | - | - | 147 | (147) | - |
| Inventory | 349 | 193 | (98) | (118) | (135) |
| Deferred costs | (676) | (291) | (810) | - | - |
| Prepaid expenses and other | (347) | 80 | 182 | - | - |
| Other assets | (14) | (33) | (37) | - | - |
| Accounts payable | 2,563 | (39) | 946 | 1,617 | 1,838 |
| Acrrued expenses and other | (2,143) | (258) | 506 | 437 | 502 |
| Due to related parties | 65 | (735) | - | - | - |
| Unearned revenue | (46) | 1,701 | 705 | 1,119 | 1,285 |
| **Net cash provided by (used in) operations** | **(2,538)** | **(2,442)** | **1,719** | **2,749** | **3,504** |
| | | | | | |
| Acquisitions, net | 186 | (2,205) | (5,051) | - | - |
| Collection of note and other receivables | - | 555 | - | - | - |
| Capital expenditures | (43) | (49) | (64) | (64) | (64) |
| **Net cash (used in) provided by investing** | **143** | **(1,699)** | **(5,115)** | **(64)** | **(64)** |
| | | | | | |
| (Repayments) borrowings from line of credit | 1,789 | (340) | (594) | (1,000) | (1,000) |
| Proceeds from issuance of debt | - | 4,000 | 4,033 | - | - |
| 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) | (1,000) | (1,000) |
| Proceeds from exercise of employee stock options | 623 | - | - | - | - |
| Issuance of convertible preferred stock | 380 | - | 7,042 | 706 | - |
| Paid preferred stock financing costs | | | (1,020) | (102) | |
| Redemption of convertible preferred stock | - | - | (4,529) | - | - |
| Purchase of treasury stock | - | (250) | - | - | - |
| Paid financing costs | (159) | (109) | (270) | - | - |
| Holding share liability | (229) | (4) | - | - | - |
| Dividends paid | - | (90) | (651) | (560) | (560) |
| **Net Cash Provided by (Used in) Financing** | **2,569** | **4,192** | **4,118** | **(1,956)** | **(2,560)** |
| Foreign currency translation | - | - | 15 | - | - |
| **Net Change in Cash** | **174** | **51** | **737** | **729** | **880** |
| **Cash - Beginning of Period** | **141** | **315** | **366** | **1,103** | **1,832** |
| **Cash - End of Period** | **315** | **366** | **1,103** | **1,832** | **2,712** |

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** | **17** |
| 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. 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 5,500 shares of DPSI convertible preferred stock and 275,463 warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In December 2012, Taglich Brothers Inc. served as the exclusive 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:

Agilysys, Inc. (Nasdaq: AGYS)
Motorola Solutions, Inc. (NYSE: MSI)

## Meaning of Ratings

*Buy*

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

*Speculative Buy*

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

*Neutral*

We will remain neutral pending certain developments.

*Underperform*

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

*Sell*

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

*Dropping Coverage*

We have discontinued research coverage due to acquisition of the company, termination of research services, non-payment for such services or departure of the analyst.

**Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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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.