

Research Report – Update

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

DecisionPoint Systems, Inc.

Neutral

John Nobile

June 7, 2013

DPSI \$0.90 — (OTC BB)

	<u>2011A</u>	<u>2012A</u>	<u>2013E</u>	<u>2014E</u>
Revenues (millions)	\$58.4	\$71.5	\$71.0	\$81.9
Earnings (loss) per share	\$(0.94)	\$(0.61)	\$(0.65)	\$(0.34)

52-Week range	\$1.36 – \$0.55	Fiscal year ends:	December
Common shares out as of 4/30/13	9.1 million	Revenue per share (TTM)	\$8.22
Approximate float	4.8 million	Price/Sales (TTM)	0.1X
Market capitalization	\$8 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.

A March 2013 report released by the National Association of Software and Services Companies projected the global enterprise mobility market to grow at a CAGR of 15% into 2020. As DPSI's operations are focused in this market, a growing market should bode well for the company's future 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 39%) by 2015.

In May 2013, DecisionPoint announced it extended its support for Apple Inc.'s mobile operating system (iOS) by adapting DecisionPoint's APEXWare field service software to the iOS platform. Also in May 2013, DecisionPoint announced that its content delivery application, ContentSentral, was available on Motorola's ET1 tablet.

1Q13 revenue was adversely affected by a decrease in mobile computing system upgrades (the company does not disclose the specifics). A change in Apple Inc.'s iOS mobile operating system is delaying revenue until 2H13. We have reduced our estimates accordingly.

We project FY13 revenue of \$71 million and a net loss of \$(0.65) per share, down from previous projections of \$82.3 million revenue and a net loss of \$(0.19) per share. We project FY14 revenue of \$81.9 million and a net loss of \$(0.34) per share, down from previous projections of \$94.7 million revenue and a net loss of \$(0.11) per share.

DecisionPoint reported (May 16, 2013) 1Q13 revenue decreased 23% to \$13.8 million. The net loss was \$(0.27) per share versus a net loss of \$(0.06) per share in 1Q12. We projected 1Q13 revenue of \$18.3 million and a net loss of \$(0.06) per share.

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

Recommendation and Valuation

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

DPSI currently trades at a multiple of 0.1X TTM sales. A comparison group of 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 \$4.68 per share (on a fully diluted basis of 17,500 shares), discounted to a twelve-month value of \$4.42 per share, values the stock at approximately \$0.90 per share. Our discount factor of 8% reflects the stock’s beta of 0.99.

Recent Developments

New Principal Financial Officer Appointed – On May 17, 2013, Michael Roe was appointed principal financial officer. Was VP-Finance from October 2012 to May 2013. Was an independent financial consultant for one year. From October 2006 to October 2011, chief accounting officer for Metagenics, Inc., a global life sciences company. Previously worked with KPMG LLP in Orange County, California. Certified Public Accountant and member of the American Institute of Certified Public Accountants.

Extended Support for Apple Inc.’s Mobile Operating System – In May 2013, DecisionPoint announced it extended its support for Apple’s mobile operating system (iOS) by migrating DecisionPoint’s APEXWare field service software to the iOS platform.

DecisionPoint’s Content Delivery Application Available on Motorola ET1 – In May 2013, DecisionPoint announced that its content delivery application, ContentSentral, was available on Motorola’s ET1 tablet. ContentSentral converts a tablet computer into a mobile presentation and productivity tool enabling workers to have instant access to enterprise information such as the latest assembly diagrams, building plans, and procedure videos.

Business

DecisionPoint Systems, headquartered in Irvine CA, 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 (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

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. In January 2013 the company dedicated a team to expand Apex' sales throughout the US (previously sold in Canada).

We project FY13 sales of \$71 million, down from earlier projections of \$82.3 million. Our revision reflects recent (1Q13) results, an additional \$2 million Mission Linen software contract starting in 2Q13, and a delay in revenue as customers put off purchases as they wait for upcoming changes to Apple's iOS mobile operating system (expected to be released 9/13). We project a net loss of \$6.1 million or (\$0.65) per share, larger than our earlier loss projection of \$1.9 million or (\$0.19) per share.

Gross margins are projected to improve to 22.1% in FY13 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 increase to \$20 million and SG&A margins are projected to rise to 28.2% from 26.1% in FY12 due to recognizing a full year of expenses from the Apex and Illume Mobile acquisitions (versus ½ year in 2012) on lower revenue.

	2012A	2013E	2014E
Hardware sales	48,500	46,132	50,700
Software & services sales	23,000	24,840	31,200
Net sales	71,500	70,972	81,900
Cost of hardware sales	40,200	38,243	42,030
Cost of software & services sales	15,800	17,065	21,434
Cost of sales	56,000	55,309	63,465
Gross profit	15,500	15,663	18,435
Hardware gross margin	17.1%	17.1%	17.1%
Software & services gross margin	31.3%	31.3%	31.3%
Total gross margin	21.8%	22.1%	22.5%

Source: Company filings and Taglich Brothers' estimates

Interest expense will increase to \$1.3 million from \$1 million in 2012 due to higher levels of debt. We project the company will pay no taxes going forward as tax benefits offset taxes (as they have averaged over the past three years).

We project \$2.7 million cash used in operations reflecting a cash loss of \$2.2 million and a \$0.5 million increase in working capital. Working capital will increase due to an increase in prepaid expenses and a decrease in accounts payable. A \$3 million increase in debt will be insufficient to cover cash used in operations and dividend payments, resulting in cash decreasing by \$0.8 million to \$314,000 million at December 31, 2013.

We project FY14 sales will grow 15% to \$81.9 million, in line with the industry growth rate, and a net loss of \$3.4 million or (\$0.34) per share. Our projections have been lowered from revenue of \$94.7 million and a net loss of \$1.1 million or (\$0.11) per share due to lower sales than previously anticipated.

DecisionPoint Systems, Inc.

2014 gross margins are projected at 22.5% versus 22.1% in FY13 as sales of higher margin software and services increase. SG&A expenses should remain at \$20 million as the company reduces non-essential expenses and integrates the acquisitions of Apex and Illume Mobile. 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 24.4% in 2014 from 28.2% in 2013. Interest expense is projected at \$1.1 million as the company pays down debt. We project the company will pay no taxes.

We project \$1.4 million cash provided by operations from cash earnings of \$189,000 and a \$1.2 million decrease in working capital. Working capital will decrease due to an increase in accounts payable and unearned revenue, offset in part by an increase in accounts receivable. Cash from operations will not be sufficient to cover debt repayments, dividends, and capital expenditures. Cash will decrease by \$60,000 to \$254,000 at December 31, 2014.

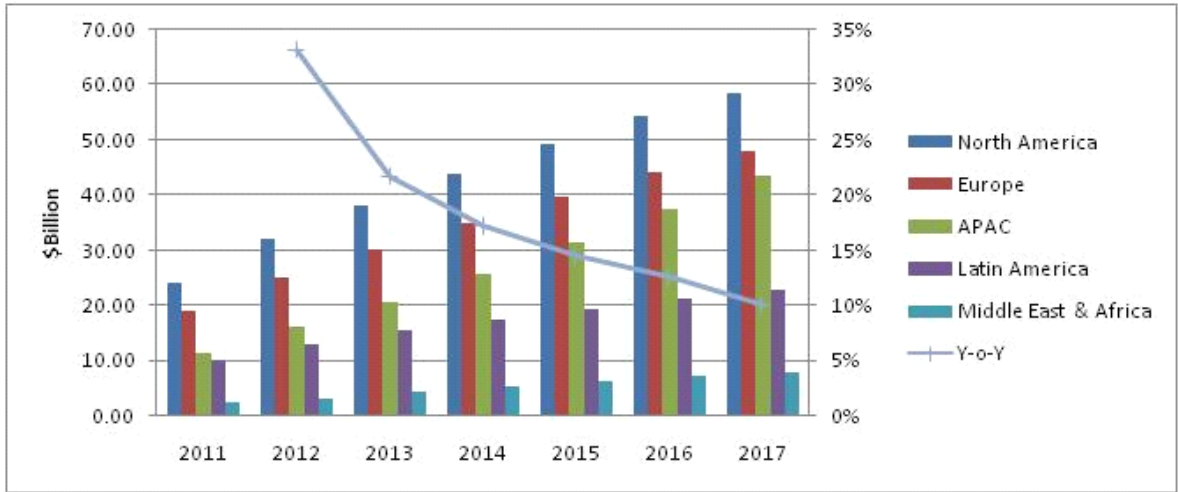
Products and Services

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.

Enterprise Mobility Market

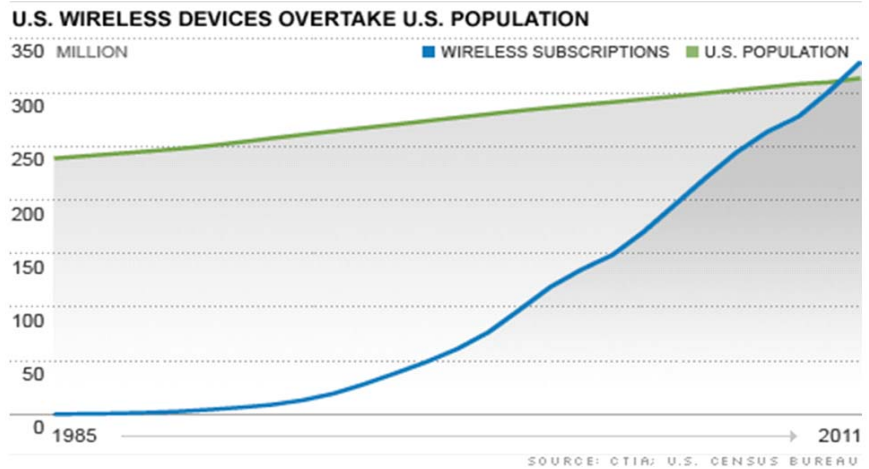
A March 2013 report¹ by research firm Deloitte released by the National Association of Software and Services Companies (Nasscom) projects the global enterprise mobility market to grow at a CAGR of 15% into 2020 led by the abundance of smart devices at affordable prices. As DPSI’s operations are focused in this market, a growing market should bode well for the company’s future sales.

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



Source: MarketsandMarkets Analysis

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



In February 2013, Forrester Research said that in 2012 29% of the global information workforce used three or more devices, worked from multiple locations, and used many software applications. This was up from 23% in 2011. Forrester Research projects tablets to triple to 905 million for work and home globally by 2017. A trend toward greater mobility in the workforce should help drive demand for DecisionPoint’s offerings through our forecast horizon.

¹ Enterprise Mobility: Building Tomorrow’s Enterprise.

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.	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 \$224 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 - 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. 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 1Q13, 39% of total revenue was derived from software and services with the remaining 61% from hardware sales. In 1Q12, 28% of total revenue was derived from software and services with the remaining 72% from hardware sales.

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 or failure to raise the debt ceiling could exert a stronger drag on growth. In May 2013, the IMF said that the magnitude of recent budget cuts in the US was too much and was adversely affecting growth. Most economists think the US economy would be growing much more quickly were it not for the efforts to shrink the deficit. In May 2013, the Congressional Budget Office said that the deficit will fall from seven percent of the economy in 2012 or \$1.1 trillion, to four percent in 2013 or \$0.6 trillion, making this the sharpest contraction in the deficit since 1969.

US GDP increased 2.4% in 1Q13. Contributing to this growth were increases in inventory investments, manufacturing, and consumer spending.

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

1Q13 Financial Results

1Q13 revenue decreased 23% to \$13.8 million primarily due to a 35% decrease in hardware sales partially offset by increased software (up 32%) and services (up 5%) sales. The net loss was \$2.3 million or (\$0.27) per share versus a net loss of \$459,000 or (\$0.06) per share. We projected 1Q13 revenue of \$18.3 million and a net loss of \$0.5 million or (\$0.06) 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 decreased to 20.5% from 21.1% primarily due to the amortization of acquired intangible software assets offset in part by an increase in higher margin software and services sales.

SG&A expenses increased to \$5 million from \$3.8 million with the increased personnel and related expenses associated with the Illume Mobile and Apex acquisitions.

Interest expense increased to \$226,000 from \$142,000 as a result of increased debt levels related to the Apex acquisition.

Liquidity

As of March 31, 2013, current liabilities exceeded current assets by \$10.3 million and the company's current ratio was 0.6X versus 2X for the business services industry. By our projections, the company will need to raise \$3.8 million in 2013 in order to meet its operational needs through our forecast horizon.

Cash used in operations for the first three months of FY13 was \$0.8 million consisting primarily of a \$1.5 million cash loss offset in part by a \$0.6 million decrease in working capital. Working capital decreased due to a decline in accounts receivable partially offset by a decrease in accounts payable. Cash used in operations, minimal capital expenditures, and financing activities reduced cash by \$0.8 million to \$335,000 at March 31, 2013.

The company has a \$10 million line of credit and term loans extended by Silicon Valley Bank. As of March 31, 2013 the outstanding balances were \$3 million on the line of credit and \$1.7 million on the term loans. The line of credit carries an interest rate of 7% and had an available balance of \$4.1 million as of March 31, 2013. The term loans mature in March 2016 and carry an interest rate of 7.5%. As of March 31, 2013, the company was in compliance with the covenants of the Silicon Valley Bank line of credit and term loan

DecisionPoint also has a \$1.8 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 March 31, 2013, the company was not in compliance with the covenants of the RBC and BDC term loans but had received waivers from both institutions. The RBC loan requires a fixed charge coverage ratio of not less than 1.25:1 of which DecisionPoint had a ratio of 0.78:1. The company was under the minimum working capital requirement on the BDC loan by \$0.8 million.

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 4.8 million shares in the float and the average daily volume is approximately 12,500 shares.

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

DecisionPoint Systems, Inc.

Consolidated Balance Sheets
(in thousands \$)

	<u>2010A</u>	<u>2011A</u>	<u>2012A</u>	<u>3/13A</u>	<u>2013E</u>	<u>2014E</u>
Cash	315	366	1,103	335	314	254
Accounts receivable	12,576	15,393	12,287	10,571	12,196	14,074
Due from related party	-	-	202	198	-	-
Inventory	898	706	811	1,458	802	920
Deferred costs	3,563	3,469	3,955	4,028	4,028	4,028
Deferred tax assets	55	-	48	48	-	-
Prepaid expenses and other	<u>458</u>	<u>408</u>	<u>302</u>	<u>650</u>	<u>650</u>	<u>650</u>
Total current assets	17,865	20,342	18,708	17,288	17,990	19,925
Net property and equipment	100	99	179	163	177	176
Intangible assets	2,729	2,214	6,023	5,463	4,089	2,528
Goodwill	5,509	5,539	8,571	8,518	8,518	8,518
Deferred costs	1,415	1,800	2,124	1,981	1,981	1,981
Other assets	<u>173</u>	<u>175</u>	<u>205</u>	<u>171</u>	<u>171</u>	<u>171</u>
Total assets	<u>27,791</u>	<u>30,169</u>	<u>35,810</u>	<u>33,584</u>	<u>32,926</u>	<u>33,299</u>
Accounts payable	9,244	8,947	11,080	10,023	10,953	12,568
Accrued expenses and other	4,882	2,505	2,895	3,793	2,874	3,316
Line of credit	4,364	4,024	3,430	3,107	3,110	3,110
Current portion of debt	1,000	1,000	1,800	1,863	1,800	1,800
Due to related parties	1,606	872	1	-	-	-
Accrued earn out consideration	-	-	1,186	1,164	1,129	1,131
Unearned revenue	<u>5,715</u>	<u>6,756</u>	<u>7,409</u>	<u>7,664</u>	<u>7,354</u>	<u>8,487</u>
Total current liabilities	26,811	24,104	27,801	27,614	27,220	30,412
Unearned revenue	1,850	2,509	2,883	2,700	2,380	2,460
Long-term debt	1,940	970	2,922	3,294	6,222	5,722
Accrued earn out consideration	-	-	159	156	156	156
Deferred tax liabilities	-	18	1,078	1,055	1,055	1,055
Other long-term liabilities	<u>60</u>	<u>60</u>	<u>80</u>	<u>83</u>	<u>83</u>	<u>83</u>
Total liabilities	30,661	27,661	34,923	34,902	37,116	39,888
Preferred stock	1,486	6,320	7,370	7,450	7,690	8,010
Common stockholders' equity (deficit)	<u>(4,356)</u>	<u>(3,812)</u>	<u>(6,483)</u>	<u>(8,768)</u>	<u>(11,880)</u>	<u>(14,599)</u>
Total stockholders' equity (deficit)	<u>(2,870)</u>	<u>2,508</u>	<u>887</u>	<u>(1,318)</u>	<u>(4,190)</u>	<u>(6,589)</u>
Total liabilities & stockholders' equity	<u>27,791</u>	<u>30,169</u>	<u>35,810</u>	<u>33,584</u>	<u>32,926</u>	<u>33,299</u>

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	70,972	81,900
Cost of sales	<u>45,392</u>	<u>46,368</u>	<u>55,949</u>	<u>55,309</u>	<u>63,465</u>
Gross profit	10,852	11,991	15,552	15,663	18,435
SG&A	<u>9,610</u>	<u>13,597</u>	<u>18,661</u>	<u>20,033</u>	<u>20,000</u>
Operating income (loss)	1,242	(1,606)	(3,109)	(4,370)	(1,565)
Interest expense	2,213	1,160	998	1,276	1,100
Other (income) expense	<u>1,159</u>	<u>2,302</u>	<u>(116)</u>	<u>(96)</u>	<u>(120)</u>
Income (loss) before taxes	(2,130)	(5,068)	(3,991)	(5,550)	(2,545)
Income taxes / (benefit)	<u>78</u>	<u>100</u>	<u>(125)</u>	<u>(327)</u>	<u>-</u>
Net Income / (Loss)	<u>(2,208)</u>	<u>(5,168)</u>	<u>(3,866)</u>	<u>(5,223)</u>	<u>(2,545)</u>
Cumulative preferred stock dividends	<u>(80)</u>	<u>(486)</u>	<u>(954)</u>	<u>(880)</u>	<u>(880)</u>
Net income (loss) to common	<u>(2,288)</u>	<u>(5,654)</u>	<u>(4,820)</u>	<u>(6,103)</u>	<u>(3,425)</u>
EPS	<u>(0.66)</u>	<u>(0.94)</u>	<u>(0.61)</u>	<u>(0.65)</u>	<u>(0.34)</u>
Shares Outstanding	3,462	6,020	7,901	9,355	10,125
<u>Margin Analysis</u>					
Gross margin	19.3%	20.5%	21.8%	22.1%	22.5%
SG&A	17.1%	23.3%	26.1%	28.2%	24.4%
Operating margin	2.2%	(2.8)%	(4.3)%	(6.2)%	-1.9%
Pretax margin	(3.8)%	(8.7)%	(5.6)%	(7.8)%	(3.1)%
Tax rate	(3.7)%	(2.0)%	3.1%	5.9%	0.0%
<u>Year / Year Growth</u>					
Total Revenues		3.8%	22.5%	-0.7%	15.4%
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 \$)

	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	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	13,772	16,500	20,300	20,400	70,972	20,400	20,450	20,500	20,550	81,900
Cost of sales	14,057	13,989	14,223	13,680	55,949	10,948	12,787	15,748	15,826	55,309	15,808	15,847	15,886	15,924	63,465
Gross profit	3,753	3,778	4,344	3,677	15,552	2,824	3,713	4,552	4,574	15,663	4,592	4,603	4,614	4,626	18,435
SG&A	3,835	4,850	4,952	5,038	18,661	5,033	5,000	5,000	5,000	20,033	5,000	5,000	5,000	5,000	20,000
Operating income (loss)	(82)	(1,072)	(608)	(1,361)	(3,109)	(2,209)	(1,287)	(448)	(426)	(4,370)	(408)	(397)	(386)	(374)	(1,565)
Interest expense	142	206	350	300	998	226	350	350	350	1,276	300	300	250	250	1,100
Other (income) expense	(29)	(20)	(7)	(73)	(116)	(6)	(30)	(30)	(30)	(96)	(30)	(30)	(30)	(30)	(120)
Income (loss) before taxes	(195)	(1,258)	(951)	(1,588)	(3,991)	(2,429)	(1,607)	(768)	(746)	(5,550)	(678)	(667)	(606)	(594)	(2,545)
Income taxes / (benefit)	42	26	64	(257)	(125)	(327)	-	-	-	(327)	-	-	-	-	-
Net Income / (Loss)	(237)	(1,284)	(1,015)	(1,331)	(3,866)	(2,102)	(1,607)	(768)	(746)	(5,223)	(678)	(667)	(606)	(594)	(2,545)
Cumulative preferred stock dividends	(222)	(239)	(248)	(244)	(954)	(220)	(220)	(220)	(220)	(880)	(220)	(220)	(220)	(220)	(880)
Net income (loss) to common	(459)	(1,523)	(1,263)	(1,575)	(4,820)	(2,322)	(1,827)	(988)	(966)	(6,103)	(898)	(887)	(826)	(814)	(3,425)
EPS	(0.06)	(0.20)	(0.15)	(0.19)	(0.61)	(0.27)	(0.19)	(0.10)	(0.10)	(0.65)	(0.09)	(0.09)	(0.08)	(0.08)	(0.34)
Shares Outstanding	7,392	7,513	8,182	8,505	7,901	8,621	9,450	9,600	9,750	9,355	9,900	10,050	10,200	10,350	10,125
<u>Margin Analysis</u>															
Gross margin	21.1%	21.3%	23.4%	21.2%	21.8%	20.5%	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%	36.5%	30.3%	24.6%	24.5%	28.2%	24.5%	24.4%	24.4%	24.3%	24.4%
Operating margin	(0.5)%	(6.0)%	(3.3)%	(7.8)%	(4.3)%	(16.0)%	(7.8)%	(2.2)%	(2.1)%	(6.2)%	-2.0%	-1.9%	-1.9%	-1.8%	-1.9%
Pretax margin	(1.1)%	(7.1)%	(5.1)%	(9.1)%	(5.6)%	(17.6)%	(9.7)%	(3.8)%	(3.7)%	(7.8)%	(3.3)%	(3.3)%	(3.0)%	(2.9)%	(3.1)%
Tax rate	(21.5)%	(2.1)%	(6.7)%	16.2%	3.1%	13.5%	0.0%	0.0%	0.0%	5.9%	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%	-7.1%	9.3%	17.5%	-0.7%	48.1%	23.9%	1.0%	0.7%	15.4%
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

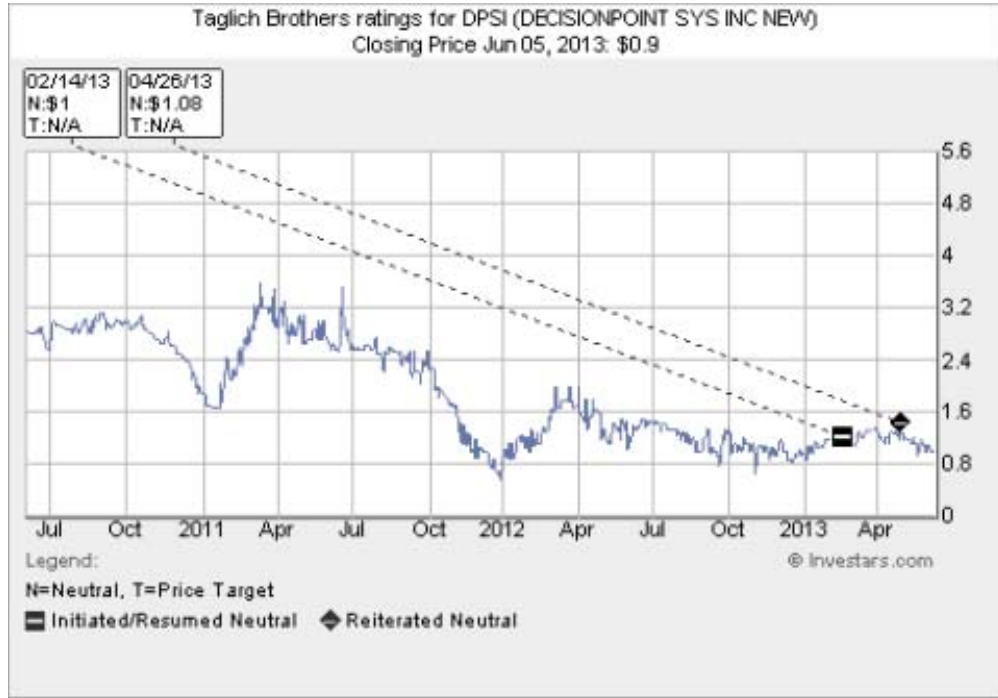
DecisionPoint Systems, Inc.

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

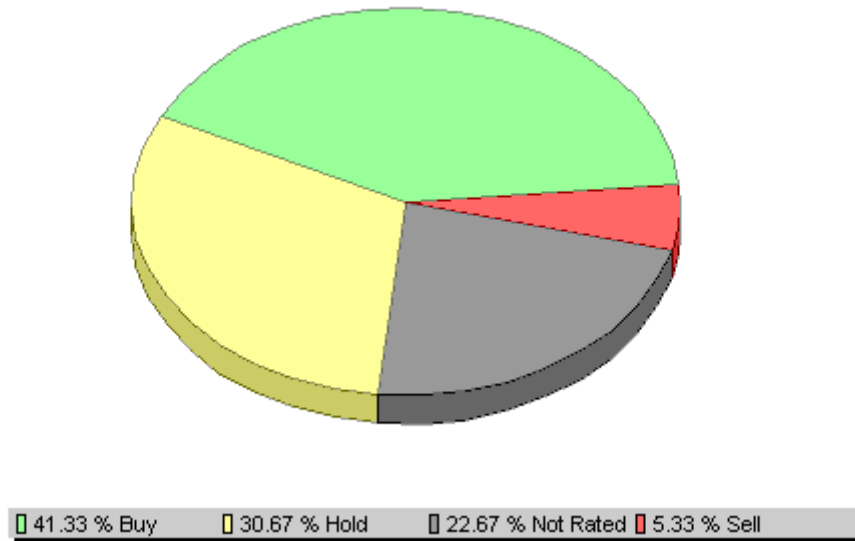
	2010A	2011A	2012A	3mos13A	2013E	2014E
Net income (loss)	(2,209)	(5,168)	(3,866)	(2,102)	(5,223)	(2,545)
Depreciation & amortization	32	560	1,510	502	2,000	1,728
Amortization of deferred financing costs	905	140	183	54	216	216
Employee stock-based compensation	183	200	52	5	52	52
Non-employee stock-based 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	-	4	4	-
ESOP compensation expense	118	125	132	35	140	140
Allowance for doubtful accounts	-	-	108	21	84	84
Other income related to collection of note receivable	-	(405)	-	-	-	-
Deferred taxes	330	73	(256)	-	-	-
<i>Changes in assets and liabilities</i>						
Accounts receivable	(2,076)	(1,221)	1,801	1,686	91	(1,878)
Due from related party	-	-	147	-	(147)	-
Inventory	349	193	(98)	(647)	9	(118)
Deferred costs	(676)	(291)	(810)	70	70	-
Prepaid expenses and other	(347)	80	182	(259)	(348)	-
Other assets	(14)	(33)	(37)	-	34	-
Accounts payable	2,563	(39)	946	(1,056)	(127)	1,615
Accrued expenses and other	(2,143)	(258)	506	763	(21)	442
Due to related parties	65	(735)	-	-	-	-
Unearned revenue	(46)	1,701	705	87	(55)	1,133
Net cash provided by (used in) operations	(2,538)	(2,442)	1,719	(837)	(2,707)	1,384
Acquisitions, net	186	(2,205)	(5,051)	-	-	-
Collection of note and other receivables	-	555	-	-	-	-
Capital expenditures	(43)	(49)	(64)	(9)	(64)	(64)
Net cash (used in) provided by investing	143	(1,699)	(5,115)	(9)	(64)	(64)
(Repayments) borrowings from line of credit	1,789	(340)	(594)	(320)	(320)	-
Proceeds from issuance of debt	-	4,000	4,033	1,000	3,800	-
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)	(483)	(500)	(500)
Proceeds from exercise of employee stock options	623	-	-	-	-	-
Issuance of convertible preferred stock	380	-	7,042	-	-	-
Paid preferred stock financing costs	-	-	(1,020)	-	-	-
Redemption of convertible preferred stock	-	-	(4,529)	-	-	-
Purchase of treasury stock	-	(250)	-	-	-	-
Paid financing costs	(159)	(109)	(270)	(118)	(118)	-
Holding share liability	(229)	(4)	-	-	-	-
Dividends paid	-	(90)	(651)	-	(880)	(880)
Net Cash Provided by (Used in) Financing	2,569	4,192	4,118	79	1,982	(1,380)
Foreign currency translation	-	-	15	(1)	-	-
Net Change in Cash	174	51	737	(768)	(789)	(60)
Cash - Beginning of Period	141	315	366	1,103	1,103	314
Cash - End of Period	315	366	1,103	335	314	254

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:

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

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.

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.