

Research Note

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

DecisionPoint Systems, Inc.

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December 15, 2016

DPSI \$2.18 — (OTC)

	2014A*	2015A*	9m16A*
Revenues (millions)	\$50.6	\$33.8	\$22.4
Earnings (loss) per share	(\$0.07)	(\$0.43)	

52-Week range	\$8.00 – \$0.01	Fiscal year ends:	December
Common shares out as of 9/30/16	6.0 million	Revenue per share (TTM)	\$4.94
Approximate float	6.0 million	Price/Sales (TTM)	0.4X
Market capitalization	\$13 million	Price/Sales (FY2017)E	NA
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2017)E	NA

**Unaudited*

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:

The lack of current and comprehensive audited financial statements preclude an investment rating on this stock.

In October 2016, DecisionPoint announced a recapitalization that included a 500:1 reverse split of the company's common stock and the conversion of all outstanding series of preferred stock and all convertible debt into common stock.

The company has not filed financial statements with the SEC since November 2015, but recently reported its unaudited financial results in a press release on November 30, 2016.

DecisionPoint reported 3Q16 revenue decreased 1% to \$8 million. Net income from continuing operations was \$136,000 versus net income from continuing operations of \$53,000 in 3Q15. Gross margins increased to 20.2% from 19.1%. SG&A expenses decreased to \$1.4 million from \$1.6 million. Interest expense decreased to \$70,000 from \$86,000. As of September 30, 2016, the company's equity position was nominal.

****Please view our disclosures on pages 8 - 10.***

Business

DecisionPoint Systems, headquartered in Irvine CA, is a provider and integrator of mobility and wireless systems to business organizations. The company designs, deploys and supports mobile computing and wireless systems that enable customers to access employer’s data networks at various locations (i.e. the retail selling floor, warehouse loading dock or on the road making deliveries via laptops, tablets, and smart phones).

The company also develops and integrates data capture equipment including bar code scanners and radio frequency identification (RFID) readers.

As a value added reseller (VAR) for many hardware and software suppliers (table at right), DecisionPoint offers professional services such as integration, customization and consulting with the products it offers. DecisionPoint’s services include consulting, proprietary and third party software, and software customization. The company’s supply chain systems integration offerings include warehouse management systems, transportation management systems, and enterprise resource planning systems.

<u>Hardware Suppliers</u>	<u>Software Suppliers</u>
Apple	AirWatch
Intermec	Verifone GlobalBay Mobile Technologies
Motorola	XRS
Zebra Technologies	Wavelink
Datamax-O’Neil	

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

Recapitalization

In October 2016, DecisionPoint announced a reverse split of the company's common stock at a ratio of 500:1, the conversion of all outstanding classes of preferred stock to common stock, the conversion of outstanding bridge and convertible debt to common stock, and the conversion of certain payables owed to directors to common stock.

As a result of the recapitalization, all outstanding series of preferred stock and all convertible debt have been converted into common stock. DecisionPoint currently has approximately 6 million shares of common stock outstanding.

3Q and Nine-Months 2016 Financial Results

The company has not filed financial statements with the SEC since November 2015. The following unaudited financial information is taken from press releases dated August 22, 2016 and November 30, 2016.

3Q16 - Revenue decreased 1% to \$8 million. Net income from continuing operations was \$136,000 versus net income from continuing operations of \$53,000 in 3Q15. Gross margins increased to 20.2% from 19.1%. SG&A expenses decreased to \$1.4 million from \$1.6 million. Interest expense decreased to \$70,000 from \$86,000.

The company said that third quarter results were reported for continuing operations only, as the recapitalization which was approved by shareholders September 30, 2016 created a new equity structure that eliminated significant preferred stock, preferred stock dividend obligations, and other expenses and obligations.

DecisionPoint had approximately six million shares of common stock outstanding as of September 30, 2016.

Nine-Months 2016 - Revenue decreased 16% to \$22.4 million. Net income from continuing operations was \$339,000 versus a net loss from continuing operations of \$405,000. Gross margins remained flat at 19.9%. SG&A expenses decreased to \$3.9 million from \$5.8 million. Interest expense remained relatively flat at \$293,000.

Liquidity - As of September 30, 2016, cash was \$2.6 million. Current liabilities exceeded current assets by \$3 million and the company's current ratio was 0.8X versus 1.1X for the business services industry. Total debt was \$4.5 million of which \$3.4 million was classified as current.

In August 2016, DecisionPoint entered into a commercial banking relationship with Union Bank and CapitalSource Business Financial Group as the company's primary line-of-credit lender. The new relationship replaces the company's previous commercial banker and primary lender, where the line-of-credit has been fully repaid and closed.

	Nine Months Ended (in thousands \$)	
	9/16A	9/15A
Net sales	22,362	26,524
Cost of sales	17,916	21,247
Gross profit	4,447	5,278
SG&A	3,877	5,758
Operating income (loss)	570	(481)
Interest expense	293	299
Adjustment of warrant liabilities	(78)	(437)
Other (income) expense	(5)	(19)
Income (loss) before taxes	361	(324)
Income taxes	22	81
Income (loss) from continuing ops.	339	(405)
<u>Margin Analysis</u>		
Gross margin	19.9%	19.9%
SG&A	17.3%	21.7%
Operating margin	2.5%	(1.8)%
Source: Company press release		

DecisionPoint's three-year, \$6 million revolving line-of-credit carries an interest rate of 1.25 points over the prime rate and is secured by substantially all of DecisionPoint's assets.

Risks

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

Non-reporting company –As a non-reporting company, DecisionPoint is not required to provide annual audited financial statements with the SEC.

Rapidly changing industry - Customer requirements for mobile computing products and services are rapidly evolving. To keep up with new customer requirements, DecisionPoint must frequently introduce new products and services and enhance existing products and services which requires significant investments in research and development, which it does not undertake. This lack of investment in R&D could cause adversely affect the company's operations.

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.

Reliance on a limited number of customers – DecisionPoint derives a significant portion of its revenue from a limited number of customers. 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 million shares in the float and the average daily volume is nominal.

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.

Unaudited Consolidated Balance Sheets
(in thousands \$)

	<u>2014A</u>	<u>2015A</u>	<u>3Q16A</u>
Cash	1,616	821	2,635
Accounts receivable	9,795	4,751	4,633
Due from related party	-	-	-
Inventory	1,997	307	321
Deferred costs	2,515	2,234	1,997
Deferred tax assets	5	-	-
Assets of discontinued ops/business held for sale	2,443	32	-
Prepaid expenses and other	<u>57</u>	<u>28</u>	<u>189</u>
Total current assets	18,428	8,173	9,774
Net property and equipment	140	169	153
Intangible assets	-	-	-
Goodwill	5,304	5,304	5,304
Deferred costs	998	970	744
Assets of discontinued ops/business held for sale	5,297	6	-
Other assets	<u>90</u>	<u>22</u>	<u>22</u>
Total assets	<u>30,257</u>	<u>14,644</u>	<u>15,997</u>
Accounts payable	9,658	7,019	5,151
Accrued expenses and other	1,941	1,690	1,162
Line of credit	5,753	3,154	2,987
Current portion of debt	330	379	371
Due to related parties	73	215	116
Liabilities from discontinued ops/business held for sale	3,293	1,880	62
Unearned revenue	<u>5,321</u>	<u>3,102</u>	<u>2,970</u>
Total current liabilities	26,370	17,439	12,820
Unearned revenue	1,550	1,355	963
Long-term debt	55	-	1,179
Deferred tax liabilities	25	29	25
Warrant liability	519	78	-
Liabilities from discontinued ops/business held for sale	2,628	152	153
Other long-term liabilities	<u>24</u>	<u>6</u>	<u>-</u>
Total liabilities	<u>31,170</u>	<u>19,059</u>	<u>15,141</u>
Preferred stock	12,822	14,123	-
Common stockholders' equity (deficit)	<u>(13,735)</u>	<u>(18,538)</u>	<u>856</u>
Total stockholders' equity (deficit)	<u>(913)</u>	<u>(4,415)</u>	<u>856</u>
Total liabilities & stockholders' equity	<u>30,257</u>	<u>14,644</u>	<u>15,997</u>

Source: Company press releases

DecisionPoint Systems, Inc.

Unaudited Income Statements
(in thousands \$)

	<u>2014A</u>	<u>3/15A</u>	<u>6/15A</u>	<u>9/15A</u>	<u>12/15A</u>	<u>2015A</u>	<u>3/16A</u>	<u>6/16A</u>	<u>9/16A</u>
Net sales	50,601	9,393	9,109	8,023	7,314	33,838	6,277	8,124	7,961
Cost of sales	<u>39,801</u>	<u>7,415</u>	<u>7,340</u>	<u>6,492</u>	<u>5,555</u>	<u>26,801</u>	<u>5,040</u>	<u>6,523</u>	<u>6,353</u>
Gross profit	10,800	1,978	1,769	1,531	1,759	7,037	1,237	1,601	1,608
Asset impairment		-	-	-	-	-			
SG&A	<u>10,196</u>	<u>2,215</u>	<u>1,940</u>	<u>1,603</u>	<u>1,400</u>	<u>7,158</u>	<u>1,379</u>	<u>1,084</u>	<u>1,414</u>
Operating income (loss)	604	(237)	(171)	(72)	359	(121)	(142)	517	194
Interest expense	487	107	106	86	88	387	86	137	70
Adjustment of warrant liabilities	(284)	79	(311)	(205)	(4)	(440)	(63)	18	(33)
Other (income) expense	<u>(30)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>1</u>	<u>(17)</u>	<u>60</u>	<u>(66)</u>	<u>-</u>
Income (loss) before taxes	431	(417)	40	53	274	(51)	(225)	428	158
Income taxes / (benefit)	<u>40</u>	<u>17</u>	<u>63</u>	<u>-</u>	<u>(70)</u>	<u>(36)</u>	<u>-</u>	<u>-</u>	<u>22</u>
Net loss from continuing operations	<u>391</u>	<u>(434)</u>	<u>(23)</u>	<u>53</u>	<u>344</u>	<u>(15)</u>	<u>(225)</u>	<u>428</u>	<u>136</u>
Income (loss) from discontinued ops.	<u>133</u>	<u>(146)</u>	<u>(3,425)</u>		<u>(10)</u>	<u>(3,450)</u>	<u>499</u>	<u>(2)</u>	
Net income/(loss)	524	(580)	(3,448)		334	(3,465)	275	426	
Dividends	<u>(1,341)</u>	<u>(387)</u>	<u>(407)</u>		<u>(1,808)</u>	<u>(1,889)</u>	<u>(830)</u>	<u>(2,124)</u>	
Net income (loss) to common	<u>(817)</u>	<u>(967)</u>	<u>(3,855)</u>		<u>(1,474)</u>	<u>(5,354)</u>	<u>(555)</u>	<u>(1,698)</u>	
EPS continuing operations	(0.08)	(0.07)	(0.03)		(0.12)	(0.15)	(0.08)	(0.14)	
EPS discontinued operations	<u>0.01</u>	<u>(0.01)</u>	<u>(0.28)</u>		<u>(0.00)</u>	<u>(0.28)</u>	<u>0.04</u>	<u>(0.00)</u>	
EPS	<u>(0.07)</u>	<u>(0.08)</u>	<u>(0.31)</u>		<u>(0.12)</u>	<u>(0.43)</u>	<u>(0.04)</u>	<u>(0.14)</u>	
Shares Outstanding	12,356	12,425	12,453		12,508	12,467	12,467	12,467	
<u>Margin Analysis</u>									
Gross margin	21.3%	21.1%	19.4%	19.1%	24.0%	20.8%	19.7%	19.7%	20.2%
SG&A	20.1%	23.6%	21.3%	20.0%	19.1%	21.2%	22.0%	13.3%	17.8%
Operating margin	1.2%	(2.5)%	(1.9)%	(0.9)%	4.9%	(0.4)%	(2.3)%	6.4%	2.4%
Pretax margin	0.9%	(4.4)%	0.4%		3.7%	(0.2)%	(3.6)%	5.3%	
Tax rate	9.3%	(4.1)%	157.5%		(25.5)%	70.6%	0.0%	0.0%	

Source: Company press releases

DecisionPoint Systems, Inc.

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

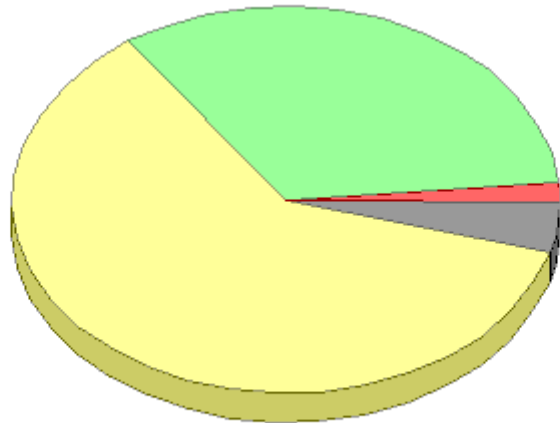
	<u>2014A</u>	<u>2015A</u>
Net income (loss) continuing operations	391	(15)
Net income (loss) discontinued operations	466	(183)
Loss from business unit held for sale	(333)	(3,268)
Loss on sale of discontinued operations	-	89
Depreciation & amortization	38	37
Amortization of intangibles	343	-
Amortization of deferred financing costs	107	103
Employee stock-based compensation	119	141
Change in fair value of warrants	(284)	(440)
ESOP compensation expense	47	22
Gain/loss on disposal	5	9
Bad debt expense/(recoveries)	(53)	68
Deferred taxes	<u>22</u>	<u>(59)</u>
Cash earnings (loss)	868	(3,496)
<i>Changes in assets and liabilities</i>		
Accounts receivable	(1,586)	4,975
Due from related party	-	-
Inventory	(920)	1,689
Deferred costs	1,107	309
Prepaid expenses and other	53	31
Other assets	10	69
Accounts payable	1,297	(2,637)
Accrued expenses and other	(211)	(600)
Due to related parties	(84)	142
Operating activities discontinued ops/business held for sale	1,588	4,231
Unearned revenue	<u>(937)</u>	<u>(2,414)</u>
(Increase) decrease in working capital	<u>317</u>	<u>5,795</u>
Net cash provided by (used in) operations	1,185	2,301
Proceeds from sale of CMAC	-	302
Capital expenditures	<u>(63)</u>	<u>(76)</u>
Net cash (used in) provided by investing	(63)	226
(Repayments) borrowings from line of credit	1,871	(2,599)
Proceeds from issuance of debt	-	-
Repayment of debt	(333)	(11)
Paid financing costs	(100)	(100)
Discontinued ops/business held for sale financing activities	(842)	(382)
Dividends paid	<u>(749)</u>	<u>(252)</u>
Net Cash Provided by (Used in) Financing	(154)	(3,344)
Foreign currency translation	7	22
Net Change in Cash	975	(795)
Cash - Beginning of Period	641	1,616
Cash - End of Period	<u>1,616</u>	<u>821</u>

Source: Company press releases

Price Chart



Taglich Brothers' Current Ratings Distribution



33.33 % Buy 60.87 % Hold 4.35 % Not Rated 1.45 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	12
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates own more than 1% of DPSI common stock. Michael Taglich, President of Taglich Brothers, Inc. and Director of DecisionPoint Systems, Inc. owns or has a controlling interest in 642,757 shares of DPSI common stock and 151,343 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 247,147 shares of DPSI common stock and 151,344 warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 12,086 shares of DPSI common 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 21,021 shares of DPSI common stock and 126,750 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 19,556 shares of DPSI common 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

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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.