DecisionPoint Systems, Inc.
Form 10-Q
May 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2012

Or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

DECISIONPOINT SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	000-54200	37-1644635
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

19655 Descartes, Foothill Ranch, CA 92610-2609
(Address of principal executive offices) (Zip code)

(949) 465-0065
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer o (Do not check if a smaller reporting company)		Smaller reporting company	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The number of shares of common stock, par value $0.001 per share of DecisionPoint Systems, Inc. issued and outstanding as of the close of business on May 14, 2012, were 8,028,908.

DECISIONPOINT SYSTEMS, INC.

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	March 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash	$492,665	$365,814
Accounts receivable, net	10,502,251	13,916,787
Other receivable	1,493,512	1,476,285
Inventory, net	963,465	705,757
Deferred costs	3,402,251	3,468,583
Prepaid expenses and other current assets	326,081	408,413
Total current assets	17,180,225	20,341,639
Property and equipment, net	99,016	98,934
Other assets, net	239,892	175,329
Deferred costs, net of current portion	1,878,869	1,800,320
Goodwill	5,538,466	5,538,466
Intangible assets, net	2,065,031	2,214,000
Total assets	$27,001,499	$30,168,688
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$10,299,573	$9,037,715
Accrued expenses and other current liabilities	1,829,616	2,414,288
Line of credit	1,600,000	4,024,141
Current portion of debt	1,000,000	1,000,000
Due to related parties	909,240	871,508
Unearned revenue	5,742,393	6,756,214
Total current liabilities	21,380,822	24,103,866
Long term liabilities		
Unearned revenue, net of current portion	2,578,449	2,509,190
Debt, net of current portion and discount	726,555	970,160
Deferred tax liabilities	22,000	18,000
Interest payable	60,000	60,000
Total liabilities	24,767,826	27,661,216
Commitments and contingencies		
	-	-

STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, $0.001 par value, 10,000,000 shares authorized, 1,816,289 shares issued and outstanding, including cumulative and imputed preferred dividends of $567,033 and $435,563, and with a liquidation preference of $10,679,465 and $10,652,275, respectively	6,451,099	6,319,629
Common stock, $0.001 par value, 100,000,000 shares authorized, 8,182,791 issued and 8,028,908 outstanding	8,183	8,183
Additional paid-in capital	14,534,596	14,513,918
Treasury stock, 153,883 shares of common stock	(204,664)	(204,664)
Accumulated deficit	(17,689,567)	(17,230,792)
Unearned ESOP shares	(865,974)	(898,802)
Total stockholders' equity	2,233,673	2,507,472
Total liabilities and stockholders' equity	$27,001,499	$30,168,688

See accompanying notes to unaudited condensed consolidated financial statements

DECISIONPOINT SYSTEMS, INC.
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
	2012	2011
Net sales	$17,810,008	$12,800,958
Cost of sales	14,057,351	10,477,349
Gross profit	3,752,657	2,323,609
Selling, general and administrative expense	3,835,008	3,492,975
Operating loss	(82,351)	(1,169,366)
Other expense:		
Interest expense	141,621	295,567
Other (income) expense, net	(29,063)	150,114
Total other expense	112,558	445,681
Loss before income taxes	(194,909)	(1,615,047)
Provision for income taxes	41,813	7,628
Net loss	(236,722)	(1,622,675)
Cumulative and imputed preferred stock dividends	(222,054)	(27,100)
Net loss attributable to common shareholders	$(458,776)	$(1,649,775)
Net loss per share -		
Basic and diluted	$(0.06)	$(0.38)
Weighted-average shares outstanding -		
Basic and diluted	7,392,441	4,333,848

See accompanying notes to unaudited condensed consolidated financial statements

DECISIONPOINT SYSTEMS, INC.
Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months ended March 31, 2012	2011
Cash flows from operating activities:		
Net loss	$(236,722)	$(1,622,675)
Adjustments to reconcile net loss to net cash		
provided by operating activities:		
Depreciation and amortization	159,641	140,417
Amortization of deferred financing costs and note discount	38,074	35,860
Employee stock-based compensation	20,678	74,027
Non-cash interest expense	(17,227)	-
ESOP compensation expense	32,828	31,190
Deferred taxes, net	4,000	-
Changes in operating assets and liabilities:		
Accounts receivable	3,414,536	3,151,650
Inventory, net	(257,708)	(251,379)
Deferred costs	(12,217)	248,721
Prepaid expenses and other current assets	82,332	265,111
Other assets	3,758	(6,070)
Accounts payable	1,253,622	(598,117)
Accrued expenses and other current liabilities	(584,672)	(492,615)
Due to related parties	37,732	267,132
Unearned revenue	(944,562)	834,939
Net cash provided by operating activities	2,994,093	2,078,191
Cash flows from investing activities		
Capital expenditures	(10,754)	(13,489)
Cash paid for acquisition of CMAC	-	(2,205,000)
Net cash used in investing activities	(10,754)	(2,218,489)
Cash flows from financing activities		
(Repayments) borrowings from line of credit, net	(2,424,141)	511,105
Repayment of debt	(250,000)	(250,000)
Cash dividends paid on Series C Preferred	(82,347)	-
Paid financing costs	(100,000)	(33,639)
Net cash (used in) provided by financing activities	(2,856,488)	227,466
Net increase in cash	126,851	87,168
Cash at beginning of period	365,814	315,169
Cash at end of period	$492,665	$402,337
Supplemental disclosure of cash flow information:		
Interest paid	$179,780	$142,068
Income taxes paid	$42,836	$625

Supplemental disclosure of non-cash financing activities:		
Cumulative and imputed dividends on preferred stock	$222,054	$27,100

See accompanying notes to unaudited condensed consolidated financial statements

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DECISIONPOINT SYSTEMS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 - DESCRIPTION OF BUSINESS AND THE MERGER

Description of Business

DecisionPoint Systems, Inc., (“DecisionPoint”, “Company”) is an enterprise mobility systems integrator that sells and installs mobile computing and wireless systems that are used both within a company’s facilities in conjunction with wireless networks and in the field using carrier-based wireless networks. These systems generally include mobile computers, mobile application software, and related data capture equipment including bar code scanners and radio frequency identification (“RFID”) readers. The Company also provides professional services, proprietary and third party software and software customization as an integral part of its customized solutions for its customers.

DecisionPoint Systems, Inc., formerly known as Comamtech, Inc. (“Comamtech”), was incorporated on August 16, 2010, in Canada under the laws of the Ontario Business Corporations Act (“OCBA”). On June 15, 2011, the Company entered into a Plan of Merger (the “Merger Agreement”) among the Company, its wholly owned subsidiary, 2259736 Ontario Inc., incorporated under the laws of the Province of Ontario, Canada (the “Purchaser”) and DecisionPoint Systems, Inc., a Delaware corporation (“Old DecisionPoint”) incorporated on December 27, 2006, under the laws of the State of Delaware. Pursuant to the Merger Agreement, under Section 182 of the OCBA, on June 15, 2011 (the “Effective Date”), Old DecisionPoint merged (the “Merger”) into the Purchaser and became a wholly-owned subsidiary of the Company. In connection with the Merger, the Company changed its name to DecisionPoint Systems, Inc. and the Purchaser changed its name to DecisionPoint Systems International, Inc. (“DecisionPoint Systems International”). The Company and the DecisionPoint Systems International each reincorporated in the State of Delaware subsequent to the Merger. Upon completion of the Merger, the Company adopted Old DecisionPoint’s business plan.

Accounting Treatment of the Merger; Financial Statement Presentation

Prior to the Merger, Comamtech was a “shell company” (as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). The Merger was accounted for as a reverse recapitalization pursuant to the guidance in “SEC’s Division of Corporation Finance Financial Reporting Manual”. These transactions are considered by the SEC to be capital transactions in substance, rather than business combinations. The Merger has been accounted for as a recapitalization which resulted in an exchange ratio of one Old DecisionPoint share for every 7.23273 shares of Comamtech common stock outstanding prior to the Merger. For accounting purposes, Old DecisionPoint is considered to be the acquirer and the surviving entity in the reverse recapitalization. Accordingly, 2,186,689 shares were deemed issued to the Comamtech shareholders in exchange for approximately $3.9 million of net assets received by the Company. The accompanying historical consolidated financial statements prior to the Merger are those of Old DecisionPoint.

The accompanying unaudited condensed consolidated financial statements present the previously issued shares of Comamtech common stock as having been issued pursuant to the Merger on June 15, 2011, with the consideration received for such issuance being the net assets of Comamtech received in the Merger. The shares of common stock of the Company issued to Old DecisionPoint’s stockholders in the Merger are presented as having been outstanding since the original issuance of the shares. Further, the exchange ratio has been retroactively applied to all share, weighted average share, loss per share, and stock option and warrant disclosures. See Footnote 1 of the Company's audited consolidated financial statements included in the Company's 2011 Annual Report on Form 10-K filed on March 30, 2012, for a comprehensive description of the Merger.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all of the adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company at the dates and for the periods indicated. The interim results for the period ended March 31, 2012, are not necessarily indicative of results for the full 2012 fiscal year or any other future interim periods.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary DecisionPoint Systems International. DecisionPoint Systems International has two wholly-owned subsidiaries, DecisionPoint Systems Group, Inc. (“DPS Group”) and CMAC, Inc. (“CMAC”). The Company operates in one business segment.

DECISIONPOINT SYSTEMS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts reported therein. Certain accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. The Company evaluates its estimates and assumptions on a regular basis. The Company uses historical experience and various other assumptions that are believed to be reasonable under the circumstances to form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates and assumptions used in preparation of the unaudited condensed consolidated financial statements.

These unaudited condensed consolidated financial statements have been prepared by management and should be read in conjunction with the audited consolidated financial statements of DecisionPoint Systems, Inc. and notes thereto for the year ended December 31, 2011, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2012.

Liquidity - Although the Company has historically experienced losses, a material part of those losses were from non-cash sources and therefore, have not required funding by external sources. As part of these losses, the Company has accumulated substantial net operating loss carry-forwards to off-set future taxable income. In order to maintain normal operations for the foreseeable future, the Company must continue to have access to its line of credit, return to profitability and/or access additional equity capital. There can be no assurance that the Company will become profitable or that it can raise additional funds required to continue its normal operations. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that would be required should the Company not be successful with these activities.

Summary of Significant Accounting Policies

There have been no significant changes to the Company's significant accounting policies during the three months ended March 31, 2012. See Footnote 2 of the Company's consolidated financial statements included in the Company's 2011 Annual Report on Form 10-K filed on March 30, 2012, for a comprehensive description of the Company's significant accounting policies.

Concentration of Credit Risk - The Company derived approximately 30% and 28% of our revenues from two customers in three months ended March 31, 2012 and 2011, respectively. Customer mix shifts significantly from year to year, but a concentration of the business with a few large customers is typical in any given year. A decline in revenues could occur if a customer which has been a significant factor in one financial reporting period gives the Company significantly less business in the following period.

The Company contracts with these customers and other customers do not include any specific purchase requirements or other requirements outside of the normal course of business. The majority of customer contracts are on an annual basis for service support while on a purchase order basis for hardware purchases. Typical hardware sales are submitted on an estimated order basis with subsequent follow on orders for specific quantities. These sales are ultimately subject to the time that the units are installed at all of the customer locations as per their requirements. Service contracts are purchased on an annual basis generally and are the performance responsibility of the actual service provider as opposed to the Company. Termination provisions are generally standard clauses based upon non-performance, but a customer can cancel with a certain reasonable notice period anywhere from 30 to 90 days. General industry standards for contracts provide ordinary terms and conditions, while actual work and performance aspects are usually dictated by a Statement of Work which outlines what is being ordered, product specifications, delivery, installation and pricing.

Reclassifications - Certain amounts in the prior period consolidated financial statements and related notes thereto have been reclassified to conform to the current period presentation.

New Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that provides a consistent definition of fair value and common requirements of and disclosure about fair value between GAAP and International Financial Reporting Standards ("IFRS"). The guidance states the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets. Enhanced disclosure requirements will require companies to disclose quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion about the sensitivity of the measurements for recurring Level 3 fair value measurements. For assets and liabilities not recorded at fair value but where fair value is disclosed, companies must report the level in the fair value hierarchy of assets and liabilities. This new guidance is effective for interim and annual periods beginning January 1, 2012. The adoption of these disclosure requirements did not have a material impact on the unaudited condensed consolidated financial statements.

DECISIONPOINT SYSTEMS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers specific requirements to present reclassification adjustments for each component of accumulated other comprehensive income. ASU 2011-05 will be retroactively effective for the Company in the first quarter of 2012. The Company's adoption of this pronouncement did not have a material effect on the unaudited condensed consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company's adoption of this pronouncement did not have a material effect on the unaudited condensed consolidated financial statements.

NOTE 3 – LOSS PER COMMON SHARE

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similarly to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The weighted-average basic and diluted shares for the three months ended March 31, 2012 and 2011, exclude approximately 0.6 million and 0.7 million, respectively, of ESOP shares that have not been committed to be released.

For all periods presented, potentially dilutive securities are excluded from the computation of fully diluted net loss per share as their effect is anti-dilutive. Potentially dilutive securities include:

	March 31,	
	2012	2011
Convertible preferred stock	1,816,289	400,955
Warrants to purchase common stock	429,298	429,298
Options to purchase common stock	701,963	461,253
Total potentially dilutive securities	2,947,550	1,291,506

NOTE 4 – GOODWILL AND INTANGIBLE ASSETS

As of March 31, 2012 and December 31, 2011, the Company's intangible assets and accumulated amortization consist of the following:

	March 31, 2012		
	Gross	Accumulated Amortization	Net
Customer relationships	$1,670,000	$ (367,844)	$1,302,156
Contractor and resume databases	675,000	(168,750)	506,250
Tradename	310,000	(81,125)	228,875
Internal use software	74,000	(46,250)	27,750
	$2,729,000	$ (663,969)	$2,065,031

	December 31, 2011		
	Gross	Accumulated Amortization	Net
Customer relationships	$1,670,000	$ (279,000)	$1,391,000
Contractor and resume databases	675,000	(135,000)	540,000
Tradename	310,000	(64,000)	246,000
Internal use software	74,000	(37,000)	37,000
	$2,729,000	$ (515,000)	$2,214,000

DECISIONPOINT SYSTEMS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 5 – LINE OF CREDIT

The Company has a $10.0 million line of credit which provides for borrowings based upon eligible accounts receivable, as defined in the Loan Agreement (the "Loan Agreement"). Under the Loan Agreement, the lender has also provided the Company with a term loan as discussed in Note 6. The Loan Agreement is secured by substantially all the assets of the Company and matures in February 2013. As of March 31, 2012, the outstanding balance on the line of credit was approximately $1.6 million and the interest rate is 7.5%. The line of credit has a certain financial covenant and other non-financial covenants. As of March 31, 2012, the Company was in compliance with these covenants.

Availability under the line of credit was $5.1 million as of March 31, 2012.

The line of credit allows the Company to cause the issuance of letters of credit on account of the Company to a maximum of the borrowing base as defined in the Loan Agreement. No letters of credit were outstanding as of March 31, 2012 or December 31, 2011.

For the three months ended March 31, 2012 and 2011, the Company's interest expense, including amortization of deferred financing costs, was approximately $59,000 and $123,000, respectively.

NOTE 6 –LONG TERM DEBT

Long term debt as of March 31, 2012, consists of the following:

	Balance January 1, 2012	Additions	Note Discount	Payments	Amortization of Note Discount	Balance March 31, 2012
Term loan	$2,000,000	$-	$-	$(250,000)	$ -	$1,750,000
Note discount	(29,840)				6,395	(23,445)
Term loan, net	1,970,160	-	-	(250,000)	6,395	1,726,555
Total debt	$1,970,160	$-	$-	$(250,000)	$ 6,395	1,726,555
Less current portion						(1,000,000)
Debt, net of current portion						$726,555

The Company's debt is recorded at par value adjusted for any unamortized discounts. Discounts and costs directly related to the issuance of debt are capitalized and amortized over the life of the debt using the effective interest rate method. Unamortized deferred financing costs of approximately $158,000 and $89,500 are included in other assets in the accompanying unaudited condensed consolidated balance sheets as of March 31, 2012 and December 31, 2011, respectively.

Term Loan - On December 31, 2010, pursuant to an Assumption and Amendment to Loan and Security Agreement (the "Amended Loan Agreement"), the Company borrowed $3.0 million from a principal lender (the “Term Loan”). The Term Loan was due in 36 equal monthly installments of principal plus interest beginning on February 1, 2011. On May 20, 2011, pursuant to a Consent and Amendment to Loan and Security Agreement (the “Amendment”), the maturity date was amended to April 30, 2012, with the remaining principal due on that date to be paid as a balloon payment. The principal amount outstanding under the Term Loan accrues interest at a fixed rate equal to 9% per annum. In addition, a final payment equal to 2% of the aggregate amount of the Term Loan is due on the earlier of the maturity date or the date the Term Loan is prepaid. This final payment of $60,000 has been recorded as a discount to the Term Loan, which is being amortized to interest expense through December 2013, using the effective interest method.

DECISIONPOINT SYSTEMS, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

The Term Loan is secured by substantially all of the assets of the Company. The Amended Loan Agreement includes various customary covenants, limitations and events of default. Pursuant to the Amendment, the Company was, among other requirements, to maintain a minimum fixed charge ratio increasing from at least 1.10 to 1.00 in the first quarter of 2011. This requirement was amended to a fixed charge ratio at least 1.75 to 1.00 over the life of the Term Loan. The Amended Loan Agreement also maintains certain additional affirmative and negative covenants, including minimum tangible net worth and limitations on incurring additional indebtedness. As of March 31, 2012, the Company was in compliance with all of its covenants in the agreement.

On September 27, 2011, pursuant to a Limited Waiver and Amendment to Loan and Security Agreement, the Amended Loan Agreement was amended and certain covenants were replaced or modified resulting in the Company being in full compliance at September 30, 2011. In addition, the maturity date was extended to the earlier of the maturity of the line of credit (see Note 5) or December 1, 2013, the original maturity of the Term Loan and the principal is due in equal installments with no balloon payment.

For the three months ended March 31, 2012 and 2011, the Company's interest expense, including all extension and commitment fees on the Term Loan, was approximately $ 57,000 and $76,000 respectively.

NOTE 7 – STOCKHOLDERS' EQUITY

The Company is authorized to issue two classes of stock designated as common stock and preferred stock. As of March 31, 2012, the Company is authorized to issue 110,000,000 total shares of stock. Of that amount, 100,000,000 shares shall be common stock, each having a par value of $0.001. The remaining 10,000,000 shares shall be preferred stock, each having a par value of $