

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2022

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

DECISIONPOINT SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

333-245695

(Commission File Number)

37-1644635

(IRS Employer
Identification No.)

1615 South Congress Avenue Suite 103

Delray Beach, FL 33445

(Address of principal executive offices)

(561) 900-3723

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name on Each Exchange on Which Registered
Common Stock, \$0.001 par value	DPSI	NYSE American

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 requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "small reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Non-accelerated filer Emerging growth company
Accelerated filer Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant's Common Stock, \$0.001 par value, was 7,221,128 as of May 16, 2022.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

DecisionPoint Systems, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except par value)
(Unaudited)

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
ASSETS		
Current assets:		
Cash	\$ 9,349	\$ 2,587
Accounts receivable, net	15,806	12,302
Inventory, net	1,050	2,111
Deferred costs	1,918	1,998
Prepaid expenses and other current assets	561	336
Total current assets	28,684	19,334
Operating lease assets	3,077	329
Property and equipment, net	1,190	834
Deferred costs, net of current portion	1,698	1,492
Deferred tax assets	2,638	1,999
Intangible assets, net	6,650	3,564
Goodwill	9,122	8,128
Other assets	68	50
Total assets	<u>\$ 53,127</u>	<u>\$ 35,730</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,424	\$ 10,273
Accrued expenses and other current liabilities	4,740	3,220
Deferred revenue	18,563	4,599
Current portion of long-term debt	3	3
Current portion of operating lease liabilities	418	257
Total current liabilities	33,148	18,352
Deferred revenue, net of current portion	2,825	2,510
Long-term debt	145	146
Noncurrent portion of operating lease liabilities	2,854	83
Other liabilities	221	381
Total liabilities	39,193	21,472
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.001 par value; 50,000 shares authorized; 7,221 and 7,007 shares issued and outstanding, respectively	7	7
Additional paid-in capital	38,038	39,216
Accumulated deficit	(24,111)	(24,965)
Total stockholders' equity	13,934	14,258
Total liabilities and stockholders' equity	<u>\$ 53,127</u>	<u>\$ 35,730</u>

See Accompanying Notes to the Condensed Consolidated Financial Statements.

DecisionPoint Systems, Inc.
Condensed Consolidated Statements of Income and Comprehensive Income
(in thousands, except per share data)
(Unaudited)

	<u>Three Months Ended</u> <u>March 31,</u>	
	<u>2022</u>	<u>2021</u>
Net sales:		
Product	\$ 15,580	\$ 11,925
Service	4,141	4,147
Net sales	19,721	16,072
Cost of sales:		
Product	12,422	9,451
Service	2,625	2,783
Cost of sales	15,047	12,234
Gross profit	4,674	3,838
Operating expenses:		
Sales and marketing expense	2,175	1,889
General and administrative expenses	2,261	1,620
Total operating expenses	4,436	3,509

Operating income	238	329
Interest expense	(25)	(29)
Gain on extinguishment of debt	-	1,211
Other, net	4	-
Income before income taxes	217	1,511
Income tax benefit (expense)	637	(178)
Net income and comprehensive income attributable to common shareholders	<u>\$ 854</u>	<u>\$ 1,333</u>
Earnings per share attributable to common shareholders (1):		
Basic	\$ 0.12	\$ 0.19
Diluted	\$ 0.11	\$ 0.17
Weighted average common shares outstanding (1)		
Basic	7,104	6,945
Diluted	7,664	7,894

(1) All share and per share information has been retroactively adjusted to reflect a reverse stock split. See Note 8, Stockholders' Equity for additional information.

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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DecisionPoint Systems, Inc.
Condensed Consolidated Statements of Stockholders' Equity
For the Three Months Ended March 31, 2022 and 2021
(in thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2021	7,007	\$ 7	\$ 39,216	\$ (24,965)	\$ 14,258
Net income	—	—	—	854	854
Share-based compensation expense	—	—	225	—	225
Cashless exercise of stock options (Note 9)	214	—	(1,403)	—	(1,403)
Balance at March 31, 2022	<u>7,221</u>	<u>\$ 7</u>	<u>\$ 38,038</u>	<u>\$ (24,111)</u>	<u>\$ 13,934</u>
	Common Stock (1)		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2020	6,788	\$ 7	\$ 38,229	\$ (26,379)	\$ 11,864
Net income	—	—	—	1,333	1,333
Share-based compensation expense	—	—	33	—	33
Exercise of warrants	152	—	—	—	—
Exercise of stock options	2	—	2	—	2
Balance at March 31, 2021	<u>6,942</u>	<u>\$ 7</u>	<u>\$ 38,264</u>	<u>\$ (25,046)</u>	<u>\$ 13,232</u>

(1) All share information and balances have been retroactively adjusted to reflect a reverse stock split. See Note 8, Stockholders' Equity, for additional information.

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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DecisionPoint Systems, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities		
Net income	\$ 854	\$ 1,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	452	360
Gain on extinguishment of debt	-	(1,211)
Amortization of deferred financing costs	-	17
Share-based compensation expense	225	33
Deferred income taxes, net	(639)	43
Changes in operating assets and liabilities:		
Accounts receivable	(2,102)	5,847
Inventory, net	1,190	(121)
Deferred costs	(3)	(178)
Prepaid expenses and other current assets	(225)	(326)
Other assets, net	(18)	(5)

Accounts payable	(1,407)	(4,696)
Accrued expenses and other current liabilities	(901)	(109)
Due to related parties	-	18
Operating lease liabilities	184	(2)
Deferred revenue	14,059	255
Net cash provided by operating activities	11,669	1,258
Cash flows from investing activities		
Cash paid for acquisitions, net of cash acquired	(4,460)	(170)
Purchases of property and equipment	(447)	(73)
Net cash used in investing activities	(4,907)	(243)
Cash flows from financing activities		
Line of credit, net	—	(1,206)
Proceeds from exercise of stock options	—	2
Net cash used in financing activities	—	(1,204)
Change in cash	6,762	(189)
Cash, beginning of period	2,587	2,005
Cash, end of period	\$ 9,349	\$ 1,816
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 25	\$ 22
Leased assets obtained in exchange for new operating lease liabilities	3,211	—
Non-cash financing activities		
Cashless exercise of stock options	\$ 3,508	\$ —

See Accompanying Notes to the Condensed Consolidated Financial Statements.

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DecisionPoint Systems, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1: Description of Business

DecisionPoint Systems, Inc., which we sometimes refer to as the “Company”, “we” or “us”, is an enterprise mobility systems integrator that sells, installs, deploys and repairs mobile computing and wireless systems that are used both within a company’s facilities and in the field. These systems generally include mobile computers, mobile application software, and related data capture equipment including bar code scanners and radio frequency identification (“RFID”) readers. We also provide services, consulting, staging, kitting, deployment, maintenance, proprietary and third-party software and software customization as an integral part of our customized solutions for our customers. The suite of products utilizes the latest technologies with the intent to make complex mobile technologies easy to use, understand and keep running within all vertical markets such as merchandising, sales and delivery, field service, logistics and transportation and warehouse management.

In June 2018, we acquired 100% of the outstanding stock of Royce Digital Systems, Inc. (“RDS”). RDS provides innovative enterprise print and mobile technologies, deployment services and on-site maintenance.

In December 2020, we acquired 100% of the issued and outstanding membership interests of ExtenData Solutions, LLC (“ExtenData”). ExtenData is focused on enterprise mobility solutions and provides software product development, mobile computing, identification and wireless tracking solutions.

In January 2022, we acquired 100% of the issued and outstanding membership interests of Advanced Mobile Group, LLC (“AMG”). AMG provides services, hardware, software, integration, and wireless networking solutions, with deep experience in warehousing and distribution, manufacturing, mobile workforce automation, retailing, and healthcare segments.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying unaudited condensed consolidated financial statements of DecisionPoint Systems, Inc. and its subsidiaries on the accrual basis of accounting in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). The accompanying condensed consolidated financial statements include the accounts of DecisionPoint Systems, Inc. and its wholly owned subsidiaries, DecisionPoint Systems International (“DPSI”), DecisionPoint Systems Group, Inc. (“DPS Group”), RDS, ExtenData and AMG. AMG was acquired on January 31, 2022, and as such, has been consolidated into our financial position and results of operations beginning February 1, 2022. All intercompany accounts and transactions have been eliminated in consolidation. These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted from these interim financial statements as permitted by SEC rules and regulations. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2021.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial condition, results of operations and cash flows for the interim periods presented. The results of operations for the three months ended March 31, 2022 are not necessarily indicative of results to be expected for the full fiscal year.

Reverse Stock Split

In December 2021, we effectuated a reverse stock split of our outstanding shares of common stock at a ratio of 1-for-2. See Note 8 *Stockholders’ Equity*, for additional information. As a result, the number of shares and income per share disclosed throughout these consolidated financial statements have been retrospectively adjusted to reflect the reverse stock split. All share and per share information has been retroactively adjusted to reflect the reverse stock split.

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COVID-19

COVID-19 and the response to the pandemic have negatively impacted overall economic conditions. The potential future impacts of COVID-19, while uncertain, could materially adversely impact the Company's results of operations.

Operating Segments

Under the Financial Accounting Standards Board Accounting Standards Codification 280-10, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles, if the segments have similar characteristics, and if the segments are similar in each of the following areas: (i) the nature of products and services, (ii) the nature of the production processes, (iii) the type or class of customer for their products and services, and (iv) the methods used to distribute their products or provide their services. We believe each of the Company's segments meet these criteria as they provide similar products and services to similar customers using similar methods of production and distribution. Because we believe each of the criteria set forth above has been met and each of the Company's segments has similar characteristics, we aggregate results of operations in one reportable operating segment.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis.

Income Taxes

Our quarterly provision for income taxes uses an annual effective tax rate based on the expected annual income and statutory tax rates. Our effective tax rate, including discrete items as more fully described below, was (291.3%) for the three months ended March 31, 2022 and 11.9% for the three months ended March 31, 2021.

We recognize excess tax benefits (windfalls) and excess tax deficiencies (shortfalls) as discrete items in income taxes in the period that stock options are exercised. For the three months ended March 31, 2022, we recorded an income tax benefit and deferred tax asset of \$0.7 million related to excess tax benefits for stock option exercises which represents the difference in deferred tax assets recorded at fair value during the vesting period and the actual deferred tax assets realized based on the intrinsic value on the date of exercise.

Operating Leases

For non-cancelable operating lease agreements, operating lease assets and operating lease liabilities are established for leases with an expected term greater than one year and we recognize lease expense on a straight-line basis.

We had an operating lease for office and warehouse space in Irvine, California with fixed minimum monthly payments of \$3,945, an original lease expiration of June 2023 and an incremental borrowing rate of 4.75%. In February 2022, we reached an agreement with the lessor which allowed for an early termination of the operating lease on February 28, 2022. The monthly payments remained unchanged through February 2022, and we did not incur an early termination liability in result of the lease modification. On the date of termination, we reversed the related net book value of the operating lease asset of \$0.2 million and the lease liability of \$0.2 million.

In connection with the closure of the office and warehouse space in Irvine, California, we entered into a new lease agreement commencing in February 2022 to relocate our office and warehouse space in Laguna Hills, California. Pursuant to the lease agreement, the base rent of \$39,778 per month is due on June 1, 2022 and will increase 3% annually. The lease expires on April 30, 2029. In February 2022, we established an operating lease liability of \$3.1 million and operating lease assets of \$3.0 million. In connection with the new lease agreement, we entered into a sublease agreement for the Laguna Hills office and warehouse location, and we will receive \$24,254 per month commencing in February 2022 with a sublease expiration of October 31, 2023.

During the three months ended March 31, 2022, we also entered into several other non-cancelable operating lease agreements with terms greater than one year and established an operating lease liability of \$0.1 million and operating lease assets of \$0.1 million.

Revenue Recognition

We recognize revenue when a customer obtains control of promised goods or services under the terms of a contract and is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. We do not have any material extended payment terms, as payment is due at or shortly after the time of the sale. Sales, value-added and other taxes collected concurrently with revenue producing activities are excluded from revenue.

We recognize contract assets or unbilled receivables related to revenue recognized for services completed but not yet invoiced to our clients. Unbilled receivables are recorded when we have an unconditional right to contract consideration. A contract liability is recognized as deferred revenue when we invoice clients, or receive customer cash payments, in advance of performing the related services under the terms of a contract. Remaining performance obligations represent the transaction price allocated to the performance obligations that are unsatisfied as of the end of each reporting period. Deferred revenue is recognized as revenue when we have satisfied the related performance obligation.

As of March 31, 2022, the total aggregate transaction price allocated to the unsatisfied performance obligations was approximately \$1.4 million, of which approximately \$18.6 million is expected to be recognized over the next 12 months.

As of December 31, 2021, the total aggregate transaction price allocated to the unsatisfied performance obligations was approximately \$7.1 million.

We defer costs to acquire contracts, including commissions, incentives and payroll taxes if they are incremental and recoverable costs of obtaining a customer contract with a term exceeding one year. Deferred contract costs are amortized to sales and marketing expense over the contract term, generally over one to three years. We have elected to recognize the incremental costs of obtaining a contract with a term of less than one year as a selling expense when incurred. We include deferred contract acquisition costs in "Prepaid expenses and other current assets" in the consolidated balance sheets. As of March 31, 2022 and December 31, 2021, we deferred \$0.2 million and \$0.1 million, respectively, of related contract acquisition costs.

The following table summarizes net sales by revenue source (in thousands):

**Three Months Ended
March 31,**

	2022	2021
Hardware and software	\$ 14,300	\$ 10,466
Consumables	1,280	1,459
Services	4,141	4,147
	<u>\$ 19,721</u>	<u>\$ 16,072</u>

Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU will require the measurement of all expected credit losses for financial assets, including trade receivables, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which, among other things, defers the effective date of ASU 2016-13 for public filers that are considered smaller reporting companies, as defined by the SEC, to fiscal years beginning after December 15, 2022, including interim periods within those years. Early adoption is permitted. Although management continues to analyze the provisions of this ASU, currently, we believe the adoption of this ASU will not significantly impact the Company's consolidated results of operations and financial position.

There are no other accounting standards that have been issued but not yet adopted that we believe could have a material impact on our consolidated financial statements.

Note 3: Acquisition

Advanced Mobile Group, LLC

On January 31, 2022, we entered into a Membership Unit Purchase Agreement and concurrently therewith closed upon the acquisition of all of the issued and outstanding membership interests of AMG for \$5.0 million. The consideration we paid is comprised of cash of \$4.5 million, of which \$4.3 million was paid as of March 31, 2022, and an estimated earn-out obligation valued at \$0.5 million, subject to the financial performance of AMG during each of the two years following the closing of the acquisition. As a result of the acquisition, AMG became a wholly owned subsidiary of the Company.

We have not yet completed our final analysis of the estimated fair value of the acquisition purchase price (including earn-outs) and the estimated fair value of the assets acquired and liabilities assumed in the acquisition. We expect that significant goodwill and definite-lived intangible assets will be recognized upon completion of the required purchase price allocation analysis. In accordance with ASC 805 *Business Combinations*, the provisional amounts recorded below may be adjusted in future periods as management completes its acquisition analysis.

The estimated allocation of the total consideration to the estimated fair value of acquired net assets as of the acquisition date for AMG is as follows (in thousands):

Cash	\$ 170
Accounts receivable	1,402
Inventory	129
Prepays and other current assets	123
Customer lists and relationships	2,463
Trade name	504
Backlog	160
Accounts payable	(558)
Accrued expenses	(152)
Deferred revenue	(220)
Total fair value excluding goodwill	<u>4,021</u>
Goodwill	<u>994</u>
Total consideration	<u>\$ 5,015</u>

The estimated useful lives of intangible assets recorded related to the AMG acquisition are expected to be as follows (in thousands):

	Expected Life
Customer lists and relationships	12 years
Trade name	3 years
Backlog	12 months

Other acquisition

In March 2022, we acquired the customer lists and relationships of Boston Technologies, a provider of mobile order management and route accounting software for direct store delivery (DSD) operations, for cash of \$0.3 million.

Note 4: Intangible Assets

Definite lived intangible assets are as follows (in thousands):

	March 31, 2022			December 31, 2021		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer lists and relationships	\$ 8,473	\$ (2,713)	\$ 5,760	\$ 5,690	\$ (2,453)	\$ 3,237

Trade names	1,504	(768)	736	1,000	(699)	301
Developed technology	70	(49)	21	70	(44)	26
Backlog	220	(87)	133	60	(60)	-
	<u>\$ 10,267</u>	<u>\$ (3,617)</u>	<u>\$ 6,650</u>	<u>\$ 6,820</u>	<u>\$ (3,256)</u>	<u>\$ 3,564</u>

Amortization expense recognized during the three months ended March 31, 2022 and 2021 was \$0.3 million and \$0.3 million, respectively. Amortization expense is calculated on an accelerated basis.

Note 5: Net Income Per Share

Basic net income per common share is computed by dividing the net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted net income per share is calculated similarly to basic per share amounts, 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. For periods in which there is a net loss, potentially dilutive securities are excluded from the computation of fully diluted net loss per share as their effect is anti-dilutive.

Below is a reconciliation of the fully dilutive securities effect for the three months ended March 31, 2022 and 2021 (in thousands, except per share data):

	March 31, 2022	March 31, 2021
Net income attributable to common stockholders	\$ 854	\$ 1,333
Weighted average basic shares outstanding	7,104	6,945
Dilutive effect of stock options and warrants	<u>560</u>	<u>949</u>
Weighted average shares for diluted earnings per share	<u>7,664</u>	<u>7,894</u>
Basic income per share	<u>\$ 0.12</u>	<u>\$ 0.19</u>
Diluted income per share	<u>\$ 0.11</u>	<u>\$ 0.17</u>

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Note 6: Line of Credit

Our Loan and Security Agreement (the "Loan Agreement") with MUFG Union Bank, National Association (the "Bank") provides for a revolving line of credit of up to \$9.0 million with our obligations being secured by a security interest in substantially all of our assets. Loans extended to us under the Loan Agreement are scheduled to mature on July 31, 2024.

Interest and Fees

Loans under the Loan Agreement with an outstanding balance of at least \$150,000 bear interest, at our option, at a base interest rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.50% or a base rate equal to an index offered by the Bank for the interest period selected and is payable at the on the last day of each month. If the LIBOR rate is selected, the interest rate on the loans adjusts at the end of each LIBOR rate period (1, 2, 3, 6, or 12 month term) selected by us. All other loan amounts bear interest at a rate equal to an index rate determined by the Bank, which shall vary when the index rate changes. We have the right to prepay variable interest rate loans, in whole or in part at any time, without penalty or premium. Amounts outstanding with a base interest rate may be prepaid in whole or in part provided we have given the Bank written notice of at least five days prior to prepayment and pay a prepayment fee. At any time prior to the maturity date, we may borrow, repay and reborrow amounts under the Loan Agreement, subject to the prepayment terms, and, as long as the total outstanding does not exceed \$9.0 million. The Loan Agreement requires a commitment fee of 0.25% per year, payable quarterly and in arrears, on any unused portion of the line of credit.

Covenants

Under the Loan Agreement, we are subject to a variety of customary affirmative and negative covenants, including that we (i) achieve a net profit of not less than \$1.0 million at the end of each fiscal year, (ii) maintain a ratio of total debt to EBITDA of not greater than 3.0:1.0 measured at the end of each quarter, and (iii) not realize a net loss for more than two consecutive quarters. The Loan Agreement also prohibits us from, or otherwise imposes restrictions on us with respect to, among other things, liquidating, dissolving, entering into any consolidation, merger, division, partnership, or other combination, selling or leasing a majority of our assets or business or purchase or lease all or the greater part of the assets or business of another entity or person.

As of March 31, 2022, we were in compliance with all of our covenants, were eligible to borrow up to \$9.0 million, and had no outstanding borrowings under the line of credit.

Note 7: Term Debt

EIDL Promissory Note

On August 27, 2020, we received \$0.2 million in connection with a promissory note from the SBA under the Economic Injury Disaster Loan ("EIDL") program pursuant to the CARES Act. Under the terms of the EIDL promissory note, interest accrues on the outstanding principal at an interest rate of 3.75% per annum and with a term of 30 years with equal monthly payments of principal and interest of \$731 beginning on August 27, 2021. As of March 31, 2022 and December 31, 2021, outstanding debt under the promissory note was \$0.1 million.

Note 8: Stockholders' Equity

We are authorized to issue two classes of stock designated as common stock and preferred stock. As of March 31, 2022, we are authorized to issue 60,000,000 total shares of stock. Of this amount, 50,000,000 shares are common stock, each having a par value of \$0.001 and 10,000,000 shares are preferred stock, each having a par value of \$0.001.

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On December 13, 2021, DecisionPoint filed a Certificate of Amendment to the Amended and Restated Certificate of Incorporation (the "Certificate of Amendment") with the Secretary of State of Delaware to effect a 1-for-2 reverse stock split of the outstanding shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") that were outstanding at the time the Certificate of Amendment was filed (the "Reverse Stock Split").

As a result of the Reverse Stock Split, every two shares of issued and outstanding Common Stock were automatically combined into one issued and outstanding share of Common Stock, without any change in the par value per share. No fractional shares were issued as a result of the Reverse Stock Split. Any fractional shares that would otherwise have resulted from the Reverse Stock Split were rounded up to the next whole number. The Reverse Stock Split reduced the number of shares of Common Stock outstanding however, the number of authorized shares of Common Stock under the Certificate of Incorporation remained unchanged at 50 million shares.

Proportionate adjustments were made to the per share exercise price and the number of shares of Common Stock that may be purchased upon exercise of outstanding stock options granted by the Company, and the number of shares of Common Stock reserved for future issuance under the Company's 2014 Equity Incentive Plan.

Warrants

The following table summarizes information about our outstanding common stock warrants as of March 31, 2022:

	Date		Strike Price	Total Warrants Outstanding and Exercisable	Total Exercise Price (in thousands)	Weighted Average Exercise Price
	Issued	Expiration				
Warrants - Common Stock	Jun-18	Jun-23	\$ 1.00	316,800	\$ 317	
Warrants - Common Stock	Oct-18	Oct-23	1.40	26,250	37	
				<u>343,050</u>	<u>\$ 354</u>	<u>\$ 1.04</u>

In February 2021, the common stock warrants issued by the Company in September 2016 were fully exercised by all of the holders on a cashless basis. As a result of the cashless exercise, 151,504 shares of common stock were issued.

There were no warrants issued, exercised, forfeited, or expired during the three months ended March 31, 2022.

Note 9: Share-Based Compensation

Under our amended 2014 Equity Incentive Plan (the "2014 Plan"), 1,100,000 shares of our common stock are reserved for issuance under the 2014 Plan (as adjusted for the Reverse Stock Split).

Under the 2014 Plan, common stock incentives may be granted to our officers, employees, directors, consultants, and advisors (and prospective directors, officers, managers, employees, consultants and advisors) and our affiliates can acquire and maintain an equity interest in us, or be paid incentive compensation, which may (but need not) be measured by reference to the value of our common stock.

The 2014 Plan permits us to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock and other stock bonus awards and performance compensation awards.

The 2014 Plan is administered by the Board of Directors, or a committee appointed by the Board of Directors, which determines recipients and the number of shares subject to the awards, the exercise price and the vesting schedule. The term of stock options granted under the 2014 Plan cannot exceed ten years. Options shall not have an exercise price less than 100% of the fair market value of our common stock on the grant date, and generally vest over a period of three years. If the individual possesses more than 10% of the combined voting power of all classes of our stock, the exercise price shall not be less than 10% of the fair market of a share of common stock on the date of grant.

The following table summarizes stock option activity under the 2014 Plan for the three months ended March 31, 2022:

	Stock Options	Grant Date Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (\$ in thousands)
Outstanding at January 1, 2022	1,002,750	\$ 3.00		
Granted	49,000	9.28		
Forfeited or expired	(8,333)	3.26		
Exercised	(550,834)	3.48		
Outstanding at March 31, 2022	<u>492,583</u>	\$ 3.09	2.5	\$ 800
Exercisable at March 31, 2022	<u>380,288</u>	\$ 3.06	2.2	\$ 730

For the three months ended March 31, 2022, certain employees exercised vested stock options through a cashless exercise. The options exercised were net settled in satisfaction of the exercise price and employee share-based tax withholding. The exercised options, utilizing a cashless exercise, are summarized in the following table:

Options exercised	Weighted Average Exercise Price	Shares Net Settled for Exercise	Shares Withheld for Taxes (1)	Net Shares Issued	Weighted Average Share Price	Employee Share-Based Tax Withholding (1)
550,834	\$ 3.48	194,681	142,479	213,674	\$ 9.85	\$ 1,403,191

(1) Shares withheld for employee taxes of 142,479 represents the equivalent shares for employee tax withholding of \$1.4 million. The employee tax withholding is based on the statutory rates for each employee on the date of exercise. ASU 2016-09 clarifies that employee taxes paid in lieu of shares issued for share-based compensation should be considered similar to a share repurchase. Accordingly, employee taxes paid by us are recorded as a reduction to stockholders' equity on the date of exercise and classified as a financing activity on the statement of cash flows when taxes are paid to the taxing authorities.

Share-based compensation cost is measured at the grant date based on the fair value of the award. The fair values of stock options granted during the three months ended March 31, 2022 were estimated using the Black-Scholes option-pricing model with the following assumptions:

Weighted average grant-date fair value per option granted	\$ 4.04
Expected option term	3.0 years
Expected volatility factor	65.0%
Risk-free interest rate	0.97%
Expected annual dividend yield	—

We estimate expected volatility using historical volatility of common stock of our peer group over a period equal to the expected life of the options. The expected term of the awards represents the period of time that the awards are expected to be outstanding. We considered expectations for the future to estimate employee exercise and post-vest termination behavior. We do not intend to pay common stock dividends in the foreseeable future, and therefore have assumed a dividend yield of zero. The risk-free interest rate is the yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected term of the awards.

As of March 31, 2022, there was \$0.2 million of total unrecognized share-based compensation related to unvested stock options. These costs have a weighted average remaining recognition period of 1.5 years.

Note 10: Contingencies

Litigation

From time to time, we are subject to litigation incidental to the conduct of our business. When applicable, we record accruals for contingencies when it is probable that a liability will be incurred, and the amount of loss can be reasonably estimated. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in our opinion, individually or in the aggregate, no such lawsuits are expected to have a material effect on our condensed consolidated financial position or results of operations.

Concentrations

Two customers accounted for more than 10% of consolidated revenue totaling approximately 25% of consolidated net revenues during the three months ended March 31, 2022. No other customer accounted for more than 10% of consolidated net revenues. One customer accounted for approximately 18% of consolidated net revenues during the three months ended March 31, 2021. No other customer accounted for more than 10% of consolidated net revenues. A significant decrease or interruption in business from our significant customers could have a material adverse effect on our business, financial condition and results of operations. Financial instruments that potentially expose us to a concentration of credit risk principally consist of accounts receivable. We sell product to a large number of customers in many different geographic regions. To minimize credit risk, we perform ongoing credit evaluations of its customers' financial condition.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains statements that discuss future events or expectations, projections of results of operations or financial condition, trends in our business, business prospects and strategies and other "forward-looking" information. In some cases, you can identify "forward-looking statements" by words like "may," "will," "should," "expects," "These statements may relate to, among other things, our expectations regarding for our financial results, revenue, operating expenses and other financial measures in future periods, and the adequacy of our sources of liquidity to satisfy our working capital needs, capital expenditures, and other liquidity requirements. Our actual results may differ materially from those anticipated in these forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed under "Risk Factors" in documents and reports we have filed with the Securities and Exchange Commission. Some additional factors that could cause actual results to differ include:

- our plans to obtain any requisite outside funding for our current and proposed operations and potential acquisition and expansion efforts;
- the impacts from the COVID-19 pandemic, or any other health epidemic, on our business, our clientele, supply chains, the labor markets, or the global economy as a whole;
- the concentration of our customers and the potential effect of the loss of a significant customer;
- debt obligations of the Company arising from our line of credit or otherwise;
- our ability to integrate the business operations of businesses that we acquire from time to time;
- our prior history of operating losses;
- our ability to compete with companies producing similar products and services;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our products and technology;
- the accuracy of our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- general economic conditions, including effects of inflation, market volatility, interest rate increases, and effects of geopolitical events domestically and abroad;
- our ability to develop and maintain our corporate infrastructure, including our internal controls;
- our ability to develop innovative new products; and
- our financial performance.

Our financial statements are stated in United States Dollars ("\$\$") and are prepared in accordance with U.S. GAAP. In this Quarterly Report, unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to "common shares" refer to the common shares in our capital stock.

Overview

DecisionPoint is a provider and integrator of mobility and wireless systems for business organizations. The Company designs, deploys and supports mobile computing systems that enable customers to access employers' data networks at various locations (i.e. the retail selling floor, nurse workstations, warehouse and distribution centers or on the road deliveries via enterprise-grade handheld computers, printers, tablets, and smart phones). The Company also integrates data capture equipment including bar code scanners and radio frequency identification (RFID) readers.

In January 2022, we completed the acquisition of Advanced Mobile Group, LLC ("AMG"), a privately held company headquartered in Doylestown, Pennsylvania. DecisionPoint acquired AMG to expand DecisionPoint's mobility-first enterprise solutions and service offerings and grow its capabilities in the mid-Atlantic region. AMG is a regional leader providing services, hardware, software, integration, and wireless networking solutions, with deep experience in warehousing and distribution, manufacturing,

mobile workforce automation, retailing, and healthcare segments, and 600 customers.

The future impact of the COVID-19 pandemic on our business and results of operations is unknown and will depend on future developments, which fluctuate and are highly uncertain and cannot be predicted with confidence, including the duration and severity of the COVID-19 pandemic, the spread of the new variants of the virus, the effectiveness of vaccines and vaccination rates, and additional preventative and protective actions that governments, or we or our customers, may implement, which may result in an extended period of continued business disruption and reduced operations. Certain of our customers, particularly those in the retail sector, have been significantly impacted by COVID-19 and the pandemic has contributed to disruptions in supply chains and labor shortages across industries, and therefore We have experienced supplier shipment delays due to a supply chain and logistic challenges resulting in delays in product revenue recognition of approximately \$10 million during the first quarter of 2022. Our results of operations during the first quarter of 2022 are not necessarily indicative of results to be expected in the remainder of 2022 in light of the uncertainties surrounding the impact of the COVID-19 pandemic and continuing issues with logistics and supply chain disruptions through the date of this report.

In addition, general economic uncertainty and volatility arising from geopolitical events and concerns, inflation, rises in energy prices, changes in interest rates and general declines in capital spending in the information technology sector make it difficult to predict changes in the purchasing requirements of our customers and the markets we serve and whether our results of operations will be materially impacted.

Components of Results of Operations

Net Sales

Net sales reflect revenue from the sale of hardware, software, consumables and professional services (including hardware and software maintenance) to our clients, net of sales taxes.

Revenue is recognized when a customer obtains control of promised goods or services under the terms of a contract and is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. We do not have any material extended payment terms, as payment is due at or shortly after the time of the sale. Sales, value-added and other taxes collected concurrently with revenue producing activities are excluded from revenue.

Cost of Sales, Sales and Marketing Expenses, and General and Administrative Expenses

The following illustrates the primary costs classified in each major expense category:

Cost of sales, include:

- Cost of goods sold for hardware, software and consumables;
- Cost of professional services, including maintenance;
- Markdowns of inventory; and
- Freight expenses.

Sales and marketing expenses, include:

- Sales salaries, benefits and commissions;
- Consulting;
- Marketing tools;
- Travel; and
- Marketing promotions and trade shows.

General and administrative expenses, include:

- Corporate payroll and benefits;
- Depreciation and amortization;
- Rent;
- Utilities; and
- Other administrative costs such as maintenance of corporate offices, supplies, legal, consulting, audit and tax preparation and other professional fees.

Results of Operations

The following table summarizes key components of our results of operations for the periods indicated, both in dollars and as a percentage of our net sales (in thousands):

	Three Months Ended	
	March 31,	
	2022	2021
Statements of Income Data:		
Net sales	\$ 19,721	\$ 16,072
Cost of sales	15,047	12,234
Gross profit	4,674	3,838
Sales and marketing expenses	2,175	1,889
General and administrative expenses	2,261	1,620
Total operating expenses	4,436	3,509
Operating income	238	329
Interest expense	(25)	(29)
Gain on extinguishment of debt	-	1,211
Other, net	4	

Income before income taxes	217	1,511
Income tax benefit (expense)	637	(178)
Net income	<u>\$ 854</u>	<u>\$ 1,333</u>
Percentage of Net Sales:		
Net sales	100.0%	100.0%
Cost of sales	76.3%	76.1%
Gross profit	23.7%	23.9%
Sales and marketing expenses	11.0%	11.8%
General and administrative expenses	11.5%	10.1%
Total operating expenses	22.5%	21.8%
Operating income	1.2%	2.0%
Interest expense	-0.1%	-0.2%
Gain on extinguishment of debt	0.0%	7.5%
Other, net	0.0%	0.0%
Income before income taxes	1.1%	9.4%
Income tax benefit (expense)	3.2%	-1.1%
Net income	4.3%	8.3%

Results of Operations for the First Quarter of 2022 compared to the First Quarter of 2021 (Unaudited)

Net sales

	Three Months Ended March 31,		Dollar Change	Percent Change
	2022	2021		
	(dollars in thousands)			
Hardware and software	\$ 14,300	\$ 10,466	\$ 3,834	36.6%
Consumables	1,280	1,459	(179)	(12.3)%
Services	4,141	4,147	(6)	(0.1)%
	<u>\$ 19,721</u>	<u>\$ 16,072</u>	<u>\$ 3,649</u>	22.7%

Net sales increased by 22.7%, or \$3.6 million, during the three months ended March 31, 2022 as compared to the same period of the prior year. The increase in net sales was driven by higher hardware sales to three of our large enterprise customers and a \$2.2 million increase in overall net sales associated with sales by AMG which we acquired on January 31, 2022 (and, thus, there were not corresponding sales by AMG included in our results of operations for the comparable period in 2021).

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Cost of sales

	Three Months Ended March 31,		Dollar Change	Percent Change
	2022	2021		
	(dollars in thousands)			
Hardware and software	\$ 11,537	\$ 8,427	\$ 3,110	36.9%
Consumables	885	1,024	(139)	(13.6)%
Services	2,625	2,783	(158)	(5.7)%
	<u>\$ 15,047</u>	<u>\$ 12,234</u>	<u>\$ 2,813</u>	23.0%

Cost of sales increased by 23.0%, or \$2.8 million during the three months ended March 31, 2022 as compared to the same prior year period primarily due to higher hardware sales volume and a \$1.4 million increase in overall cost of sales associated with cost of sales of AMG that we acquired on January 31, 2022 (and, thus, there were not corresponding costs of sales of AMG included in our results of operations for the comparable period in 2021).

Gross profit

	Three Months Ended March 31,		Dollar	Percent
	2022	2021		
	(dollars in thousands)			
Gross profit:				
Hardware and software	\$ 2,763	\$ 2,038		
Consumables	395	435		
Services	1,516	1,365		
Total gross profit	<u>\$ 4,674</u>	<u>\$ 3,838</u>		
Gross profit percentage:				
Hardware and software	19.3%	19.5%		
Consumables	30.9%	29.8%		
Services	36.6%	32.9%		
Total gross profit percentage	23.7%	23.9%		

Gross profit increased \$0.8 million for the three months ended March 31, 2022 as compared to the prior year period, primarily as a result of overall higher sales volume and the other impacts noted above. Overall gross profit margin decreased 20 basis points due to a shift in mix to hardware sales with lower profit margins.

Sales and marketing expenses

	Three Months Ended March 31,	Dollar	Percent
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	2022	2021	Change	Change
	(dollars in thousands)			
Sales and marketing expenses	\$ 2,175	\$ 1,889	\$ 286	15.1%
As a percentage of sales	11.0%	11.8%	—	(0.7)%

Sales and marketing expenses increased \$0.3 million, or 15.1%, for the three months ended March 31, 2022 as compared to the prior year period due to increased expenses for AMG operations that was acquired on January 31, 2022 (and, thus, there were not corresponding sales and marketing expenses of AMG included in our results of operations for the comparable period in 2021). As a percentage of sales, sales and marketing expenses decreased 70 basis points primarily due to incremental one-time costs associated with the sales integration efforts with ExtenData incurred for the three months ended March 31, 2021.

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General and administrative expenses

	Three Months Ended March 31,		Dollar	Percent
	2022	2021	Change	Change
	(dollars in thousands)			
General and administrative expenses	\$ 2,261	\$ 1,620	\$ 641	39.6%
As a percentage of sales	11.5%	10.1%	—	1.4%

General and administrative expenses increased \$0.6 million, or 39.6%, for the three months ended March 31, 2022 as compared to the same period of the prior year. The increase in costs was due to higher director, executive and employee compensation, an increase in legal and compliance costs, and a \$0.1 million increase in expenses associated with the acquisition of AMG on January 31 (and, thus, there were not corresponding general and administrative expenses by AMG included in our results of operations for the comparable period in 2021). As a percentage of sales, general and administrative costs increased 140 basis points primarily due to higher fixed director and executive compensation not correlated with the higher sales volume.

Interest expense. The decrease in interest expense to \$25,000 for the first quarter of 2022 from \$29,000 from the same period last year was due to a decrease in debt levels as compared to the same period last year.

Income tax benefit (expense). Income tax benefit was approximately \$637,000 for the three months ended March 31, 2022 and income tax expense was \$178,000 for the three months ended March 31, 2021. The income tax benefit was due to lower income before income taxes and the recognition of excess tax benefits associated with stock option exercise activity in the first quarter of 2022.

Net income. Net income was \$0.9 million compared to \$1.3 million in the same period last year.

Liquidity and Capital Resources

As of March 31, 2022, our principal sources of liquidity were cash totaling \$9.3 million and \$9.0 million of availability under our line of credit. In recent years, we have financed our operations primarily through cash generated from operating activities, borrowings from term loans and our line of credit. In certain prior years, we generated operating losses and negative cash flows from operating activities as reflected in our accumulated deficit. We have generated operating income for each of the years ended December 31, 2018 through December 31, 2021. Based on our recent trends and our current projections, we expect to generate cash from operations for the year ending December 31, 2022. Given our projections, combined with our existing cash and credit facilities, we believe the Company has sufficient liquidity for at least the next 12 months.

Our ability to continue to meet our cash requirements will depend on, among other things, the effect of COVID-19 on U.S. and global economic activity, continuing disruptions in supply chains and labor shortages across industry sectors caused by the COVID-19 pandemic, our ability to achieve anticipated levels of revenues and cash flow from operations, our ability to manage costs and working capital successfully and the continued availability of financing, if needed. We cannot provide any assurance that our assumptions used to estimate our liquidity requirements will remain accurate due to, among other things, the unpredictability of the COVID-19 global pandemic and its effect on the Company and its customers and suppliers. Consequently, the duration of the pandemic and our estimates on the severity of the impact on our future earnings and cash flows could change and have a material impact on our results of operations and financial condition. In the event of a sustained market deterioration, and declines in net sales, we may need additional liquidity, which would require us to evaluate available alternatives and take appropriate actions. We cannot provide any assurance that we will be able to obtain any additional sources of financing or liquidity on acceptable terms, or at all.

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Working Capital (Deficit)

	March 31, 2022	December 31, 2021	Increase/ (Decrease)
	(in thousands)		
Current assets	\$ 28,684	\$ 19,334	\$ 9,350
Current liabilities	33,148	18,352	14,796
Working capital (deficit)	(4,464)	982	(5,546)

The working capital deficit as of March 31, 2022 was due to cash paid for the acquisition of AMG. Deferred revenue increased at March 31, 2022 as compared to December 31, 2021 due to a \$14.0 million large enterprise retail customer order placed in January 2022, all of which was paid in cash as of March 31, 2022.

Line of Credit

On July 30, 2021, we entered into a Loan and Security Agreement (the "Loan Agreement") with MUFG Union Bank, National Association. The Loan Agreement provides for a revolving line of credit of up to \$9.0 million with our obligations being secured by a security interest in substantially all of our assets. Loans extended to us under the Loan Agreement are scheduled to mature on July 31, 2024.

As of March 31, 2022, we were eligible to borrow up to \$9.0 million, and had no outstanding borrowings under the line of credit.

EIDL Promissory Note

On August 27, 2020, we received \$150,000 in connection with a promissory note from the SBA under the Economic Injury Disaster Loan (“EIDL”) program pursuant to the CARES Act. Under the terms of the EIDL promissory note, interest accrues on the outstanding principal at an interest rate of 3.75% per annum and with a term of 30 years with equal monthly payments of principal and interest of \$731 beginning on August 27, 2021.

Cash Flow Analysis

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Net cash provided by operating activities	\$ 11,669	\$ 1,258
Net cash used in investing activities	(4,907)	(243)
Net cash used in financing activities	-	(1,204)
Net increase (decrease) in cash	\$ 6,762	\$ (189)

Operating Activities

Net cash provided by operating activities increased to \$11.7 million for the three months ended March 31, 2022 from \$1.3 million for the three months ended March 31, 2021. The increase was primarily due to an increase in deferred revenue.

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Investing Activities

Net cash used in investing activities was \$4.9 million for the three months ended March 31, 2022 which is comprised of cash payments in the first quarter of 2022 in connection with the acquisition of AMG and Boston Technologies and purchases of capital expenditures of property and equipment. Net cash used in investing activities was \$0.2 million for the three months ended March 31, 2021 which is comprised of cash payments delivered in the first quarter of 2021 in connection with the acquisition of ExtenData and purchases of capital expenditures of property and equipment.

Financing Activities

Net cash used in financing activities was \$1.2 million for the three months ended March 31, 2021 which primarily comprised of payments on the line of credit.

Stock Issuances

For the three months ended March 31, 2022, certain employees exercised vested stock options through a cashless exercise. The options exercised were net settled in satisfaction of the exercise price and employee share-based tax withholding. The exercised options, utilizing a cashless exercise, are summarized in the following table:

Options exercised	Weighted Average Exercise Price	Shares Net Settled for Exercise	Shares Withheld for Taxes	Net Shares Issued	Weighted Average Share Price	Employee Share-Based Tax Withholding
550,834	\$ 3.48	194,681	142,479	213,674	\$ 9.85	\$ 1,403,191

Critical Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires the appropriate application of certain accounting policies, some of which require us to make estimates and assumptions about future events and their impact on amounts reported in our condensed consolidated financial statements. Since future events and their impact cannot be determined with absolute certainty, the actual results will inevitably differ from our estimates.

Acquisition of Advanced Mobile Group, LLC

We completed the acquisition of Advanced Mobile Group, LLC (“AMG”) for \$5.0 million on January 31, 2022. We accounted for this transaction under the acquisition method of accounting for business combinations. Accordingly, the purchase price was allocated, on a preliminary basis, to the assets acquired and liabilities assumed based on their respective estimated fair values, including identified intangible assets of \$3.1 million and resulting goodwill of \$1.0 million. Our preliminary fair value estimates of intangible assets were determined using valuation techniques based on estimates and assumptions used for similar intangible assets we acquired in connection with the acquisition of ExtenData in December 2020. Included in the purchase price of AMG, is contingent consideration of \$0.5 million, subject to EBITDA results of AMG during each of the two years following the closing of the acquisition. We estimated the fair value of the contingent consideration based on the financial forecasts of AMG. The estimated fair values associated with the acquisition of AMG are subject to change during the measurement period which is not expected to exceed one year after the date of acquisition. Any adjustments to our preliminary purchase price allocation identified during the measurement period will be recognized in the period in which the adjustments are determined and recorded against goodwill.

For a description of other critical accounting policies and estimates, refer to Part II, Item 7, Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the year ended December 31, 2021. Other than the acquisition of AMG, there have been no material changes to our critical accounting estimates since our Annual Report on Form 10-K for the year ended December 31, 2021.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings, if any, under our line of credit, which bears interest at variable rates. As of March 31, 2022, we had no outstanding borrowings under our credit facility.

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2022. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our evaluation of internal controls excluded an assessment of the internal control over financial reporting for AMG, a business that we acquired on January 31, 2022. We are currently in the process of conducting an assessment of AMG’s controls and procedures and will complete our assessment within one year. Based on the evaluation of our disclosure controls and procedures as of March 31, 2022, excluding an assessment of AMG’s internal control of financial reporting, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no material changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information contained in “Note 10: Contingencies” to our condensed consolidated financial statements included in this quarterly report is incorporated by reference into this Item.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, please refer to the section titled *Risk Factors* in our Annual Report on Form 10-K for the years ended December 31, 2021 for a detailed discussion of certain risks that affect the Company.

Item 5. Other Information

On April 29, 2022, the Company’s common stock was authorized for listing on the NYSE American Stock Exchange, and, on May 5, 2022 the Company’s common stock began trading on that exchange.

Item 6. Exhibits

EXHIBIT INDEX

10.1	Membership Interest Purchase Agreement between Decisionpoint Systems, Inc. and various sellers dated January 31, 2022 (incorporated by reference to Exhibit 10.1 to the Current Report on 8-K filed on February 11, 2022)
31.1*	Certification by the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Section 1350 Certifications
101	Interactive data files from DecisionPoint Inc.’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Income and Comprehensive Income; (iii) the Condensed Consolidated Statement of Stockholders’ Equity; (iv) the Condensed Consolidated Statements of Cash Flows and (v) Notes to the Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

SIGNATURES

Under the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report was signed on behalf of the Registrant by the authorized person named below.

DECISIONPOINT SYSTEMS, INC.

Dated: May 16, 2022

By: /s/ Steve Smith
Name: Steve Smith
Title: Chief Executive Officer
(Principal Executive Officer) and Director

Dated: May 16, 2022

By: /s/ Melinda Wohl
Name: Melinda Wohl
Title: Vice President Finance and Administration
(Principal Financial Officer and
Principal Accounting Officer)

Certification

I, Steve Smith, certify that:

1. I have reviewed this Form 10-Q of DecisionPoint Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2022

/s/ Steve Smith

Steve Smith

Chief Executive Officer (Principal Executive Officer) and Director

Certification

I, Melinda Wohl, certify that:

1. I have reviewed this Form 10-Q of DecisionPoint Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2022

/s/ Melinda Wohl

Melinda Wohl

Vice President Finance and Administration (Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of DecisionPoint Systems, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steve Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 16, 2022

/s/ Steve Smith

Steve Smith

Chief Executive Officer (Principal Executive Officer) and Director

In connection with the Quarterly Report of DecisionPoint Systems, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Melinda Wohl, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 16, 2022

/s/ Melinda Wohl

Melinda Wohl

Vice President Finance and Administration (Principal Financial Officer
and Principal Accounting Officer)