DecisionPoint Systems, Inc.
Form 10-Q
May 15, 2015

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, 2015

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.)

8697 Research Drive, Irvine CA, 92618-4204

(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. outstanding as of the close of business on May 8, 2015, was 12,729,563.

DECISIONPOINT SYSTEMS, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DECISIONPOINT SYSTEMS, INC.

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash	$818	$ 1,616
Accounts receivable, net	5,782	11,497
Inventory, net	1,573	2,035
Deferred costs	3,020	3,177
Deferred tax assets	13	21
Prepaid expenses and other current assets	209	81
Total current assets	11,415	18,427
Property and equipment, net	168	145
Other assets, net	116	124
Deferred costs, net of current portion	1,235	1,314
Goodwill	8,023	8,202
Intangible assets, net	1,660	2,045
Total assets	$22,617	$ 30,257
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$7,352	$ 10,000
Accrued expenses and other current liabilities	2,150	2,755
Lines of credit	3,453	5,811
Current portion of debt	614	813
Due to related parties	107	73
Unearned revenue	6,266	6,918
Total current liabilities	19,942	26,370

Long term liabilities		
Unearned revenue, net of current portion	1,860	2,015
Debt, net of current portion and discount	1,373	1,580
Deferred tax liabilities	431	460
Warrant liability	597	519
Other long term liabilities	206	226
Total liabilities	24,409	31,170
Commitments and contingencies	-	-
STOCKHOLDERS' DEFICIT		
Cumulative Convertible Preferred stock, $0.001 par value, 10,000,000 shares authorized, 1,547,845 shares issued and outstanding, including cumulative and imputed preferred dividends of $2,322 and $2,295, and with a liquidation preference of $13,775 and $13,640 at March 31, 2015 and December 31, 2014, respectively	12,849	12,822
Common stock, $0.001 par value, 100,000,000 shares authorized, 12,883,446 issued and 12,729,563 outstanding as of March 31, 2015, and as of December 31, 2014	13	13
Additional paid-in capital	17,257	17,252
Treasury stock, 153,883 shares of common stock	(205)	(205)
Accumulated deficit	(31,259)	(30,292)
Unearned ESOP shares	(446)	(484)
Accumulated other comprehensive income	(1)	(19)
Total stockholders' deficit	(1,792)	(913)
Total liabilities and stockholders' deficit	$22,617	$30,257

See accompanying notes to unaudited condensed consolidated financial statements

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DECISIONPOINT SYSTEMS, INC.

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except share and per share data)

	Three Months Ended March 31, 2015	2014
Net sales	$11,749	$16,709
Cost of sales	9,167	13,135
Gross profit	2,582	3,574
Selling, general and administrative expense	2,857	3,717
Operating loss	(275)	(143)
Other (income) expense:		
Interest expense	184	207
Fair market value adjustment of warrant liability	78	(251)
Other (income) expense, net	64	(8)
Total other (income) expense	326	(52)
Loss before income taxes	(601)	(91)
(Benefit) provision for income taxes	(21)	22
Net loss	(580)	(113)
Cumulative and imputed dividends on Series A and B preferred stock	(27)	(27)
Cash and imputed dividends on Series D and E preferred stock	-	(302)
Accrued paid-in-kind dividends on Series D and Series E preferred stock	(360)	-
Net loss attributable to common shareholders	$(967)	$(442)
Net loss per common share:		
Basic and diluted	$(0.08)	$(0.04)
Weighted average common shares outstanding:		
Basic and diluted	12,425,182	12,314,498

Other comprehensive loss, net of tax		
Net loss	$(580)	$(113)
Foreign currency translation adjustment	18	(24)
Comprehensive loss	$(562)	$(138)

See accompanying notes to unaudited condensed consolidated financial statements

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DECISIONPOINT SYSTEMS, INC.

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)

	Three Months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(580)	$(113)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	282	451
Amortization of deferred financing costs and note discount	35	65
Employee and Director stock-based compensation	33	10
Change in fair value of warrants	78	(251)
ESOP compensation expense	10	14
Allowance for doubtful accounts	16	(6)
Deferred taxes, net	7	-
Changes in operating assets and liabilities:		
Accounts receivable	5,665	925
Inventory, net	462	46
Deferred costs	233	(51)
Prepaid expenses and other current assets	(54)	-
Other assets, net	-	(25)
Accounts payable	(2,640)	(486)
Accrued expenses and other current liabilities	(715)	(116)
Due to related parties	33	89
Unearned revenue	(757)	8
Net cash provided by operating activities	2,108	560
Cash flows from investing activities		
Purchases of property and equipment	(33)	(19)
Net cash used in investing activities	(33)	(19)
Cash flows from financing activities		
Repayments from lines of credit, net	(2,353)	(182)
Repayment of debt	(249)	(271)
Dividends paid	(252)	-
Paid financing costs	(100)	(100)
Net cash used in financing activities	(2,954)	(553)
Effect on cash of foreign currency translation	81	(17)

Net decrease in cash	(798)	(29)
Cash at beginning of period	1,616	641
Cash at end of period	$818	$612
Supplemental disclosures of cash flow information:		
Interest paid	$249	$269
Income taxes paid	54	-
Supplemental disclosure of non-cash financing activities:		
Accrued and imputed dividends on preferred stock	$27	$329
Accrued PIK dividends on Series D and Series E preferred stock	360	-

See accompanying notes to unaudited condensed consolidated financial statements

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NOTE 1 - DESCRIPTION OF BUSINESS

Description of Business

DecisionPoint Systems, Inc., ("DecisionPoint", "Company") through its subsidiaries 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. The suite of software products utilizes the latest technologies to empower the mobile worker in many areas including merchandising, sales and delivery; field service; logistics and transportation; and warehouse management.

NOTE 2 - BASIS OF PRESENTATION, LIQUIDITY 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 ("U.S. 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. GAAP 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, 2015, are not necessarily indicative of results for the full 2015 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 subsidiaries, DecisionPoint Systems International and Apex Systems Integrators, Inc. "Apex"). DecisionPoint Systems International has two wholly-owned subsidiaries, DecisionPoint Systems Group, Inc. ("DPS

Group") and CMAC, Inc. ("CMAC"). The Company currently operates in one business segment.

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. 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 accompanying 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, 2014, included in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") on March 18, 2015.

Going Concern

The accompanying unaudited condensed consolidated financial statements were prepared on a going concern basis in accordance with U.S. GAAP. The going concern basis of presentation assumes that the Company will continue in operation for the next twelve months and will able to realize its assets and discharge its liabilities and commitments in the normal course of business and does not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the Company's inability to continue as a going concern. The Company's history of losses, working capital deficit, capital deficit, minimal liquidity and other factors raise substantial doubt about the Company's ability to continue as a going concern. In order for the Company to continue operations beyond the next twelve months and be able to discharge its liabilities and commitments in the normal course of business, the Company must establish sustained positive operating results through increased sales, avoid further unforeseen expenses, improve liquidity and working capital, and potentially raise additional equity or debt capital. There can be no assurance that the Company will be able to achieve sustainable positive operating results or obtain additional funds when needed or that such funds, if available, will be obtainable on terms satisfactory to management.

If the Company does not achieve sustained positive operating results and does not raise sufficient additional capital, material adverse events may occur including, but not limited to, (1) a reduction in the nature and scope of the Company's operations, (2) the Company's inability to fully implement its current business plan and (3) defaults under the Company's various loan agreements (for a description of past defaults, see the discussion below). If such events were to occur, they would have material adverse effects on the Company. There can be no assurance that the Company will successfully improve its liquidity position. The consolidated financial statements do not reflect any adjustments that might be required resulting from the adverse outcome relating to this uncertainty.

Summary of Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies during the three months ended March 31, 2015. See Note 2 of the Company's consolidated financial statements included in the Company's 2014 Annual Report on Form 10-K filed with the SEC on March 18, 2015, for a comprehensive description of the Company's significant accounting policies.

Revenue Recognition - Revenues are generated through product sales, warranty and maintenance agreements, software customization, and professional services. Product sales are recognized when the following criteria are met (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred and title has passed to the customer which generally happens at the point of shipment provided that no significant obligations remain; (3) the price is fixed and determinable; and (4) collectability is reasonably assured. The Company generates revenues from the sale of extended warranties on wireless and mobile hardware and systems. Revenue related to extended warranty and service contracts is recorded as unearned revenue and is recognized over the life of the contract as the Company maintains financial risk throughout the term of these contracts and may be liable to refund a customer for amounts paid in certain circumstances. Our policy is to classify shipping and handling costs billed to customers and the related expenses as cost of sales.

The Company also generates revenue from professional services and customer specified software customization on either a fee-for-service or fixed fee basis. Revenue from software customization and professional services that is contracted as fee-for-service is recognized in the period in which the services are performed or delivered. Adjustments to contract price and estimated labor costs are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The Company records sales net of sales tax.

The Company enters into revenue arrangements that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met for each deliverable in order for revenue recognition to occur in the appropriate accounting period. In an arrangement with multiple deliverables, the delivered item or items shall be considered a separate unit of accounting if both of the following criteria are met: (i) the delivered item or items have value to the customer on a standalone basis; and (ii) if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item or items is considered probable and substantially in the control of the vendor. A delivered item or items that do not qualify as a separate unit of accounting within the arrangement shall be combined with the other applicable undelivered item(s) within the arrangement and the allocation of arrangement consideration and the recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting. While changes in the allocation of the arrangement consideration between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could affect the timing of revenue recognition, which could affect the Company's results of operations. When the Company enters into an arrangement that includes multiple elements, we allocate revenue based on their relative selling prices. We use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor specific objective evidence of fair value ("VSOE"), (ii) third party evidence of selling prices ("TPE") and (iii) best estimate of selling price ("ESP") as a proxy for VSOE. When both VSOE and TPE are unavailable, we use ESP. We determine ESP by considering all relevant factors in establishing the price.

Revenue from software licenses may contain arrangements with multiple deliverables, including post-contract customer support, that are subject to software revenue recognition guidance. The revenue for these arrangements is allocated to the software and non-software deliverable based on the relative selling prices of all components in the arrangement using the criteria above. Post-contract support is recognized ratably over the support period. When a contract contains multiple elements wherein the only undelivered element is post-contract customer support and VSOE of the fair value of post-contract customer support does not exist, revenue from the entire arrangement is recognized ratably over the support period. Software royalty revenue is recognized in arrears on a quarterly basis, based upon reports received from licensees during the period, unless collectability is not reasonably assured, in which case revenue is recognized when payment is received from the licensee.

Concentration of Risk - Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, accounts receivable, and accounts payable. Beginning January 1, 2013, all of our cash balances were insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per depositor at each financial institution. This coverage is available at all FDIC member institutions. The Company uses Silicon Valley Bank, which is an FDIC insured institution. Based on these facts, collectability of bank balances appears to be adequate.

Historically, a relatively small number of customers have accounted for a significant portion of the Company's revenue. The Company had one customer who represented 10% and 11% of the Company's revenue for the three months ended March 31, 2015 and 2014, respectively. The Company had three customers, two of which were not the same, who represented 24% and 25% of its revenue for the three months ended March 31, 2015 and 2014, respectively. The Company's accounts receivable was concentrated with one customer, which was the same, representing 14% and 16% of gross accounts receivable at March 31, 2015 and 2014, respectively. Customer mix can shift 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 that has been a significant source of revenue in one financial reporting period is a less significant source of revenue in the following period. The loss of a significant customer could have a material adverse impact on the Company.

The Company has four primary vendors for the three months ended March 31, 2015, one of which was not the same when compared to the similar period in 2014. For the three months ended March 31, 2015, the Company had purchases from these four vendors that collectively represented 58% of total purchases and 71% of the total outstanding accounts payable at March 31, 2015. For the three months ended March 31, 2014, the Company had purchases from these four vendors that collectively represented 60% of total purchases and 65% of the total outstanding accounts payable at March 31, 2014. The same single vendor represented 24% and 29% of the total purchases for the three months ended March 31, 2015 and 2014, respectively. Loss of this certain vendor could have a material adverse effect on our operations.

The Company's 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 each 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.

Translation of Foreign Currencies - The Company's functional currency is the U.S. dollar. The financial statements of the Company's foreign subsidiary is measured using the local currency, in this case the Canadian dollar (CDN$), as its functional currency and is translated to U.S. dollars for reporting purposes. Assets and liabilities of the subsidiary are translated at exchange rates as of the balance sheet dates. Revenues and expenses of the subsidiary are translated at the rates of exchange in effect during the year.

Fair Value Measurement - Fair value is the price that would be received from selling an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides a hierarchy for inputs used in measuring fair value that prioritize the use of observable inputs over the use of unobservable inputs, when such observable inputs are available. The three levels of inputs that may be used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-driven valuations in which all significant inputs are observable or can be derived principally from, or corroborated with, observable market data.

Level 3 - Fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including assumptions and judgments made by the Company.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observable inputs may result in a reclassification of assets and liabilities within the three levels of the hierarchy outlined above.

Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The Company measures certain liabilities at fair value on a recurring basis such as our contingent consideration related to business combinations and recognizes transfers within the fair value hierarchy at the end of the fiscal quarter in which the change in circumstances that caused the transfer occurred. There have been no transfers between Level 1, 2 or 3 assets or liabilities during the fiscal three months ended March 31, 2015.

The Company is obligated to pay bonus consideration to the former CEO of Apex. Such bonus is considered additional contingent purchase consideration as the Company is obligated to pay the bonus regardless of whether or not the CEO's employment is retained. The fair value of the bonus was calculated to be approximately CDN$160,000 (US$153,000 at the Closing Date). The Company reassessed the fair value of the contingent consideration liability at December 31, 2014 and determined the amount to be $0. The Company continues to recognize no bonus consideration obligation in 2015.

The Company has classified certain warrants related to the August 2013 issuance and sale of common stock in a private offering as a Level 3 Liability. Assumptions used in the calculation require significant judgment. The Company reassesses the fair value of the warrant liabilities on a quarterly basis using a Monte Carlo option pricing model. Based on that assessment, the Company recognized a $78,000 increase and a $251,000 decrease to the fair value of the warrants during the three months ended March 31, 2015 and 2014, respectively.

The following table summarizes the financial liabilities measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014 (in thousands):

	Total	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant other unobservable inputs Level 3
Liabilities				
Fair value of warrants issued in connection with share purchase agreement	597	-	-	597
Balance at March 31, 2015	$597	$ -	$ -	$ 597

	Total	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant other unobservable inputs Level 3
Liabilities				
Fair value of warrants issued in connection with share purchase agreement	519	-	-	519

Balance at December 31, 2014	$519	$ -	$ -	$ 519

The following table summarizes changes to the fair value of the contingent consideration and derivative warrants, which are Level 3 liabilities (in thousands):

	Level 3 Derivative warrants
Balance at December 31, 2014	$ 519
Adjustments to fair value of warrants (reflected in other income)	78
Balance at March 31, 2015	$ 597

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company's non-financial assets and liabilities, such as goodwill, intangible assets, and other long lived assets resulting from business combinations are measured at fair value using income and market comparable valuation methodologies at the date of acquisition and subsequently re-measured if there are indicators of impairment. There were no indicators of impairment identified during the three months ended March 31, 2015.

Income Taxes - We account for income taxes in accordance with the Financial Accounting Standards Board (“FASB”) guidance, which requires deferred tax assets and liabilities, be recognized using enacted tax rates to measure the effect of temporary differences between book and tax bases on recorded assets and liabilities. FASB guidance also requires that deferred tax assets be reduced by a valuation allowance, if it is more likely than not some portion or all of the deferred tax assets will not be recognized.

For the three months ended March 31, 2015, the Company recorded a tax benefit of $21,000 on pre-tax loss of $0.6 million, compared to an income tax expense of $22,000 on pre-tax loss of $91,000 for the three months ended March 31, 2014.

Recently Issued Accounting Pronouncements – In April 2015, the FASB issued Accounting Standards Update ("ASU") ASU 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability instead of being presented as an asset. This guidance is effective for public companies for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those years. For all other entities, this guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The new guidance is to be applied on a retrospective basis, wherein the balance sheet of each individual period presented is adjusted to reflect the period-specific effects of applying the new guidance and represents a change in accounting principle. Management is currently evaluating the impact of the adoption of this accounting standard update on its financial statements.

In April 2015, the FASB issued ASU 2015-05, "Intangibles–Goodwill and Other–Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This update provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. This guidance is effective for public companies for fiscal years and interim periods beginning after December 15, 2015. For all other entities, this guidance is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for all entities. The new guidance is to be applied either prospectively to new cloud computing arrangements or retrospectively. Management is currently evaluating the impact of the adoption of this accounting standard update on its 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 each of the three months ended March 31, 2015 and 2014, exclude approximately 0.3 million and 0.4 million, respectively, of ESOP shares that have not been committed to be released.

For periods presented 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. All potentially dilutive securities are anti-dilutive due to the net loss incurred by the Company in the periods presented.

Potential dilutive securities consist of (in thousands):

	Three Months Ended March 31,	
	2015	2014
Convertible preferred stock - Series A	270	270
Convertible preferred stock - Series B	131	131
Convertible preferred stock - Series D	10,287	9,918
Convertible preferred stock - Series E	8,331	8,180
Warrants to purchase common stock	3,279	3,555
Options to purchase common stock	1,462	592
Total potentially dilutive securities	23,760	22,646

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NOTE 4 – WARRANT LIABILITY

The Company has determined that certain warrants the Company has issued contain provisions that protect the holders from future issuances of the Company's Common Stock at prices below such warrants' then in effect respective exercise prices (see Note 9). These provisions could result in modification of the warrants then in effect exercise price. The Company evaluated the guidance ASC 480-10 *Distinguishing Liabilities from Equity and* ASC 815-40 *Contracts in an Entity's Own Equity*. Pursuant to this guidance, the Company's management concluded that these instruments do not meet the criteria for classification as equity treatment and must be recorded as a liability as a result of the terms in the warrants that provide for price protection in the event of a future issuance. The Company recognized these warrants as liabilities at their fair value and re-measures them at fair value on each reporting date. ASC 820 *Fair Value Measurement* provides requirements for disclosure of liabilities that are measured at fair value on a recurring basis in periods subsequent to the initial recognition (see Note 2).

The Company uses Level 3 inputs for its valuation methodology for the warrant derivative liabilities. The estimated fair values were determined using a Monte Carlo option pricing model based on various assumptions. The Company's derivative liabilities are adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in other income or expense accordingly, as adjustments to the fair value of derivative liabilities. Various factors are considered in the pricing models the Company uses to value the warrants, including the Company's current common stock price, the remaining life of the warrants, the volatility of the Company's common stock price, and the risk-free interest rate. In addition, as of the valuation dates, management assessed the probabilities of future financing assumptions in the Monte Carlo valuation models. Future changes in these factors will have a significant impact on the computed fair value of the warrant liability. Accordingly, the Company expects future changes in the fair value of the warrants to continue to vary from quarter to quarter.

The Company revalues the warrants as of the end of each reporting period. The estimated fair value of the outstanding warrant liabilities was approximately $597,000 and $519,000, as of March 31, 2015 and December 31, 2014, respectively. The increase in fair value of the warrant liabilities for the three months ended March 31, 2015 was $78,000 while the decrease in the fair value of the warrant liabilities for the three months ended March 31, 2014 was $251,000. The adjustments to the fair value of the warrant liabilities are included in other income in the Company's unaudited condensed consolidated statements of operations.

The warrant liabilities were valued at the closing dates of the Purchase Agreement and the end of each reporting period using a Monte Carlo valuation model with the following assumptions:

	Placement Agent Warrants		Investor Warrants	
Warrants	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Closing price per share of common stock	$ 0.42	$ 0.38	$ 0.42	$ 0.38

Exercise price per share (range)	0.50		0.50		0.50		0.50	
Expected volatility	147.0	%	138.3	%	147.0	%	138.6	%
Risk-free interest rate	1.0	%	1.3	%	1.0	%	1.3	%
Dividend yield	-		-		-		-	
Remaining expected term of underlying securities (years)	3.4		3.6		3.4		3.6	

NOTE 5 – BUSINESS COMBINATIONS

In pursuing our business strategies, we acquire and make investments in certain businesses that meet strategic and financial criteria.

Illume Mobile

On July 31, 2012 ("Illume Closing Date"), the Company consummated an asset purchase agreement ("Asset Purchase Agreement") with MacroSolve, Inc. Pursuant to the Asset Purchase Agreement, the Company purchased the business (including substantially all the related assets) of the seller's Illume Mobile division ("Illume Mobile"), based in Tulsa, Oklahoma. Founded in 1996, Illume Mobile is a mobile business solutions provider that serves mobile products and platforms. Illume Mobile's initial core business is the development and integration of business applications for mobile environments. The Company accounted for the transaction using the purchase method of accounting and the operating results for Illume Mobile have been consolidated into the Company's results of operations beginning on August 1, 2012.

In consideration for the business of Illume Mobile, the Company paid $1,000,000, of which $250,000 was paid in cash and $750,000 was paid in the form of 617,284 shares of the Company's common stock. The Company valued the shares issued in conjunction with the acquisition at $697,531.

Apex

On June 4, 2012 (the “Apex Closing Date”), pursuant to a Stock Purchase Agreement (the “Apex Purchase Agreement”), the Company acquired all of the issued and outstanding shares of Apex, a corporation organized under the laws of the Province of Ontario, Canada. Apex is a provider of wireless mobile work force software solutions. Its suite of products utilizes the latest technologies to empower the mobile worker in many areas including merchandising, sales and delivery; field service; logistics and transportation; and, warehouse management. Its clients are North American companies that are household names whose products and services are used daily to feed, transport, entertain and care for people throughout the world. The Company accounted for the transaction using the purchase method of accounting and the operating results for Apex have been consolidated into the Company’s results of operations beginning on June 5, 2012.

In consideration for the shares of Apex, the Company paid CDN$5,000,000 (US$4,801,000 at the Closing Date) (the “Apex Closing Amount”) in cash. The Company may have been required to pay up to an undiscounted amount of CDN$3,500,000 (US$3,360,700 at the Closing Date) in consideration for Apex achieving certain levels of adjusted earnings before interest, depreciation, taxes and amortization (the “EBITDA”), as defined by the Apex Purchase Agreement, in the period ended July 2013. The initial fair value of the earn-out (the “Apex Earn-Out Payment”) was calculated to be approximately CDN$1,076,000 (US$1,033,000 at the Closing Date). At September 30, 2013, the calculated Apex Earn-Out Payment due under the Apex Purchase Agreement was CDN$341,000 (US$331,000). The adjustment of CDN$735,000 (US$713,000) was recorded as a separate component of operating expenses in the unaudited condensed consolidated statement of operations and comprehensive loss as of September 30, 2013. On June 9, 2014, an independent accounting expert issued their final report and the fair value of the Apex Earn-Out Payment was calculated to be CDN$400,000 of which CDN$89,000 (US$84,000) (22.22%) was paid in cash and CDN$311,000 (US$291,000) (77.78%) payable in the form of a convertible promissory note. The convertible promissory note was executed in December 2014.

As part of the Apex Purchase Agreement, the Company is obligated to pay bonus consideration to the CEO of Apex. Such bonus is considered additional contingent purchase consideration as the Company is obligated to pay the bonus regardless of whether or not the CEO’s employment is retained. The initial fair value of the bonus was calculated to be approximately CDN$160,000 (US$153,000 at the Closing Date). The Company reassessed the fair value of the contingent consideration liability at March 31, 2015 and December 31, 2014 and determined the amount to be $0. The Company continues to recognize no bonus consideration obligation in 2015.

NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

The following summarizes the transactions effecting goodwill through March 31, 2015 (in thousands):

Balance at December 31, 2014	$8,202

Effect of currency translation on Apex	(179)
Balance at March 31, 2015	$8,023

As of March 31, 2015 and December 31, 2014, the Company's intangible assets and accumulated amortization consist of the following (in thousands):

	March 31, 2015			December 31, 2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships	$3,033	$(2,114)	$919	$3,144	$(2,099)	$1,045
Contractor and resume databases	675	(574)	101	675	(540)	135
Tradename	798	(560)	238	829	(546)	283
Internal use software	2,429	(2,027)	402	2,607	(2,025)	582
Covenant not to compete	102	(102)	0	103	(103)	-
	$7,037	$(5,377)	$1,660	$7,358	$(5,313)	$2,045

The effect of foreign currency translation on the goodwill and intangible assets for the three months ended March 31, 2015 is approximately ($179,000) and ($113,000).

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NOTE 7 – LINES OF CREDIT

SVB Line of Credit - The Company has a $10.0 million revolving line of credit with Silicon Valley Bank (“SVB”) which provides for borrowings based upon eligible accounts receivable, as defined in the Loan Agreement (“SVB Loan Agreement”). Under the SVB Loan Agreement as amended February 27, 2013, SVB has also provided the Company with term loans as discussed at Note 8. On February 27, 2015, the Company entered into an agreement to further amend the original SVB Loan Agreement dated December 15, 2006 to extend the maturity date of the revolving credit line provided thereunder to February 28, 2017. The February 27, 2015 amendment provides for interest at prime plus 3.25% in 2015, and provides for further interest rate reductions upon achievement of certain financial thresholds. The SVB Loan Agreement is secured by substantially all the assets of the Company. As of March 31, 2015 and December 31, 2014, the outstanding balance on the line of credit was approximately $3.5 and $5.8 million, respectively, and the interest rate was 6.5%.

Availability under the line of credit was approximately $0.7 million as of March 31, 2015. 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, 2015 or December 31, 2014.

The February 27, 2015 amendment has certain financial covenant and other non-financial covenants. The minimum Tangible Net Worth requirement of an $8.6 million deficit, which is to be further reduced by one half of any funds raised through sales of common stock (as only 50% of additional capital raises are given credit in the Tangible Net Worth calculation) on or after February 1, 2015. The Company believes that at the time of this filing it is compliant with the terms and provisions of its amended SVB Loan Agreement. Should the Company incur losses in a manner consistent with its recent historical financial performance, the Company will violate Tangible Net Worth covenant without additional net capital raises in amounts that are approximately twice the amount of the losses incurred.

RBC Line of Credit - The Company is party to a credit agreement, dated June 4, 2012 (the “RBC Credit Agreement”) with Royal Bank of Canada (“RBC”). Under the RBC Credit Agreement, the revolving demand facility allows for borrowings up to CDN$200,000 based upon eligible accounts receivable. Interest is based on the Royal Bank Prime (“RBP”) plus 1.5% and is payable on demand. As of March 31, 2015 and December 31, 2014, the outstanding balance on the line of credit was $0 and $58,000, respectively, and the interest rate is 4.35%. The RBC Credit Agreement is secured by the assets of Apex. The revolving demand facility has certain financial covenants and other non-financial covenants. The covenants were reset by RBC on August 16, 2013. The Company was in compliance with the reset covenants at March 31, 2015 and December 31, 2014. See further discussion regarding this condition at Note 8.

For the three months ended March 31, 2015 and 2014, the Company’s interest expense for the lines of credit, including amortization of deferred financing costs, was approximately $103,000 and $97,000, respectively.

RBC and SVB are party to a subordination agreement, pursuant to which RBC agreed to subordinate any security interest in assets of the Company granted in connection with the RBC Credit Agreement to SVB’s security interest in assets of the Company.

Under the RBC Credit Agreement, the lender provided Apex with a term loan as discussed at Note 8.

NOTE 8 – TERM DEBT

Term debt as of March 31, 2015, consists of the following (in thousands):

	Balance December 31, 2014	Additions	Payments	Amortization of Note Discount	Effect of Currency Translation	Balance March 31, 2015
RBC term loan	$ 358	$ -	$ (165)	$ -	$ (28)	$ 165
BDC term loan	1,462	-	-	-	(118)	1,344
SVB term loan	389	-	(83)	-	-	306
Note payable seller	200	-	-	-	(16)	184
Total note discounts	(16)	-	-	4	-	(12)
Total debt	$ 2,393	$ -	$ (279)	$ 4	$ (162)	$ 1,987
less current portion						(614)
Debt, net of current portion						$ 1,373

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 and is recorded in interest expense in the accompanying unaudited condensed consolidated statements of operations. Unamortized deferred financing costs of approximately $11,000 and $19,000 are included in other assets in the accompanying unaudited condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014, respectively.

RBC Term Loan -- On June 4, 2012, Apex entered into the RBC Credit Agreement with RBC described in Note 7, pursuant to which RBC made available certain credit facilities in the aggregate amount of up to CDN$2,750,000, including a term facility ("RBC Term Loan") in the amount of CDN $2,500,000 (US$2,401,000 at the Closing Date). The RBC Term Loan accrues interest at RBP plus 4% (7% at March 31, 2015). Principal and interest is payable over a three year period at a fixed principal amount of CDN $70,000 a month beginning in July 2012 and continuing through June 2015. Apex paid approximately $120,000 in financing costs, which has been recorded as deferred financing costs or note discount in the accompanying unaudited condensed consolidated balance sheet as of March 31, 2015 and

December 31, 2014, and is being amortized to interest expense over the term of the loan.

In addition, the RBC Term Loan calls for mandatory repayments based on 20% of Apex's free cash flow as defined in the RBC Credit Agreement, before discretionary bonuses based on the annual year end audited financial statements of Apex, beginning with the fiscal year ended December 31, 2012, and payable within 30 days of the delivery of the annual audited financial statements, and continuing every six months through December 31, 2014. This amount was $0 at December 31, 2014.

The RBC Term Loan has certain financial covenants and other non-financial covenants. On August 16, 2013 the RBC Credit Agreement was amended and certain financial covenants were modified. Pursuant to the amended credit agreement and commencing with the fiscal year ended December 31, 2013, the Company is required to maintain a fixed coverage ratio, calculated on a consolidated basis of not less than 1.15:1 with a step-up to 1.25:1 as of March 31, 2014, tested on a rolling four quarter basis thereafter and a ratio of funded debt to EBITDA, calculated on an annual consolidated basis of not greater than 3.0:1, tested on a rolling four quarter basis thereafter. The Company was in compliance with all of our RBC financial covenants as of March 31, 2015 and December 31, 2014. We expect to continue to meet the requirements of our RBC financial covenants over the remainder of the loan period, final payment is scheduled for June 2015.

BDC Term Loan -- On June 4, 2012, Apex also entered into the BDC Loan Agreement as part of the Apex Purchase Agreement described in Note 5, pursuant to which BDC made available to Apex a term credit facility ("BDC Term Loan") in the aggregate amount of CDN $1,700,000 (USD $1,632,000 at the Closing Date). The BDC Term Loan accrues interest at the rate of 12.5% per annum, and matures on June 23, 2016, with an available one year extension for a fee of 2%, payable at the time of extension. The Company does not currently have the liquidity to repay this obligation when due. In addition to the interest payable, consecutive quarterly payments of CDN$20,000 as additional interest are due beginning on June 23, 2012, and subject to compliance with bank covenants, Apex will make a mandatory annual principal payment in the form of a cash flow sweep which will be equal to 50% of the Excess Available Funds (as defined by the BDC Loan Agreement) before discretionary bonuses based on the annual year end audited financial statements of Apex. The maximum annual cash flow sweep in any year will be CDN$425,000. As of March 31, 2015, the Company estimates that the cash sweep will be approximately $0. Such payments will be applied to reduce the outstanding principal payment due on the maturity date. In the event that Apex's annual audited financial statements are not received within 120 days of its fiscal year end, the full CDN$425,000 becomes due and payable on the next payment date. Apex paid approximately $70,000 in financing costs which $35,000 has been recorded as deferred financing costs and $35,000 recorded as a note discount in the accompanying consolidated balance sheet and is being amortized to interest expense over the term of the loan using the effective interest rate method. As of March 31, 2015, there was approximately $10,000 in unamortized deferred financing costs and $10,000 in unamortized note discount.

The terms of the BDC loan agreement also provide for a fee to BDC in the event of the occurrence of any of the following:

(a) if 50% or more of any company comprising Apex or the Company (consolidated assets or shares) is sold or merged with an unrelated entity; or

(b) if there is a change of control of Apex and/or the Company prior to the Maturity Date or any extended maturity date of the BDC Tern Loan,

In the event of (a) or (b) above, Apex will pay to BDC a bonus in an amount equal to 2% of the aggregate value of Apex and the Company determined as at the closing date of such transaction, which bonus shall become due and payable at the time of the closing of such transaction. Notwithstanding any prepayment of the BDC Term Loan, the bonus and Apex’s obligation to pay same to the BDC will remain in full force and effect until the maturity date or any amended or extended maturity date agreed by the BDC such that in the event of any sale, initial public offering or similar transaction, Apex’s obligation to pay the bonus amount to the BDC will survive such prepayment.

The BDC Loan Agreement contains certain financial and non-financial covenants. On August 22, 2013, the BDC Term Loan was amended and certain financial covenants were modified. Pursuant to the amended loan agreement, the Company is required to maintain, for the duration of the investment, a term debt to equity ratio not exceeding 1.1:1 (measured annually); and an adjusted current ratio of 0.40:1 (measured annually) and revised yearly 120 days after each year end. The Company was in compliance with all of our BDC financial covenants as of December 31, 2014.

In the event either or both of the RBC Loan Agreement or the BDC Loan Agreement were deemed to be in default, RBC or BDC, as applicable, could, among other things (subject to the rights of SVB as the Company’s senior lender), terminate the facilities, demand immediate repayment of any outstanding amounts, and foreclose on our assets. Any such action would require us to curtail or cease operations, as the Company does not currently have alternative sources of financing.

SVB Term Loan - On December 31, 2010, pursuant to an Assumption and Amendment to Loan and Security Agreement ("Amended SVB Loan Agreement"), the Company borrowed $3.0 million from Silicon Valley Bank (“SVB”). The SVB Term Loan was due in 36 equal monthly installments of principal plus interest beginning on February 1, 2011. The SVB Term Loan is secured by substantially all of the assets of the Company except for the assets of Apex. On May 20, 2011, pursuant to a Consent and Amendment to Loan and Security Agreement (“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 SVB Term Loan, which was amortized to interest expense through December 2013, using the effective interest method.

The Amended SVB Loan Agreement includes various customary covenants, limitations and events of default. Financial covenants, among others, include liquidity and fixed charge coverage ratios, minimum tangible net worth requirements and limitations on indebtedness. As of March 31, 2015, the Company was in compliance with the tangible Net Worth financial covenant and had available a $0.9 million cushion over the requirement. The Company currently believes that at the time of this filing it is compliant with the terms and provisions of its SVB lending agreement and expects to continue to meet the requirements of our SVB financial covenants over the short and long term. Should the Company incur losses in a manner consistent with its recent historical financial performance, the Company will violate this covenant without additional net capital raises in amounts that are approximately twice the amount of the losses incurred.

On February 27, 2013, the Company amended the Loan and Security Agreement which provided an additional term loan (the “SVB Term Loan”) of $1,000,000. The new term loan is due in 36 monthly installments of principal plus accrued interest beginning on April 1, 2013. The additional term loan accrues interest at 7.5% per annum. As of March 31, 2015 and December 31, 2014, the outstanding balance on the SVB Term Loan was approximately $306,000 and $389,000, respectively.

On February 27, 2015, the Company further amended the SVB Loan Agreement to extend the maturity date of the revolving credit line provided thereunder to February 28, 2017. The February 27, 2015 amendment provides for interest at prime plus 3.25% in 2015, and provides for further interest rate reductions upon achievement of certain financial thresholds. The February 27, 2015 amendment contains certain financial covenants (see Note 7).

For the three months ended March 31, 2015 and 2014, the Company’s interest expense on the term debt, including amortization of deferred financing costs, was approximately $77,000 and $109,000, respectively.

In the event either or both RBC Loan Agreement and/or the BDC Loan Agreement were deemed to be in default, then the Amended SVB Loan agreement would be in default, which could, among other things, terminate the facility and term loan, demand immediate repayment of any outstanding amounts, and foreclose on our assets. Any such action would require us to curtail or cease operations, as the Company does not currently have alternative sources of financing.

Seller Note - In December 2014, the Company executed a convertible note payable with the seller of Apex for the fair value of the Apex Earn-Out. The note is payable in eight quarterly payments ("Installment Dates") of principal and interest beginning July 1, 2014. The convertible notes accrues interest of 9% per annum for the first year and 11% for year two. The note is convertible, only on each Installment Date, at the option of the note holder, into shares of our common stock at a conversion price that is equal to the greater of the Canadian Dollar equivalent of the market price of our common stock on the day prior to the conversion using a fixed rate of US$1.00 = CDN$1.04, or the Canadian Dollar equivalent of US$1.00 = CDN$1.04. Given the fixed exchange rates, the embedded conversion option was not required to be bifurcated. The shares issuable under the note will be restricted but will have certain piggy back registration rights as set forth in the Apex Purchase Agreement. The convertible note matures in June 2016. As of March 31, 2014 and December 31, 2014, the outstanding balance on the Seller Note was approximately $184,000 and $200,000, respectively. As of the date of this filing, the quarterly payment due March 30, 2015 has not been paid. The Company is currently in default of the Seller Note as of the date of this filing.

NOTE 9 – STOCKHOLDERS' DEFICIT

The Company is authorized to issue two classes of stock designated as common stock and preferred stock. As of March 31, 2015, the Company is authorized to issue 110,000,000 total shares of stock. Of that amount, 100,000,000 shares are common stock, each having a par value of $0.001. The remaining 10,000,000 shares are preferred stock, each having a par value of $0.001, of which 500,000 shares are designated as Series A Preferred Stock, of which 269,608 are issued and outstanding, 500,000 shares are designated as Series B Preferred Stock, of which 131,347 are issued and outstanding, 4,000,000 shares are designated as Series D Preferred Stock, of which 730,357 shares are issued and outstanding, and 2,000,000 are designated as Series E Preferred Stock, of which 416,533 shares are issued and outstanding.

(a) Cumulative Convertible Preferred Stock

A summary of preferred stock outstanding as of March 31, 2015 is as follows (in thousands, except share data):

Description
Series A Preferred, $0.001 par value per share, 500,000 shares designated,

269,608 shares issued and outstanding, liquidation preference of $975 plus cumulative dividends of $460	$1,435
Series B Preferred, $0.001 par value per share, 500,000 shares designated, 131,347 shares issued and outstanding, liquidation preference of $380 plus cumulative dividends of $131	511
Series D Preferred, $0.001 par value per share, 4,000,000 shares designated, 730,357 shares issued and outstanding (net of $1,374 in issuance costs), liquidation preference of $7,303 plus accrued PIK dividends of $216; cumulative imputed dividends and beneficial conversion feature of $1,621	7,502
Series E Preferred, $0.001 par value per share, 2,000,000 shares designated, 416,533 shares issued and outstanding (net of $875 in issuance costs), liquidation preference of $4,165 plus acrued PIK dividends of $144; cumulative imputed dividends of $110	3,401
Total convertible preferred stock	$12,849

Series A Preferred Stock and Series B Preferred Stock

The holders of the Series A and Series B Preferred Stock shall be entitled to receive, when, as, and if declared by the Board of Directors, dividends at an annual rate of 8% of the stated value. The stated value of the Series A Preferred is $4.00 per share and the stated value of the Series B Preferred is $3.20 per share. Dividends shall be cumulative and shall accrue on each share of the outstanding preferred stock from the date of its issue.

The holders of the Series A and Series B Preferred Stock have no voting rights except on matters affecting their rights or preferences. Subject to the rights of the Series D Preferred Stock, upon any liquidation, dissolution or winding-up of the Company, the holders of the Series A (subject to the rights of the Series B Preferred) and Series B Preferred Stock shall be entitled to receive an amount equal to the stated value per share of $4.00 and $3.20, respectively, plus any accrued and unpaid dividends before any payments shall be made to the holders of any common stock or hereinafter issued preferred stock. The Series A Preferred Stock has preference over the Series B Preferred Stock in liquidation.

Each share of Series A Preferred Stock is convertible, at the option of the holder, at a conversion price of $4.00 per share. Each share of Series B Preferred Stock is convertible, at the option of the holder, at a conversion price of $3.20 per share.

Series C Preferred Stock

On December 20, 2012, all issued and outstanding shares of Series C Preferred Stock were redeemed using the proceeds generated from the sale of the Series D Preferred Stock.

In connection with the sale of Series E Preferred Stock, on November 12, 2013, the Company filed a Certificate of Elimination of Series C Preferred Stock (the “Series C Certificate of Elimination”), pursuant to which, the 5,000,000 shares of the Company’s preferred stock that had been designated as Series C Preferred Stock were returned to the status of blank check preferred stock.

Series D Preferred Stock

On December 20, 2012, we filed a Certificate of Designation of Series D Preferred Shares (the “Series D Certificate of Designation”) with the Secretary of State of Delaware. Pursuant to the Series D Certificate of Designation, we designated 4,000,000 shares of our preferred stock as Series D Preferred Stock. The Series D Preferred Stock has a Stated Value of $10.00 per share, votes on an as-converted basis with the common stock, and is convertible, at the option of the holder, into such number of shares of our common stock equal to the number of shares of Series D Preferred Stock to be converted, multiplied by the Stated Value, divided by the Conversion Price in effect at the time of the conversion. The initial Conversion Price is $1.00, subject to adjustment in the event of stock splits, stock dividends and similar transactions, and in the event of subsequent equity sales at a lower price per share, subject to certain exceptions. As a result of the private placement closed on August 15, 2013 and August 21, 2013, the Conversion Price of the Series D Preferred Stock was reduced to $0.90. As a result of the private placement closed on

November 12, 2013 and November 22, 2013, the Conversion Price of the Series D Preferred Stock was reduced to $0.71. As a result of the reduction in conversion price, the Company recorded a contingent beneficial conversion feature of $1.3 million. The Series D Preferred Stock entitles the holder to cumulative dividends, payable quarterly, at an annual rate of (i) 8% of the Stated Value during the three year period commencing on the date of issue, and (ii) 12% of the Stated Value commencing three years after the date of issue. We may, at our option, pay dividends in PIK Shares, in which event the applicable dividend rate will be 12% and the number of such PIK Shares issuable as a dividend will be equal to the aggregate dividend payable divided by the lesser of (x) the then effective Conversion Price or (y) the average volume weighted average price of the Company's common stock for the five prior consecutive trading days. In April 2014, the Company issued 26,157 Series D Preferred Stock PIK dividend shares, for previously accrued dividends. The Board of Directors intends to declare a PIK dividend payable in the form of shares of Series D Preferred Stock. The dividends will be payable to holders of record as of March 31, 2015 for accrued dividends for the period of January 1, 2015 to March 31, 2015. As those shares were not issued as of March 31, 2015, they have not been included in the Series D Preferred Stock balance at March 31, 2015. As such, the Company recorded an estimated dividend payable in Current Liabilities in the in the unaudited condensed consolidated balance sheets at March 31, 2015 at an estimated fair value of $216,000.

Upon any liquidation, dissolution or winding-up of our Company, holders of Series D Preferred Stock will be entitled to receive, for each share of Series D Preferred Stock, an amount equal to the Stated Value of $10.00 per share plus any accrued but unpaid dividends thereon before any distribution or payment may be made to the holders of any common stock, Series A Preferred Stock, Series B Preferred Stock, or subsequently issued preferred stock.

In addition, commencing on the trading day on which the closing price of the common stock is greater than $2.00 for thirty consecutive trading days with a minimum average daily trading volume of at least 5,000 shares for such period, and at any time thereafter, the Company may, in its sole discretion, effect the conversion of all of the outstanding shares of Series D Preferred Stock to common stock (subject to the condition that, all of the shares issuable upon such conversion may be re-sold without limitation under an effective registration statement or pursuant to Rule 144 under the Securities Act of 1933, as amended).

Pursuant to the Series D Certificate of Designation, commencing two years from the termination or expiration of the offering of the Series D Preferred Stock (which termination occurred on December 31, 2012), and at any time thereafter, the Company in its sole discretion may redeem all of the outstanding shares of Series D Preferred Stock at a purchase price of $10.00 per share plus any accrued but unpaid dividends.

Series E Preferred Stock

In November 2013, the Company issued 409,000 shares of Series E Preferred for cash consideration totaling $4,090,000. In conjunction with the issuance, the Company incurred issuance costs totaling $875,000, consisting of placement fees of $327,000, legal and other expenses of $270,000, and issued 818,000 warrants to purchase shares of common stock with an exercise price of $0.55 per share to the placement agent with an estimated fair value of $278,000 determined using the Black Scholes option valuation pricing model. The fair value calculation was prepared using the following assumptions: Stock price: $0.47; expected term: 2.5 years; risk free rate of interest of 0.44%; volatility of 143%; and dividend yield of $0.

On November 12, 2013, the Company filed a Certificate of Designation of Series E Preferred Stock (the "Series E Certificate of Designation") with the Secretary of State of Delaware. Pursuant to the Series E Certificate of Designation, we designated 2,000,000 shares of the Company's preferred stock as Series E Preferred Stock. The Series E Preferred Stock has a Stated Value of $10.00 per share, does not have voting rights, and is convertible, at the option of the holder, into such number of shares of common stock equal to the number of shares of Series E Preferred Stock to be converted, multiplied by the Stated Value, divided by the Conversion Price in effect at the time of the conversion. The initial Conversion Price is $0.50, subject to adjustment in the event of stock splits, stock dividends and similar transactions, and in the event of subsequent equity sales at a lower price per share, subject to certain exceptions.

The Series E Preferred Stock entitles the holder to cumulative dividends (subject to the prior dividend rights of the Company's Series D Preferred Stock), payable quarterly, at an annual rate of (i) 10% of the Stated Value during the three year period commencing on the date of issue, and (ii) 14% of the Stated Value commencing three years after the date of issue. We may, at our option (subject to certain conditions), pay dividends in PIK shares, in which event the applicable dividend rate will be 14% and the number of shares issuable as a dividend will be equal to the aggregate dividend payable divided by the lesser of (x) the then effective Conversion Price or (y) the average volume weighted average price of our common stock for the five prior consecutive trading days. In April 2014, the Company issued 7,533 Series E Preferred Stock PIK dividend shares, for previously accrued dividends. The Board of Directors intends to declare a PIK dividend payable in the form of shares of Series E Preferred Stock. The dividends will be payable to holders of record as of March 31, 2015 for accrued dividends for the period of January 1, 2015 to March 31, 2015. As those shares were not issued as of March 31, 2015, they have not been included in the Series E Preferred Stock balance March 31, 2015. As such, the Company recorded an estimated dividend payable in Current Liabilities in the unaudited condensed consolidated balance sheets at March 31, 2015 at an estimated fair value of $144,000.

Upon any liquidation, dissolution or winding-up of our Company, holders of Series E Preferred Stock will be entitled to receive (following payment in full of amounts owed to in respect of the Company's Series D Preferred Stock), for each share of Series E Preferred Stock, an amount equal to the Stated Value of $10.00 per share plus any accrued but unpaid dividends thereon before any distribution or payment may be made to the holders of any common stock, Series A Preferred Stock, Series B Preferred Stock, or subsequently issued preferred stock.

In addition, commencing on the trading day on which the closing price of the common stock is greater than $1.35 for thirty consecutive trading days with a minimum average daily trading volume of at least 10,000 shares for such period, and at any time thereafter, the Company may, in our sole discretion, effect the conversion of all of the outstanding shares of Series E Preferred Stock to common stock (subject to the condition that, all of the shares issuable upon such conversion may be re-sold without limitation under an effective registration statement or pursuant to Rule 144 under the Securities Act of 1933, as amended).

On November 12, 2013, we filed Amendment No. 2 to our Certificate of Designation of Series A Preferred Stock (the “Series A Amendment”), and Amendment No. 2 to our Certificate of Designation of Series B Preferred Stock (the “Series B Amendment”). Pursuant to the Series A Amendment and the Series B Amendment, the Series A Preferred Stock and the Series B Preferred Stock will be subordinate to the Series E Preferred Stock with respect to any distributions upon any liquidation, dissolution or winding-up of our Company, respectively.

(b) Common Stock

For the three months ended March 31, 2015

There were no common stock issuances for the three months ended March 31, 2015.

For the year ended December 31, 2014

There were no common stock issuances for the year ended December 31, 2014.

(c) Warrants

For the three months ended March 31, 2015

There were no warrant issuances for the three months ended March 31, 2015.

For the year ended December 31, 2014

There were no warrant issuances for the year ended December 31, 2014.

The following table summarizes information about the Company's outstanding common stock warrants as of March 31, 2015:

	Date Issued	Expiration	Strike Price	Total Warrants Outstanding and Exercisable	Total Exercise Price	Weighted Average Exercise Price
Placement Agent Preferred Stock - Class D	Dec-12	Dec-17	1.10	704,200	774,620	
Common Stock Investor Warrants *	Aug-13	Aug-18	0.50	1,463,667	731,834	
Placement Agent Warrants - Common Stock *	Aug-13	Aug-18	0.50	292,733	146,367	
Placement Agent Preferred Stock - Class E	Nov-13	Nov-18	0.55	818,000	449,900	
				3,278,600	$2,102,720	$ 0.64

* warrants classified as liabilities

NOTE 10 – ESOP

The Company has an Employee Stock Ownership Plan (the "ESOP") which covers all non-union employees. The Company's contribution expense for the three months ended March 31, 2015, was $45,000 representing approximately

$38,000 for the ESOP principal payment and $7,000 for the ESOP interest. ESOP shares are allocated to individual employee accounts as the loan obligation of the ESOP to the Company is reduced. These amounts were previously calculated on an annual basis by an outside, independent financial advisor. Compensation costs relating to shares released are based on the fair value of shares at the time they are committed to be released. The unreleased shares are not considered outstanding in the computation of earnings per common share. ESOP compensation expense consisting of both cash contributions and shares committed to be released for the three months ended March 31, 2015 was approximately $17,000. The fair value of the shares was $0.37 per share, based on the average of the daily market closing share price.

NOTE 11 - STOCK OPTION PLAN

In December 2010, the Company established the 2010 Stock Option Plan (the "2010 Plan"). The Plan authorizes the issuance of 1,000,000 shares of common stock. Pursuant to the terms of the August 16, 2010 merger agreement, the Company assumed all of Old DecisionPoint's obligations under their outstanding stock option plans.

Under the 2010 Plan, common stock incentives may be granted to officers, employees, directors, consultants, and advisors. Incentives under the 2010 Plan may be granted only in the form of non-statutory stock options and all stock options of Old DecisionPoint that were assumed by the Company became non-statutory options on the date of the assumption.

The 2010 Plan is administered by the Company's 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 2010 Plan cannot exceed ten years. Options shall not have an exercise price less than 100% of the fair market value of the Company's common stock on the grant date, and generally vest over a period of five years. If the individual possesses more than 10% of the combined voting power of all classes of stock of the Company, the exercise price shall not be less than 110% of the fair market of a share of common stock on the date of grant.

In October 2014, the Company established the 2014 Equity Incentive Plan (the "2014 Plan"). The 2014 Plan authorizes the issuance of 2,500,000 shares of common stock.

Under the 2014 Plan, common stock incentives may be granted to officers, employees, directors, consultants, and advisors (and prospective directors, officers, managers, employees, consultants and advisors) of the Company and its affiliates can acquire and maintain an equity interest in the Company, 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 the Company 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. For the three months ended March 31, 2015, the Company granted 77,148 stock options under the 2014 Plan.

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The 2014 Plan is administered by the Company's 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 the Company's common stock on the grant date, and generally vest over a period of five years. If the individual possesses more than 10% of the combined voting power of all classes of stock of the Company, the exercise price shall not be less than 110% of the fair market of a share of common stock on the date of grant.

A summary of the status of the plans as of March 31, 2015, and information with respect to the changes in options outstanding is as follows:

	Options Available for Grant	Options Outstanding	Weighted - Average Exercise Price	Aggregate Intrinsic Value
December 31, 2014	2,114,106	1,385,894	$ 0.56	$ -
Granted	(77,148)	77,148	0.50	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
March 31, 2015	2,036,958	1,463,042	$ 0.56	$ -
Exercisable options at March 31, 2015		860,980	$ 0.70	$ -

The following table summarizes information about stock options outstanding as of March 31, 2015:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
$0.31 - $0.53	1,319,889	3.19	$0.40	728,889	2.14	$0.47
$1.33 - $2.03	88,874	1.76	1.90	88,874	1.76	$1.90
$2.06 - $4.34	54,279	6.21	2.17	43,217	6.21	2.17

Total	1,463,042	3.21	$0.56	860,980	2.30	$0.70

No awards were exercised during the three months ended March 31, 2015 and 2014, respectively. The total fair value of awards vested for the three months ended March 31, 2015 and 2014 was $17,952 and $1,261, respectively.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the required service period, which is generally equal to the vesting period. The fair value of options granted to during the three months ended March 31, 2015, was $18,000. The fair value of options granted during the three months ended March 31, 2014, was $39,000. The fair values of options presented was estimated using the Black-Scholes option-pricing model with the following assumptions:

	For the Three Months Ended March 31,	
	2015	2014
Expected term	1.5 years	1.5 years
Expected volatility	134.24%	152.20%
Dividend yield	0%	0%
Risk-free interest rate	0.41%	0.260%

The Company estimates expected volatility using historical volatility of its common stock 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. Management considered expectations for the future to estimate employee exercise and post-vest termination behavior. The Company does not intend to pay common stock dividends in the foreseeable future, and therefore has 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.

Employee stock-based compensation costs for the three months ended March 31, 2015 and 2014, was $33,000 and $10,000, respectively, and is included in selling, general and administrative expense in the accompanying unaudited condensed consolidated statements of operations. As of March 31, 2015, total unrecognized estimated employee compensation cost related to stock options granted prior to that date was $147,000 which is expected to be recognized over a weighted-average vesting period of 2.55 years.

The weighted-average fair value on the grant date of options granted during the three months ended March 31, 2015 and 2014, was $0.23 and $0.34, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Leases - The Company leases its facilities and certain equipment under various operating leases which expire at various dates through fiscal 2020 and require us to pay a portion of the related operating expenses such as maintenance, property taxes, and insurance. There have been no material changes to our lease arrangements during the three months ended March 31, 2015. Please refer to Note 15 to the audited consolidated financial statements for the year ended December 31, 2014, included in the Company's Annual Report on Form 10-K filed with the SEC on March 18, 2015.

Rent expense for the three months ended March 31, 2015 and 2014, was $128,000 and $132,000, respectively.

Apex Obligation - The Company entered into an employment agreement with Donald Dalicandro, the Former Chief Executive Officer of Apex, as a result of the Apex acquisition. The agreement calls for annual bonus upon achieving certain results of operation at Apex for the 12 months ending July 31, 2013, 2014, and 2015. Such bonuses are considered additional contingent purchase consideration as the Company is obligated to pay the bonus regardless of whether or not his employment is retained. The fair value of the bonus was calculated to be approximately CDN$160,000 (US$153,000 at the Apex Closing Date). At March 31, 2015, there is CDN$0 (US$0) recorded in accrued bonus in the consolidated financial statements.

Contingencies - In addition to the matter discussed below, from time to time the Company is subject to the possibility of involvement in 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 the opinion of management, individually or in the aggregate, no such lawsuits are expected to have a material effect on our financial position or results of operations.

Wells Notice - On July 2, 2014, the Company received a written “Wells Notice” from the staff of the Securities and Exchange Commission (the “SEC”) indicating that the staff has made a preliminary determination to recommend that the SEC bring an administrative proceeding against the Company. On the same day, Nicholas R. Toms, the Company’s then President and Chief Executive Officer and a then-serving member of the board of directors, also received a Wells Notice. Both Wells Notices relate to allegations that, from late 2009 to early 2011, Mr. Toms was the beneficial owner of shares of common stock of the Company that were held and traded by a Delaware corporation in which Mr. Toms was a 10% owner; that Mr. Toms exercised control over the corporation’s securities account; and that the corporation’s shareholding and trades should have been reflected at the relevant times in public disclosures of Mr. Toms’ other holdings of the Company’s common stock. A Wells Notice is neither a formal allegation of wrongdoing nor a finding that any violations of law have occurred. Rather, it provides the recipient with an opportunity to respond to issues raised by the staff and offer its perspective to the staff prior to any decision to institute proceedings. In response to the Wells Notice, the Company’s Audit Committee conducted an internal review, assisted by new outside legal counsel, and on August 8, 2014, we submitted to the SEC a response to the Wells Notice setting forth why no action should be commenced against us. No proceedings have been commenced against the Company.

On August 15, 2014, Mr. Toms resigned from his positions as Chief Executive Officer, President and member of the Company’s board of directors. On February 11, 2015, the SEC commenced a formal administrative proceeding against Mr. Toms. On March 26, 2015, the proceeding was stayed pending review by the SEC of Mr. Tom’s signed Offer of Settlement. In regards to the administrative proceeding against Mr. Toms, indemnification agreements are provided to the Company’s Directors and Executive Officers to minimize potential personal liability for actions taken in their capacity as Directors and Officers. The Company has accrued $175,000 as a potential obligation related to the Company’s indemnification of Mr. Toms. As of March 31, 2015, the amount is included as part of Accrued Expenses in the unaudited condensed consolidated balance sheets. As of the date of this filing, no payments have been made under these agreements.

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

The following Management's Discussion and Analysis is intended to help the reader understand the results of operations and financial condition of the business of DecisionPoint Systems, Inc. ("DecisionPoint", the "Company", "we" or "us"). Management's Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Form 10-Q.

Forward Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q that are not historical facts are "forward-looking statements" which can be identified by the use of terminology such as "estimates," "projects," "plans," "believes," "expects," "anticipates," "intends," or the negative or other variations of such terms, or by discussions of strategy that involve risks and uncertainties. We urge you to be cautious of forward-looking statements. Such statements reflect our current beliefs with respect to future events and involve known and unknown risks, uncertainties and other factors affecting our operations, market growth, services, products and licenses. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of the risks we face and otherwise, and actual events may differ from the assumptions underlying the statements that have been made as a result of the risks we face and otherwise. Factors that may cause actual results, our performance or achievements, or industry results, to differ materially from those contemplated by such forward-looking statements include, without limitation, the risk factors discussed in the "Risk Factors" section of our Annual Report on Form 10-K filed with the SEC on March 18, 2015 and the following:

Our ability to raise capital when needed and on acceptable terms and conditions;

Our ability to manage the growth of our business through internal growth and acquisitions;

The intensity of competition;

General economic conditions and,

Our ability to attract and retain management, and to integrate and maintain technical and management information systems.

All forward-looking statements made in connection with this Quarterly Report on Form 10-Q and attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given the uncertainties that surround such statements, you are cautioned not to place undue reliance on such forward-looking statements. Except as may be required under applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements whether as a result more information, future events or occurrences.

Non-GAAP Financial Measures

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered “non-GAAP financial measures” under SEC rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q as applicable.

DecisionPoint’s management uses the non-GAAP financial measure, “Adjusted Working Capital”; in their evaluation of business cash flow and financial condition. We consider this measure to reflect our ‘cash’ working capital position. It is the equivalent of our U.S. GAAP working capital position, after removing the accrual effect of current deferred assets and liabilities. We believe this non-GAAP financial measure provides us, and investors with a better understanding of the operating results and financial condition of our company.

Non-GAAP disclosures have limitations as analytical tools, should not be viewed as a substitute for measures of cash flow, operating earnings or financial condition determined in accordance with U.S. GAAP, and should not be considered in isolation from or as a substitute for analysis of our results as reported under U.S. GAAP, nor are they necessarily comparable to non-GAAP financial measures that may be presented by other companies. Our supplemental presentation of Non-GAAP financial measures should not be construed as an inference that our future operating results or financial condition will be unaffected by any adjustments necessary to reconcile our Non-GAAP financial measures to measures determined in accordance with U.S. GAAP.

Overview

Business Overview

DecisionPoint enables its clients to "move decisions closer to the customer" by "empowering the mobile worker". We define mobile workers as those individuals who are on the front line in direct contact with customers. These workers include field repair technicians, sales associates, couriers, public safety employees and millions of other workers that deliver goods and services throughout the country. Whether they are blue or white collar, mobile workers have many characteristics in common. Mobile workers need information, access to corporate resources, decision support tools and the ability to capture information and report it back to the organization.

DecisionPoint empowers these mobile workers through the implementation of various mobile technologies including specialized mobile business applications, wireless networks, mobile computers (for example, rugged, tablets, and smartphones) and a comprehensive suite of consulting, integration, deployment and support services.

At DecisionPoint, we deliver to our customers the ability to make better, faster and more accurate business decisions by implementing industry-specific, enterprise wireless and mobile computing systems for their front-line mobile workers, inside and outside of the traditional workplace. It is these systems that provide the information necessary for businesses to improve hundreds of the individual decisions made each day. Historically, critical information has remained locked away in the organization's enterprise computing systems, accessible only when employees are at their desks. Our solutions are designed to unlock this information and deliver it to employees when needed regardless of their location. As a result, our customers are able to move their business decision points closer to their customers which we believe in turn improves customer service levels, reduces cost and accelerates business growth.

Mobile computing capabilities and usage continue to grow. With choice comes complexity so helping our customers navigate the myriad of options is what we aim to do best. The right choice may be an off-the-shelf application or a custom business application to fit a very specific business process. DecisionPoint has the specialized resources and support structure to help our customers make the right choices, and then to deliver to those customers the hardware, software, connectivity and follow-up maintenance and other services that they need. We address the mobile application needs of customers in the retail, manufacturing, transportation, warehousing, distribution, logistics and other market segments. We continue to invest in building out our capabilities to support these markets and business needs. For example, in July 2012, we invested in the expansion of our custom software development capabilities through the acquisition of Illume Mobile in Tulsa, OK, which specializes in the custom development of specialized mobile business applications for Apple, Android and Windows Mobile devices. Additionally, through the acquisition of Illume Mobile we acquired a cloud-based, horizontal software application "ContentSentral" which manages and distributes multiple types of corporate content (for example, PDF, video, images, and spreadsheets) on mobile tablets used by field workers. We also substantially increased our software products expertise with the acquisition in June 2012 of Apex in Canada. The APEXWare™ software suite significantly expanded our field sales/service software offerings. APEXWare™ is a purpose-built mobile application suite well suited to the automation of field sales/service and warehouse workers. Additionally, we continue to expand our deployment and MobileCare support offerings. In 2012 we moved our headquarters location to a larger facility in Irvine, CA in order to accommodate the expansion of our express depot and technical support organizations. In 2013 we consolidated out East Coast depot facility into our larger facility in Irvine, CA in order to provide our East Coast customers with later service hours and to gain some economies of scale. We also continue to invest in our "MobileCare EMM" enterprise mobility management offering. We are continuing to extend our mobile device management ("MDM") offering from our historically ruggedized mobile computer customer base to address the growing use of consumer devices by clients and others and to support the Bring Your Own Device ("BYOD") and Bring Your Own Application ("BYOA") movements affecting commerce and our industry in general.

Recognizing that we cannot build every business application, we have developed an 'ecosystem' of partners to support the assembly and manufacturing provisions of our custom and off-the-shelf solutions. These partners include suppliers of mobile devices (Apple, Intermec and Motorola among others), wireless carriers (AT&T, Sprint, T-Mobile, Verizon), mobile peripheral manufactures (Zebra Technologies Corporation, Datamax - O'Neil) and a large number of specialized independent software vendors such as AirWatch, VeriFone GlobalBay, XRS and Wavelink.

We have several offices throughout North America allowing us to serve multi-location clients and their mobile workforces. Additionally, we keep aware of potential acquisition candidates that could provide us with complementary products and service offerings, and make acquisitions when we identify sufficiently valuable opportunities.

Results of Operations

In the tables presented below, all dollar amounts have been rounded to the nearest million and all percentages are actual. Due to rounding, totals may not sum exactly.

	Three Months Ended March 31, 2015	2014	Increase/(Decrease)	
Net sales	$11.7	$16.7	$ (5.0)	(29.7 %)
Gross profit	2.6	3.6	(1.0)	(27.8 %)
Total operating expenses	2.9	3.7	(0.9)	(23.1 %)
Operating loss	(0.3)	(0.1)	0.1	92.3 %
Net loss before income taxes	(0.6)	(0.1)	0.5	559.3 %

Net Sales

Net sales for the three month periods ended March 31, 2015 and 2014 are summarized below:

	Three Months Ended March 31, 2015	2014	Increase(Decrease)	
Hardware	$6.9	$11.5	$ (4.6)	(39.8 %)
Professional services	3.8	3.8	(0.0)	(0.3 %)
Software	0.6	1.0	(0.4)	(36.4 %)
Other	0.4	0.4	0.0	3.8 %
	$11.7	$16.7	$ (5.0)	(29.7 %)

Net sales were $11.7 million for the three months ended March 31, 2015, compared to $16.7 million for the three months ended March 31, 2014, a decrease of $5.0 million or 29.7%. The decrease was driven principally by our hardware category, which declined by $4.6 million, or 39.8% over the comparable period. Hardware sales remains the largest portion of our sales mix at 60% in the first quarter of 2015 compared to 69% in the first quarter 2014. The decrease in hardware revenue was due to several large retail customers with lower than expected sales for the three months ended March 31, 2015. Net sales in our software declined by $0.4 million, or 36.4% over the prior comparable period.

Cost of Sales

Cost of sales for the three months periods ended March 31, 2015 and 2014 is summarized below:

	Three Months Ended March 31, 2015	2014	Increase(Decrease)	
Hardware	$5.6	$9.3	$ (3.7)	(39.7 %)
Professional services	2.7	2.6	0.1	2.9 %
Software	0.6	0.9	(0.3)	(35.8 %)
Other	0.3	0.3	0.0	0.4 %
	$9.2	$13.1	$ (3.9)	(30.2 %)

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The cost of sales line includes hardware costs, third party licenses, costs associated with third party professional services, salaries and benefits for project managers and software engineers, freight, consumables and accessories.

Cost of sales were $9.2 million for the three months ended March 31, 2015, compared to $13.1 million for the three months ended March 31, 2014, a decrease of $3.9 million or 30.2%. The overall decrease in cost of sales were largely consistent with the decrease in net sales. The decrease in cost of sales for hardware of 39.7% for the three months ended March 31, 2015 compared to the similar period in 2014 was consistent with the hardware revenue decrease of 39.8%. The cost of sales for professional services increased a modest 2.9% over the prior comparable period even though revenue for professional services remained flat.. The decrease in cost of sales for software of 35.8% for the three months ended March 31, 2015 compared to the similar period in 2014 was consistent with the revenue decline for software of 36.4%. The increase in other cost of sales was negligible.

Gross Profit

Gross profit for the three month periods ended March 31, 2015 and 2014 is summarized below:

	Three Months Ended March 31, 2015	2014	Increase (Decrease)	
Hardware	$1.3	$2.2	$(0.9)	(40.1%)
Professional services	1.2	1.2	(0.1)	(6.8 %)
Software	0.0	0.0	(0.0)	(47.2%)
Other	0.1	0.1	0.0	2.0 %
	$2.6	$3.6	$(1.0)	(27.7%)

Our gross profit was $2.6 million for the three months ended March 31, 2015, compared to $3.6 million for the similar period ended March 31, 2014, a decrease of $1.0 million or 27.7%. Our gross margin percent increased by 60 basis points to 22.0% in the first quarter of 2015, from 21.4% in the comparable period of 2014. The increase in gross profit percentage was due to the continued implementation of cost controls for the products and services that we resell along with positive product mix. In particular, we realized higher margins on our professional services.

Selling, General and Administrative Expenses

	Three Months Ended March 31,						
	2015	2014	Increase/(Decrease)				
Selling, general and administrative expenses	$2.9	$3.7	$	(0.8	)	(23.1	%)
As a percentage of sales	24.3%	22.2%				2.1	%

Selling, general and administrative expenses was $2.9 million for the three months ended March 31, 2015, compared to $3.7 million for the similar period in the prior year. This represents a decrease of $0.8 million, or 23.1%. The decrease was primarily due to lower spending in our sales organization associated with a combination of reduction of headcount, un-filled sales positions, lower travel costs and reduced commissions correlated with decreased sales levels.

We continued efforts to streamline our business model. These past efforts included, consolidation of our East Coast depot facility in to our larger California facility, reduction of outsourced consulting expertise where unnecessary and the replacement of certain service providers with lower cost providers. We have also consolidated administrative personnel and reduced staffing levels by 29% from April 2013 through February 2014, constituting annual savings of $3 million. These activities have reduced the expense structure of our business significantly. We are continually focused on improving processes and reducing costs.

We account for a portion of our depreciation and amortization expense as cost of sales, and the remainder as selling, general and administrative expense. Depreciation and amortization for the three-month periods ended March 31, 2015 and 2014 is summarized below:

	Three Months Ended March 31,			
	2015	**2014**	**Increase/(Decrease)**	
Depreciation and amortization				
In cost of sales	$0.1	$0.2	$(0.1)	(36.3%)
In selling, general and administrative expense	0.2	0.3	(0.1)	(41.2%)
Total depreciation and amortization	$0.3	$0.5	$(0.2)	(39.0%)
As a percentage of sales	2.4%	2.8%		(0.4%)

The reduction in depreciation and amortization accounted for as selling, general and administrative expense was principally as a result of a decrease in the amortization of intangible assets.

Interest Expense

Interest expense, which arises from our outstanding balances under our lines of credit and from our outstanding subordinated debt, was $184,000 for the three months ended March 31, 2015, compared to $207,000 for the similar period in the prior year. The $23,000 decrease in interest expense reflected a decrease in our average outstanding general debt obligations during the three months ended March 31, 2015 compared to the similar period in the prior year.

Liquidity and Capital Resources

<u>Going Concern Matters</u>

Our consolidated financial statements were prepared on a going concern basis in accordance with U.S. GAAP. The going concern basis of presentation assumes that we will continue in operation for the next twelve months and will be able to realize our assets and discharge our liabilities and commitments in the normal course of business and does not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from our inability to continue as a going concern. Our history of losses, working capital deficit, capital deficit, minimal liquidity and other factors raises substantial doubt about our ability to continue as a going concern. In order for us to continue operations beyond the next twelve months and be able to discharge our liabilities and commitments in the normal course of business, we must do some or all of the following: establish sustained positive operating results through increased sales, avoid further unforeseen expenses, improve our liquidity and working capital, and potentially raise additional equity or debt capital. There can be no assurance that we will be able achieve sustained positive operating results or obtain additional funds when needed or that such funds, if available, will be obtainable on terms satisfactory to us.

If we do not achieve sustained positive operating results and do not raise sufficient additional capital when and if needed, material adverse events may occur including, but not limited to: 1) a reduction in the nature and scope of our operations, 2) our inability to fully implement our current business plan and 3) defaults under our various loan agreements. If such events were to occur, they would have material adverse effect on the Company. There can be no assurances that we will be able to successfully improve our liquidity position. Our consolidated financial statements do not do not reflect any adjustments that might result from the adverse outcome relating to this uncertainty.

Cash and Capital Resources

Although we have historically experienced losses, a material part of those losses have been from non-cash transactions. In connection with these losses, we have accumulated substantial net operating loss carry-forwards to set off against future taxable income. In order to maintain normal operations for the foreseeable future, generate taxable income and make use of our net operating loss carry-forwards, we must continue to have access to our lines of credit, establish sustained positive operating results and access additional equity or debt capital. There can be no assurance that we will be able to achieve sustainable positive operating results or cost reductions or that we can obtain additional funds when needed to continue our normal operations.

Funds generated by operating activities and our credit facilities continue to be our most significant sources of liquidity. We believe that our strategic shift to higher margin field mobility solutions with additional APEXWare™ software and professional service revenues will improve our results as general economic conditions continue to improve. However, there is no assurance that this will occur.

In the quarter ended March 31, 2015, we experienced a decrease in net sales of $5.0 million, or 29.7% compared to the quarter ended March 31, 2014, and a $5.4 million, or 31.6% decrease in revenue compared to the previous sequential quarter ended December 31, 2014. At March 31, 2015 and December 31, 2014, we had a substantial working capital deficit totaling $8.3 million and $7.9 million, respectively. Although a portion of this deficit is associated with deferred costs and unearned revenues, our liabilities that are expected to be satisfied in the foreseeable future in cash far exceed our receivables and other assets that are expected to be satisfied in cash. In addition, as a consequence of our recent historical results of operations, availability under our credit line has contracted and our overall liquidity has become constrained.

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To address liquidity constraints, we have reduced non-essential expenses. Such expense reductions have included, but have not been limited to, the consolidation of information technology environments, the consolidation of our East Coast depot facility into our larger California depot facility, the reduction of outsourced consulting expertise where unnecessary and the replacement of certain service providers with lower cost providers. We have also consolidated administrative personnel and reduced total staffing levels by 29% from April 2013 through February 2014, constituting annual savings of approximately $3 million. These cost reduction measures have reduced the expense structure of our business significantly. We are focused on continuing to improve processes and reduce costs. Currently, we have no plans to seek additional outside funding through the sale of our securities unless deemed necessary. Should additional outside financing be needed, there is no assurance that such amounts will be available on terms acceptable to us, or at all.

During 2013, 2014 and the first quarter of 2015, all principal and interest payments on our term debt were made within payment terms.

As a matter of course, we do not maintain significant cash balances on hand because we have availability under our lines of credit. Typically, we use any excess cash to repay the then outstanding line of credit balance. As long as we continue to generate revenues and meet our financial covenants, we are permitted to draw down on our SVB line of credit to fund our normal working capital needs. Our line of credit has a borrowing capacity of up to $10 million and was due February 2015. On February 27, 2015, we entered into an agreement to further amend the original SVB line of credit dated December 15, 2006 to extend the maturity date of the revolving credit line provided thereunder to February 28, 2017.

As of March 31, 2015 and December 31, 2014, the outstanding balance on our SVB line of credit was approximately $3.5 and $5.8 million, respectively, and the interest rate was 6.5%. As of March 31, 2015, there was $0.7 million available under the SVB line of credit. The February 27, 2015 amendment has certain financial covenant and other non-financial covenants. The minimum Tangible Net Worth requirement of an $8.6 million deficit, which is to be further reduced by one half of any funds raised through sales of common stock (as only 50% of additional capital raises are given credit in the Tangible Net Worth calculation) on or after February 1, 2015. We believe that at the time of this filing it is compliant with the terms and provisions of its amended SVB Loan Agreement. Should the Company incur losses in a manner consistent with its recent historical financial performance, the Company will violate Tangible Net Worth covenant without additional net capital raises in amounts that are approximately twice the amount of the losses incurred.

We have $0.2 million of term debt with the Royal Bank of Canada (the “RBC Term Loan”), $1.3 million (US$) of term debt with the BDC (the “BDC Term Loan”) and $0.3 million of term debt with SVB (the “SVB Term Loan”). For more information regarding these Term Loans, please see our Annual Report on Form 10-K filed with the SEC on March 18, 2015. All three Term Loans have financial covenants. The Company was in compliance with the covenants of these Term Loans at March 31, 2015 and December 31, 2014. For the three months ended March 31, 2015, we were able to achieve $2.1 million positive operating cash flow.

In the last five complete years of operations from 2010 through 2014, we have not experienced any significant effects of inflation on our product and service pricing, revenues or our income from continuing operations.

Adjusted Working Capital

As referred to above under the heading “Non-GAAP Financial Measures,” we monitor our “cash” working capital position after removing the accrual effect of current deferred assets and liabilities. We refer to this non-GAAP financial measure as our “Adjusted Working Capital”. We believe this non-GAAP financial measure provides us, and investors, with a better understanding of the operating results and financial condition of our company.

Adjusted Working Capital at March 31, 2015 and December 31, 2014 are computed as follows (in thousands):

	March 31, 2015	December 31, 2014
Current assets	$11,415	$ 18,427
Current liabilities	19,942	26,370
Working capital - U.S. GAAP	(8,527)	(7,943)
Deferred costs	(3,020)	(3,177)
Deferred revenue	6,266	6,918
Adjusted working capital - Non-GAAP measure	$(5,281)	$ (4,202)

2015 Financing

We have not engaged in any securities issuances or other material capital raising in the first quarter of 2015.

2014 Financings

We have not engaged in any securities issuances or other material capital raising during the year ended 2014.

Cash Flows from Operating, Investing and Financing Activities

The following table summarizes our cash flows, by category, for the three months ended March 31, 2015 and 2014 (in millions):

	Three Months Ended March 31, 2015	2014	Increase/(Decrease)	
Operating activities	$2.1	$0.6	$ 1.5	(250.0 %)
Investing activities	-	-	-	N/A
Financing activities	(3.0)	(0.6)	(2.4)	400.0 %

Cash provided by operating activities during the first three months of 2015 increased by $1.5 million over the similar period in the prior year. The increase was primarily driven by changes in net working capital and other balance sheet changes, most notably from a $4.7 million decrease in accounts receivable due to timing of receivable collections and a $0.4 million decrease in inventory offset by an increase in accounts payable of $2.1 million and accrued expenses of $0.8 million. The changes in net working capital were offset by non-cash expenses as noted below.

During the three months ended March 31, 2015, net cash provided by operating activities was $2.1 million. Our net loss was $0.6 million in the first three months of 2015, a portion of which was the result of non-cash transactions during the period. Specifically, we had non-cash expense of $33,000 related to employee and non-employee stock based compensation, $35,000 in amortization of deferred financing costs, $0.1 million in the change of fair value of warrants and $0.3 million of other non-cash transactions such as depreciation and amortization.

During the three months ended March 31, 2014, net cash provided by operating activities was $0.6 million. Our net loss was $0.1 million in the first three months of 2014, a portion of which was the result of non-cash transactions during the period. Specifically, we had a $0.1 million non-cash expense related to employee and non-employee stock based compensation and $0.5 million of other non-cash transactions such as depreciation and amortization.

Net cash (used in) or provided by investing activities was negligible during the three months ended March 31, 2015 and during the comparable three months of 2014.

During the three months ended March 31, 2015, net cash used in financing activities was $3.0 million, due to $0.1 million in paid financing costs, $0.3 million in repayments for term loans, and a net $2.4 million in payments for amounts borrowed under our lines of credit.

During the three months ended March 31, 2014, net cash used in financing activities was $0.6 million, due to $0.1 million in paid financing costs, $0.3 million in repayments for term loans, and a net $0.2 million in payments for amounts borrowed under our lines of credit.

Our cash on hand at the end of the first quarter of 2014 was approximately $0.8 million, compared to $1.6 million at the end of the first quarter of 2014.

Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which 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 periods. Critical accounting policies are those that require the application of management’s most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. In preparing the consolidated financial statements, management has utilized available information, including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from these estimates. In addition, other companies may utilize different estimates, which may impact the comparability of our results of operations to those of companies in similar businesses. We believe that the following critical accounting policies involve a high degree of judgment and estimation:

Accounts Receivable and Allowance for Doubtful Accounts

We have policies and procedures for reviewing and granting credit to all customer accounts, including:

- Credit reviews of all new customer accounts,
- Ongoing credit evaluations of current customers,
- Credit limits and payment terms based on available credit information,
- Adjustments to credit limits based upon payment history and the customer’s current credit worthiness, and
- An active collection effort by regional credit functions, reporting directly to the corporate financial officers.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. These allowances are highly judgmental and require assumptions based on both recent trends of certain customers estimated to be a greater credit risk, as well as historical trends of the entire customer pool. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To mitigate this credit risk we perform periodic credit evaluations of our customers.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined under the first-in, first-out (FIFO) method. We periodically review our inventory and make provisions as necessary for estimated obsolete and slow-moving goods. We mark down inventory by an amount equal to the difference between cost of inventory and the estimated market value based upon assumptions about future demands, selling prices and market conditions. The creation of such provisions results in a write-down of inventory to net realizable value and a charge to cost of sales.

Goodwill and Long-Lived Assets

Goodwill represents the excess purchase price paid over the fair value of the net assets of acquired companies. Goodwill is subject to impairment testing as necessary, (at least once annually at December 31) if changes in circumstances or the occurrence of certain events indicate potential impairment. In assessing the recoverability of our goodwill, identified intangibles, and other long-lived assets, significant assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets must be made, as well as the related estimated useful lives. The fair value of goodwill and long-lived assets is estimated using a discounted cash flow valuation model and observed earnings and revenue trading multiples of identified peer companies. If these estimates or their related assumptions change in the future as a result of changes in strategy or market conditions, we may be required to record impairment charges for these assets in the period such determination was made.

Intangible Assets

We make judgments about the recoverability of purchased finite-lived intangible assets whenever events or changes in circumstances indicate that impairment may exist. Recoverability of finite-lived intangible assets is measured by comparing the carrying amount of the asset to the future undiscounted cash flows that the asset is expected to generate. If it is determined that an individual asset is impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

The assumptions and estimates used to determine future values and remaining useful lives of our intangible are complex and subjective. They can be affected by various factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our forecasts.

Fair Value

Financial assets and liabilities are measured at fair value, which is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's significant Level 3 inputs relate to warrant liabilities.

Income Taxes

We account for income taxes in accordance with the Financial Accounting Standards Board ("FASB") guidance, which requires deferred tax assets and liabilities, be recognized using enacted tax rates to measure the effect of temporary differences between book and tax bases on recorded assets and liabilities. FASB guidance also requires that deferred tax assets be reduced by a valuation allowance, if it is more likely than not some portion or all of the deferred tax assets will not be recognized.

We evaluate on an annual basis its ability to realize deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are forecasts of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

In accordance with FASB guidance on accounting for uncertainty in income taxes, we evaluate tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. For tax positions that are not more likely than not of being sustained upon audit, we do not recognize any portion of the benefit. If the more likely than not threshold is not met in the period for which a tax position is taken, we may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period.

Translation of Foreign Currencies

The Company's functional currency is the U.S. dollar. The financial statements of the Company's foreign subsidiary is measured using the local currency, in this case the Canadian dollar (CDN$), as its functional currency and is translated to U.S. dollars for reporting purposes. Assets and liabilities of the subsidiary are translated at exchange rates as of the balance sheet dates. Revenues and expenses of the subsidiary are translated at the rates of exchange in effect during the year.

Revenue recognition

Revenues are generated through product sales, warranty and maintenance agreements, software customization, and professional services. Product sales are recognized when the following criteria are met (1) there is persuasive evidence that an arrangement exists; (2) delivery has occurred and title has passed to the customer, which generally happens at the point of shipment provided that no significant obligations remain; (3) the price is fixed and determinable; and (4) collectability is reasonably assured. We generate revenues from the sale of extended warranties on wireless and mobile hardware and systems. Revenue related to extended warranty and service contracts is recorded as unearned revenue and is recognized over the life of the contract and we may be liable to refund a customer for amounts paid in certain circumstances. This has not been an issue for us historically.

We also generate revenue from software customization and professional services on either a fee-for-service or fixed fee basis. Revenue from software customization and professional services that is contracted as fee-for-service, also referred to as per-diem billing, is recognized in the period in which the services are performed or delivered. Adjustments to contract price and estimated labor costs are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined.

We enter into revenue arrangements that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met for each deliverable in order for revenue recognition to occur in the appropriate accounting period. In an arrangement with multiple deliverables, the delivered item or items shall be considered a separate unit of accounting if both of the following criteria are met: (i) the delivered item or items have value to the customer on a standalone basis; (ii) if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item or items is considered probable and substantially in the control of the vendor. A delivered item or items that do not qualify as a separate unit of accounting within the arrangement shall be combined with the other applicable undelivered item(s) within the arrangement and the allocation of arrangement consideration and the recognition of revenue then shall be determined for those combined deliverables as a single unit of accounting. While changes in the allocation of the arrangement consideration between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could affect the Company’s results of operations. When we enter into an arrangement that includes multiple elements, we allocate revenue based on their relative selling prices. We use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor specific objective evidence of fair value (“VSOE”), (ii) third party evidence of selling prices (“TPE”) and (iii) best estimate of selling price (“ESP”) as a proxy for VSOE. When both VSOE and TPE are unavailable, we use ESP. We determine ESP by considering all relevant factors in establishing the price.

Revenue from software licenses may contain arrangements with multiple deliverables, including post-contract customer support, that are subject to software revenue recognition guidance. The revenue for these arrangements is allocated to the software and non-software deliverable based on the relative selling prices of all components in the arrangement using the criteria above. Post-contract support is recognized ratably over the support period. When a contract contains multiple elements wherein the only undelivered element is post-contract customer support and VSOE of the fair value of post-contract customer support does not exist, revenue from the entire arrangement is recognized ratably over the support period. Software royalty revenue is recognized in arrears on a quarterly basis, based upon reports received from licensees during the period, unless collectability is not reasonably assured, in which case revenue is recognized when payment is received from the licensee.

Stock-based compensation

We record the fair value of stock-based payments as an expense in our consolidated financial statements. We determine the fair value of stock options using the Black-Scholes option-pricing model. This valuation model requires us to make assumptions and judgments about the variables used in the calculation. These variables and assumptions include the weighted-average period of time that the options granted are expected to be outstanding, the volatility of our common stock, the risk-free interest rate and the estimated rate of forfeitures of unvested stock options. Additional information on the variables and assumptions used in our stock-based compensation are described in Note 11 of the accompanying notes to our unaudited condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In April 2015, the FASB issued Accounting Standards Update ("ASU") ASU 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability instead of being presented as an asset. This guidance is effective for public companies for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those years. For all other entities, this guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The new guidance is to be applied on a retrospective basis, wherein the balance sheet of each individual period presented is adjusted to reflect the period-specific effects of applying the new guidance and represents a change in accounting principle. We are currently evaluating the impact of the adoption of this accounting standard update on its financial statements.

In April 2015, the FASB issued ASU 2015-05, “Intangibles–Goodwill and Other–Internal Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” This update provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. This guidance is effective for public companies for fiscal years and interim periods beginning after December 15, 2015. For all other entities, this guidance is effective for annual periods beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for all entities. The new guidance is to be applied either prospectively to new cloud computing arrangements or retrospectively. We are currently evaluating the impact of the adoption of this accounting standard update on its financial statements.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of March 31, 2015.

Inflation

We do not believe inflation has had a material impact on our business or operating results during the periods presented.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e))) as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the effectiveness of our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls.

There were no changes in our internal controls over financial reporting during the fiscal quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In addition to the matters described below, from time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

We may also become involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and other regulatory agencies regarding our business, and involving, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

On July 2, 2014, we received a written “Wells Notice” from the staff of the Securities and Exchange Commission (the “SEC”) indicating that the staff has made a preliminary determination to recommend that the SEC bring an administrative proceeding against us. On the same day, Nicholas R. Toms, our then President and Chief Executive Officer and a then-serving member of the board of directors, also received a Wells Notice. Both Wells Notices relate to allegations that, from late 2009 to early 2011, Mr. Toms was the beneficial owner of shares of common stock our Company that were held and traded by a Delaware corporation in which Mr. Toms was a 10% owner; that Mr. Toms exercised control over the our securities account; and that our shareholding and trades should have been reflected at the relevant times in public disclosures of Mr. Toms’ other holdings of our common stock. A Wells Notice is neither a formal allegation of wrongdoing nor a finding that any violations of law have occurred. Rather, it provides the recipient with an opportunity to respond to issues raised by the staff and offer its perspective to the staff prior to any decision to institute proceedings. In response to the Wells Notice, our Audit Committee conducted an internal review, assisted by new outside legal counsel, and on August 8, 2014, we submitted to the SEC a response to the Wells Notice setting forth why no action should be commenced against us. No proceedings have been commenced against us, and we have not had a response to our letter submitted on August 8, 2014.

On August 15, 2014, Mr. Toms resigned from his positions as Chief Executive Officer, President and member of the Company’s board of directors. On February 11, 2015, the SEC commenced a formal administrative proceeding against Mr. Toms. On March 26, 2015, the proceeding was stayed pending review by the SEC of Mr. Toms’ signed Offer of Settlement. In regards to the administrative proceeding against Mr. Toms, indemnification agreements are provided to our Directors and Executive Officers to minimize potential personal liability for actions taken in their capacity as Directors and Officers. We have accrued $175,000 as a potential obligation related to the Company’s indemnification of Mr. Toms. As of March 31, 2015, the amount is included as part of Accrued Expenses in the unaudited condensed consolidated balance sheets. As of the date of this filing, no payments have been made under these agreements.

On April 3, 2015, the Company commenced a lawsuit in the United States District Court for the District of New Jersey, seeking monetary and injunctive relief against four former sales employees, (the “Individual Defendants”), and against North Rock Solutions, Inc. (“North Rock” and, collectively with the Individual Defendants, the “Defendants”). Between January and March 2015, each of the Individual Defendants resigned from the Company. Shortly thereafter, the Company discovered that they were all working for Tolt Solutions, Inc., a direct competitor of the Company, and had for months been taking actions that, in the Company’s view, constituted serious and harmful breaches of their contractual and common law obligations owed to the Company. The Company alleges that the Individual Defendants unlawfully misused Company information and their positions at the Company in order to exit the Company with Company customers, business and property. The Company alleges that the Individual Defendants had, in concert, been laying the foundation for their scheme for months. The Company also alleges that, based on additional discoveries it made after the Individual Defendants’ resignations, the Individual Defendants had for years been diverting business from the Company while working for the Company, by surreptitiously funneling paid installation and related work to an entity they created and owned, North Rock. As such, the Company claims that the Individual Defendants have breached duties of confidentiality and loyalty and that all of the Defendants have misappropriated confidential information and trade secrets, and are soliciting the Company’s customers unlawfully and competing unfairly against the Company, to its detriment.

On April 9, 2015, District Court Judge Claire C. Cecchi granted the Company’s motion for a temporary restraining order against the Defendants, ordering them to return all Company information, forbidding them from using any confidential information and restraining them from soliciting Company customers. On or about April 21, 2015, the Court held a conference on the Company’s motion for a preliminary injunction and entered interim relief pending trial, including a prohibition against the Defendants soliciting certain named Company customers. The minutes of the conference were sealed to protect the confidentiality of the identity of the customers. On May 1, 2015, the parties appeared for a conference before Magistrate Judge James B. Clark, who ordered that discovery begin immediately on an expedited basis. Defendants’ answer to the Company’s complaint is expected to be filed on or before May 15, 2015. Contemporaneously with the commencement of our lawsuit to Federal court in New Jersey, Tolt Solutions, Inc. filed suit against the Company in state court in New York City, alleging that we had engaged in business defamation. On May 12, 2015, we answered Tolt's complaint, denying all charges, and filed a separate lawsuit in the same court against John Chis, who had resigned as the Company’s Senior Vice President of Sales in November 2014 and then joined Tolt, and who we allege has orchestrated or helped orchestrate the defendants' in the New Jersey case and Tolt's multiple unlawful actions against us and has, among other things, violated his duties as a senior executive while working for the Company, and engaged in further unlawful actions since leaving the Company. The Company intends to continue to vigorously pursue its remedies.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K filed with the SEC on March 18, 2015. Please refer to that Risk Factors section for information concerning risks associated with the Company and an investment in the Company's securities.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
31.1	Certification of the Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of the Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification of the Principal Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	Certification of the Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002

EX-101.INS XBRL INSTANCE DOCUMENT

EX-101.SCH XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT

EX-101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE

EX-101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

EX-101.LAB XBRL TAXONOMY EXTENSION LABELS LINKBASE

EX-101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	DecisionPoint Systems, Inc.	
Date: May 15, 2015	By:	/s/ James F. DeSocio James F. DeSocio Interim Chief Executive Officer (Principal Executive Officer)
Date: May 15, 2015	By:	/s/ Michael P. Roe Michael P. Roe Chief Financial Officer (Principal Financial and Accounting Officer)