DecisionPoint Systems, Inc.
Form 424B3
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Under the Securities Act of 1933, as amended
Registration No. 333-191317

DECISIONPOINT SYSTEMS, INC.

Up to 888,352 Shares of Series D Preferred Stock and 14,992,691 Shares of Common Stock

PROSPECTUS

This prospectus relates to the offering by the selling stockholders of up to 883,352 shares of Series D Preferred Stock (including 653,200 shares sold under a purchase agreement, 24,263 shares issued as dividends on shares of Series D Preferred Stock ("Issued Series D PIK Shares", and 210,889 shares issuable as dividends on shares of Series D Preferred Stock ("Issuable Series D PIK Shares", and collectively with the Issued Series D PIK Shares, the "Series D PIK Shares"), and 14,992,691 shares of common stock, including 3,941,304 outstanding shares, 2,167,867 shares issuable upon exercise of warrants, 6,532,000 shares underlying shares of Series D Preferred Stock sold under a purchase agreement, and 2,351,200 shares of common stock underlying Series D PIK Shares), of DecisionPoint Systems, Inc. (the "Company", "we", "us", or "our").

Our common stock is traded on the OTC Bulletin Board under the symbol "DPSI." On May 30, 2014, the closing price of our common stock was $0.45 per share.

Our Series D Preferred Stock is traded on the OTCQB under the symbol "DPSIP." As of May 30, 2014, the last closing price of our Series D Preferred Stock was $9.00 per share.

The selling stockholders may sell all or a portion of these shares from time to time in market transactions through any market on which our Series D Preferred Stock or common stock is then traded, in negotiated transactions or otherwise, and at prices and on terms that will be determined by the then prevailing market price or at negotiated prices directly or through a broker or brokers, who may act as agent or as principal or by a combination of such methods of sale. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution."

Concurrently with this offering by the selling stockholders, the Company has registered for resale, by other selling stockholders, pursuant to the Company's Registration Statement on Form S-1, SEC File No. 333-193296, up to 752,560 shares of Series E Preferred Stock and 15,869,200 shares of common stock.

We will bear all costs relating to the registration of these shares of our Series D Preferred Stock and common stock, other than any selling stockholders' legal or accounting costs or commissions.

We will not receive any proceeds from the sale of Series D Preferred Stock or common stock by the selling stockholders.

Investing in our Series D Preferred Stock and common stock involves a high degree of risk. Before making any investment in our Series D Preferred Stock or common stock, you should read and carefully consider the risks described in this prospectus under "Risk Factors" beginning on page 4 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated June 17, 2014.

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You should rely only on the information contained in this prospectus or any prospectus supplement or amendment thereto. We have not authorized anyone to provide you with different information.

PROSPECTUS SUMMARY

This summary highlights information contained throughout this prospectus and is qualified in its entirety to the more detailed information and financial statements included elsewhere in this prospectus. This summary does not contain all of the information that should be considered before investing in our Series D Preferred Stock or common stock. Investors should read the entire prospectus carefully, including the more detailed information regarding our business, the risks of purchasing our Series D Preferred Stock and common stock discussed in this prospectus under "Risk Factors" beginning on page 4 of this prospectus and our financial statements and the accompanying notes beginning on page F-1 of this prospectus.

In this prospectus, we refer to DecisionPoint Systems, Inc. and its subsidiaries as the "Company,""DecisionPoint", "we", "us' or "our".

Our Company

DecisionPoint enables our clients to "move decisions closer to the customer" by "empowering the mobile worker". We define the mobile worker as those individuals that 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 or 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 and report information 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.

We are focused on several commercial enterprise markets. These include retail, field sales/service, warehousing, distribution and transportation. With the continued growth of the mobile internet, we expect to see our current markets grow in addition to the emergence of new markets. We expect our customers to continue to embrace and deploy new technology to better enhance their own customers' experiences and improve their own operations while lowering their operating costs. Our expertise and understanding of our customers' operations and business operations in general, coupled with our expertise and understanding of mobile technology equipment and software offerings enables us to identify new trends and opportunities and provide these new solutions to our existing and potential customers.

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 to improve the hundreds of individual business decisions made each day. Historically, critical information has remained locked away in the organization's enterprise computing systems, accessible only when employees were at their desk. Our solutions 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.

We have several offices throughout North America which allows us to serve our multi-location clients and their mobile workforces. Additionally, we are always keenly aware of potential acquisition candidates that can provide complementary products and service offerings to our customer base.

We incurred net losses of $113,000 and $2,102,000 for the three months ended March 31, 2014 and 2013, respectively. We incurred net losses of $5,218,000 and $3,866,000 for the years ended December 31, 2013 and 2012. As of March 31, 2014, we had a stockholders’ deficit of $1,233,000 and a working capital deficit of $9,817,000. As of December 31, 2013, we had a stockholders’ deficit of $873,000 and a working capital deficit of $9,875,000.

Corporate Information

DecisionPoint Systems, Inc., formerly known as Comamtech, Inc., was incorporated on August 16, 2010, in Canada under the laws of the Ontario Business Corporations Act (“OCBA”). On June 15, 2011, we entered into a Plan of Merger (the “Merger Agreement”) among the Company, its wholly owned subsidiary, 2259736 Ontario Inc., incorporated under the laws of the Province of Ontario, Canada (the “Purchaser”) and DecisionPoint Systems, Inc., (“Old DecisionPoint”). Pursuant to the Merger Agreement, under Section 182 of the OCBA, on June 15, 2011 (the “Effective Date”) Old DecisionPoint merged (the “Merger”) into the Purchaser and became a wholly owned subsidiary of the Company. Prior to the Merger, Comamtech was a “shell company” (as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). In connection with the Merger, the Company changed its name to DecisionPoint Systems, Inc., and the Purchaser changed its name to DecisionPoint Systems International, Inc. (“DecisionPoint Systems International”). On June 15, 2011, both companies were reincorporated in the State of Delaware.

About this Offering

August 2013 Private Placement

As of August 15, 2013, the Company entered into a securities purchase agreement (the “August 2013 Purchase Agreement”) with accredited investors (the “August 2013 Investors”) for aggregate gross proceeds of $1,756,400. Closings were held as of August 15, 2013 and August 21, 2013. Pursuant to the August 2013 Purchase Agreement, the Company sold an aggregate of 2,927,333 Units, each Unit consisting of one share of common stock and one warrant to purchase one-half of one share of common stock (the “August 2013 Investor Warrants”), for a purchase price of $0.60 per Unit, such that the Company sold an aggregate of 2,927,333 shares of common stock and 1,463,667 August 2013 Investor Warrants for aggregate gross proceeds of $1,756,400 (the “August 2013 Private Placement”). The August 2013 Investor Warrants have a five-year term and had an initial exercise price of $1.00 per share, subject to adjustment in the event of stock splits, stock dividends, and subsequent sales of common stock or securities convertible or exercisable into common stock (subject to certain exceptions) at an exercise price lower than the then-effective exercise price. Pursuant to this anti-dilution provision, the exercise price of the August 2013 Investor Warrants was reduced to $0.50 in November 2013.

Pursuant to the August 2013 Purchase Agreement, the Company granted to the August 2013 Investors anti-dilution rights such that, for the period commencing on August 15, 2013 and terminating August 21, 2015, in the event the Company issues or grants any shares of common stock or securities convertible, exchangeable or exercisable for shares of common stock (subject to certain exceptions) pursuant to which shares of common stock may be acquired at a price less than $0.60 per share, then the Company will issue additional shares of common stock to the August 2013 Investors in an amount sufficient that the subscription price paid under the August 2013 Private Placement, when divided by the total number of shares issued, will result in an actual price paid by such August 2013 Investors per share of common stock equal to such lower price. Pursuant to these anti-dilution rights, the Company issued to the August 2013 Investors an aggregate of 585,467 shares of common stock in December 2013.

The Company retained Newport Coast Securities, Inc. (the “August 2013 Placement Agent” or "Newport") as the placement agent for the August 2013 Private Placement. The Company paid the August 2013 Placement Agent $175,640 in commissions (equal to 10% of the gross proceeds), and issued to the August 2013 Placement Agent and its designees five-year warrants (the “August 2013 Placement Agent Warrants”) to purchase 292,733 shares of common stock (equal to 10% of the number of Units sold in the August 2013 Private Placement) at an exercise price of $0.60 per share, exercisable on a cashless basis, in connection with the August 2013 Private Placement. Newport is not acting or serving as underwriter or selling agent with respect to the sale of securities by the selling stockholders and has no agreement with the selling stockholders or the Company with respect to any such services. Neither Newport nor any of its associated persons are participating as a selling stockholder under this prospectus.

This prospectus includes (i) 2,561,448 shares of common stock sold in the August 2013 Private Placement and (ii) 1,463,667 shares of common stock issuable upon exercise of August 2013 Investor Warrants sold in the August 2013 Private Placement.

Series D Private Placement

On December 20, 2012, we entered into and closed a securities purchase agreement (the “Series D Purchase Agreement”) with accredited investors (the “Series D First Closing Investors”) pursuant to which we sold an aggregate of 633,600 shares of Series D Preferred Stock for a purchase price of $10.00 per share, for aggregate gross proceeds of $6,336,000 (the “Series D First Closing”).

We retained Taglich Brothers, Inc. (the “Series D Placement Agent”) as the placement agent for the Series D First Closing. We paid the Series D Placement Agent $506,880 in commissions (equal to 8% of the gross proceeds), and issued to the Series D Placement Agent five-year warrants (the “Series D Placement Agent Warrants”) to purchase 633,600 shares of our common stock (equal to 10% of the number of shares of common stock underlying the shares of Series D Preferred Stock sold under the Series D Purchase Agreement) at an exercise price of $1.10 per share, in connection with the Series D First Closing.

On December 31, 2012, we sold an additional 70,600 shares of Series D Preferred Stock (the “Series D Second Closing”, and together with the Series D First Closing, the “Series D Private Placement”) pursuant to the Series D Purchase Agreement for an aggregate of 704,200 shares of Series D Preferred Stock sold under the Series D Private Placement. The Series D Placement Agent acted as the placement agent for the Series D Second Closing as well. We paid the Series D Placement Agent $56,480 in commissions (equal to 8% of the gross proceeds), and issued to the Series D Placement Agent Series D Placement Agent Warrants to purchase 70,600 shares of common stock (equal to 10% of the number of shares of common stock underlying the shares of Series D Preferred Stock sold under the Series D Purchase Agreement) at an exercise price of $1.10 per share, in connection with the Series D Second Closing for an aggregate of 704,200 such Series D Placement Agent Warrants.

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In connection with the Series D First Closing, on December 20, 2012, we filed a Certificate of Designation of Series D Preferred Stock (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 was $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 August 2013 Private Placement, the Conversion Price of the Series D Preferred Stock was reduced to $0.90. As a result of the private placement of Series E Preferred Stock that closed in November 2013, the Conversion Price of the Series D Preferred Stock was further reduced to $0.71.

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 shares of Series D Preferred Stock ("Series D PIK Shares"), in which event the applicable dividend rate will be 12% and the number of such Series D PIK Shares issuable 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. On January 1, 2014, the Board of Directors declared a PIK dividend payable in the form of 26,157 shares of Series D Preferred Stock ("Issued Series D PIK Shares"). The dividends were payable to holders of record as of December 31, 2013 for accrued dividends for the period of October 1, 2013 to December 31, 2013. The 26,157 Issued Series D PIK Shares were issued in April 2014.

Pursuant to the Series D Certificate of Designation, 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.

Pursuant to the Series D Certificate of Designation, 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 in its sole discretion may cause 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.

In addition to the shares listed above under "August 2013 Private Placement", this prospectus includes 888,352 shares of Series D Preferred Stock (including 653,200 shares sold under the Series D Purchase Agreement, 24,263 Issued Series D PIK Shares, and 210,889 Issuable Series D PIK Shares) and 10,967,576 shares of common stock (including 6,532,000 shares of common stock underlying shares of Series D Preferred Stock sold under the Series D Purchase Agreement, 2,351,520 shares of common stock underlying Series D PIK Shares, 704,200 shares of common stock underlying Series D Placement Agent Warrants and 1,379,856 shares of common stock presently issued and outstanding.

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RISK FACTORS

An investment in our securities has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

RISKS RELATED TO OUR BUSINESS

Our limited operating history as a public company makes it difficult for us to evaluate our future business prospects and make decisions based on those estimates of our future performance.

Although our management team has been engaged in software development for an extended period of time and we began the operations of our current business in December 2003, we have only been operating as a public company with our current operations since June 2009. We have a limited operating history in our current combined form, which makes it difficult to evaluate our business on the basis of historical operations. As a consequence, it is difficult, if not impossible, to forecast our future results based upon our historical data. Reliance on our historical results may not be representative of the results we will achieve. Because of the uncertainties related to our lack of historical operations, we may be hindered in our ability to anticipate and timely adapt to increases or decreases in sales, product costs or expenses. If we make poor budgetary decisions as a result of unreliable historical data, we could be less profitable or incur losses, which may result in a decline in our stock price.

Our working capital requirements may negatively affect our liquidity and capital resources.

We have experienced negative working capital and minimal liquidity. If our working capital requirements vary significantly or if our short and long-term working capital needs exceed our cash flows from operations, we would look to our cash balances or other alternative sources of additional capital, which may not be available on satisfactory terms and in adequate amounts, if at all.

Our independent registered public accountants have expressed that there is substantial doubt about our ability to continue as a going concern.

Although our consolidated financial statements have been prepared assuming we will continue as a going concern, our independent registered public accounting firm, in its report accompanying our consolidated financial statements as of and for the year ended December 31, 2013, believes that our recurring net losses from operations, cash uses from operations, deficient working capital, minimal liquidity and other factors have raised substantial doubt as to our ability to continue as a going concern as of December 31, 2013.

The mobile computing industry is characterized by rapid technological change, and our success depends upon the frequent enhancement of existing products and timely introduction of new products that meet our customers' needs.

Customer requirements for mobile computing products are rapidly evolving and technological changes in our industry occur rapidly. To keep up with new customer requirements and distinguish us from our competitors, we must frequently introduce new products and enhancements of existing products. Enhancing existing products and developing new products is a complex and uncertain process. It often requires significant investments in research and development ("R&D") which we do not undertake. Even if we make significant investments in R&D, they may not result in products attractive or acceptable to our customers. Furthermore, we may not be able to launch new or improved products before our competition launches comparable products. Any of these factors could cause our business or financial results to suffer.

Future business combinations and acquisition transactions, if any, as well as recently closed business combinations and acquisition transactions may not succeed in generating the intended benefits and may, therefore, adversely affect shareholder value or our financial results.

Integration of new businesses or technologies into our business may have any of the following adverse effects:

- We may have difficulty transitioning customers and other business relationships.
- We may have problems unifying management following a transaction.
- We may lose key employees from our existing or acquired businesses.
- We may experience intensified competition from other companies seeking to expand sales and market share during the integration period.
- Our management's attention may be diverted to the assimilation of the technology and personnel of acquired businesses or new product or service lines.
- We may experience difficulties in coordinating geographically disparate organizations and corporate cultures and integrating management personnel with different business backgrounds.

The inability of our management to successfully integrate acquired businesses, and any related diversion of management's attention, could have a material adverse effect on our business, operating results and financial condition.

Business combinations and other acquisition transactions may have a direct adverse effect on our financial condition, results of operations or liquidity, or on our stock price.

To complete acquisitions or other business combinations, we may have to use cash, issue new equity securities with dilutive effects on existing stockholders, take on new debt, assume contingent liabilities or amortize assets or expenses in a manner that might have a material adverse effect on our balance sheet, results of operations or liquidity. We are required to record certain financing and acquisition-related costs and other items as current period expenses, which would have the effect of reducing our reported earnings in the period in which an acquisition is consummated. These and other potential negative effects of an acquisition transaction could prevent us from realizing the benefits of such transactions and have a material adverse impact on our stock price, revenues, revenue growth, balance sheet, results of operations and liquidity.

We may need to raise additional funds, and these funds may not be available when we need them or the additional funds may not be obtained on favorable terms.

We may need to raise additional monies in order to fund our growth strategy and implement our business plan. Specifically, we may need to raise additional funds in order to pursue rapid expansion, develop new or enhanced services and products, and acquire complementary businesses or assets. Additionally, we may need funds to respond to unanticipated events that require us to make additional investments in our business. There can be no assurance that additional financing will be available when needed, on favorable terms, or at all. If these funds are not available when we need them, then we may need to change our business strategy and reduce our rate of growth.

In the near term, our successful restructuring of our operations and reduction of operating costs and/or our ability to raise additional capital at acceptable terms is critical to our ability to continue to operate for the foreseeable future. If we continue to incur operating losses and/or do not raise sufficient additional capital, 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/or 3) continued defaults under the existing loan agreements. A covenant default would give the bank the right to demand immediate payment of all outstanding amounts which we would not be able to repay out of normal operations. There are no assurances that we will successfully implement our plans with respect to these liquidity matters.

Our revolving lines of credit agreements and our loan agreements may limit our flexibility in managing our business, and defaults of any financial and non-financial covenants in these agreements could adversely affect us.

Our revolving line of credit agreements as well as our term loan impose operating restrictions on us in the form of financial and non-financial covenants (see "Note 7 – Line of Credit" along with Note 8 – Term Debt" in our accompanying Notes to Unaudited Condensed Consolidated Financial Statements for additional details). These restrictions limit the manner in which we can conduct our business and may restrict us from engaging in favorable business opportunities. These restrictions limit our ability, among other things, to incur further debt, make future acquisitions and other investments, restrict making certain payments such as dividend payments, and restrict disposition of assets.

As of March 31, 2014, the outstanding balance on the line of credit with Silicon Valley Bank ("SVB") is $3.7 million and the interest rate is 7.0%. Availability under the line of credit was $2.8 million as of March 31, 2014 and expires in February 2015. The line of credit has a certain financial covenant and other non-financial covenants. As of December 31, 2012, we were in compliance with all of our financial covenants with SVB. As of May 31, 2013 and June 30, 2013, we were not in compliance with the Tangible Net Worth covenant as defined in our loan agreement with SVB, as amended. As of March 31, 2014 and December 31, 2013, the Company was in compliance with the tangible Net Worth financial covenant and had available a $0.5 million and $0.8 million cushion over the requirement, respectively. The Company believes that at the time of this filing it is compliant with the terms and provisions of its SVB lending agreement. Should the Company continue to 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

We were not in compliance with certain financial covenants under the agreements with Royal Bank of Canada (“RBC Credit Agreement”) and BDC, Inc. (“BDC Credit Agreement”) as of December, 31, 2012, March 31, 2013 and June 30, 2013. We have received waivers for non-compliance for past covenant violations. On August 22, 2013, the BDC Credit Agreement was amended and certain financial covenants were modified. We were in compliance with all of our BDC Credit Agreement financial covenants as of March 31, 2014 and December 31, 2013. We expect to continue to meet the requirements of our BDC Credit Agreement financial covenants over the short and long term. On August 16, 2013 the RBC Credit Agreement was amended and certain financial covenants were modified. As part of the revised financial covenants, covenant testing was waived by RBC for September 30, 2013. We were not incompliance with the reset covenants at March 31, 2014 or December 31, 2013. Although the Company believes it is improbable RBC will exercise their rights up to, and including, acceleration of the outstanding debt, there can be no assurance that RBC will not exercise their rights pursuant to the provisions of the debt obligation.

In connection with the BDC Credit Agreement, BDC executed a subordination agreement in favor of SVB, pursuant to which BDC agreed to subordinate any security interest in our assets granted in connection with the BDC Credit Agreement to SVB's existing security interest in our assets. The subordination agreement contains cross-default provisions which may materially impact our liquidity.

In the event either or both of the RBC Credit Agreement or the BDC Credit Agreement were deemed to be in default, RBC or BDC, as applicable, could, among other things (subject to the rights of SVB as our 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. We do not have alternative sources of financing.

Our competitors may be able to develop their business strategy and grow revenue at a faster pace than us, which would limit our results of operations and may force us to cease or curtail operations.

The wireless mobile solutions marketplace, while highly fragmented, is very competitive and many of our competitors are more established and have greater resources. We expect that competition will intensify in the future. Some of these competitors also have greater market presence, marketing capabilities, technological and personnel resources than our company. As compared with our company therefore, such competitors may:

- develop and expand their infrastructure and service/product offerings more efficiently or more quickly;
- adapt more swiftly to new or emerging technologies and changes in client requirements;
- take advantage of acquisition and other opportunities more effectively;
- devote greater resources to the marketing and sale of their products and services; and
- leverage more effectively existing relationships with customers and strategic partners or exploit better recognized brand names to market and sell their services.

These current and prospective competitors include:

- other wireless mobile solutions companies such as Agilysys, Inc., International Business Machines (IBM), Accenture, Sedlak, Peak-Ryzex, Stratix, Denali Advanced Integration, Group Mobile, Pariveda Solutions, and barcoding, Inc.;
- in certain areas our existing hardware suppliers, in particular Motorola Solutions but also Intermec, Zebra and others; and
- the in-house IT departments of many of our customers.

A significant portion of our revenue is dependent upon a small number of customers and the loss of any one of these customers would negatively impact our revenues and our results of operations.

We derived approximately 11% of our revenues from one customer in the three months ended March 31, 2014. We derived approximately 17.6% of our revenues from two customers in 2013. We derived approximately 19.4% of our revenues from our two largest customers in 2012. For the years ended December 31, 2013 and 2012, we had one customer within the healthcare industry that generated 10.0% and 12.5%, respectively, of our total sales.

Customer mix shifts significantly from year to year, but a concentration of the business with a few large customers is typical in any given year. A decline in our revenues could occur if a customer which has been a significant factor in one financial reporting period gives us significantly less business in the following period. Any one of our customers could reduce their orders for our products and services in favor of a more competitive price or different product at any time. The loss of any one of these customers or reduced purchases by them would not have a material adverse effect on our business as we would adjust our personnel staffing levels accordingly.

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

If wireless carriers were to terminate or materially reduce their business relationships with us, our operating results would be materially harmed.

We have established key wireless carrier relationships with Sprint, T-Mobile and Verizon. We have an informal arrangement with these carriers pursuant to which they provide us referrals of end users interested in field mobility solutions, and we, in turn, provide solutions which require cellular data networks. We do not have any binding agreements with these carriers. If these carriers were to terminate or materially reduce, for any reason, their business relationships with us, our operating results would be materially harmed.

Growth of and changes in our revenues and profits depend on the customer, product and geographic mix of our sales. Fluctuations in our sales mix could have an adverse impact on or increase the volatility of our revenues, gross margins and profits.

Sales of our products to large enterprises tend to have lower prices and gross margins than sales to smaller firms. In addition, our gross margins vary depending on the product or service made. Growth in our revenues and gross margins therefore depends on the customer, product and geographic mix of our sales. If we are unable to execute a sales strategy that results in a favorable sales mix, our revenues, gross margins and earnings may decline. Further, changes in the mix of our sales from quarter-to-quarter or year-to-year may make our revenues, gross margins and earnings more volatile and difficult to predict.

Our sales and profitability may be affected by changes in economic, business or industry conditions.

If the economic climate in the U.S. or abroad deteriorates, customers or potential customers could reduce or delay their technology investments. Reduced or delayed technology investments could decrease our sales and profitability. In this environment, our customers may experience financial difficulty, cease operations and fail to budget or reduce budgets for the purchase of our products and professional services. This may lead to longer sales cycles, delays in purchase decisions, payment and collection, and can also result in downward price pressures, causing our sales and profitability to decline. In addition, general economic uncertainty and general declines in capital spending in the information technology sector make it difficult to predict changes in the purchasing requirements of our customers and the markets we serve. There are many other factors which could affect our business, including:

- the introduction and market acceptance of new technologies, products and services;
- new competitors and new forms of competition;
- the size and timing of customer orders;
- the size and timing of capital expenditures by our customers;
- adverse changes in the credit quality of our customers and suppliers;
- changes in the pricing policies of, or the introduction of, new products and services by us or our competitors;
- changes in the terms of our contracts with our customers or suppliers;
- the availability of products from our suppliers; and
- variations in product costs and the mix of products sold.

These trends and factors could adversely affect our business, profitability and financial condition and diminish our ability to achieve our strategic objectives.

Use of third-party suppliers and service providers could adversely affect our product quality, delivery schedules or customer satisfaction, any of which could have an adverse effect on our financial results.

We rely heavily on a number of privileged vendor relationships as a VAR for the Motorola Solutions Partner Pinnacle Club program, a manufacturer of bar code scanners and portable data terminals; as an Honors Solutions Provider for Intermec, a manufacturer of bar code scanners and terminals; as a Premier Partner with Zebra, a printer manufacturer, and O'Neil, the leading provider of 'ruggedized' handheld mobile printers. The loss of VAR status with any of these manufacturers could have a substantial adverse effect on our business.

We have not sought to protect our proprietary knowledge through patents and, as a result, our sales and profitability could be adversely affected to the extent that competing products/services were to capture a significant portion of our target markets.

We have generally not sought patent protection for our products and services, relying instead on our technical know-how and ability to design solutions tailored to our customers' needs. Our sales and profitability could be adversely affected to the extent that competing products/services were to capture a significant portion of our target markets. To remain competitive, we must continually improve our existing personnel skill sets and capabilities and the provision of the services related thereto. Our success will also depend, in part, on management's ability to recognize new technologies and services and make arrangements to license in, or acquire such technologies so as to always be at the leading edge.

We must effectively manage the structure and size of our operations, or our company will suffer.

Our ability to successfully implement our business plan requires an effective planning and management process. If funding is available, we intend to increase the scope of our operations and acquire complementary businesses. Implementing our business plan will require significant additional funding and resources. If we grow our operations, we will need to hire additional employees and make significant capital investments. If we grow our operations, it will place a significant strain on our existing management and resources. If we grow, we will need to improve our financial and managerial controls and reporting systems and procedures, and we will need to expand, train and manage our workforce. If we need to reduce the size of our infrastructure, we need to do it swiftly. Any failure to manage any of the foregoing areas efficiently and effectively would cause our business to suffer.

If we fail to continue to introduce new products that achieve broad market acceptance on a timely basis, we will not be able to compete effectively and we will be unable to increase or maintain sales and profitability.

Our future success depends on our ability to develop and introduce new products and product enhancements that achieve broad market acceptance. If we are unable to develop and introduce new products that respond to emerging technological trends and customers' mission critical needs, our profitability and market share may suffer. The process of developing new technology is complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends, our business could be harmed.

We are active in the identification and development of new product and technology services and in enhancing our current products. However, in the enterprise mobility solutions industry, such activities are complex and filled with uncertainty. If we expend a significant amount of resources and our efforts do not lead to the successful introduction of new or improved products, there could be a material adverse effect on our business, profitability, financial condition and market share.

We may also encounter delays in the manufacturing and production of new products from our principal suppliers. Additionally, new products may not be commercially successful. Demand for existing products may decrease upon the announcement of new or improved products. Further, since products under development are often announced before introduction, these announcements may cause customers to delay purchases of any products, even if newly introduced, until the new or improved versions of those products are available. If customer orders decrease or are delayed during the product transition, we may experience a decline in revenue and have excess inventory on hand which could decrease gross profit margins. Our profitability might decrease if customers, who may otherwise choose to purchase existing products, instead choose to purchase lower priced models of new products. Delays or deficiencies in the development, manufacturing, and delivery of, or demand for, new or improved products could have a negative effect on our business or profitability.

We use a limited number of vendors, and disruption in our relationships with these vendors could adversely affect our business and financial results.

Our ability to meet financial objectives depends on our ability to timely obtain an adequate delivery of hardware as well as services from our vendors. Certain supplies are available form a single source or limited sources for which we may be unable to provide suitable alternatives in a timely manner. In addition, we may experience increases in vendor prices that could have a negative impact on our business. Credit constraints by our vendors could cause us to accelerate payables by us, impacting our cash flow. Any unanticipated expense, or disruption in our business or operations relating a limited number of suppliers could adversely affect our business, financial condition and results of operations.

We face competition from numerous sources and competition may increase, leading to a decline in revenues.

We compete primarily with well-established companies, many of which we believe have greater resources than us. We believe that barriers to entry are not significant and start-up costs are relatively low, so our competition may increase in the future. New competitors may be able to launch new businesses similar to ours, and current competitors may replicate our business model, at a relatively low cost. If competitors with significantly greater resources than ours decide to replicate our business model, they may be able to quickly gain recognition and acceptance of their business methods and products through marketing and promotion. We may not have the resources to compete effectively with current or future competitors. If we are unable to effectively compete, we will lose sales to our competitors and our revenues will decline.

We are heavily dependent on our senior management, and a loss of a member of our senior management team could cause our stock price to suffer.

If we lose members of our senior management, we may not be able to find appropriate replacements on a timely basis, and our business could be adversely affected. Our existing operations and continued future development depend to a significant extent upon the performance and active participation of certain key individuals, including our Chief Executive Officer, Chief Financial Officer, Senior Vice Presidents and certain other senior management individuals. We cannot guarantee that we will be successful in retaining the services of these or other key personnel. If we were to lose any of these individuals, we may not be able to find appropriate replacements on a timely basis and our financial condition and results of operations could be materially adversely affected.

We are increasingly dependent on information technology systems and infrastructure (cyber security).

We increasingly rely upon technology systems and infrastructure. Our technology systems are potentially vulnerable to breakdown or other interruption by fire, power loss, system malfunction, unauthorized access and other events such as computer hackings, cyber attacks, computer viruses, worms or other destructive or disruptive software. Likewise, data privacy breaches by employees and others with permitted access to our systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. While we have invested heavily in the protection of data and information technology and in related training, there can be no assurance that our efforts will prevent significant breakdowns, breaches in our systems or other cyber incidents that could have a material adverse effect upon our reputation, business, operations or financial condition of the company. In addition, significant implementation issues may arise as we continue to consolidate and outsource certain computer operations and application support activities.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

We review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be evaluated for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, decrease in future cash flows, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, resulting in a material adverse impact on our results of operations.

Our inability to hire, train and retain qualified employees could cause our financial condition to suffer.

The success of our business is highly dependent upon our ability to hire, train and retain qualified employees. We face competition from other employers for people, and the availability of qualified people is limited. We must offer a competitive employment package in order to hire and retain employees, and any increase in competition for people may require us to increase wages or benefits in order to maintain a sufficient work force, resulting in higher operation costs. Additionally, we must successfully train our employees in order to provide high quality services. In the event of high turnover or shortage of people, we may experience difficulty in providing consistent high-quality services. These factors could adversely affect our results of operations.

If we are unable to maintain the effectiveness of our internal controls, our financial results may not be accurately reported.

Management's assessment of the effectiveness of our disclosure controls and procedures as of June 30, 2012 and September 30, 2012 reported that such controls and procedures were ineffective as a result of a material weakness in our internal control over financial reporting related to the supervision and review of our financial closing and reporting process and in our ability to account for complex transactions as described in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and September 30, 2012. The complex transactions related to purchase accounting for acquisitions made in 2012. During the fourth quarter of 2012, we devoted significant time and resources to the remediation of the material weakness that included, but was not limited to:

- Evaluation of Finance Department's management and staff qualifications, which resulted in us making certain personnel changes in the Accounting and Finance department;
- Implementation of further process and control procedures surrounding review of significant transactions within the financial closing process; and
- Implementing new control procedures over the utilization of external resources

Although further and ongoing efforts will continue in 2014 and beyond to enhance our internal control over financial reporting, we believe that our remediation efforts now provide the foundation for compliance.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting in accordance with accounting principles generally accepted in the United States. Because the inherent limitations of internal control over financial reporting cannot guarantee the prevention or detection of a material weakness, we can never guarantee a material weakness over financial reporting will not occur, including with respect to any previously reported material weaknesses. Any future material weakness could result in material misstatements in our financial statements or cause us to fail to meet our reporting obligations. In addition, if we are unable to certify that our internal control over financial reporting is effective, we may be subject to sanctions or investigations by regulatory authorities such as the SEC, and we could lose investor confidence in the accuracy and completeness of our financial reports, which would materially harm our business, the price of our common stock and our ability to access the capital markets.

Our Net Operating Loss Carryforwards may be limited.

Pursuant to Internal Revenue Code (IRC) Section 382, annual use of our Federal net operating loss carryforwards may be limited in the event a cumulative change in ownership of our company of more than fifty percent occurs within a three-year period. In addition, IRC Section 382 may limit our built-in items of deduction, including capitalized start-up costs and research and development costs. We have completed an IRC 382 analysis regarding the limitation of our net operating loss carryforwards as of December 31, 2013. At December 31, 2013, we had Federal net operating loss carryforwards of approximately \$10.7 million. Of this amount, approximately \$9.9 million is available after the application of IRC Section 382 limitations.

RISKS RELATED TO OUR SERIES D PREFERRED STOCK AND COMMON STOCK

There has been a limited trading market for our common stock.

Currently, our common stock is available for quotation on the Over-the-Counter Bulletin Board under the symbol “DPSI.” There is a limited trading market for the common stock on the Over-the-Counter Bulletin Board. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using common stock as consideration.

There has been minimal reported trading to date in the Series D Preferred Stock and as a result you may not be able to sell our Series D Preferred Stock.

Our Series D Preferred Stock is quoted on the OTCQB under the symbol “DPSIP”. However, there has been minimal reported trading to date in the Series D Preferred Stock and there may never be an active market for our Series D Preferred Stock. In the absence of an active trading market, you may have difficulty buying and selling or obtaining market quotations; the market visibility for our Series D Preferred Stock may be limited, and the lack of visibility for our Series D Preferred Stock may have a depressive effect on the market price for our Series D Preferred Stock.

We may pay dividends on our Series D Preferred Stock and Series E Preferred Stock in shares of Series D Preferred Stock and Series E Preferred Stock, respectively, valued based on the trading price of our common stock, which would result in dilution to current stockholders.

Our Series D Preferred Stock entitle 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 shares of Series D Preferred Stock (“Series D PIK Shares”), in which event the applicable dividend rate will be 12% and the number of such Series D PIK Shares issuable will be equal to the aggregate dividend payable divided by the lesser of (x) the then effective conversion price (currently $0.71) or (y) the average volume weighted average price (“VWAP”) of the Company’s common stock for the five prior consecutive trading days. Accordingly, if the VWAP of our common stock for the applicable measuring period is below $0.71, the number of shares issuable as Series D PIK Shares will vary with such VWAP.

The following table sets forth, for illustrative purposes, the number of shares of Series D Preferred Stock we would issue if we were to elect to pay dividends on the Series D Preferred Stock in 2014, at different VWAP’s. The Series D PIK Shares are convertible 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, and divided by the conversion price in effect at the time of the conversion.

VWAP	Number of PIK shares issuable in 2014
$0.60	108,472
$0.50	130,166
$0.40	162,708

Our Series E Preferred Stock entitle the holder to cumulative dividends, 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, pay dividends in shares of Series E Preferred Stock “Series E PIK Shares”), in which event the applicable dividend rate will be 14% and the number of such Series E PIK Shares issuable will be equal to the aggregate dividend payable divided by the lesser of (x) the then effective conversion price (currently $0.50) or (y) VWAP of the Company’s common stock for the five prior consecutive trading days. Accordingly, if the VWAP of our common stock for the applicable measuring period is below $0.50, the number of shares issuable as Series E PIK Shares will vary with such VWAP.

The following table sets forth, for illustrative purposes, the number of shares of Series E Preferred Stock we would issue if we were to elect to pay dividends on the Series E Preferred Stock in 2014, at different VWAP’s. The Series E PIK Shares are convertible into such number of shares of our common stock equal to the number of shares of Series E Preferred Stock to be converted, multiplied by the Stated Value, and divided by the Conversion Price in effect at the time of the conversion.

VWAP	Number of PIK shares issuable in 2014
$0.40	76,810
$0.30	102,414
$0.20	153,620

If we issue common stock at a price less than the conversion price then in effect, the conversion prices of the Series D Preferred Stock and the Series E Preferred Stock will be reduced and will potentially cause additional common stock to be issued upon Series D Preferred Stock and the Series E Preferred Stock conversion.

Our Series D Preferred Stock and the Series E Preferred Stock entitle the holder to certain anti-dilution rights upon subsequent issuances of common stock at a price which is less than the conversion price then in effect of the Series D Preferred Stock and the Series E Preferred Stock, respectively.

As a result of the sale in August 2013 of common stock, the conversion price of the Series D Preferred Stock was reduced from $1.00 per share to $0.90 per share. As a result of the sale of Series E Preferred Stock in November 2013, the Conversion Price of the Series D Preferred Stock was further reduced to $0.71 per share. If all outstanding shares of Series D Preferred Stock and Series E Preferred are converted an additional 10,286,718 and 8,330,660 shares of common stock, respectively, will be issued further diluting existing common stockholders. If we issue additional shares of common stock (or securities convertible into common stock), at a price below the then-effective conversion price (subject to certain exceptions), the conversion price of the Series D and Series E Preferred Stock will be further reduced.

The August 2013 Investors have been granted certain price adjustment rights in connection with their purchase of common stock.

In connection with the August 2013 Private Placement, we granted certain price adjustment rights to the August 2013 Investors. For a period commencing on the initial closing under the August 2013 Private Placement and terminating on a date which is 24 months from the initial closing, in the event we issue or grant any shares of common Stock or securities convertible, exchangeable or exercisable for shares of common stock pursuant to which shares of common stock may be acquired at a price less than $0.60 per share, then we shall promptly issue additional shares of common stock to the August 2013 Investors in an amount sufficient that the subscription price paid, when divided by the total number of shares issued (shares purchased under the August 2013 Purchase Agreement plus the additional shares issued under this provision), will result in an actual price paid by the subscriber per share of common stock equal to such lower price. As a result of the sale of Series E Preferred Stock in November 2013, we issued 585,467 additional shares of common stock to the August 2013 Investors. If in the future we are required to issue additional shares of common stock pursuant to these price adjustment rights, such issuances will result in further dilution to our then-current stockholders.

The warrants issued to investors and the placement agent under the August 2013 Private Placement contain certain anti-dilution and price adjustment provisions.

In connection with the August 2013 Private Placement, we issued warrants to the placement agent and investors that contained certain anti-dilution ("down-round") protection. If at any time while the August 2013 Placement Agent Warrants or August 2013 Investor Warrants are outstanding, we shall sell or grant any option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue any common stock or common stock equivalent, at an effective price per share less than the exercise price then in effect of the August 2013 Placement Agent Warrants or August 2013 Investor Warrants, the exercise price of the Placement Agent Warrants and August 2013 Investor Warrants shall be reduced to such lower price. Such price adjustment provisions may result in further dilution to existing stockholders.

The market price for our common stock may be volatile, and your investment in our common stock could decline in value.

The market price of our common stock could fluctuate significantly in response to various factors and events, including:

- our ability to integrate operations, technology, products and services;
- our ability to execute its business plan;
- operating results below expectations;
- our issuance of additional securities, including debt or equity or a combination thereof, which will be necessary to fund our operating expenses;
- announcements of technological innovations or new products by us or our competitors;
- the loss of any strategic relationship;
- economic and other external factors;
- period-to-period fluctuations in our financial results; and
- whether an active trading market in the capital stock develops and is maintained.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our capital stock.

In the past, securities class action litigation has often been brought against companies that experience volatility in the market price of their securities. Whether or not meritorious, litigation brought against us could result in substantial costs and a diversion of management’s attention and resources, which could adversely affect our business, operating results and financial condition.

We expect that our quarterly results of operations will fluctuate, and this fluctuation could cause our stock price to decline.

Our quarterly operating results are likely to fluctuate in the future. These fluctuations could cause our stock price to decline. The nature of our business involves variable factors, such as the timing of the research, development and regulatory pathways of our product candidates, which could cause our operating results to fluctuate.

Due to the possibility of fluctuations in our revenues and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance.

If we or our existing shareholders sell a substantial number of shares of our common stock in the public market, our stock price may decline.

If we or our existing shareholders sell a large number of shares of our common stock, or the public market perceives that we or our existing shareholders might sell shares of common stock, particularly with respect to our affiliates, directors, executive officers or other insiders, the market price of our common stock could decline significantly.

In the future, we may issue additional shares to our employees, directors or consultants, in connection with corporate alliances or acquisitions, or to raise capital. Due to these factors, sales of a substantial number of shares of our common stock in the public market could occur at any time.

Our common stock is subject to the "penny stock" rules of the SEC and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.

The Securities and Exchange Commission ("SEC") has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

FINRA sales practice requirements may also limit a shareholder’s ability to buy and sell our stock.

In addition to the “penny stock” rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

We do not anticipate paying dividends on our common stock.

We have never declared or paid cash dividends on our common stock and do not expect to do so in the foreseeable future. The declaration of dividends is subject to the discretion of our board of directors and will depend on various factors, including our operating results, financial condition, future prospects and any other factors deemed relevant by our board of directors. You should not rely on an investment in our company if you require dividend income from your investment in our company. The success of your investment will likely depend entirely upon any future appreciation of the market price of our common stock, which is uncertain and unpredictable. There is no guarantee that our common stock will appreciate in value.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains “forward-looking statements”. Forward-looking statements reflect the current view about future events. When used in this prospectus, the words “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” negative of these terms and similar expressions, as they relate to us or our management, identify forward-looking statements. Such statements, include, but are not limited to, statements contained in this prospectus relating to our business strategy, our future operating results and liquidity and capital resources outlook. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward–looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees of assurance of future performance. We caution you therefore against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, without limitation, a continued decline in general economic conditions nationally and internationally; decreased demand for our products and services; market acceptance of our products and services; our ability to protect our intellectual property rights; the impact of any infringement actions or other litigation brought against us; competition from other providers and products; our ability to develop and commercialize new and improved products and services; our ability to raise capital to fund continuing operations; changes in government regulation; our ability to complete customer transactions and capital raising transactions; and other factors (including the risks contained in the section of this prospectus entitled “Risk Factors”) relating to our industry, our operations and results of operations and any businesses that may be acquired by us. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not undertake to update any of the forward-looking statements to conform these statements to actual results.

USE OF PROCEEDS

We will not receive any proceeds from the sale of Series D Preferred Stock and common stock offered by the selling stockholders under this prospectus.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the Over-The-Counter Bulletin Board under the symbol “DPSI”. The following table sets forth the high and low prices per share of our common stock for each period indicated. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	High	Low
First Quarter 2012	$ 1.64	$ 0.65
Second Quarter 2012	1.54	0.90
Third Quarter 2012	1.35	0.71
Fourth Quarter 2012	1.25	0.55
First Quarter 2013	$ 1.26	$ 0.81
Second Quarter 2013	1.30	0.70
Third Quarter 2013	1.00	0.49
Fourth Quarter 2013	0.69	0.43
First Quarter 2014	$ 0.60	$ 0.36
Second Quarter 2014 (as of May 30, 2014)	0.58	0.26

Our Series D Preferred Stock is quoted on the OTCQB under the symbol “DPSIP”. There has been minimal reported trading to date in our Series D Preferred Stock.

Number of Stockholders

As of May 30, 2014, there were approximately 84 holders of record of our common stock.

Dividend Policy

Common Stock – The holders of our common stock are entitled to receive dividends if and when declared by our Board of Directors out of funds legally available for distribution. Any such dividends may be paid in cash, property or shares of our common stock.

We have not paid any dividends on our common stock since our inception, and it is not likely that any dividends on our common stock will be declared in the foreseeable future. Any dividends will be subject to the discretion of our Board of Directors, and will depend upon, among other things, our operating and financial condition and our capital requirements and general business conditions.

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. Dividends shall be cumulative and shall accrue on each share of the outstanding Series A and B Preferred Stock from the date of its issue. Cumulative, undeclared dividends on our Series A Preferred and Series B Preferred Stock totaled $383,000 and $100,000 at March 31, 2014, respectively.

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 Series D PIK Shares, in which event the applicable dividend rate will be 12% and the number of such Series D PIK Shares issuable 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. On April 16, 2013, we paid a cash dividend of $154,186 on the Series D Preferred Stock for the period from the dates of issue to March 31, 2013. On July 16, 2013, we paid a cash dividend of $140,454 on the Series D preferred Stock for the period from April 1, 2013 to June 30, 2013. On October 15, 2013, we paid a cash dividend of $142,000 on the Series D preferred Stock for the period from July 1, 2013 to September 30, 2013. On January 1, 2014, the Board of Directors declared a PIK dividend payable in the form of 26,157 shares of Series D Preferred Stock. The dividends were payable to holders of record as of December 31, 2013 for accrued dividends for the period of October 1, 2013 to December 31, 2013. These shares were issued in April 2014. Additionally, on December 31, 2013, cash dividends of $351 were accrued for fractional share dividends not paid-in-kind. On April 25, 2014, the Company paid a cash dividend of $144,000 on the Series D Preferred Stock for the period from January 1, 2014 to March 31, 2014.

The Series E Preferred Stock entitles the holder to cumulative dividends, 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, pay dividends in shares of Series E Preferred Stock (“Series E PIK Shares”), in which event the applicable dividend rate will be 14% and the number of such Series E PIK Shares issuable 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. On January 1, 2014, the Board of Directors declared a PIK dividend payable in the form of 7,533 shares of Series E Preferred Stock. The dividends were payable to holders of record as of December 31, 2013 for accrued dividends for the period of October 1, 2013 to December 31, 2013. These shares were issued in April 2014. Additionally, on December 31, 2013, cash dividends of $561 were accrued for fractional share dividends not paid-in-kind. On April 25, 2014, the Company paid a cash dividend of $103,000 on the Series E Preferred Stock for the period from January 1, 2014 to March 31, 2014.

Securities Authorized for Issuance under Equity Compensation Plans

In December 2010, the Company established the 2010 Stock Option Plan (the “Plan”). The Plan authorizes the issuance of 1,000,000 shares of common stock.

Under the Plan, common stock incentives may be granted to officers, employees, directors, consultants, and advisors. As of December 31, 2013, incentives under the 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 Plan is administered by the Board of Directors, or a committee appointed by the Board of Directors, which determines recipients and the number of shares subject to the awards, the exercise price and the vesting schedule. The term of stock options granted under the 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.

Provided below is information regarding our equity compensation plans under which our equity securities are authorized for issuance as of December 31, 2013, subject to our available authorized shares.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	804,505	$ 1.39	195,495
Equity compensation plans not approved by security holders	-	-	-
Total	804,505	$ 1.39	195,495

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", "us" or "our"). Management's Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, the financial statements and the related notes thereto included elsewhere in this prospectus.

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 prospectus 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

Three Months Ended March 31, 2014 and 2013

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, 2014	2013	Increase/(Decrease)	
Net sales	$ 16.7	$ 13.8	$ 2.9	21.3%
Gross profit	3.6	2.8	0.7	26.6%
Total operating expenses	3.7	5.0	(1.3)	(26.0%)
Operating loss	(0.1)	(2.2)	(2.1)	(93.5%)
Net loss before income taxes	(0.1)	(2.4)	(2.3)	(96.3%)

Net Sales

Net sales for the three month periods ended March 31, 2014 and 2013 are summarized below:

	Three Months Ended March 31, 2014	2013	Increase(Decrease)	
Hardware	$ 11.5	$ 8.4	$ 3.2	38.1%
Professional services	3.8	3.9	(0.1)	(2.8%)
Software	1.0	1.1	(0.1)	(8.5%)
Other	0.4	0.4	(0.0)	(8.3%)
	$ 16.7	$ 13.8	$ 3.0	21.3%

Net sales were $16.7 million for the three months ended March 31, 2014, compared to $13.8 million for the three months ended March 31, 2013, an increase of $2.9 million or 21.3%. The increase was driven principally by our hardware category, which grew by $3.2 million, or 38.1% over the comparable period. The increase in hardware revenue was partially due to significant orders by several large retail customers in the first quarter of 2014. We also recognized higher revenues through the expansion of our customer base and continued ordering from customers acquired after the first quarter of 2013.

The improved economic conditions in the U.S. which had begun in the first half of 2010, and continued improvement throughout 2011 and 2012 had a positive effect on our sales in those years. Prior to 2010, major retail chains had deferred new technology implementation and delayed systems' refresh. Conversely, the economic environment in 2012 stabilized whereupon we benefitted from renewed interest and more importantly, fundamental need to implement new cost saving technology. During 2013, we experienced decreases in hardware sales revenue as we did not experience the same level of customer with new technology and system' refresh.

Cost of Sales

Cost of sales for the three months periods ended March 31, 2014 and 2013 is summarized below:

	Three Months Ended March 31,						
		2014		2013	Increase(Decrease)		
Hardware	$	9.3	$	6.8	$	2.6	38.1%
Professional services		2.6		2.8		(0.2)	(7.7%)
Software		0.9		1.1		(0.1)	(13.4%)
Other		0.3		0.3		(0.0)	(9.0%)
	$	13.1	$	11.0	$	2.2	19.7%

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 $13.1 million for the three months ended March 31, 2014, compared to $11 million for the three months ended March 31, 2013, an increase of $2.2 million or 19.7%. The increase in cost of sales for hardware of 38.1% for the three months ended March 31, 2014 compared to the similar period in 2013 was consistent with the hardware revenue increase. The decrease in cost of sales for professional services was 7.7%, much steeper than the revenue decline for professional services of 2.8% which was due to reductions in professional service personnel that we achieved as a component of our operational improvement efforts. The decrease in cost of sales for software of 13.4% for the three months ended March 31, 2014 compared to the similar period in 2013 was also steeper than the revenue decline for software of 8.5% and also related to professional service personnel reductions. The decrease in other cost of sales was negligible.

Gross Profit

Gross profit for the three month periods ended March 31, 2014 and 2013 is summarized below:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Increase (Decrease)	
Hardware	$ 2.2	$ 1.6	$ 0.6	38.2%
Professional services	1.2	1.1	0.1	9.1%
Software	0.0	(0.0)	0.1	(1125.0%)
Other	0.1	0.1	(0.0)	(19.5%)
	$ 3.6	$ 2.8	$ 0.8	26.6%

Our gross profit was $3.6 million for the three months ended March 31, 2014, compared to $2.8 million for the similar period ended March 31, 2013, an increase of $0.8 million or 26.6%. Our gross margin percent increased by 90 basis points to 21.4% in the first quarter of 2014, from 20.5% in the comparable period of 2013. The increase in gross profit percentage was due to the continued implementation of cost controls for the products and services that we resell. In particular, we realized higher margins on our professional services and software offerings, which were positively affected by cost reductions.

Selling, General and Administrative Expenses

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Increase/(Decrease)	
Selling, general and administrative expenses	$ 3.7	$ 5.0	$ (1.3)	(26.0%)
As a percentage of sales	22.2%	36.5%		(14.2%)

Selling, general and administrative expenses was $3.7 million for the three months ended March 31, 2014, compared to $5.0 million for the similar period in the prior year. This represents a decrease of $1.3 million, or 26.0%. The decrease was due to significant efforts to streamline our business model. These 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 focused on continuing to improve processes and reduce 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, 2014 and 2013 is summarized below:

	2014	2013	Increase/(Decrease)	
Depreciation and amortization				
In cost of sales	$ 0.2	$ 0.2	$ 0.0	4.9%
In selling, general and administrative expense	0.3	0.3	(0.0)	(9.3%)
Total depreciation and amortization	$ 0.5	$ 0.5	$ (0.0)	(3.3%)
As a percentage of sales	2.8%	3.5%		(0.7%)

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 $207,000 for the three months ended March 31, 2014, compared to $226,000 for the similar period in the prior year. The $19,000 decrease in interest expense reflected a decrease in our average outstanding general debt obligations during the three months ended March 31, 2014 compared to the similar period in the prior year.

Year Ended December 31, 2013 and 2012

For comparison purposes, all dollar amounts have been rounded to nearest million while all percentages are actual.

	Year ended December 31, 2013	2012	Increase/(Decrease)	
Total revenue	$ 60.7	$ 71.5	$ (10.8)	-15.1%
Gross profit	$ 12.7	$ 15.0	$ (2.3)	-15.4%
Total operating expenses	$ 17.5	$ 18.2	$ (0.6)	-3.5%
Loss from operations	$ (4.8)	$ (3.1)	$ 1.7	54.1%
Loss before provision for income taxes	$ (5.4)	$ (4.0)	$ 1.4	35.7%
Net loss attributable to common shareholders	$ (7.8)	$ (4.8)	$ 3.0	61.9%

Total Revenue

Revenues for the years ended December 31, 2013 and 2012 is summarized below:

	Year ended December 31, 2013	2012	Increase (Decrease)
Hardware	$ 38.0	$ 48.5	-21.8%
Professional services	16.7	16.4	1.7%
Software	4.4	4.5	-1.8%
Other	1.6	2.1	-21.6%
	$ 60.7	$ 71.5	-15.1%

Revenues were $60.7 million for the year ended December 31, 2013, compared to $71.5 million for the same period ended December 31, 2012, a decrease of $10.8 million or 15.1%. Revenues for Apex and Illume Mobile for the years ended 2013 and December 31, 2012 were $2.5 million, $1.0 million, and $1.1 million, $0.4 million, respectively. Excluding the impact of Apex and Illume Mobile acquisitions in 2012, revenues decreased by $12.8 million, or 18.2% over the prior year with the largest decrease occurring in hardware sales where sales decreased by 21.8%.

The improved economic conditions in the U.S. which had begun in the first half of 2010, and continued improvement throughout 2011 and 2012 have had a positive effect on our sales. The economic environment in 2012 stabilized whereupon we benefitted from renewed interest and more importantly, fundamental need to implement new cost saving technology. As a result, the 20.4% increase in hardware revenues for the year ended December 31, 2012 compared to the same period in 2011 was due to the increase in system upgrades of mobile computing at the retail level for some of our largest customers. With respect to the substantial decrease of hardware sales of 21.8% in 2013 as compared to 2012, major retail chains are coming off 2012 where the improved economic environment in some areas had driven refresh cycles by customers. Additionally, some customers have delayed purchases that we would have expected to be made in 2013 as they are evaluating various options for competing operating platforms. The increase in professional services for the year ended December 31, 2013 compared to the same period in 2012 of 1.7% relates to custom mobile application development, including deployment and staging services to support our customer’s technology upgrades. Our software revenues for the year ended December 31, 2013 compared to the same period in 2012 was relatively stable. The decrease in other revenues relates to a reallocation of corporate resources away from the lower volume for consumables and towards the professional services business.

Cost of Sales

Cost of sales for the years ended December 31, 2013 and 2012 is summarized below:

	Year ended December 31, 2013	2012	Increase (Decrease)
Hardware	$ 31.0	$ 40.2	-22.8%
Professional services	11.3	11.3	0.4%
Software	4.5	3.7	20.5%
Other	1.2	1.3	-11.2%
	$ 48.0	$ 56.5	-15.0%

The types of expenses included in the cost of sales line are 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 $48.0 million for the year ended December 31, 2013, compared to $56.5 million for the same period ended December 31, 2012, a decrease of $8.5 million or 15.0%. The decrease in cost of sales for hardware of 22.8% for the year ended December 31, 2013 compared to the same period in 2012 was slightly higher than the hardware revenue decrease due the change in product mix of hardware items. The cost of sales for professional services from the year ended December 31, 2013 was comparable to the year ended December 31, 2012 and increased by only 0.4%. The increase in cost of sales for professional services of 0.4% was 1.3% lower than the revenue decline of 1.7% and was due to increased professional service personnel costs associated with the carry-over of revenue growth from the prior year. The increase in cost of sales for software of 20.5% for the year ended December 31, 2013 compared to the same period in 2012 was related to amortization of intangible assets associated with the Apex and Illume Mobile acquisitions. The decrease in other cost of sales of 11.2% for the year ended December 31, 2013 relates to the decrease in the other revenues.

Gross Profit

Gross profit for the years ended December 31, 2013 and 2012 is summarized below:

	Year ended December 31, 2013	2012	Increase (Decrease)	
Hardware	$ 7.0	$ 8.3	$ (1.3)	-15.7%
Professional services	5.4	5.1	0.3	5.9%
Software	(0.1)	0.8	(0.9)	-112.5%
Other	0.4	0.8	(0.4)	-50.2%
	$ 12.7	$ 15.0	$ (2.3)	-15.3%

Our gross profit was $12.7 million for the year ended December 31, 2013, compared to $15.0 million for the same period ended December 31, 2012, a decrease of $2.3 million or 15.3%. Our gross margin percentage of 21.0% in 2013 is comparable to the same period of 2012. The decrease in gross profit of $2.3 million was driven by the decrease in overall revenue of $10.8 million. In addition, the decrease in gross profit was partly due to the increase of $300,000 in amortization of intangible assets associated with Apex and Illume Mobile acquisitions as 2013 reflected a full year of amortization for such intangibles. Additionally, we have continued to implement increased cost control for the products and services which we resell, our professional service costs were positively impacted by our better utilization associated with greater recognized revenue from these services in the current twelve months and therefore, we realized higher margins on those services. The gross profit for professional services increased by $0.3 million, or 5.9% over the prior comparable period. The gross profit margin for software decreased by $0.9 million, to ($0.1) million for the year ended December 31, 2013. The gross profit for hardware decreased by $1.3 million, or 15.7% over the prior year comparable period and was driven by a mix change.

Selling, General and Administrative Expenses

	Year ended December 31, 2013	2012	Increase/(Decrease)	
Selling, general and administrative expenses	$ 18.3	$ 18.2	$ 0.1	0.8%
Adjustment to earn-out obligations	$ (0.8)	$ -	(0.8)	
Total operating expenses	$ 17.5	$ 18.2	(0.70)	-3.7%
As a percentage of sales	28.9%	25.4%		

Selling, general and administrative expenses, excluding the adjustment to earn-out obligations, were $18.3 million for the year ended December 31, 2013, compared to $18.2 million for the same period in the prior year. This represents an increase of $0.1 million, or 0.8%. The change was due to the increase in sales salary related expenses of $1.5 million over the prior year comparable period, of which part relates to the expansion of the sales force in the U.S. tasked with bringing the APEXWare™ product to the U.S. market. Warehouse related expenses increased by $0.3 million over the prior year comparable period and was primarily associated with Apex and Illume Mobile acquisitions in 2013 reflected a full year of expenses. Offset to the increased selling, general and administrative expenses noted above were expense reduction measures to include, but not limited to, consolidation of information technology environments, consolidation of our east coast depot facility in to our larger California facility, reduction of outsourced consulting expertise where unnecessary and replacing certain service providers with lower cost providers. As a result of some of these measures, we recognized reductions in professional fees of $0.9 million and legal expenses of $0.4 million. We also recognized reductions in other miscellaneous expenses of $0.4 million, of which approximately $0.2 million related to personnel reductions. We consolidated administrative personnel and reduced staffing levels by 29% from April 2013 through February 2014, constituting annual future savings of $3 million. The result of these activities has reduced the expense structure of the consolidated business significantly. The Company is focused on improving processes and continuing cost reduction efforts.

The adjustment to earn-out obligations were $0.8 million for the year ended December 31, 2013. The fair value of the Apex earn-out was calculated to be approximately CDN$1,076,000 (US$1,033,000 at the closing date). At September 30, 2013, the calculated 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 consolidated statement of operations and comprehensive loss as of December 31, 2013. The fair value of the Illume Mobile earn-out payment was calculated to be approximately $107,000 at the closing date. At September 30, 2013, the calculated earn-out payment due under the Illume purchase agreement was zero. The adjustment of $107,000 was recorded as a separate component of operating expenses in the consolidated statement of operations and comprehensive loss as of December 31, 2013.

	Year ended December 31,						
		2013		2012	Increase/(Decrease)		
Depreciation and amortization							
In cost of sales	$	0.8	$	0.5	$	0.3	59.9%
In operating expenses		1.2		1.0		0.2	11.4%
Total depreciation and amortization	$	2.0	$	1.6	$	0.4	27.3%
As a percentage of sales		3.3%		2.2%			

Finance and administration expenses saw an increase in amortization of intangible assets as a result of the Apex and Illume acquisitions in 2012. Amortization expense of intangible assets for the years ended December 2013 and 2012, totaled $1.9 million and $1.5 million, respectively.

Interest Expense

Interest expense, which is related to our line of credit, subordinated debt and our obligations with related parties, was $959,000 for the year ended December 31, 2013, compared to $998,000 for the same period ended December 31, 2012. The $39,000, or 3.9% decrease in interest expense was the result of decreased general debt obligations outstanding in 2013 compared to the prior year. In the second half of 2013, interest expense decreased by $173,000, or 26.6% over the comparable period in the prior year.

Other (Income) Expense

Other (income) expense for the years ended December 31, 2013 and 2012, totaled $(38,000) and $(116,000), respectively. During 2013, we recognized a $296,000 favorable adjustment to the fair value of our warrant liabilities.

Liquidity and Capital Resources

Going Concern Matters

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 do 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 profitable operations through increased sales, successfully implement cost cutting measures, avoid further unforeseen expenses, potentially raise additional equity or debt capital, and successfully refinance our current debt obligations when they come due in February of 2015. There can be no assurance that we will be able achieve sustainable profitable operations or obtain additional funds when needed or that such funds, if available, will be obtainable on terms satisfactory to us.

If we continue to incur operating losses and do not raise sufficient additional capital, 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) continued defaults under our various loan agreements. A covenant default would give the bank the right to demand immediate payment of all outstanding amounts which we would not be able to repay out of normal operations. 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 be required resulting 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, become profitable and access additional equity or debt capital. There can be no assurance that we will become profitable or that we can continue to raise the additional funds required 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.

In the quarter ended March 31, 2014, we experienced an increase in net sales of $2.9 million, or 21.3% compared to the quarter ended March 31, 2013, and a $2.1 million, or 14.2% increase in revenue compared to the previous sequential quarter ended December 31, 2013. Nevertheless, we had a substantial working capital deficit totaling $9.8 million at March 31, 2014. Although a portion of this deficit is associated with deferred costs and unearned revenues and with term debt that has been classified current due to expected future covenant violations (see Note 8, Term Debt of the Notes to the Unaudited Condensed Consolidated Financial Statements), 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.

For the year ended December 31, 2013, our revenue decreased approximately 15.1%, compared to the year ended December 31, 2012, due to the lower level of retail customers system refreshes and system implementations. Excluding the impact of Apex and Illume Earn-Out adjustment, we had a $0.1 million increase in selling, general and administrative expenses in 2013 compared to 2012, partly due to inclusion of the results from Apex and Illume Mobile along with increased selling expenses of bringing the APEXWare™ product to the U.S. market, professional expenses and investor relations expenses related to being a public company along with an increase in amortization expense of intangible assets, all resulted in higher operating loss for 2013.

In the year ended December 31, 2013, we experienced a decrease in revenue of $10.8 million compared to the year ended December 31, 2012. In 2013, we incurred approximately $2.5 million in increased expenses due to professional fees relating to capital raising activities, the registration of common shares as a result of the Series D Preferred Stock offering, Series E Preferred Stock offering, common stock private placement and associated audit fees, and other matters such as employee termination costs. We experienced a net loss of $5.2 million which were far in excess of the internal forecast maintained by the management team. In addition, we have a substantial working capital deficit totaling $(9.9) million at December 31, 2013. Although a portion of this deficit is associated with deferred costs and unearned revenues and term debt that has been classified current due to expected future covenant violations (see Note 10 – "Term Debt" in the accompanying Notes to the Consolidated Financial Statements), our liabilities that are expected to be satisfied in the foreseeable future in cash far exceed the operating assets that are expected to be satisfied in cash. As a result, the availability under our credit line has contracted significantly and our overall liquidity has become significantly constrained.

On August 15, 2013, we entered into a securities purchase agreement (the "August 2013 Purchase Agreement") with accredited investors for the sale of common stock for gross proceeds of $1,756,400 (including $100,000 from management and existing shareholders of the Company) for 2,927,333 shares of common stock. The effective price of the offering was $0.60 per share of common stock. An initial closing for $1,556,400 was held on August 15,

2013. The final closing for $200,000 was held on August 21, 2013. Additionally, pursuant to the August 2013 Purchase Agreement, the Company issued 1,463,667 warrants to accredited investors at an initial exercise price of $1.00 per share. Further, the Company issued 292,833 warrants to the placement agent at an initial exercise price of $0.60 per share. The warrants received liability accounting treatment under existing technical standards. We received net proceeds of approximately $1.5 million from the offering, after deducting the placement agent's fees of 10% and other offering expenses of approximately $256,000, of which $1.1 million was recorded as a warrant liability.

In November 2013, we entered into a securities purchase agreement ("Series E Purchase Agreement") with accredited investors for the sales of $4,090,000 in gross proceeds for 409,000 shares of Series E Convertible Preferred Stock ("Series E Preferred Shares") for a purchase price of $10.00 per share. The 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 Company received net proceeds of approximately $3.5 million from the closings, after deducting the placement agent's fees of 8% and other offering expenses of approximately $590,000 (before reduction of the fair value of placement agent warrants of $278,000). The Company issued to the placement agent five-year warrants to purchase 818,000 shares of our common stock (equal to 10% of the number of shares of common stock underlying the Series E Preferred Shares sold under the Series E Purchase Agreement) at an exercise price of $0.55 per share, in connection with the Series E Purchase Agreement initial closing.

To address liquidity constraints, we have reduced non-essential expenses. Such expense reductions include, but are not limited to, the consolidation of information technology environments, the consolidation of our East Coast depot facility in to our larger California 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 staffing levels by 29% from April 2013 through February 2014, constituting annual savings of approximately $3 million. These activities have reduced the expense structure of our business significantly. We are focused on continuing to improve processes and reduce costs. We have no plans to seek additional capital through the sale of our securities unless deemed necessary. Should additional financing be needed, there is no assurance that such amounts will be available on terms acceptable to us, or at all. If we raise additional funds by selling additional shares of our capital stock, or securities convertible into shares of our capital stock, the ownership interests of our existing common stockholders will be diluted.

During 2012, 2013 and the first quarter of 2014, 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 is due February 2015. As of March 31, 2014 and December 31, 2013, the outstanding balance on our SVB line of credit was approximately $3.7 and $3.9 million, respectively, and the interest rate was 7.0%. As of March 31, 2014, there was $2.8 million available under the SVB line of credit. The line of credit has a certain financial covenant and other non-financial covenants. The minimum Tangible Net Worth requirement of $8.7 million deficit is to be 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). As of March 31, 2014 and December 31, 2013, the Company was in compliance with the tangible Net Worth financial covenant and had available a $0.5 million and $0.8 million cushion over the requirement, respectively. The Company believes that at the time of this filing it is compliant with the terms and provisions of its SVB lending agreement. Should the Company continue to 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.

The Company has $0.9 million of term debt with the Royal Bank of Canada (the “RBC Term Loan”), $1.5 million of term debt with the BDC (the “BDC Term Loan”) and $0.6 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, 31, 2014. All three Term Loans have financial covenants. The Company was in compliance with the covenants of these Term Loans except for the RBC Term Loan, for which it was not in compliance at March 31, 2014 and December 31, 2013. Although the Company believes it is not likely that RBC will exercise their rights up to, and including, acceleration of the outstanding debt, there can be no assurance that RBC will not exercise their rights pursuant to the provisions of the debt obligation. Accordingly, the Company has classified the term debt obligation as current at March 31, 2014 and December 31, 2013.

On February 27, 2013, we obtained an additional $1.0 million term loan from SVB (see below under “2013 Financing”).

As part of the Apex Purchase Agreement, from the Closing Date up until the expiry of the bonus period, under that agreement we are obligated to escrow 25% of any Equity Capital raised in excess of $500,000. The funds in the escrow are to be used to pay the 2013 EBITDA Basic Earn-Out, the 2013 EBITDA Additional Earn-Out and the additional bonus consideration. In December 2012, the Company raised $7,042,000 as part of its Series D preferred stock offering. In August 2013, the Company raised $1,756,000 issuing common stock. In November 2013, the Company raised $4,090,000 as part of its Series E preferred stock offering. None of these funds have been placed into escrow pending agreement between the Company and the sellers of Apex regarding the financial institution that will escrow the funds, the amount of funds that are to be placed into escrow and the escrow agreement itself.

In the last five complete years of operations from 2009 through 2013, we have not experienced any significant effects of inflation on our product and service pricing, revenues or our income from continuing operations.

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, 2014 and December 31, 2013 are computed as follows (in thousands):

		March 31, 2014		December 31, 2013
Current assets	$	16,156	$	16,912
Current liabilities		25,973		26,788
Working capital - U.S. GAAP		(9,817)		(9,876)
Deferred costs		(3,984)		(3,809)
Deferred revenue		7,614		7,481
Adjusted working capital - Non-GAAP measure	$	(6,187)	$	(6,204)

As of December 31, 2013, we had cash of approximately $0.6 million. We have used, and plan to use, such cash for general corporate purposes, including working capital.

As of December 31, 2013, we had negative working capital of $9.9 million and total stockholders' deficit of ($0.9) million. As of December 31, 2012, we had negative working capital of $9.1 million and total stockholders' equity of $0.9 million. We experienced a net loss of $5.2 million for the year ended December 31, 2013. Although a portion of this working capital deficit is associated with deferred costs and unearned revenues and term debt that has been classified current due to expected future covenant violations (see further discussion at Note 10 – "Term Debt" in the accompanying Notes to the Consolidated Financial Statements), the liabilities of the Company that are expected to be satisfied in the foreseeable future in cash exceed the operating assets that are expected to be satisfied in cash.

Adjusted Working Capital at December 31, 2013 and 2012 are computed as follows (in thousands):

	December 31, 2013	December 31, 2012
Current assets	$ 16,912	$ 18,708
Current liabilities	26,788	27,801
Working capital – GAAP	(9,876)	(9,093)
Deferred cost	(3,809)	(3,955)
Deferred revenue	7,481	7,409
Adjusted working capital - non-GAAP measure	$ (6,204)	$ (5,639)

2014 Financing

We have not engaged in any securities issuances or other material capital raising in the first quarter of 2014.

2013 Financing

Silicon Valley Bank Financing

On February 27, 2013, we and Silicon Valley Bank ("SVB"), entered into an Amendment (the "Amendment") to Loan and Security Agreement, which amended the terms of the Loan and Security Agreement dated as of December 15, 2006 (as amended, the "Loan Agreement"). Pursuant to the Amendment, SVB made a new term loan to us on February 27, 2013, of $1,000,000 ("Term Loan II"). Repayment of Term Loan II, together with accrued interest thereon, is due in 36 monthly installments commencing on the first day of the month following the month in which the funding date of Term Loan II occurred.

Pursuant to the Amendment, the Loan Agreement was amended to provide that the revolving credit line thereunder will accrue interest at an annual rate equal to 3.75 percentage points above the Prime Rate, which may be further reduced to 3.25 percentage points above the Prime Rate after we achieve two consecutive fiscal quarters (beginning with any fiscal quarter ending on or after March 31, 2013) of profitability. In addition, the maturity date of the revolving credit line under the Loan Agreement was extended to February 28, 2015, the principal amount outstanding under the Term Loan under the Loan Agreement will accrue interest at a fixed annual rate equal to 9.0%, the principal amount outstanding under the Term Loan II will accrue interest at a fixed annual rate equal to 7.5%, and we agreed to pay an anniversary fee of $100,000 on February 28, 2014.

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 December 31, 2012, we were in compliance with all of its financial covenants with SVB. As of May 31, 2013 and June 30, 2013, we were not incompliance with the Tangible Net Worth covenant as defined in the Amended SVB Loan Agreement. On August 16, 2013, we signed an agreement ("Forbearance Agreement") where SVB agreed to temporarily forbear from exercising their rights and remedies under the facility until August 28, 2013 and agreed to waive the existing covenant violations if a gross capital raise of $1.5 million is completed by such date. We completed the capital raise and were able to achieve compliance with the forbearance agreement prior to August 28, 2013. Except for any capital raises through August 28, 2013, the minimum Tangible Net Worth requirement of a $(9.7) million deficit will 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). In November 2013, we entered into a definitive subscription agreement with accredited investors for the sale of Series E Preferred Stock, raising $4.1 million in gross proceeds (exclusive of $875,000 in costs). In November 2013, the SVB Loan Agreement was amended whereby the minimum Tangible Net Worth requirement of a $(9.7) million deficit was reduced by 25% of funds raised in the sale of Series E Preferred stock to a $(8.7) million deficit. As of December 31, 2013, we were in compliance with the Tangible Net Worth financial covenant and had available a $0.8 million cushion over the requirement. We currently believe that at the time of this filing we are compliant with the terms and provisions of our SVB lending agreement and expect to continue to meet the requirements of our SVB financial covenants over the short and long term. Should we continue to incur losses in a manner consistent with our recent historical financial performance, we will violate this covenant without additional net capital raises in amounts that are approximately twice the amount of the losses incurred.

Common Stock Private Placement

On August 15, 2013, we entered into a Securities Purchase Agreement (the “August 2013 Purchase Agreement”) with multiple accredited investors relating to the issuance and sale of common stock in a private offering. On August 15, 2013, the initial closing date (the “August 2013 Initial Closing”) of the August 2013 Purchase Agreement, we sold (i) an aggregate of 2,594,000 shares of our common stock for $0.60 per share and (ii) common stock purchase warrants (the “August 2013 Investor Warrants”) for the purchase of an aggregate of 1,297,000 shares for aggregate gross proceeds of $1,556,400. The August 2013 Investor Warrants have a five-year term, an initial exercise price of $1.00 and contain certain provisions for anti-dilution and price adjustments in the event of a future offering.

On August 21, 2013, the final closing date (the “August 2013 Final Closing”) of the August 2013 Purchase Agreement, we sold (i) an aggregate of 333,333 shares of our common stock for $0.60 per share and (ii) 166,667 August 2013 Investor Warrants for aggregate gross proceeds of $200,000.

For a period commencing on the August 2013 Initial Closing and terminating on a date which is 24 months from the August 2013 Initial Closing, in the event we issue or grant any shares of common stock or securities convertible, exchangeable or exercisable for shares of common stock pursuant to which shares of common stock may be acquired at a price less than $0.60 per share, then we shall promptly issue additional shares of common stock to the investors under the August 2013 Purchase Agreement in an amount sufficient that the subscription price paid, when divided by the total number of shares issued (shares purchased under the August 2013 Purchase Agreement plus the additional shares issued under this provision), will result in an actual price paid by the investor per share of common stock equal to such lower price.

On December 10, 2013, the Company issued 585,467 shares of its common stock as a result of the anti-dilution adjustment triggered by the sale of Series E Preferred Shares. The shares were valued at $263,000 and were recorded as deemed dividend as of December 31, 2013.

If we at any time while the August 2013 Investor Warrants are outstanding, shall sell or grant an option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue any common stock or securities convertible, exchangeable or exercisable for shares of common stock, at an effective price per share less than the exercise price of the Investor Warrants then in effect, the exercise price of the Investor Warrants will be reduced to equal to such lower price.

As a result of the sale of Series E Preferred Shares, the exercise price of the August 2013 Investor Warrants was reduced to $0.50 per share on November 12, 2013.

Pursuant to the August 2013 Purchase Agreement, we agreed to, within 30 days of August 21, 2013, file a registration statement (the “Common Stock Registration Statement”) with the Securities and Exchange Commission covering the re-sale of the common shares and the shares of common stock underlying the August 2013 Investor Warrants. We also agreed to use our best efforts to have the Common Stock Registration Statement become effective as soon as possible after filing (and in any event within 120 days of the filing of such Common Stock Registration Statement. If the Common Stock Registration Statement is not declared effective within the requisite period of time, a partial liquidated damage equal to 2% of the purchase price paid by each investor shall be payable on each monthly anniversary until it becomes effective. In no event shall the partial liquidated damage exceed 10% of the purchase price paid by each investor. On October 4, 2013, the Common Stock Registration Statement was declared effective by the SEC.

We paid the placement agent $175,600 in commissions (equal to 10% of the gross proceeds), and issued to the placement agent five-year warrants (the “August 2013 Placement Agent Warrants”) to purchase 292,733 shares of our common stock (equal to 10% of the number of shares of common stock sold under the August 2013 Purchase Agreement). The August 2013 Placement Agent Warrants have a five-year term, an initial exercise price of $0.60 and contain provisions for anti-dilution and price adjustments in the event of a future offering.

If we at any time while the August 2013 Placement Agent Warrants are outstanding, shall sell or grant an option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue any common stock or securities convertible, exchangeable or exercisable for shares of common stock, at an effective price per share less than the exercise price of the August 2013 Placement Agent Warrants, the exercise price of the August 2013 Placement Agent Warrants then in effect will be reduced to equal to such lower price. As a result of the sale of Series E Preferred Shares described below, the conversion price of the August 2013 Placement Agent Warrants was reduced to $0.50 per share on November 12, 2013.

We recorded the August 2013 Investor Warrants and August 2013 Placement Agent Warrants as a liability (see further disclosure at Note 4 – " Warrant Liability " in the accompanying Notes to the Consolidated Financial Statements)). Accordingly, the net proceeds raised ($1.7 million in gross offering proceeds, net of $0.2 million in cost) were allocated to the fair value of the warrant liability of $1.1 million and the remainder was recorded as equity ($0.4 million).

As a result of the August 2013 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 Series E Purchase Agreement 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 dividend of $1.3 million.

Preferred Series E Private Placement

On November 12, 2013, we entered into and closed a securities purchase agreement (the "Series E Purchase Agreement") with accredited investors (the "Investors"), pursuant to which the Company sold an aggregate of 383,500 shares of Series E Preferred Stock (the "Series E Preferred Shares") for a purchase price of $10.00 per share, for aggregate gross proceeds of $3,835,000 (the "Series E First Closing").

We retained Taglich Brothers, Inc. (the "Series E Placement Agent") as the placement agent for the Series E First Closing. We paid the Series E Placement Agent $306,800 in commissions (equal to 8% of the gross proceeds), and issued to the Series E Placement Agent five-year warrants (the "Series E Placement Agent Warrants") to purchase 767,000 shares of common stock (equal to 10% of the number of shares of common stock underlying the Series E Preferred Shares sold under the Series E Purchase Agreement) at an exercise price of $0.55 per share, in connection with the Series E First Closing. In addition, we will pay Sigma Capital Advisors $115,050 (equal to 3% of the gross proceeds from the Series E First Closing) as a finder's fee.

On November 22, 2013, we sold an additional 25,500 shares of Series E Preferred Stock to accredited investors for a purchase price of $10.00 per share, for aggregate gross proceeds of $255,000 (the "Series E Second Closing", and together with the Series E First Closing, the "Series E Closings") pursuant to the Series E Purchase Agreement for an aggregate of 409,000 shares of Series E Preferred Stock sold. The Series E Placement Agent acted as the placement agent for the Series E Second Closing as well. We paid the Series E Placement Agent $20,400 in commissions (equal to 8% of the gross proceeds), and issued to the Series E Placement Agent and its designees Placement Agent Warrants to purchase 51,000 shares of common stock (equal to 10% of the number of shares of common stock underlying the Series E Preferred Shares sold under the Series E Purchase Agreement) at an exercise price of $0.55 per share, in connection with the Series E Second Closing. In addition, the Company will pay Sigma Capital Advisors $7,650 (equal to 3% of the gross proceeds from the Series E Second Closing) as a finder's fee.

Our proceeds from the Series E Closings, before deducting placement agent fees, finder's fees and other expenses, were approximately $4.1 million. Approximately $0.6 million was used to pay fees and expenses of this offering, and $3.5 million are funds available for general corporate purposes.

Pursuant to the Series E Purchase Agreement, we agreed to, within 60 days of the final closing under the Purchase Agreement, (a) file a registration statement (the "Series E Registration Statement") with the SEC covering the re-sale of the Series E Preferred Shares, the shares of common stock underlying the Series E Preferred Shares, the shares of Series E Preferred Stock issuable as dividends on the Series E Preferred Shares ("Series E PIK Shares"), the shares of common stock underlying the Series E PIK Shares, and the shares of common stock underlying the Series E Placement Agent Warrants, (b) file a registration statement under the Securities Exchange Act of 1934, as amended, with the SEC registering the class of Series E Preferred Stock, and (c) use our best efforts, including seeking and cooperating with one or more market makers, to cause the quotation of the Series E Preferred Stock on the OTC Bulletin Board and the OTCQB tier of the OTC Markets Group. We also agreed to use our best efforts to have the Series E Registration Statement become effective as soon as possible after filing (and in any event within 90 days of the filing of such Series E Registration Statement), and to keep such Series E Registration Statement effective for a minimum of three years. The initial registration statement was filed on January 10, 2014. If the registration statement is not declared effective by January 21, 2014, a partial liquidated damage equal to 0.1% of the purchase price paid by each investor shall be payable on each monthly anniversary until the registration statement becomes effective. In no event shall the partial liquidated damage exceed 0.6% of the purchase price paid by each investor. On January 22, 2014, the registration statement was declared effective by the U.S. Securities and Exchange Commission.

In connection with the Series E First Closing, on November 12, 2013, we 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 shares of Series E Preferred Stock, 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.

Pursuant to the Series E Certificate of Designation, 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.

Pursuant to the Series E Certificate of Designation, 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, we, in our sole discretion, may 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.

In connection with the Series E First Closing, 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 D and E Preferred Stock with respect to any distributions upon any liquidation, dissolution or winding-up of our Company, respectively.

In connection with the Series E First Closing, on November 12, 2013, we 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 our preferred stock that had been designated as Series C Preferred Stock were returned to the status of blank check preferred stock.

2012 Financing and Preferred Series D Private Placement

Royal Bank of Canada and BDC Capital, Inc. Financing

On June 4, 2012, Apex entered into a Credit Agreement ("RBC Credit Agreement") with Royal Bank of Canada ("RBC"), pursuant to which RBC made available certain credit facilities in the aggregate amount of up to CDN$2,750,000 (US$2,641,000 at the Closing Date), including a revolving demand facility with an authorized limit of CDN$200,000 (US$192,000 at the Closing Date). The RBC Term Loan accrues interest at RBP plus 4% (7% at December 31, 2013). Principal and interest is payable over a three year period at a fixed principal amount of CDN $69,444 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 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. As of December 31, 2013, the Company estimates that the mandatory repayment based on 20% of Apex's free cash flow will be $0.

The RBC Term Loan has certain financial covenants and other non-financial covenants. As of June 30, 2013 and December 31, 2012, Apex was not in compliance with the Fixed Charge Coverage ratio covenant as defined in the RBC Credit Agreement. At June 30, 2013, Apex was not in compliance with the Maximum Funded Debt to EBITDA ratio covenant as defined in the RBC Credit Agreement. In March 2013, May 2013 and August 2013, we received waivers for noncompliance of these covenants at December 31, 2012, March 31, 2013 and June 30, 2013. 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 ending December 31, 2013, we are 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. As part of the revised financial covenants, covenant testing was waived by RBC for September 30, 2013. We are not in compliance with the reset covenants at March 31, 2014 or December 31, 2013. Although we believe it is improbable RBC will exercise their rights up to, and including, acceleration of the outstanding debt, there can be no assurance that RBC will not exercise their rights pursuant to the provisions of the debt obligation. Accordingly, we have classified the term debt obligation as current at December 31, 2013.

On June 4, 2012, Apex also entered into the BDC Loan Agreement with BDC Capital Inc. (“BDC”), a wholly-owned subsidiary of Business Development Bank of Canada, pursuant to which BDC made available to Apex a term credit facility (“BDC Credit Facility”) in the aggregate amount of CDN \$1,700,000 (USD \$1,632,340 at the Closing Date). The BDC Term Loan initially accrued interest at the rate of 12% 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. On April 29, 2013, the BDC Term Loan was amended to accrue interest at the rate of 12.5% per annum. 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 December 31, 2013, we estimate the cash sweep will be \$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 as of December 31, 2012, and is being amortized to interest expense over the term of the loan. As of December 31, 2013, there was \$22,000 in unamortized deferred financing costs and \$22,000 in unamortized note discount.

The BDC Loan Agreement contains certain financial and non-financial covenants which may materially impact our liquidity, including minimum working capital requirements, tangible net worth requirements and limitations on additional indebtedness. Under the BDC Loan Agreement, violation of this covenant is an Event of Default which grants BDC the right to demand immediate payment of outstanding balances. In March 2013, May 2013 and August 2013, we received waivers for non-compliance of these covenants at December 31, 2012, March 31, 2013 and June 30, 2013. 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. We were in compliance with all of our BDC financial covenants as of March 31, 2014 and December 31, 2013. Currently, we expect to continue to meet the requirements of our BDC financial covenants over the short and long term.

In connection with the BDC Loan Agreement, BDC executed a subordination agreement in favor of Silicon Valley Bank, pursuant to which BDC agreed to subordinate any security interest in assets of the Company granted in connection with the BDC Loan Agreement to Silicon Valley Bank's existing security interest in assets of the Company. The subordination agreement contains cross-default provisions which may materially impact our liquidity.

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. The Company does not have alternative sources of financing.

Preferred Series D Private Placement

On December 20, 2012, we entered into and closed a securities purchase agreement (the "Series D Purchase Agreement") with accredited investors (the "Series D Investors"), pursuant to which we sold an aggregate of 633,600 shares of Series D Convertible Preferred Stock (the "Series D Preferred Shares") for a purchase price of $10.00 per share, for aggregate gross proceeds of $6,336,000 (the "Series D First Closing").

We retained Taglich Brothers, Inc. (the "Series D Placement Agent") as the placement agent for the Series D First Closing. We paid the Series D Placement Agent $506,880 in commissions (equal to 8% of the gross proceeds), and issued to the Placement Agent five-year warrants (the "Placement Agent Warrants") to purchase 633,600 shares of our common stock (equal to 10% of the number of shares of common stock underlying the Series D Preferred Shares sold under the Purchase Agreement) at an initial exercise price of $1.10 per share, in connection with the Series D First Closing. The Investors included certain of our officers, directors and employees, who purchased an aggregate of 20,700 Series D Preferred Shares. We used $4.7 million of the proceeds from the Series D Closing to redeem all of our outstanding shares of Series C Preferred Stock.

On December 31, 2012, we sold an additional 70,600 shares of Series D Preferred Stock for a purchase price of $10.00 per share, for aggregate gross proceeds of $706,000 (the "Series D Second Closing", and together with the Series D First Closing, the "Series D Closings") pursuant to the Series D Purchase Agreement for an aggregate of 704,200 shares of Series D Preferred Stock sold. The Series D Placement Agent acted as the placement agent for the Series D Second Closing as well. We paid the Series D Placement Agent $56,480 in commissions (equal to 8% of the gross proceeds), and issued to the Series D Placement Agent Placement Agent Warrants to purchase 70,600 shares of common stock (equal to 10% of the number of shares of common stock underlying the Series D Preferred Shares sold under the Series D Purchase Agreement) at an exercise price of $1.10 per share, in connection with the Series D Second Closing for an aggregate of 704,200 such Series D Placement Agent Warrants. The Series D Investors included one of our officers who purchased an aggregate of 2,500 Series D Preferred Shares.

Our proceeds from the Series D Closings, before deducting placement agent fees and other expenses, were approximately $7.0 million. We used $4.7 million for redemption of all of our outstanding shares of Series C Preferred Stock. Approximately $1.0 million was used to pay fees and expenses of the offering, and $1.3 million are funds are available for general corporate purposes. Pursuant to the Stock Purchase Agreement, we are required to place 25% of net offering proceeds, as defined, in an escrow account to satisfy our payment obligations of certain earn-out provisions. These funds have not been placed into escrow pending agreement between the Company and the sellers under the stock purchase agreement regarding the financial institution that will escrow the funds, the amount of funds that are to be placed in escrow and the escrow agreement itself.

In connection with the Series D First Closing, on December 20, 2012, we filed a Certificate of Designation of Series D Preferred Stock (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 further 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 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.

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, we may, in our 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).

The Series D Preferred Stock holders also were granted registration rights which required the Company to file a registration statement with the SEC within 60 days of the final closing date (December 31, 2012), and to have the registration statement declared effective within 90 days thereafter. The initial registration statement was filed on February 12, 2013. Failure of the registration statement to be declared effective by May 12, 2013, resulted in a partial liquidated damage equal to 0.1% of the purchase price paid by each investor to become payable on each monthly anniversary until the registration statement was declared effective. On July 30, 2013, the registration statement was declared effective by the U.S. Securities and Exchange Commission. On October 15, 2013, the Company paid liquidated damages of $18,000.

Cash Flows from Operating, Investing and Financing Activities

The following table summarizes our cash flows, by category, for the three months ended March 31, 2014 and 2013 (in millions):

	Three Months Ended March 31,		
	2014	2013	Increase/(Decrease)

Operating activities	$ 0.6	$ (0.8)	$ 1.4	175.0%
Investing activities	-	-	-	N/A
Financing activities	(0.6)	0.1	(0.7)	(700.0%)

Cash provided by operating activities during the first three months of 2014 increased by $1.4 million over the similar period in the prior year. The increase was primarily driven by a decrease in our net loss. Additionally, changes in net working capital and other balance sheet changes contributed to a $0.5 million decrease in cash provided by operating activities, most notably from a $0.8 million decrease in accounts receivable due to timing of receivable collections and a $0.9 million decrease in accrued expenses offset by an increase in accounts payable of $0.6 million and inventory of $0.7 million. The changes in net working capital were offset by non-cash expenses as noted below.

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.

During the three months ended March 31, 2013, net cash used in operating activities was $0.8 million. Our net loss was $2.1 million in the first three months of 2013, a portion of which was the result of non-cash transactions during the period. Specifically, we had a $0.6 million non-cash expense related to employee and non-employee stock based compensation and $1.5 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, 2014 and during the comparable three months of 2013.

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 under our for term loans and a net $0.2 million in payments and amounts borrowed under our lines of credit.

During the three months ended March 31, 2013, net cash provided by financing activities was $0.1 million, principally due to $1.0 million in proceeds from one of our term loans, net of $0.5 million in repayments under our term loans and a net $0.4 million in repayments and amounts borrowed under our lines of credit.

Our cash on hand at the end of the first quarter of 2014 was approximately $0.6 million, compared to $0.3 million at the end of the first quarter of 2013.

Information about our cash flows, by category, is presented in the accompanying Consolidated Statements of Cash Flows. The following table summarizes our cash flows for the years ended December 31, 2013 and 2012 (in millions):

	Year ended December 31,			
	2013	2012	Increase/(Decrease)	
Operating activities	$ (4.2)	$ 1.7	$ (5.9)	-347.1%
Investing activities	(0.0)	(5.1)	(5.1)	-99.9%
Financing activities	3.8	4.1	(0.3)	-7.3%

Cash used in operating activities for 2013 increased by $5.9 million over the prior year. The decrease in cash from operations was primarily driven by the increase in net loss for the year ended December 31, 2013 of $1.4 million. Additionally, the changes in net working capital and other balance sheet changes contributed to a $4.6 million decrease in cash used in operating activities, most notably from $2.2 million decrease in accounts payable due to timing of payables.

For the year ended December 31, 2012, net cash provided by operating activities was $1.7 million. Our net loss was $3.9 million in 2012, a portion of which was the result of non-cash transactions during the year. Specifically, we had a $0.3 million non-cash expense related to employee and non-employee stock based compensation and $1.3 million of other non-cash transactions such as depreciation and amortization. Additionally, our cash position was positively affected by the net change in our unearned revenue of $0.1 million associated with increased deferred revenues and associated costs.

Net cash used in investing activities was $45,000 for the year ended December 31, 2013 and was related to purchases of property and equipment.

Net cash used in investing activities was $5.1 million for the year ended December 31, 2012, and was primarily related to the combined cash payment for the acquisition of Apex Systems Integrators, Inc. and Illume Mobile in June and July 2012, respectively, of $5.0 million along with $0.1 million for purchases or property and equipment.

During the year ended December 31, 2013, net cash provided by financing activities was $3.8 million, primarily due to $3.5 million related to the issuance of Series E Preferred (net of expenses), $1.5 million related to the issuance of common stock (net of expenses), $1 million in proceeds from the bank term loan, offset by payments on the lines of credit and term debt of $1.6 million and payments of $0.4 million for the Series D Preferred Stock dividend.

During the year ended December 31, 2012, net cash provided by financing activities was $4.1 million, primarily due to $4.0 million due to the issuance of term loans, $6.0 million related to the issuance of Series D Preferred (net of expenses), and $1.5 million in cash received in our reverse recapitalization (net of expenses). Cash used in financing activities was a result of $4.5 million in Series C Preferred Stock retirement, $0.6 million of net repayments on the line of credit, $1.4 million of senior long-term debt repayment, $0.6 million for the Series C Preferred Stock dividends and $0.3 million in financing costs.

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 that 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 exits; (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.

We also generate 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. We record sales net of sales tax.

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 our results of operations. When we enter into an arrangement that includes multiple elements, we allocate revenue base on their relative selling prices. We use the following 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, which is demonstrated in a gross margin model used.

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.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of March 31, 2014 or December 31, 2013.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09 Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standard Codification

(“ASC”) 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. For public entities, the effective date will be for reporting periods beginning after December 15, 2016, including interim periods, using one of two retrospective application methods. The Company is currently evaluating the impact of the adoption of this accounting standard update on its financial statements.

BUSINESS

History

DecisionPoint Systems, Inc., formerly known as Comamtech, Inc. (the "Company", "DecisionPoint", "we", "our" or "us"), wa incorporated on August 16, 2010, in Canada under the laws of the Ontario Business Corporations Act ("OCBA"). On June 15, 2011, we entered into a Plan of Merger (the "Merger Agreement") among the Company, its wholly owned subsidiary, 2259736 Ontario Inc., incorporated under the laws of the Province of Ontario, Canada (the "Purchaser") and DecisionPoint Systems, Inc., ("Old DecisionPoint"). Pursuant to the Merger Agreement, under Section 182 of the OCBA, on June 15, 2011 (the "Effective Date") Old DecisionPoint merged (the "Merger") into the Purchaser and became a wholly owned subsidiary of the Company. Prior to the Merger, Comamtech was a "shell company" (as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). In connection with the Merger, the Company changed its name to DecisionPoint Systems, Inc., and the Purchaser changed its name to DecisionPoint Systems International, Inc. ("DecisionPoint Systems International"). On June 15, 2011, both companies were reincorporated in the State of Delaware.

DecisionPoint has two wholly owned subsidiaries, DecisionPoint Systems International and Apex Systems Integrators Inc. DecisionPoint Systems International has two wholly owned subsidiaries, DecisionPoint Systems Group Inc. ("DPS Group") and CMAC, Inc. ("CMAC"). DecisionPoint Systems International acquired CMAC on December 31, 2010. CMAC was founded and incorporated in March 1996, and is a logistics consulting and systems integration provider focused on delivering operational and technical supply chain solutions, headquartered in Alpharetta, Georgia.

DPS Group has two wholly owned subsidiaries, DecisionPoint Systems CA, Inc. and DecisionPoint Systems CT, Inc. DecisionPoint Systems CA, Inc., formerly known as Creative Concepts Software, Inc. ("CCS") was founded in 1995 and is a provider of Enterprise Mobility Solutions. Enterprise Mobility Solutions are those computer systems that give an enterprise the ability to connect to people, control assets, and transact business from any location by using mobile computers, tablet computers, and smartphones to securely connect the mobile worker to the back office software systems that run the enterprise. Technologies that support Enterprise Mobility Solutions include national wireless carrier networks, Wi-Fi, local area networks, mobile computers, smartphones and tablets, mobile software applications, middleware and device security and management software. DecisionPoint Systems CT, Inc. formerly known as Sentinel Business Systems, Inc. ("SBS") was founded in 1976 and has developed over time a family of powerful enterprise data collection software solutions, products and services. The combined company is a data collection systems integrator that sells and installs mobile devices, software, and related bar coding equipment, radio frequency identification ("RFID") systems technology and provides custom solutions and other professional services.

Following the Merger, the business conducted by us is now the business conducted by Old DecisionPoint prior to the Merger.

Overview

DecisionPoint enables our clients to "move decisions closer to the customer" by "empowering the mobile worker". We define the mobile worker as those individuals that 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 or 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 and report information 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.

Mobile computing capabilities and usage continue to grow. With choice comes complexity so helping our customers navigate the myriad of options is what we 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 address the needs of mobile applications in the retail, transportation, field workforce sales/service and the warehousing 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 dramatically 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 ideally 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. We also continue to invest in our “MobileCare EMM” enterprise mobility management offering. In 2013 we consolidated our east coast depot facility into our larger CA location in order to provide our east coast customers with later service hours and to gain some economies from scale. We are also continuing to extend or MDMoffering from our historically ruggedized mobile computer customer base to address the growth of consumer devices in the enterprise and support the Bring Your Own Device (BYOD) and Bring Your Own Application (BYOA) movement.

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

We are focused on several commercial enterprise markets. These include retail, field sales/service, warehousing, distribution and transportation. With the continued growth of the mobile internet, we expect to see our current markets grow in addition to the emergence of new markets. We expect our customers to continue to embrace and deploy new technology to better enhance their own customers’ experiences and improve their own operations while lowering their operating costs. Our expertise and understanding of our customers’ operations and business operations in general, coupled with our expertise and understanding of mobile technology equipment and software offerings enables us to identify new trends and opportunities and provide these new solutions to our existing and potential customers.

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 to improve the hundreds of individual business decisions made each day. Historically, critical information has remained locked away in the organization’s enterprise computing systems, accessible only when employees were at their desk. Our solutions 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.

We have several offices throughout North America which allows us to serve our multi-location clients and their mobile workforces. Additionally, we are always keenly aware of potential acquisition candidates that can provide complementary products and service offerings to our customer base.

Marketplace

Industry

The Enterprise Mobile Computing industry continues to grow on many fronts. The industry’s early growth was fueled through the standardization of several key technologies such as the Windows Mobile operating system, 802.11 a/b/g “Wi-Fi” wireless local area networks, and robust nationwide wireless carrier data networks such as Sprint, T-Mobile and Verizon. The more recent advances in “consumer” class smartphones and tablets have enabled new applications and expanded the market’s reach to field worker applications that previously could not justify the cost of traditional rugged mobile computers.

Following from 2012, we continue to see an increase in the deployment of “consumer” smartphones and tablet computers in order to support a broadening set of mobile user needs. While a few of these deployments have been in response to reducing the deployment costs of traditional ruggedized mobile devices, the majority represent new deployments in markets which were previously under-serviced and thus represent new market opportunities.

The industry is comprised of companies that bring specific value to one or more elements of the overall customer solution. These specialized companies can be grouped into the following categories:

- Hardware manufacturers such as Apple Computer, Samsung, Motorola Solutions, Intermec Corporation and Zebra Technologies each provide specialized mobile computers and peripherals.

· Wireless Carriers such as Sprint, T-Mobile and Verizon provide robust data and voice networks.

· Specialized application providers (ISVs) that focus on providing mobile applications to meet specific industry and business requirements. Our APEXWare™ solution set is one such example.

· Systems integrators such as DecisionPoint that work directly with the end user to define the business requirement and then design and develop the final solution using our existing intellectual property or components from other providers.

Determining which enterprise mobile solution we deliver to our customers depends on several key factors including the customer's industry, size and business objectives. Successful solution selection requires that providers possess industry domain expertise, business application expertise and mobile computing and wireless networking technical acumen. DecisionPoint possesses this knowledge and skillset in our target markets.

In addition to offering hardware and specialized mobile applications, we also provide a complete line of consulting, deployment and integration services, including site surveys, equipment configuration and staging, system installation, depot services, software support, training programs and project management.

Current Market Environment

Over the last several years, we have been repositioning ourselves to move up the solution value chain by focusing on higher margin software and consulting services along with customer-driven mobile wireless solutions rather than providing simply hardware and customized software as a reseller. This is the key to increasing our profitability and is also a major point of differentiation. The acquisitions of CMAC, Apex and Illume Mobile are instrumental in this repositioning. Small resellers and large catalog resellers simply do not want to, or cannot, provide the hands-on services and mobile application needs to make these systems successful. Our major ecosystem partners recognize this and have come to depend more on us to deliver the business value that their products enable.

The result is that our partners are referring more end-user demand to DecisionPoint than ever before because they require our deep domain knowledge in our chosen markets, our mobile application solutions, consulting services and our deployment and support capabilities. Today, a majority of Motorola, Intermec and Zebra Technologies' product sales are through the sales channel in which we participate.

We benefit from other advantages by participating in this sales channel. The industry leaders have established program rewards, such as a favorable pricing structure and promotional incentives for their top-tier partners such as DecisionPoint. As a result, we invest in training for our personnel, which differentiate us from other potential competitors whose personnel may not have the same training or experience as ours. Within our enterprise markets, we believe there continues to be long-term opportunity for growth as the global workforce continues to become more mobile and the industries and markets that purchase our products and services continue to expand. The markets in which we compete include mobile computing products and services, enterprise wireless services, bar code scanning and mobile network management platforms. Organizations looking to increase productivity and derive benefits from empowering their mobile workforce are driving adoption of our solutions.

Our strategy in our target markets is to enable our customers to focus on their missions, not the technology. This is accomplished by providing mission-critical systems, seamless connectivity through highly reliable voice and data networks and a suite of advanced and/or custom applications that provide real-time information to mobile workers.

DecisionPoint Target Markets

The markets for enterprise wireless and mobile computing are very fragmented and extremely complex. But generally they can be characterized by the following attributes:

1. Vertical market industries which require specific domain expertise.

2. Industries which track goods or deliver a service in the field (or both).

3. Industries which have a significant group of mobile workers, whether they operate primarily in one place or in the field.

In the commercial enterprise market, we seek to deliver products and services that are designed to empower the mobile workforce to increase productivity, expand sales, drive cost effectiveness and promote faster execution of critical business processes.

Vertical Markets

The attractiveness of any vertical market depends directly on the size and nature of the problems which that market faces that can be addressed by enterprise wireless and mobile computing. Historically, retail, warehousing, and manufacturing were the largest industries. Each typically had large amounts of goods in constant motion which needed to be tracked. In addition, each had a workforce which primarily operated in one place (i.e. a retail store, a distribution center or a factory).

Although these markets are still attractive for us and comprise a sizeable portion of our business, we believe new markets are emerging which hold as great or even greater promise than our historical markets.

Transportation, logistics and field services such as repair and maintenance, delivery and inspections are now emerging as new markets. This is primarily due to the arrival of robust, national wireless carrier networks that can reach field-based mobile workers almost anywhere they are. The general term for this new group of markets is referred to as "Field Mobility". Although it cuts across multiple industries and business applications, it has one common characteristic: goods are tracked or services are being performed by field-based workforces, not workers operating in a single location under one roof.

Our Field Mobility Practice

We established our Field Mobility practice in 2008 with the express purpose of replicating our historical success with a new set of customers together with a new ecosystem of partners including Sprint, T-Mobile and Verizon. These partners provide referrals of end users interested in field mobility solutions. We, in turn, provide solutions which require cellular data networks. We have experienced year over year growth in this segment and believe this trend will continue due to the adoption of smartphones, tablet computers and the continued cost reductions and increased access of cellular data networks. The carriers not only bring potential new opportunities but also have attractive programs which allow us to earn additional revenue when we facilitate service of mobile computers and devices on their networks. We currently have active projects with Sprint, T-Mobile and Verizon clients.

Our acquisitions of APEX and Illume Mobile further demonstrate our belief in this market. The APEXWare™ product suite is ideally suited for empowering field based sales and service workers whereas ContentSentral provides a unique content delivery capability that enables a new class of mobile information empowerment to field workers that need real-time access to corporate content.

Products and Services

Mobile Applications

We deploy mobile applications to address a wide variety of business processes, depending on the industry. Below is a brief overview of some of those applications by industry:

- Retail Store: Stock locator, shelf price audit, markdowns, inventory control, physical inventory, merchandising, customer service and mobile point-of-sale (“MPOS”).

- Warehousing and Distribution: Order shipping, order picking and packing, stock move and replenishments, product receipt and put-away, labeling, physical inventory and cycle counts.

- Transportation and Logistics: Proof-of-delivery, commercial turn-by-turn directions, route optimization, cross-docking, returns and Department of Transportation driver hours of service and route logging.

- Field Mobility: Field service and repair, merchandising, field sales, work order management, asset management, inspection, preventative maintenance, surveys, rounds and readings.

Software

Unlike the market for standardized business software such as email or accounting, the market for enterprise mobile software is more specialized. One size does not fit all. Enterprise mobile software systems must support industry-specific and customer-specific business processes. For this reason, we utilize several avenues to provide mobile software solutions to meet our customers’ unique requirements.

DecisionPoint owned and delivered solutions:

- APEXWare™ Field Service (FS) enables customers to capture lost revenue, provide proof of service delivery, reduce inventory shrinkage, and reduce back office administration. A field deployment of wireless handheld devices with integrated bar code scanners enables the business to run completely paperless. APEXWare™ FS is also offered as a hosted subscription service, thus eliminating the need for costly IT infrastructure (on-site server, IT resources).

0 $4,339,216

Benefits and Perquisites:(9)

Senior Plan(10)

$939,908 See footnote (11) $939,908 0 $1,093,775

Supplemental Plan(10)

$10,566,727 See footnote (11) $10,566,727 $10,566,727 $12,296,537

Qualified Plan(10)

$1,413,429 See footnote (11) $1,413,429 $1,413,429 $1,413,429

Supplemental CEOP

$1,291,143 $1,291,143 $1,426,143 $1,291,143 $1,696,143

Life Insurance Premiums

0 $48,999 $146,997

Outplacement Services

0 $25,000 $25,000

Tax Gross-Up

0 $4,381,525

TOTAL:

$17,535,251 N/A $19,544,250 $13,271,299 $33,730,002

John E. Fischer (1)

Quit / Early Retirement (2)

Normal Retirement

Termination by Olin Without Cause (3)

Termination by Olin For Cause (4)

Change in Control (5)

Compensation:

Severance(6)

$ $ $730,008 0 $2,190,024

Equity Awards(7)

$204,704 $204,704 $204,704 0 $103,163

Acceleration of Unvested Equity Awards(8)

0 $1,681,638

Benefits and Perquisites:(9)

Senior Plan(10)

$391,996 See footnote (11) $391,996 0 $453,805

Supplemental Plan(10)

$1,642,447 See footnote (11) $1,642,447 $1,642,447 $1,901,424

Qualified Plan(10)

$780,763 See footnote (11) $780,763 $780,763 $780,763

Supplemental CEOP

$287,838 $287,838 $342,589 $287,838 $452,090

Life Insurance Premiums

0 0 $15,773 0 $47,319

Outplacement Services

0 0 $25,000 0 $25,000

Tax Gross-Up

0 0 0 0 $1,411,589

TOTAL:

$3,307,748 N/A $4,133,280 $2,711,048 $9,046,815

George H. Pain (1)

Quit / Early Retirement (2)

Normal Retirement

Termination by Olin Without Cause (3)

Termination by Olin For Cause (4)

Change in Control (5)

Compensation:

Severance(6)

$ $ $644,008 0 $1,932,024

Equity Awards(7)

$155,579 $155,579 $155,579 0 $78,600

Acceleration of Unvested Equity Awards(8)

0 $1,396,182

Benefits and Perquisites:(9)

Senior Plan(10)

$819,569 See footnote (11) $819,569 0 $955,627

Supplemental Plan(10)

$1,594,662 See footnote (11) $1,594,662 $1,594,662 $1,859,394

Qualified Plan(10)

$807,479 See footnote (11) $807,479 $807,479 $807,479

Supplemental CEOP

$565,630 $565,630 $613,931 $565,630 $710,532

Life Insurance Premiums

0 0 $15,778 0 $47,334

Outplacement Services

0 0 $25,000 0 $25,000

Tax Gross-Up

0 0 0 0 $0

TOTAL:

$3,942,919	**N/A**	**$4,676,006**	**$2,967,771**	**$7,812,172**

John L. McIntosh (1)	Quit / Early Retirement (2)	Normal Retirement	Termination by Olin Without Cause (3)	Termination by Olin For Cause (4)	Change in Control (5)
Compensation:					
Severance(6)	$	$	$ 618,000	0	$ 1,854,000
Equity Awards(7)	$ 427,643	$ 427,643	$ 427,643	0	$ 360,538
Acceleration of Unvested Equity Awards(8)				0	$ 1,042,853
Benefits and Perquisites:(9)					
Senior Plan(10)	$ 1,288,069	See footnote (11)	$ 1,288,069	0	$ 1,451,374
Supplemental Plan(10)	$ 2,335,258	See footnote (11)	$ 2,335,258	$ 2,335,258	$ 2,629,076
Qualified Plan(10)	$ 1,071,818	See footnote (11)	$ 1,071,818	$ 1,071,818	$ 1,071,818
Supplemental CEOP	$ 255,486	$ 255,486	$ 301,836	$ 255,486	$ 394,536
Life Insurance Premiums	0	0	$ 12,213	0	$ 36,639
Outplacement Services	0	0	$ 25,000	0	$ 25,000
Tax Gross-Up	0	0	0	0	$ 1,179,843
TOTAL:	**$ 5,378,274**	**N/A**	**$ 6,079,837**	**$ 3,662,562**	**$ 10,045,677**

Frank W. Chirumbole (1)	Quit / Early Retirement (2)	Normal Retirement	Termination by Olin Without Cause (3)	Termination by Olin For Cause (4)	Change in Control (5)
Compensation:					
Severance(6)	$	$	$ 152,377	0	$ 492,000
Equity Awards(7)	$ 144,693	$ 144,693	$ 144,693	0	$ 123,422
Acceleration of Unvested Equity Awards(8)				0	$ 375,476
Benefits and Perquisites:(9)					
Medical Benefits(9)	$ 0	$ 0	$ 0	0	$ 12,982
Supplemental Plan(10)	$ 118,597	See footnote (11)	$ 194,228	$ 118,597	$ 169,583
Qualified Plan(10)	$ 134,294	See footnote (11)	$ 150,187	$ 134,294	$ 194,228
Supplemental CEOP	$ 56,795	$ 56,795	$ 56,795	$ 56,795	$ 56,795
Life Insurance Premiums		0	$ 9,729	0	$ 9,729
Outplacement Services		0	$ 25,000	0	$ 25,000
Tax Gross-Up		0	0	0	$ 0
TOTAL:	**$ 454,379**	**N/A**	**$ 733,009**	**$ 309,686**	**$ 1,459,215**

1. Amounts in the tables assume an annual base salary at the level in effect on December 31, 2011.
2. All NEOs, other than Mr. Chirumbole, are eligible for early retirement, so amounts in this column reflect amounts they would receive upon early retirement. Mr. Chirumbole has not yet satisfied the age requirement for early retirement; therefore, the amount reported for him in this column is the present value of the benefits, assuming the benefits begin at age 65.
3. An executive whose employment terminates in connection with a sale of a business unit generally receives the benefits in this column, except that the executive s stock options may be exercised for two years beyond the date of termination (rather than one year), unless the employee is eligible for retirement in which case the executive s stock options would be exercisable through the term of the option.
4. Olin may terminate an executive for cause if the executive (i) willfully fails to perform his or her duties; (ii) engages in gross misconduct that significantly injures Olin financially; (iii) willfully breaches Olin s Code of Conduct; or (iv) commits a felony or fraud in the course of his or her employment.
5. Upon a change in control (as defined under these plans), benefits listed for the Senior Plan and Supplemental Plan (collectively, the defined benefit plans), and the Supplemental CEOP would be payable immediately, but because the NEOs are specified employees as defined in Code Section 409A, benefits may not be paid in the first six months after retirement, but the first six months of benefits under the defined benefit plans will be paid in a lump sum as soon as practicable thereafter as will the value of the Supplemental CEOP. The benefits reported represent the present value of the benefits under the defined benefit plans on December 31, 2011 and the market value of the phantom investments in the Supplemental CEOP account. All restricted stock and performance share awards would be vested and paid upon a change in control (as defined for these awards). All options and stock appreciation rights would vest immediately and be fully exercisable. All other amounts would be paid only if the executive is terminated or constructively terminated upon or within three years after a change in control. Constructive termination occurs when the executive terminates his or her employment because (i) Olin requires the executive to relocate by more than fifty miles, (ii) Olin reduces or fails to increase the executive s base salary on substantially the same basis as before the change in control, (iii) Olin fails to maintain its benefit plans as in effect prior to the change in control, or (iv) the executive is assigned duties inconsistent with duties prior to the change in control or Olin takes actions that result in a diminution of the executive s responsibilities.
6. For all NEOs other than Mr. Chirumbole, severance payments for a termination without cause equal base salary plus a percentage (calculated as the executive s target bonus for the prior fiscal year divided by the executive s salary in effect at termination) of base salary, and in the event of a change in control it is three times this total amount. Mr. Chirumbole receives severance upon

termination without cause under Olin s general termination policy based on his years of service, and as of the end of 2011, the maximum benefit he would have received is $152,377. Upon a change in control, Mr. Chirumbole would receive one year s base salary plus the greater of his last year s bonus or his target bonus.

7. An executive whose employment terminates as the result of disability, death, or retirement receives a pro rata share of unvested performance share awards (based on the number of months worked in the performance cycle) payable in cash at the time it would otherwise be payable. We have assumed payouts at the level of 25% of the target unvested performance shares and performance shares vested at December 31, 2011, but not yet paid. An executive whose employment terminates for cause or without our consent does not receive any unvested performance awards. All unvested performance shares vest on a change in control and are paid in cash see footnote 8. The committee determines the amount, if any, of unvested performance awards to be paid and the form of payment (cash or stock or a combination) for an executive whose employment terminates for any other reason. Upon the executive s death, all unvested options vest automatically and his or her estate or heirs could exercise those options within the term of the option.
8. Represents cash payout for automatic vesting of unvested restricted stock, stock options and performance shares on change in control.
9. Unused vacation for the current year is paid to all salaried employees and is therefore not included in this table. Medical benefits are provided to all salaried employees hired prior to November 23, 2009, who are eligible for early retirement. All NEOs, other than Mr. Chirumbole, are currently eligible for early retirement, and so no amount is reported for medical benefits for them. In the event of an involuntary, not for cause termination, Mr. Chirumbole would be eligible for up to thirty weeks of healthcare benefits coverage under the same terms and conditions as other salaried employees. Therefore, there is no amount reported for medical benefits for him. In the event of a change in control, Mr. Chirumbole would be eligible for one year of healthcare benefits at an estimated cost of $12,982.
10. The Senior Plan provides a 50% joint and survivorship benefit without an actuarial reduction. In addition, pension benefits paid from the Senior Plan are increased by the amount of the actuarial reduction for joint and survivorship benefit under the Qualified Plan and the Supplemental Plan. The value of the joint and survivorship benefit is reflected in the lump sum pension benefits in the table above with respect to the Senior Plan. The Qualified Plan and Supplemental Plan benefits above assume payment in the form of a joint and survivorship benefit. The executive may also elect to receive benefits from the Senior Plan and the Supplemental Plan in the form of a lump sum. Any payment payable upon termination of employment is paid six months after termination of employment to comply with Code limitations. The value of these benefits is determined using a discount rate that is equal to the rate for a zero coupon Treasury strip, with a maturity that approximates the executive s life expectancy, determined approximately at the time the lump sum is due to be paid and the RP2000 Mortality Table with 11 years of projected mortality improvements. Except with respect to a change in control, the benefits reported for the Senior Plan and Supplemental Plan are based on these assumptions and also include six months of payments in recognition of the deferral of the commencement of benefits required by Code Section 409A.

In the event of a Change in Control (as defined under the Senior Plan and the Supplemental Plan), each executive participating in the relevant plan receives a cash payment in an amount equal to the cost to purchase an annuity that pays benefits to the executive in an amount such that the annuity payments (together with the monthly payment to the executive from the Qualified Plan) provide the executive with the monthly after-tax benefit he or she would have received under the plans. The amounts in the table represent this lump sum cash payment.

The benefit amounts reported in each of the columns above assume a 50% joint and survivorship benefit and use the discount rate applicable for the situation described and the RP2000 Mortality Table with 11 years of projected mortality improvements. If the executive instead elects annual payments for his or her lifetime, he or she would receive an annual amount from each of the defined benefit pension plans as follows:

Annual Payments Assuming Election for Life of Executive

	Quit/Early Retirement	Normal Retirement	Termination by Olin Without Cause	Termination by Olin For Cause	Change in Control
Joseph D. Rupp					
Qualified Plan	108,332	110,172	108,332	108,332	108,332
Supplemental Plan	661,108	672,336	661,108	661,108	661,108
Senior Plan	0	0	0	0	0
John E. Fischer					
Qualified Plan	54,384	69,429	54,384	54,384	54,384
Supplemental Plan	91,128	116,339	91,128	91,128	91,128
Senior Plan	13,485	20,652	13,485	0	13,485
George H. Pain					
Qualified Plan	61,266	63,600	61,266	61,266	61,266
Supplemental Plan	99,077	102,852	99,077	99,077	99,077
Senior Plan	39,313	41,292	39,313	0	39,313
John L. McIntosh					
Qualified Plan	75,216	90,984	75,216	75,216	75,216
Supplemental Plan	131,131	158,620	131,131	131,131	131,131
Senior Plan	57,131	19,858	57,371	0	57,371
Frank W. Chirumbole					
Qualified Plan	19,047	19,047	13,716	19,047	13,716
Supplemental Plan	11,388	11,388	8,208	11,388	8,208

11. No NEO, is eligible for normal retirement (age 62) at this time. See the Pension Benefits table and the narrative disclosure following that table for the present value of accrued benefits payable upon normal retirement under various circumstances.

Payments Upon Death or Disability

Upon the death of a former executive, unless the executive elects to receive the cash value of his or her life insurance at retirement, his or her estate receives life insurance benefits provided the former executive was at least age 55 when employment terminated. The amount of life insurance is based on the executive s age and base salary at the time of termination of employment. Set forth below are the amounts of life insurance coverage for each of the NEOs as of December 31, 2011:

NEO	Life Insurance Amount
Joseph D. Rupp	$ 320,000
John E. Fischer	$ 50,000
George H. Pain	$ 130,000
John L. McIntosh	$ 60,000
Frank W. Chirumbole	$ N/A*

* Mr. Chirumbole is younger than age 55, and, therefore, is not currently eligible for this retiree life insurance benefit.

An executive whose employment terminates in connection with a disability would receive disability benefits equal to 60% of base salary until the executive is no longer disabled, reaches age 65, or elects to take early retirement benefits. At that time, the executive would receive the applicable retirement benefits described above. Messrs. Rupp, Chirumbole, McIntosh and Pain have elected to pay additional premiums to increase their disability coverage to 75% of base salary. Mr. Fischer has elected the 60% level of coverage.

Executive Severance and Executive Change in Control Agreements

We have executive severance agreements (executive agreements) and executive change in control agreements (CIC agreements) with all of the NEOs other than Mr. Chirumbole. These agreements extend until January 26, 2014, and by their terms extend annually for an additional year unless we provide notice that the term will not be extended. We provided that notice in October of 2011, but indicated the present intention of the compensation committee to provide an appropriate replacement change in control arrangement, consistent with then-current market practice at the time of expiration. If a change in control (as defined in the current CIC agreement) occurs, the CIC agreement extends for at least three years after the change in control. The committee established the terms of the CIC agreements and the executive agreements (including the level of payments in various scenarios) based on advice from Exequity and from outside benefits counsel regarding marketplace practices for comparable companies.

CIC Agreement. The CIC agreement contains an extensive definition of change in control, but generally a change in control occurs if:

(1) a person or entity acquires control of 20% or more of our common stock unless (a) the acquiring party is Olin, its subsidiaries or benefit plans, an underwriter holding the shares temporarily for an offering, the executive who is a party to the CIC agreement or an entity that the executive controls or (b) the percentage increase occurs solely because the total number of shares outstanding is reduced by Olin buying its stock back;

(2) a majority of our board members change (other than new members elected or nominated by at least 2/3 of the then-current board, absent an election contest or similar dispute);

(3) we (or any of our subsidiaries) sell all or substantially all assets, or merge or engage in a similar transaction, unless our shareholders own more than half of the voting interest of Olin or the new company (in approximately the current ratios) after the transaction, and neither of the events in items (1) and (2) above has occurred for Olin or the new entity; or

(4) our shareholders approve a plan of complete liquidation or dissolution of Olin.

If, after a change in control, the executive s employment is terminated by Olin without cause or by the executive as a result of adverse changes in the terms of employment, the executive will:

- receive a cash severance payment equal to three times the executive s base salary plus the higher of his target incentive award under the SMICP or his average SMICP payment during the past three years,
- receive 36 months of medical, dental and life insurance coverage for the executive and dependents,
- receive 36 months of retirement contributions to all Olin defined contribution plans, based on the amount of the cash severance,
- receive up to 12 months of outplacement services, and

- if termination occurs after the first calendar quarter, receive a prorated annual incentive compensation award for that year.

These payments and benefits are not conditioned on any waiver, release or non-compete. The CIC agreement also provides that if any payments made to the executive subject the executive to the excise tax under Section 4999 of the Code, the payment increases to provide the executive with a net payment as if such tax did not apply.

Executive Agreement. If the executive s employment is terminated (in a non change in control event) by Olin without cause, the executive will receive, in lieu of severance benefits under any other Olin severance plans or programs:

(1) cash installment payments (which we refer to as the executive severance amount) equal to (a) twelve months salary plus (b) a percentage (calculated as the executive s target bonus for the prior year divided by the executive s salary in effect at termination) of base salary;

(2) twelve months of retirement contributions to all Olin defined contribution plans based on the amount of the cash installment payments (the executive will be treated as if he or she had remained employed for service purposes for twelve months after the termination);

(3) twelve months of medical, dental and life insurance coverage for the executive and dependents; and

(4) the same outplacement services and prorated annual incentive compensation award provided under the CIC agreement.

The executive must sign a waiver and general release of claims and agree to one-year noncompetition and nonsolicitation covenants to receive any severance payments and other benefits.

If, in connection with the sale or transfer of an Olin business or assets to a third party or to a joint venture, the executive becomes an employee of the buyer or joint venture, the executive agreement continues to apply to any termination from the new employment for twelve months. Payments by Olin are reduced for any cash severance or similar benefits from such buyer or joint venture.

Letter Agreement. Mr. Chirumbole has a less comprehensive letter agreement with Olin providing certain rights upon a change in control (letter agreement). The letter agreement renews on January 26 of each year unless Olin provides a termination notice at least 90 days in advance. The definition of a change in control in the letter agreement is identical to that in the CIC Agreement. The letter agreement provides that if, after a change in control, Mr. Chirumbole s employment is terminated by Olin without cause or by Mr. Chirumbole as a result of adverse changes in the terms of employment, he will:

- receive a cash severance payment equal to his base salary plus the higher of his target incentive award under the SMICP/MICP or his average SMICP/MICP payment during the past three years,
- receive 12 months of medical, dental and life insurance coverage for Mr. Chirumbole and dependents,
- receive 12 months of retirement contributions to all Olin defined contribution plans, based on the amount of the cash severance, and
- if termination occurs after the first calendar quarter, receive a prorated SMICP/MICP award for that year.

These payments and benefits are not conditioned on any waiver, release or non-compete and are not subject to any income tax gross-up provisions.

Treatment of Equity Awards

Retirement. When an employee retires:

- vested stock options may be exercised for the remaining option term,
- vested but unpaid performance shares will be paid as specified in the performance share program, and

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- the retired employee receives a pro rata payout in cash of any unvested performance share award at such time it would otherwise be paid.

The committee has discretion to waive vesting periods for restricted stock and restricted stock units.

Change in Control. On a change in control (as defined under the CIC agreement or applicable award):

- all options vest (and in certain cases, convert to stock appreciation rights), and

- all restricted stock, restricted stock units and performance share awards vest and are paid.

Pension Plans

Qualified Plan. The Qualified Plan, provides that if, within three years after a change in control (as defined in the Qualified Plan), any corporate action is taken or filing made in contemplation of events such as a plan termination or merger or other transfer of assets or liabilities of the plan, and such event later takes place, plan benefits automatically increase to absorb any surplus plan assets. Under the Qualified Plan, a change in control occurs if:

(1) a person or entity acquires control of 20% or more of our common stock,

(2) a majority of our board members change in a two-year period (other than new members nominated by at least 2/3 of the then-current board),

(3) all or substantially all of our business is sold through a merger or other transaction unless Olin is the surviving corporation or our shareholders own more than half of the voting interest of the new company, or

(4) our shareholders approve a sale of all or substantially all of our assets or the dissolution of Olin.

Supplemental Plan and Senior Plan. In the event of a change in control (defined in a manner compliant with Code Section 409A), we will pay a cash amount sufficient to purchase an annuity that provides the monthly after tax benefit the employee would have received under the Supplemental Plan and the Senior Plan. Those payments would be based on benefits accrued as of the change in control. Benefits were frozen at the end of 2007, although continued employment counts toward years of service for vesting and early retirement eligibility.

DIRECTOR COMPENSATION

In 2011, our compensation package for non-employee directors consisted of:

- an annual retainer of $40,000 of which at least $25,000 must be taken in shares of common stock (with an aggregate fair market value of that amount, based upon the average high and low sale prices on May 12, 2011); (for 2012, the annual retainer will increase to $50,000 with at least $25,000 taken in shares of common stock);
- phantom stock units with an aggregate fair market value equal to $65,000 (based upon the average high and low sale prices on May 12, 2011) rounded to the nearest 100 shares which are credited to a deferred account and not paid out until the director leaves the Board;
- a fee of $2,500 per board meeting and committee meeting attended (or $1,250 for in-person board or committee meeting attended telephonically);
- a $25,000 annual fee for the Lead Director and an additional $2,500 for each meeting he attends with management to prepare for Board/Committee meetings;
- a $10,000 annual fee for the chair of each of the compensation and directors and corporate governance committees, and a $15,000 annual fee for the audit committee chair;
- reimbursement for expenses incurred in the performance of their duties as directors;
- participation in our charitable gift program available to all salaried employees, where we make a 50% matching contribution (up to $5,000 per year) for the director s gifts to certain eligible charities; and
- director liability insurance, personal excess liability coverage of $5 million per director, and coverage under our business travel accident insurance policy while on Olin business.

The table below shows all cash and stock retainers, meeting fees and other compensation we paid to each of our non-employee directors during 2011. Each of the directors listed below served for the entire year.

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards (1) ($) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation (2) ($) (g)	Total ($) (h)
Gray G. Benoist	$ 62,500	$ 90,035	N/A	N/A	N/A	$ 12,471	$ 165,006
Donald W. Bogus	$ 65,000	$ 90,035	N/A	N/A	N/A	$ 16,514	$ 171,549

C. Robert Bunch		$ 150,066	N/A	N/A	N/A	$	41,118	$ 191,184
Randall W. Larrimore	$ 90,000	$ 90,035	N/A	N/A	N/A	$	43,412	$ 223,447
John M. B. O Connor	$ 57,500	$ 90,035	N/A	N/A	N/A	$	25,665	$ 173,200
Richard M. Rompala	$ 142,500	$ 90,035	N/A	N/A	N/A	$	73,132	$ 305,667
Philip J. Schulz	$ 77,500	$ 90,035	N/A	N/A	N/A	$	23,649	$ 191,184
Vincent J. Smith	$ 65,000	$ 90,035	N/A	N/A	N/A	$	9,988	$ 165,023

(1) This column represents the grant date fair value of 2011 stock awards to directors calculated in accordance with ASC Topic 718. These stock awards are deferred as stock units. A director can elect to defer additional portions of his or her compensation in stock units as well. The following table lists the phantom stock units held by each director in his or her deferred stock account at December 31, 2011 (payable upon the director s retirement from our board, or a later date selected by the director, in cash or stock at the director s election):

Name	Total Deferred Stock Account Balance (in Shares)*
Gray G. Benoist	17,883
Donald W. Bogus	21,992
C. Robert Bunch	48,635
Randall W. Larrimore	56,949
John M. B. O Connor	33,431
Richard M. Rompala	99,664
Philip J. Schulz	31,692
Vincent J. Smith	13,834

* Total includes stock awards of the type listed in column (c) above, additional amounts a director elects to defer in stock units and dividend equivalents on stock units held in the deferred stock account.

(2) Consists of (i) amounts we contributed to charity on behalf of directors under our matching charitable gifts program available to all employees, (ii) dividend equivalents Olin paid two dividends on phantom shares of common stock of Arch Chemicals, Inc. formerly held by two directors under the Directors Plan, and (iii) the fair value of dividend equivalents paid to directors in 2011 on all Olin deferred stock units amounts, determined under ASC Topic 718, as follows:

Name	Dividend Equivalents Paid on Deferred Stock Units
Gray G. Benoist	$ 12,471
Donald W. Bogus	$ 16,514
C. Robert Bunch	$ 36,118
Randall W. Larrimore	$ 41,119
John M. B. O Connor	$ 25,665
Richard M. Rompala	$ 71,989
Philip J. Schulz	$ 23,649
Vincent J. Smith	$ 9,988

Differences in the amounts shown above among board members for dividend equivalents reflect the number of shares held as deferred stock units. Messrs. Benoist, Rompala and Schulz elected to receive their dividend equivalents in the form of additional deferred stock units, while the other directors elected to receive the dividend equivalent payments in cash (current or deferred). Does not include perquisites and other personal benefits which did not exceed, in the aggregate, $10,000 for any director.

The board of directors determines the total amounts of the annual retainer, meeting, lead director and board/committee chair fees, based on recommendations from the committee and input from Exequity. All stock-based compensation for our directors is governed by our Amended and Restated 1997 Stock Plan for Non-employee Directors, which we refer to as our Directors Plan. The annual stock grant, retainer stock grant and cash retainer are paid for the 12-month period running from May 1 to April 30, with payments made on the second Thursday in May, after Olin s annual shareholder meeting in April.

Under the Directors Plan, directors may choose to receive common stock instead of cash for any portion of their compensation. Directors may also elect to defer payments (cash or stock). We credit their deferred accounts with quarterly interest (on the cash portion) and with dividend equivalents (on the phantom stock portion). Phantom stock units are paid out in shares of our common stock or, at the director s election, in cash. We also pay the balance of any deferred account to the director if there is a change in control generally if:

- a person or group acquires 40% or more of our assets, 30% or more of our stock, or a majority of the market value or voting power of our stock, or

- a majority of our board members are not endorsed by the directors in office at the time of election.

We have stock ownership guidelines for our non-employee directors where each such director is expected to own shares of our common stock with a market value of at least five times the amount of the annual retainer, within five years after the director joins our board. Each non-employee director met these guidelines at year end.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on the review and discussions, recommends that it be included in Olin s annual report on Form 10-K and Proxy Statement for the 2012 Annual Shareholder Meeting.

Richard M. Rompala, Chairman

Donald W. Bogus

C. Robert Bunch

Randall W. Larrimore

Vincent J. Smith

February 15, 2012

ITEM 2 PROPOSAL TO CONDUCT AN ADVISORY VOTE

TO APPROVE THE COMPENSATION FOR NAMED EXECUTIVE OFFICERS

You are being asked to cast an advisory vote on approval of the compensation of our chief executive officer, chief financial officer and the three other most highly compensated executive officers (referred to as named executive officers or NEOs) at the Annual Meeting. This proposal, commonly known as a say-on-pay proposal, is required under Section 14A of the Securities Exchange Act. The proposal gives you the opportunity, on an advisory vote basis, to approve or not approve the compensation of the NEOs through the following resolution:

RESOLVED, that the compensation paid to the Company s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative disclosure, is hereby APPROVED.

Because your vote is advisory, it will not be binding on the Board and it will not directly affect or otherwise limit any existing compensation or award arrangement of any of our NEOs. Our Compensation Committee does intend to take into account the outcome of the vote when considering future executive compensation arrangements.

Vote Required

Assuming a quorum (consisting of a majority of outstanding shares of our common stock) is present or represented by proxy at the annual meeting, approval of this proposal requires that more votes be cast FOR than are cast AGAINST. If you own shares through a bank, broker or other holder of record, you must instruct your bank, broker or other holder of record how to vote in order for them to vote your shares so that your vote can be counted on this proposal. Abstentions and broker non-votes will not be counted as votes cast and thus will not have any effect on the result of the vote. Proxies will be voted FOR approval of the proposal unless otherwise specified.

The Board of Directors recommends a vote FOR approval of this resolution.

ITEM 3 PROPOSAL TO RATIFY APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP was our independent registered public accounting firm for 2011 and 2010. A summary of the KPMG fees by year follows:

	Fees ($ in thousands)	
	2011	2010
Nature of Service		

Audit Fees(1)	$ 1,685	94%	$ 1,564	100%
Audit Related Fees(2)	100	6%		
Tax Fees				
Tax Compliance				
Tax Consultation and Planning				
All Other Fees				
	$ 1,785	100%	$ 1,564	100%

(1) Includes costs associated with the annual audit, including quarterly financial reviews, services required under Section 404 of the Sarbanes-Oxley Act, statutory audits, comfort letters, attest services, consents and assistance with and review of filings with the SEC.

(2) Costs include services related to agreed upon procedures performed related to the acquisition of PolyOne Corporation s 50% interest in the SunBelt Partnership.

Our audit committee has a policy that all audit services by any independent registered public accounting firm and all non-audit services performed by our independent registered public accounting firm are subject to pre-approval by the audit committee at each scheduled meeting. The policy includes specific procedures for approval of such services. Excerpts from this policy follow:

Olin s audit committee is solely responsible for pre-approving all audit services by any independent registered public accounting firm and all non-audit services performed by Olin s independent registered public accounting firm. The process for such approval is as follows:

- *The annual budget for all such services will be submitted to the committee for approval in the first quarter of each year. The budget submission will include details of actual expenditures for each audit and non-audit service for the prior year versus the prior year budget and estimated spending for services in the current year. The budget will also provide for certain specific services that will be pre-approved within a limited dollar range per service. These pre-approved services are also subject to an annual spending cap.*

- *At each subsequent audit committee meeting, the budget will be updated for changes in estimated spending involving previously approved services. The budget will also be updated to include any new services identified by operations management that need to be submitted for approval.*

- *Any services not detailed in the budget or on the list of specific pre-approved services must be approved by the committee. In the event that approval is needed for a service in advance of a regularly scheduled audit committee meeting, the Chair of the committee is authorized to approve the service and report such approval to the other committee members at the next regularly scheduled committee meeting.*

In 2011, the audit committee pre-approved all audit and audit-related services.

Who has the audit committee selected as Olin s independent registered public accounting firm for 2012?

Olin s audit committee is solely responsible for hiring and compensating Olin s independent registered public accounting firm. After considering KPMG s 2011 performance and their proposed audit plan for 2012, the committee has selected KPMG as our independent registered public accounting firm for 2012.

Is a shareholder vote required to approve Olin s independent registered public accounting firm?

Neither Virginia law nor our Bylaws require us to submit this matter to the shareholders at the annual meeting. However, the board and audit committee chose to submit it to the shareholders to ascertain their views.

Will I have an opportunity to hear from KPMG and ask them questions?

We expect representatives of KPMG to be present at the annual meeting. They will have an opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

How many votes are required to ratify the appointment of KPMG as Olin s independent registered public accounting firm for 2012?

To ratify the appointment of KPMG as Olin s independent registered public accounting firm for 2012, the votes cast in favor of this proposal must exceed the votes cast in opposition to this proposal.

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Abstentions and shares held in street name that are not voted on this proposal will not be included in determining the number of votes cast on this proposal and will not affect the vote on this proposal. If the shareholders ratification vote does not support the audit committee s decision to appoint KPMG as Olin s independent registered public accounting firm for 2012, the audit committee will take the vote into consideration in making next year s selection.

How does the board recommend we vote?

The board recommends that you vote FOR ratification of the appointment of KPMG as our independent registered public accounting firm for 2012.