

COMPUTER SOFTWARE INNOVATIONS INC  
Form 10QSB/A  
February 14, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-QSB/A**

(Amendment No. 2)

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(Mark One)

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

For the quarterly period ended June 30, 2005.

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number \_\_\_\_\_

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**COMPUTER SOFTWARE INNOVATIONS, INC.**

(Name of Small Business Issuer in Its Charter)

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**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**98-0216911**  
**(I.R.S. Employer**  
**Identification No.)**

**1661 East Main Street**  
**Easley, South Carolina 29640**  
**(864) 855-3900**

**(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)**

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 2,631,786 as of August 18, 2005.

Transitional Small Business Disclosure Format (Check one): Yes  No

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**EXPLANATORY NOTE**

**Restatement of Previously Issued Financial Statements**

*Amendment No. 1*

On November 11, 2005, our chief executive officer and chief financial officer, in consultation with the audit committee of the board of directors, concluded that the previously issued financial statements contained in our quarterly report on Form 10-QSB for the quarter ended June 30, 2005 should not be relied upon. Specifically, they determined that certain expenses for activities related to products and services sold, totaling \$897,046 and \$742,572 for the three month periods ended June 30, 2005 and 2004, and \$1,779,618 and \$1,363,206 for the six month periods ended June 30, 2005 and 2004, should be reclassified from operating expenses to cost of sales. Reclassifications for these items were made and we restated these financial statements to make the necessary accounting corrections.

Also in this amendment, due to further guidance, we reclassified the portion of the proceeds from the issuance of preferred stock and warrants that was allocated to the par value of preferred stock (\$7,218) from permanent equity to temporary equity.

*Amendment No. 2*

On February 3, 2006, our chief executive officer and chief financial officer, in consultation with the audit committee of the board of directors, concluded that the previously issued controls and procedures disclosure on Form 10-QSB/A for the quarter ended June 30, 2005 should be amended for the reasons set forth below.

The registration process relating to the registration of the resale of shares of common stock by one of our stockholders, Barron Partners LP, has involved significant technical discussions with several accounting, regulatory and valuation experts. In our prior Form 10-QSB/A we disclosed a deficiency in internal control over financial reporting related to the need for additional qualified financial and accounting personnel. This deficiency was a result of our entering into the series of transactions that resulted in the subsequent public reporting of significant operations without personal with public reporting experience. In the process of discussions with regulatory experts, we determined to revise our internal control disclosure to note our controls were ineffective for the reasons previously disclosed and include more specifics as to the nature of the deficiency and our plans and timeframe for curing the deficiency.

Also, in view of this amendment, we have taken the opportunity to make certain other conforming changes to the Financial Statements. In 2005, we began reporting our operations under two operating segments and, consequently, adopted the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. As a result, the disclosures in Note 10 have been expanded to conform to the provisions of SFAS No. 131 regarding segment presentation. Finally, as a result of our recapitalization transaction effectuated on February 11, 2005 (see Note 2 to the Financial Statements) and discussions with regulatory experts we have reclassified certain amounts from retained earnings to paid-in capital.

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We have also updated the financial statements for two subsequent events. One is a consulting arrangement entered into by the registrant for which it is anticipated payment will be made in the form of issuance of registrant's common stock in an amount equal to 3.5% of the outstanding common and preferred stock of the registrant immediately following the February 2005 merger. We are in the process of reaching a definitive agreement with respect to the consulting arrangement. The second subsequent event was the settlement of litigation relating to the merger. See Note 5 to the Financial Statements for more information on these subsequent events.

### *General*

The adjustments reflected in this amendment do not affect income from operations or cash flows.

All amounts in this quarterly report on Form 10-QSB/A have been updated, as appropriate, to reflect these restatements. We did not update this quarterly report on Form 10-QSB/A for subsequent events occurring after the filing of our original quarterly report on Form 10-QSB on August 22, 2005, except as specifically noted above.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****COMPUTER SOFTWARE INNOVATIONS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2005	2004	2005	2004
<b>REVENUES</b>				
Software applications segment	\$ 1,142,039	\$ 1,104,191	\$ 2,128,788	\$ 2,234,962
Technology solutions segment	6,156,389	6,823,080	9,261,944	9,204,387
Net sales and service revenue	7,298,428	7,927,271	11,390,732	11,439,349
<b>COST OF SALES</b>				
Cost of sales excluding depreciation, amortization and capitalization	499,477	424,425	1,005,915	700,081
Depreciation	6,689	4,692	14,715	9,649
Amortization of capitalized software costs	121,049	105,400	254,672	210,094
Capitalization of software costs	(125,813)	(139,962)	(327,074)	(279,924)
Software applications segment	501,402	394,555	948,228	639,900
Cost of sales excluding depreciation	4,250,616	5,359,100	6,729,104	7,319,846
Depreciation	8,539	8,104	17,834	16,899
Technology solutions segment	4,259,155	5,367,204	6,746,938	7,336,745
Total cost of sales	4,760,557	5,761,759	7,695,166	7,976,645
Gross profit	2,537,871	2,165,512	3,695,566	3,462,704
<b>OPERATING EXPENSES</b>				
Salaries and wages and benefits (excluding stock-based compensation)	773,474	859,791	1,375,865	1,553,265
Stock option compensation			631,174	
Reverse acquisition transaction costs			759,283	
Professional and legal compliance costs	220,303		220,303	
Travel and mobile costs	90,168	53,595	152,394	155,019
Depreciation	14,772	16,851	27,451	33,452
Other selling, general and administrative expenses	183,337	146,206	323,568	254,728
Total operating expenses	1,282,054	1,076,443	3,490,038	1,996,464

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Operating income	1,255,817	1,089,069	205,528	1,466,240
<b>OTHER INCOME (EXPENSE)</b>				
Interest income		2,569	6,023	6,835
Interest expense	(77,199)		(114,644)	
Gain on disposal of property and equipment			100	
Unrealized loss on financial instrument	(108,266)		(3,193,188)	
Net other income (expense)	(185,465)	2,569	(3,301,709)	6,835
Income (loss) before income taxes	1,070,352	1,091,638	(3,096,181)	1,473,075
<b>INCOME TAX EXPENSE (BENEFIT)</b>	481,762	496,849	(1,235,328)	617,417
<b>NET INCOME (LOSS)</b>	<b>588,590</b>	<b>594,789</b>	<b>(1,860,853)</b>	<b>855,658</b>
<b>BASIC EARNINGS (LOSS) PER SHARE</b>	<b>\$ 0.22</b>	<b>\$ 0.23</b>	<b>\$ (0.71)</b>	<b>\$ 0.33</b>
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	<b>\$ 0.05</b>	<b>\$ 0.23</b>	<b>\$ (0.71)</b>	<b>\$ 0.32</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>				
Basic	2,631,786	2,631,786	2,631,786	2,631,786
Diluted	12,474,658	2,640,438	2,631,786	2,640,480

The accompanying notes are an integral part of these financial statements.

**Table of Contents****COMPUTER SOFTWARE INNOVATIONS, INC.****CONSOLIDATED BALANCE SHEETS**

	June 30, 2005 (Unaudited)	December 31, 2004
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$	\$ 3,656,477
Accounts receivable	5,827,697	2,362,304
Prepaid expenses	119,850	8,007
Inventories	168,729	
Taxes receivable	15,301	
Deferred Income Taxes	1,277,275	
Total current assets	7,408,852	6,026,788
<b>PROPERTY AND EQUIPMENT, net</b>	176,829	143,451
<b>COMPUTER SOFTWARE COSTS, net</b>	829,190	756,788
<b>OTHER ASSETS</b>	500	500
	<b>\$ 8,415,371</b>	<b>\$ 6,927,527</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,584,717	\$ 773,825
Deferred revenue	2,098,845	1,212,898
Deferred tax liability	280,397	212,630
Taxes payable		309,753
Bank line of credit	1,051,000	
Subordinated notes payable to shareholders	2,250,400	
Financial instrument	8,228,220	
Total current liabilities	15,493,579	2,509,106
<b>PREFERRED STOCK</b> - \$0.001 par value; 15,000,000 shares authorized; 7,217,736 shares issued and outstanding	7,218	
<b>SHAREHOLDERS EQUITY (DEFICIT)</b>		
Common stock - \$0.001 par value 40,000,000 shares authorized; 2,631,786 shares issued and outstanding	2,632	2,632
Additional paid-in capital	(337,656)	77,368
Retained earnings (deficit)	(6,750,402)	4,070,451
Unearned stock compensation		267,970
Total shareholders equity (deficit)	(7,085,426)	4,418,421
	<b>\$ 8,415,371</b>	<b>\$ 6,927,527</b>

The accompanying notes are an integral part of these financial statements.

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***COMPUTER SOFTWARE INNOVATIONS, INC.***

***CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)***

***(UNAUDITED)***

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	<b>Additional</b>	<b>Retained</b>	<b>Unearned</b>	
<b>Common</b>	<b>Paid-In</b>	<b>Earnings</b>	<b>Stock</b>	
<b>Stock</b>	<b>Capital</b>	<b>(Deficit)</b>	<b>Compensation</b>	<b>Total</b>

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