Benioff Marc
Form 4
August 02, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Benioff Marc

(Last) (First) (Middle)

THE LANDMARK @ ONE MARKET STREET, SUITE 300

(Street)

SAN FRANCISCO, CA 94105

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SALESFORCE COM INC [CRM]

3. Date of Earliest Transaction (Month/Day/Year)
08/02/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
__X__ Officer (give title below)
_____ Other (specify below)
Chairman of the Board and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/02/2018		S (1)		300	D	$ 137.12 (2)	32,826,500	D (3)	
Common Stock	08/02/2018		S (1)		1,600	D	$ 138.6619 (4)	32,824,900	D (3)	
Common Stock	08/02/2018		S (1)		970	D	$ 139.6582 (5)	32,823,930	D (3)	
Common Stock	08/02/2018		S (1)		1,930	D	$ 140.6498 (6)	32,822,000	D (3)	

Common Stock	08/02/2018	S (1)	200	D	$ 141.25	32,821,800	D (3)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Benioff Marc THE LANDMARK @ ONE MARKET STREET SUITE 300 SAN FRANCISCO, CA 94105	X		Chairman of the Board and CEO	

Signatures

/s/ Scott Siamas, Attorney-in-Fact for Marc Benioff	08/02/2018
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Pursuant to a 10b5-1 Plan.

(2) Weighted average price. These shares were sold in multiple transactions at prices ranging from $137.1100 to $137.1400 inclusive. The reporting person undertakes to provide the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(3) Shares held in The Marc R. Benioff Revocable Trust.

(4) Weighted average price. These shares were sold in multiple transactions at prices ranging from $138.2000 to $139.1900 inclusive. The reporting person undertakes to provide the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(5) Weighted average price. These shares were sold in multiple transactions at prices ranging from $139.2200 to $140.1400 inclusive. The reporting person undertakes to provide the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

(6) Weighted average price. These shares were sold in multiple transactions at prices ranging from $140.2300 to $141.1600 inclusive. The reporting person undertakes to provide the issuer, any security holder of the issuer, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range set forth above.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. rrently converting our programs to the Microsoft .Net programming and SQL database language, but do not yet have all modules ready for release. As a result, some jurisdictional related changes may be required to be made in both our current and .Net platforms until 2007, when we anticipate all modules will be converted. The costs of such changes may offset the positive impact from expanding our geographic reach in 2006.

Conversion of our Accounting+Plus software to Microsoft .Net Programming and SQL Database Language

We have already completed the conversion of the majority of our core accounting modules. The completed modules are in informal beta installations. However, the changes we are having to make as a result of the informal beta use have been limited, and we are prepared to install the completed modules in any entities which do not have an immediate need for other integrated modules not yet converted. In addition, the completed modules have the functionality necessary to handle school activity funds, such as student clubs, organizations and athletics. Many school activity personnel use packages independent of the school s accounting packages, which may be cumbersome, or lack functionality. Accordingly, we are beginning to look for sales opportunities for the completed modules now, marketed as our School Activity solution. If a school later adopts our full accounting suite, the process of integration will be relatively seamless. We anticipate completing additional modules in 2006, and as previously noted under Software Modifications Required by Geographic Expansion above, we anticipate completing the remaining modules throughout 2007.

Maintaining Margins

In 2005, we continued to experience a significant increase in IP telephony sales, historically one of our higher margin product lines in the technology segment. Among these transactions were continued sales of IP Telephony products to one of our largest customers (Greenville County Schools) which encompasses all schools in a fairly large school district. IP Telephony sales increased sales to that customer to 14% of our revenues in 2005, and represented more than 90% of the revenues from this customer in that year. The challenge going forward will be to match large opportunities or increase the number of smaller opportunities. We have increased and reorganized our sales force in an effort to increase the probability of achieving consistent and increasing performance in this product niche in future periods. To date in 2006, IP Telephony hardware sales have not kept up with prior year levels. In general and in engineering services we have not experienced the significant growth of the past year.

In the first nine months of 2006, we experienced a significant increase in sales of interactive whiteboard solutions and to a lesser degree the amount we charge for related engineering services. Both product lines, IP Telephony and interactive whiteboard solutions, have become subject to increased competition as more product manufacturers have recognized product potential and have entered these markets. In order to maintain and improve our margins, we need to continue to search for new and innovative, and initially higher margin, products to augment those that become mature, as well as continuing our focus on higher margin engineering services and software. While we cannot predict success in achieving these goals, we have taken and are taking actions to do so, including expanding our geographic reach, increasing the size of and reorganizing our

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sales force to focus on more products backed by product specialists, adding telemarketing efforts, improving our sales tools, and identifying additional product and service areas. We are focused on increasing margins, but ultimately we are looking to increase profits by leveraging existing and an increasing number of customer relationships and taking advantage of cross-sell opportunities with a variety of products and services. We will work to focus primarily on those customers for whom we can provide ongoing support and higher margin integration and other engineering services.

Continued Improvement of Support Solutions

Historically, our software applications segment has been the most effective in providing support solutions. Going forward, we are increasing the level of support offerings available through our technology solutions segment. Previously, these primarily consisted of warranty-based services. Additional support offerings may include additional telephone-based troubleshooting and support, real time monitoring and other proactive service offerings and guaranteed response times for customer needs. We have begun introducing additional services, including support for our interactive whiteboard solutions. However, increases in revenues have not yet exceeded our investment related to the aforementioned increases in technology support offerings. These efforts are discussed further under Investment in Support and Telesales Efforts below.

Investment in Support and Telesales Efforts

In the current year we originally estimated making an investment (estimated to be as much as $500,000, of which less than $150,000 was spent in the first nine months of 2006), consisting primarily of increased salaries and wages to support additional technical support services and telesales efforts. Based on our past experience with prospecting and technical support agreements, we expect the additional revenue generated from the sales of technical support contracts and additional sales opportunities uncovered by telesales efforts for the fund accounting software and the new curriculator standards based lesson planner software will be sufficient to offset our investment within approximately one year. However, we can give no assurances such additional services will be profitable collectively, particularly in the short-term.

Re-branding

In the process of moving toward a national presence, we have established a new brand for CSI: *CSI Technology Outfitters Computers. Software. Innovations*. We have noted that in some cases software customers have not been aware of the breadth of our technology offerings, while technology customers have not been aware of the extent of our software offerings. While at this time we do not plan to change our corporate name, Computer Software Innovations, Inc., we believe a reemphasis of the term Computers, following it with a period (.) distinguishes the technology portion of our business from the software offerings. We have trademarked Technology Outfitters to connote our ability to outfit organizations with which we work for a variety of environments. We have redesigned our website to match this theme and created a brochure which presents a wider range of offerings, which can be communicated quickly in summary form. We believe these efforts will increase the recognition and value of the CSI name over time and enhance our presence as a preferred provider in our markets. We spent approximately $125,000 on marketing, including our re-branding efforts, in the first nine months of 2006 compared to virtually no such spending in the first nine months of 2005.

Developing Customer Relationships in New Regions

As we move forward with our growth strategy, we anticipate expanding into new geographic regions. We have achieved the most significant penetration in the tri-state area of South Carolina, North Carolina and Georgia. We are now accelerating our efforts to move into surrounding states. While expanding geographic markets provides a good opportunity to extend existing customer bases and increase revenue, breaking into a new market can prove difficult. There are several obstacles to successfully entering new geographic markets, including limited market knowledge or relationships, little brand awareness, and no established presence or regional client references. Initial penetration will be slow but should accelerate over time. While we have a sales and marketing strategy to address these obstacles, we cannot predict how much time the customer relationships will take to build and the rate at which new market penetration can be accomplished.

To support the expansion process, we plan to hire additional sales personnel to help penetrate new geographic regions, which could represent a $200,000 to $300,000 investment before year end 2006. Thus far, we have reassigned tasks of current employees to focus on telesales efforts to obtain market data and sales efforts to develop higher level relationships with state-wide associations in new areas where opportunities are identified. We have not yet hired new employees for specific areas. Management has postponed any immediate hiring to support geographic expansion due to the proposed acquisition with MCAI. Our focus in hiring personnel will move along in the fourth quarter of 2006 and early 2007, focused on the states to be added as a result of the acquisition. While management believes hiring additional sales personnel is a prudent investment which should result in significant long-term increases in revenue, there may be a short-term negative impact on earnings initially. Due to the length of our typical software sales closing cycle, six to twelve months, and the varying size of deals, we cannot predict the time to recovery on this investment.

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Challenges to Technology and Software Budgets

While federal, state and local funding was slightly decreased in 2006 over 2005, and technology and software budgets have been challenged during the last few years, we have sensed a steady improvement in the discretionary funds that are available to our potential clients. These discretionary funds, coupled with our clients desire to utilize those funds to improve or implement technology and software tools into their individual environments, have provided growth for our business. We recognize that changes in funding could improve or strain technology budgets even further.

Creating Synergies with Merger and Acquisition Activity

Part of our strategy to remain competitive and to grow the Company involves taking advantage of acquisition opportunities. While there are many benefits to be gained from a successful acquisition, there are also many financial and operations risks that must be properly addressed in order to create operational synergy and financial benefit. While we engage outside professionals to assist us with identifying and evaluating potential acquisitions, some members of our management team have limited experience in merger and acquisition activity. Management must be cautious in their evaluation of and expectations from any acquisition target. With any acquisition, we can not ensure that we are allocating capital to businesses that will increase growth with higher returns and will not require additional capital, or add other strain on our capital resources.

We have identified several criteria listed below, by which we evaluate potential acquisition targets in an effort to gain the synergies necessary for successful growth of the Company and increased return to stockholders:

- Access to new customers and new geographic markets
- Protection of current customer base from competition
- Removal or reduction of market entry barriers
- Opportunity to gain operating leverage and increased profit margins
- Diversification of sales by customer and/or product
- Improved vendor pricing from increased volume and/or existing vendor relationships
- Improvements in product/service offerings
- Protection of and ability to expand mature product lines
- Ability to attract public capital and increased investor interest

By carefully evaluating these factors we hope to execute our corporate growth strategies through acquisitions successfully and therefore provide positive operating results and increased return on investment to stockholders.

Proposed Acquisition of McAleer Computer Associates, Inc.

On September 14, 2006, CSI entered into a letter of intent to acquire the business operations of McAleer Computer Associates, Inc. (MCAI). MCAI is the leading provider of fund accounting based financial management software, its major product, for the kindergarten through grade 12 sector of the education market in the state of Alabama and has a presence in five other states. The proposed acquisition is subject to the parties finalizing a definitive acquisition agreement and due diligence, and CSI obtaining acceptable financing to fund the transaction.

The proposed acquisition, if consummated, would expand our reach from our primary three state market to an eight-state footprint in the Southeast. Management believes the acquisition would constitute a major move for us in implementing our stated strategy of geographic expansion, with the ultimate goal of achieving a national presence. We also believe MCAI has a strong management team and a reputation for delivering quality customer service from its location in Mobile, Alabama. We plan to utilize the existing MCAI staff to continue to service MCAI s existing clients from the offices in Mobile, following the closing of the proposed acquisition. We anticipate that we would be able to capitalize on the new Mobile location by delivering expanded technology and service offerings to the broader geographic area and the local government (city and county) markets. In contrast to our current business, MCAI has not historically focused on the local government market or provided as broad a range of technology solutions.

Pursuant to the letter of intent, the transaction will be structured as a purchase of assets of MCAI, including its proprietary software and other intellectual property, work in process, and the land and buildings housing its operations. It is contemplated that we will assume only customer contracts and other limited liabilities of MCAI. The purchase price is approximately

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$4.0 million, payable in cash at closing, except for approximately $500,000 payable under a 5 year note secured by the real estate acquired. The purchase price represents a five to six times multiple of MCAI s trailing annual EBITDA after adjustments for owner compensation and benefits. Upon signing the letter of intent, we paid MCAI $100,000 to serve as earnest money, which will be applied to the cash payment at closing if the transaction is consummated. Such payment will be retained by MCAI if the transaction does not close through no fault of MCAI. The parties will work to enter into a definitive acquisition agreement by November 30, 2006, with the transaction anticipated to close in January 2007.

MCAI also has agreed to refrain from entering into acquisition discussions with parties other than with us. Our exclusive agreement would terminate if the acquisition is not consummated by January 1, 2007. The acquisition is subject to certain conditions, described further in the notes to our financial statements.

Financing of Acquisition.

As stated in the letter of intent, the purchase is subject to the Company s obtaining financing satisfactory to it. The Company will likely seek an increase in its current revolving loan facility and use the availability under this facility to fund the initial purchase. CSI is also pursuing other financing alternatives which could include mezzanine financing, or other capitalization alternatives. All of these options are under consideration, and could provide longer-term financing to match the longer-term nature of an acquisition related investment. Depending on cash flow from current operations and the acquisition, should the Company find longer-term funding unnecessary, it may not take advantage of such options, thereby paying down debt and minimizing any potential for dilution from any additional capital raised.

Earnings Guidance

Certain Costs Related to Going Public in 2005

In 2005, we incurred substantial costs related to our efforts to take CSI s operations public by way of the reverse merger, totaling more than $2.8 million (pre-tax). These costs included the following:

- merger fees totaling $759,283, of which $275,000 were paid to a third-party broker and the remainder were paid primarily for legal and accounting fees;

- the redemption of stock options held by certain managers of CSI South Carolina for $631,174 considered compensation, and $47,766 of payroll tax related costs;

- legal and professional fees totaling $437,013, expended in 2005 related to our efforts to register the underlying common shares of the preferred stock and warrants (which registration was declared effective on February 14, 2006);

- litigation costs of $343,063 and settlement costs to the company of $200,000 to settle litigation related to the merger (which, in the opinion of management and its counsel, was unfounded, but settled to avoid further legal costs); and

- non-cash loss of $414,360 on warrants due to the accounting treatment of the warrants under a liquidated damages penalty payable in cash, until such time as the liquidated damages penalty was renegotiated for payment in a set number of preferred shares on November 7, 2005.

At this time, we do not anticipate incurring any further litigation or reverse merger costs. We expect the costs of registering Barron s shares in 2006 will be substantially reduced from that which was incurred in 2005, not taking into consideration the potential costs associated with amending the registration statement in connection with the proposed acquisition of MCAI. Also, we do not expect to incur any costs related to option redemptions, except potentially in connection with an acquisition to grow our business. As discussed above, we do expect to incur some costs to implement the Sarbanes-Oxley Act legislation. As of September 30, 2006, we had incurred approximately $109,000 related to Sarbanes-Oxley work. We estimate our ongoing professional and legal fees, excluding acquisition and registration amendment costs as these costs cannot be estimated at this time, to aggregate approximately $600,000 for the 2006 fiscal year, of which approximately $435,000 was incurred in the first nine months of 2006.

Also in connection with becoming a public company, we recruited independent, non-employee directors. We also engaged consultants to assist us with strategic planning and acquisitions. Definitive agreements were reached regarding the independent directors and consultants compensation in the first and second quarters of 2006. The Compensation Committee

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of the Board of Directors board approved stock awards, granting the non-employee directors and consultants approximately 500,000 shares. We recorded non-cash expense for directors and consultants fees in the first nine months of 2006 totaling approximately $875,000. See Note 4 to our interim financial statements, Stock Based Compensation, for further discussion.

Non-GAAP Financial Measures: Earnings Before Interest Expense (net), Income taxes, Depreciation and Amortization (EBITDA) and Adjusted EBITDA

EBITDA is a non-GAAP financial measure used by management, lenders and certain investors as a supplemental measure in the evaluation of some aspects of a corporation s financial position and core operating performance. Investors sometimes use EBITDA as it allows for some level of comparability of profitability trends between those businesses differing as to capital structure and capital intensity by removing the impacts of depreciation and amortization. EBITDA also does not include changes in major working capital items such as receivables, inventory and payables, which can also indicate a significant need for, or source of, cash. Since decisions regarding capital investment and financing and changes in working capital components can have a significant impact on cash flow, EBITDA is not a good indicator of a business s cash flows.

We use EBITDA for evaluating the relative underlying performance of the Company s core operations and for planning purposes, including a review of this indicator and discussion of potential targets in the preparation of annual operating budgets. We calculate EBITDA by adjusting net income or loss to exclude net interest expense, income tax expense or benefit, depreciation and amortization, thus the acronym Earnings Before Interest, Taxes, Depreciation and Amortization.

EBITDA is presented as additional information because management believes it to be a useful supplemental analytic measure of financial performance of our core business, and as it is frequently requested by investors. However, management recognizes it is no substitute for GAAP measures and should not be relied upon as an indicator of financial performance separate from GAAP measures.

Adjusted EBITDA is a non-GAAP financial measure used in our calculation and determination of compliance with debt covenants related to our line of credit facility. Adjusted EBITDA is also used as a representation as to how EBITDA might be adjusted by potential lenders for financing decisions. However, such decisions would not exclude those other items impacting cash flow which are excluded from EBITDA, as noted above. Adjusted EBITDA is defined as net income or loss adjusted for net interest expense, income tax expense or benefit, depreciation, amortization, and also certain additional items allowed to be excluded from our debt covenant calculation including other non-cash items such as operating non-cash compensation expense, and the Company s initial reorganization or restructuring related costs, unrealized gain or loss on financial instrument and gain or loss on the disposal of fixed assets. While we evaluate the Company s performance against debt covenants on this basis, investors should not presume the excluded items to be one-time costs. If the Company were to enter into additional capital transactions, for example, in connection with a significant acquisition or merger, similar costs could reoccur. In addition, the ongoing impact of those costs would be considered in, and potential financings based on, projections of future operating performance which would include the impact of financing such costs.

When evaluating EBITDA and adjusted EBITDA, investors should consider, among other things, increasing and decreasing trends in both measures and how they compare to levels of debt and interest expense, ongoing investing activities, other financing activities and changes in working capital needs. Moreover, these measures should not be construed as alternatives to net income (as an indicator of operating performance) or cash flows (as a measure of liquidity) as determined in accordance with GAAP.

While some investors use EBITDA to compare between companies with different investment and capital structures, all companies do not calculate EBITDA or adjusted EBITDA in the same manner. Accordingly, the EBITDA and adjusted EBITDA measures presented below may not be comparable to similarly titled measures of other companies.

As used herein, GAAP refers to accounting principles generally accepted in the United States of America.

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net Income (loss) under GAAP	**$ (39,163)**	**$ 778,118**	**$ (67,905)**	**$ (1,802,735)**
Adjustments:				
Income tax expense (benefit)	119,789	515,619	91,437	(719,709)
Interest expense, net	105,766	76,555	291,743	185,176
Amortization of loan fees			17,458	

Depreciation and amortization of fixed assets and trademarks	83,148	60,000	244,527	120,000
Amortization of software development costs	171,457	112,238	529,123	366,910
EBITDA	**$ 440,997**	**$ 1,542,530**	**$ 1,106,383**	**$ (1,850,358)**
Adjustments to EBITDA to exclude those items excluded in loan covenant calculations:				
Stock based (non-cash) compensation	179,937		875,148	631,174
Reverse acquisition costs	960		64,129	759,283
Unrealized loss (gain) on financial instrument		(1,190,926)		2,002,262
Loss (gain) on disposal of assets				(100)
Adjusted EBITDA	**$ 621,894**	**$ 351,604**	**$ 2,045,660**	**$ 1,542,261**

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Warrant accounting

In the first nine months of 2006, we experienced a significant increase in net income driven by the recording of warrant losses of more than $2,000,000 in the first nine months of 2005, which did not recur in 2006 due to a renegotiation of the warrant related registration rights agreement in November 2005. For the third quarter 2006 there was a significant decrease in net income over the same period of 2005 which resulted from a gain of $1.2 million occurring in 2005 and not reoccurring in 2006. Any user of the Company s financial statements must take into consideration the gains and loss related to the warrants in all periods, and the resulting effects of such on the comparability of current year net income and prior year net income. For a more detailed analysis and discussion of the warrants please see Note 6-Preferred Stock and Related Warrants in the footnotes to the consolidated financial statements.

E-Rate Program

We have experienced an improvement in our success under contracts related to the E-Rate program.

The E-Rate program assists both schools and libraries in the United States to obtain affordable telecommunications and internet infrastructure and access. The program provides federally subsidized funding based on the level of poverty and the urban/rural status of the population served and ranges from 20% to 90% of the costs of eligible services. The Company has participated in this program in the past, typically winning total contract awards in the $4,000,000 to $5,000,000 range during the last several years. In late 2005, as a result of our additional investments in software and personnel, we improved our ability to respond to proposals under the program. As a result, for the annual fall 2005 to spring 2006 E-Rate window, we have been awarded more than $15 million in contracts.

Not all of these contracts become fully funded, and projects and related funding can span multiple years. Typically, we have experienced a 25% to 30% funding rate of awarded contracts. Accordingly, we cannot project the impact of our E-Rate efforts on future periods. Revenues linked to the E-Rate program ranged from 10% to nearly 20% of our total revenues from 2004 through 2005. Although we have seen some revenues related to E-Rate, we have yet to see significant funding in 2006 in comparison to the amount of contracts awarded in 2005 and are hopeful that we will see additional funding by fiscal year end.

Engagement of Investor Relations Firm

On July 10, 2006, the Company entered into an Investor Relations Consulting Agreement (the Agreement) with Alliance Advisors, LLC (Alliance). We retained Alliance to assist in the development of our investor relations and corporate communications program. The term of the agreement is twelve months. We anticipate recording approximately $20,000 in cash and $40,000 in non-cash stock based compensation per quarter for the next four quarters in connection with this agreement.

Additional Investments which May Impact Earnings in the Short Term

In addition to the items mentioned above, we expect that our investments in expanding our telesales team, increasing our technical support offerings and hiring additional sales personnel to support our geographic expansion efforts may impact earnings negatively in the short term. While we would expect to cover these investments over no more than four to six quarters, we are unable to estimate the portion of these investments which will be covered in the short term. For further discussions, see the Current Challenges and Opportunities of our Business, and Forward-Looking Information section above.

Organization

Our business efforts are focused on two key operating segments: internally developed software applications and related service and support (our Software applications segment), other technology solutions and related service and support (our Technology solutions segment).

Software applications segment

Our Software applications segment develops accounting and administrative software applications that are designed for organizations that employ fund accounting. These organizations are primarily municipalities, school districts and local governments. Specific software modules include:

General (or Fund) Ledger;

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- Accounts Payable;
- Purchasing;
- Payroll;
- Personnel;
- Employee Absence/Substitutes;
- Inventory;
- Utility Billing; and
- Other specialty modules designed for government markets.

Our Software applications segment includes a staff of software developers, implementers, trainers, sales personnel and applications support specialists focused primarily on the development, sales, deployment and support of our in-house software products. From time-to-time they also provide support for the Technology solutions segment.

As in other competitive software businesses, the sales and support of software products developed for resale, coupled with few related hardware sales, support higher margins in the Software applications segment (also referenced as software and related services). The sales of the Technology solutions segment (also referenced as hardware sales and related services) are typically at lower margins, due to the amount of hardware, a traditionally low margin product, included in these sales.

Technology solutions segment

Our Technology solutions segment has a staff of certified engineers capable of providing a broad range of technology solutions to our client base, including, but not limited to:

- Technology planning (developing plans to purchase or upgrade computers, telephone equipment, cabling and software);
- Hardware/software installations;
- Cabling (installation of wiring and wireless devices to link computer networks and telephones);
- System integration (installation of computers and configuration of software to enable systems to communicate with and understand each other);

- Wide area networking (linking a group of two or more computer systems over a large geographic area, usually by telephone lines or the internet);
- Wireless networking (linking a group of two or more computer systems by radio waves);
- IP telephony and IP surveillance (sending voice calls and surveillance across the internet using internet protocol (IP), a standard method for capturing information in packets);
- Project management (overseeing installation of computers, telephone equipment, cabling and software);
- Support and maintenance (using Novell, Microsoft, Cisco and Citrix certified engineers and other personnel to fix problems);
- System monitoring (proactively monitoring computers and software to detect problems);
- Education technologies, including distance learning and classroom learning tools.

In addition to our engineers, our Technology solutions segment includes a staff of sales persons, project managers and product specialists. Our Technology solutions segment also purchases and resells products from a variety of manufacturers including but not limited to Hewlett Packard, Cisco, Microsoft, Novell, Promethean, Tandberg and DIVR, and supports the Software applications segment, as needed.

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The combination of traditionally low margin sales of hardware with the sales of services results in a much lower margin for the Technology services segment when compared to the Software applications segment.

We believe the combined efforts of our Technology solutions segment with that of our Software applications segment provide CSI with a competitive advantage in the education and government markets.

For a discussion of the results of the reported segments, see the section entitled Segment Information below.

Acquisitions

We believe that to remain competitive, we need to take advantage of acquisition opportunities that arise which may help us achieve greater geographic presence and economies of scale. We may also utilize acquisitions to, when appropriate, expand our technological capabilities and product offerings. While we may use a portion of any cash proceeds generated by operations or obtained from capital sources to pay down debt on an interim basis, we intend to use any additional liquidity and/or availability from those sources or related paydown to fund acquisitions. Additionally, we have engaged a consultant to assist us with acquisitions, including identifying potential acquisition opportunities. We believe our markets contain a number of attractive acquisition candidates. We foresee expanding through acquisitions of one or more of the following types of software and technology organizations:

- Developers and resellers of complementary software, such as time and attendance, workflow management, tax appraisals and assessment, education, court and law enforcement related products.
- Organizations focused on providing products and solutions to commercial large company (Fortune 100) and small business (SMB) accounts. Many of our current technology solutions translate to the corporate market, especially IP telephony, IP surveillance, video conferencing and network security.
- Consulting firms providing high level professional services. We believe this type of acquisition would enhance our offering of technology planning and project management.
- Cabling and infrastructure contractors. We currently outsource cabling services.

Our business strategy provides that we will examine the potential acquisition of companies and businesses within our industry. In determining a suitable acquisition candidate, we will carefully analyze a target s potential to add to and complement our product mix, expand our existing revenue base, improve our margins, expand our geographic coverage, strengthen our management team and, above all, improve stockholder returns.

As previously disclosed, we entered into a letter of intent on September 14, 2006 to acquire the business operations of McAleer Computer Associates, Inc. We believe the proposed acquisition of this leading provider of fund accounting based financial management software in Alabama fits within our acquisition strategy. We anticipate that the acquisition of MCAI, if consummated, will provide several benefits as previously discussed in the item above under Current Challenges and Opportunities of our Business.

Except for the proposed acquisition of MCAI discussed in this report, we are unable to predict the nature, size or timing of any acquisition. We can give no assurance that we will reach agreement or procure the financial resources necessary to fund any acquisition, or that we will be able to successfully integrate or improve returns as a result of any such acquisition. We continue to pursue and enter into preliminary discussions with various acquisition candidates. However, except for the MCAI letter of intent, the Company has not entered into agreements or understandings for any other acquisitions which management deems material.

Cautionary Statement Regarding Forward-Looking Information

Certain information contained in this report includes forward-looking statements that involve substantial risk and uncertainties. Any statement in this report and in the documents incorporated by reference into this report that is not a statement of a historical fact constitutes a forward-looking statement. Among other things, these statements relate to our financial condition, results of operations and business. When used in this report, these forward-looking statements are generally identified by the words or phrases may, expect, anticipate, plan, believe, seek, estimate, or words of similar import. These forward-looking statements are not guarantees of future performance. These statements are based on management s expectations that involve a number of business risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking

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statements. Many factors are beyond our ability to control or predict. You are accordingly cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date that we make them. We do not undertake to update any forward-looking statement that may be made from time to time by or on our behalf. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from our current expectations regarding the relevant matter or subject area. The operations and results of our software and systems integration businesses also may be subject to the effects of other risks and uncertainties, including, but not limited to:

- a reduction in anticipated sales;
- an inability to perform customer contracts at anticipated cost levels;
- our ability to otherwise meet the operating goals established by our business plan;
- market acceptance of our new software, technology and services offerings;
- an economic downturn; and
- changes in the competitive market place and/or customer requirements.

For a discussion of factors that may cause actual results to differ materially from forward-looking statements, see our Annual Report on Form 10-KSB for the year ended December 31, 2005, and other reports periodically filed with or furnished to the Securities and Exchange Commission.

Critical Accounting Policies and Estimates

The following discussion and analysis provides information that we believe is useful in understanding our operating results, cash flows and financial condition presented in our unaudited Consolidated Financial Statements included in this quarterly report. Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements in CSI s 2005 Annual Report on Form 10-KSB.

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates, assumptions and judgments and rely on projections of future results of operations and cash flows. We base our estimates and assumptions on historical data and other assumptions that we believe are reasonable under the circumstances. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities in our financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period.

Our judgments are based on our assessment as to the effect certain estimates, assumptions of future trends or events may have on the financial condition and results of operations reported in our Consolidated Financial Statements. It is important that the reader of our financial statements understand that actual results could differ materially from these estimates, assumptions, projections and judgments.

Overview of Financial Performance

Our revenues improved by $176,187 or 2.5% for the 2006 third quarter, compared to the same period of the prior year, due to increases in Software applications sales, partially offset by a decrease in Technology solutions sales. For the nine month period ended September 30, 2006, our revenues increased by approximately $4.3 million, or 23.6%, compared to the same period in the prior year as a result of increases in sales for both the Software applications segment and Technology solutions segment.

The gross profit for the quarter increased by $239,068 or 16.7%, and for the nine months improved by $243,808, or 4.8%. The gross margin percentage was 23.4% and 20.6% for the quarters ended September 30, 2006 and 2005, respectively. The gross margin percentage was 23.7%

and 28.0% for the nine months ended September 30, 2006 and 2005, respectively. The overall increase in gross profit for the quarter was attributed to an increase in Software applications gross profit, partially offset by a decline of Technology solutions gross profit. The improvement in software gross profit for the quarter came from an increase in software support agreement revenues over the prior year period, while hardware gross profit declined as a result of decreased hardware sales, offset in part by increases in commissions and engineering services. Quarterly gross margin for software also increased as a result of increased sales, while product and service increased only marginally in comparison. The hardware gross margin remained relatively flat as a result of decreased sales related to Internet-protocol telephony product sales, partially offset by increases in interactive whiteboard sales and personal computer sales both as

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reseller and agent and the resulting increase in commissions, and improvements in sales related to engineering services. The decrease in margins for the quarter for Technology solutions can also be attributed to increased competitive pressure in the market place for hardware in general.

For the nine months ended September 30, 2006, the increase in gross profit was attributed to the increase in software gross profits, partially offset by a decline in hardware gross profits. This overall increase in gross profit for the nine months was driven by the increases in gross profit for both segments in the first quarter, which was completely offset by the decreases in hardware gross profit for the second quarter, leaving the increase in software gross profits in the third quarter as the most substantial driver for the increase in the first nine months of 2006. The overall decrease in margin percentage can be attributed to the decrease in hardware margins due to reduced hardware sales of higher margin product in the third quarter, coupled with the increase in new hardware sales related to large dollar sales of computer systems and peripherals. CSI purchased the hardware and acted as reseller rather than agent, in contrast to the first quarter. Depending on the circumstances, which may include funding, financing costs, deal size, bid or other sales processes and considerations, CSI acts as agent on computer system sales in which case the only revenue recorded is the commissions. When CSI acts as reseller, the results from these deals are partially seen in the increase in hardware sales and corresponding increase in the costs of purchased components at low margins, with the resulting increase in margin coming through the increase in hardware commissions. These factors were partially offset by sales of higher margin engineering services and the improvement in software margins resulting from the increase in new software sales and support coupled with a decrease in related costs. The decrease in costs was due to a decrease in the number of implementations requiring purchased third party software components for the first quarter of 2006.

Operating income increased slightly from the year ago quarter by $7,026 or 3.9% and declined for the nine months by $52,161, or 13.6%. The increase in the third quarter was attributed to the increase in gross profit, substantially offset by increases across various operating expenses. The decline over the nine month period was primarily attributed to increased operating salaries, an increase in stock based compensation over the prior year period, professional and legal and compliance costs, and increases in various other operating expenses, offset by the non-recurrence in 2006 of expenses related to the reverse merger in 2005.

Consolidated Results of Operations for three months ended September 30, 2006 versus three months ended September 30, 2005

The following table and discussion sets forth the change in sales and the major items impacting the change in operating income for the three month period ended September 30, 2006 compared to the three month period ended September 30, 2005.

	Three Months Ended		
	September 30,	September 30,	Increase
	2006	2005	(Decrease)
NET SALES AND SERVICE REVENUE	$ 7,127,537	$ 6,951,350	$ 176,187
GROSS PROFIT	1,670,698	1,431,630	239,068
OPERATING INCOME	186,392	179,366	7,026
SIGNIFICANT ITEMS THAT INCREASED (DECREASED) OPERATING INCOME			
Gross Profit:			
Sales			$ 176,187
Cost of sales excluding depreciation, amortization and capitalization			(46,438)
Depreciation and Amortization			(62,104)
Capitalization of Software Costs			171,423
			239,068
Operating Expenses:			
Salaries, wages and benefits			(89,804)
Reverse acquisition costs			(960)
Merger Costs			(21,709)
Stock based compensation			(179,937)
Professional and legal compliance and litigation related costs			88,890
Marketing costs			(33,509)
Travel and mobile costs			23,094
Depreciation			(20,263)

Other SG&A expenses		2,156
	$	7,026

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Revenue

Total sales in the third quarter of 2006 increased $176,187 in comparison with the third quarter of 2005. This net increase includes a $414,457 increase in software sales and services through the Software applications segment and a $238,270 decrease in hardware sales and services through the Technology solutions segment.

The increase in the Software solutions segment was mainly due to increases in software support agreements and sales of third party software, while new client software sales and related services remained relatively flat. Software support agreement revenues showed steady growth in third quarter 2006 over third quarter 2005 due to the addition of new software customers in third quarter 2005 and through the current quarter. Software service revenues showed improvement due to a number of implementation projects being completed in the third quarter of 2006, and increases in sales of third party software.

The decrease in the Technology solutions segment sales for the third quarter came from decreases in hardware product sales, partially offset by increases in engineering services and third party service agreements. The decrease in hardware product revenues was related to large technology sales of primarily Internet-protocol telephony product sales in prior periods that did not reoccur in the current period, offset in part by increases in interactive white board products, essentially netting to the total decrease.

Gross Profit

Gross profit in the third quarter of 2006 increased $239,068, or 16.7%, in comparison with the third quarter of 2005. The gross margin percentage was 23.4% and 20.6% for the quarters ended September 30, 2006 and 2005, respectively. The overall increase in gross profit can be attributed to improvements in the software gross profit of approximately 40.0%, offset in part by a decline in hardware gross profit of 2.0%. The improvement in software gross profit for the quarter came from an increase in software support agreement revenues over the prior year period. Hardware gross profit declined as a result of decreased hardware sales, offset in part by increases in commissions and engineering services.

Operating Expenses

Operating expenses increased $232,042, or 18.5%, in the third quarter of 2006 compared to the third quarter of 2005. The above table analyzes the major items that account for this increase. The majority of the increase, approximately $180,000, was related to stock based compensation as a result of the Company s issuance of stock to both non-employee directors and outside consultants for services rendered, and increased salaries and wages related to the hiring of additional administrative staff to assist with public reporting in the second and third quarters of 2006. Following is a brief explanation of the other operating expenses and the related impact in the third quarter.

Reverse acquisition and acquisition costs increased approximately $23,000 in third quarter 2006. This increase is the result of minimal reverse acquisition costs, approximately $1,000, being expensed in the third quarter 2006, and primarily relates to the increase in costs associated with the intent to acquire McAleer Computer Associates, Inc.

Stock based compensation represents costs in connection with the issuance of stock awards to non-employee directors and outside consultants in 2006 and the redemption of options in 2005. Subsequent to the end of the first quarter 2005, our board of directors approved a new plan for the award of stock-based compensation to employees, directors and consultants. The new plan provides for the award of options, restricted stock or stock appreciation rights at the discretion of the compensation committee of the board of up to an aggregate of 1,100,000 shares. In February and March of 2006, the compensation committee of the board of directors reached a definitive agreement as to the terms surrounding compensation related to the reverse merger, and awarded our outside directors 196,992 shares of common stock and awarded outside consultants 344,734 shares of common stock under our 2005 Incentive Compensation Plan. Additionally, in June 2006 Jeffery A. Bryson was elected to our Board of Directors and awarded 23,350 shares of common stock under our 2005 Incentive Compensation Plan. In July, the Company entered into an Investor Relations Consulting Agreement with Alliance Advisors, LLC, and as a result issued to Alliance sixty thousand (60,000) shares of restricted common stock.

Total stock compensation issued in the third quarter of 2006 was $179,936, while no stock based compensation was record in the third quarter of the prior year.

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Professional and legal compliance and litigation related costs decreased in third quarter 2006, over third quarter 2005 by $88,890. A significant amount of this decrease was related to reduced registration costs and litigation expenses related to the reverse merger, partially offset by increased costs associated with ongoing compliance. While the costs associated with the original registration are likely to decrease in future periods, we anticipate that the audit fees and Sarbanes-Oxley related costs will continue.

Marketing costs increased due to the establishment of a new brand for CSI: CSI *Technology Outfitters* Computers. Software. Innovations. We are using Technology Outfitters to connote our ability to outfit organizations with a variety of technology and software solutions. We have also redesigned our website to match this theme and created a brochure which presents a wider range of offerings that can be communicated quickly in summary form. We spent $33,509 on marketing, including our re-branding efforts in, the third quarter of 2006, while there were virtually no marketing costs in the third quarter of 2005.

Travel and mobile costs decreased in third quarter 2006 over third quarter 2005 by $23,094. These costs decreased due to reduced travel requirements across various departments.

Depreciation expense increased as a result of increased capitalized costs related to the relocation of our corporate headquarters late in 2005 and early in 2006 being depreciated in the third quarter of 2006.

Other SG&A expenses decreased by $2,156 as a result of small decreases across various administrative cost accounts.

Operating Income

Operating income increased from the year ago quarter by $7,026 or 3.9%. The increase in the third quarter was largely attributed to the increase in gross profit, partially offset by the increases in operating expenses. The increase in gross profit was attributed to a decline in hardware gross profit, offset by improvements in the software gross profit, the net of which was reduced by increases in various operating expenses as discussed above.

Segment information

CSI is organized into two segments: Software applications and Technology solutions.

Software applications segment

Through our Software applications segment, we develop, sell, deploy and provide ongoing support of proprietary software applications.

	Three Months Ended		
	September 30, 2006	September 30, 2005	Increase (Decrease)
NET SALES AND SERVICE REVENUE	$ 1,448,180	$ 1,033,723	$ 414,457
GROSS PROFIT	891,762	636,859	254,903
SEGMENT INCOME (LOSS)	359,657	130,770	228,887

SIGNIFICANT ITEMS THAT INCREASED (DECREASED) SEGMENT INCOME	
Gross Profit:	
Sales	$ 414,457
Cost of sales excluding depreciation, amortization and capitalization	(272,453)
Depreciation and Amortization	(58,524)
Capitalization of Software Costs	171,423
	254,903
Operating Expenses:	
Salaries, wages and benefits	(13,468)
Other SG&A expenses	(12,548)

$ 228,887

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The increase in the Software applications segment was mainly due to increases in software support agreements and sales of third party software, while new client software sales and related services remained relatively flat. Software support agreement revenues showed steady growth in third quarter 2006 over third quarter 2005 due to the addition of new software customers in third quarter 2005 and through the current quarter. Software service revenues showed improvement due to a number of implementation projects being completed in the third quarter of 2006, and due to increases in third party software sales as well.

The cost of sales excluding depreciation, amortization and capitalization increased primarily due to an increase in salaries and wages resulting from the addition of the .Net Microsoft SQL (application programming language and database conversion) team throughout 2005 and the addition of software services staff in 2006. In addition to salaries and wages, the increase was related to an increase in purchased third party software components, as installations in third quarter 2006 required more purchased components than in the year-ago quarter, which was offset by a decrease in travel and mobile costs associated with software services. The increases in deferred software costs and amortization are primarily associated with increased costs and subsequent amortization of those costs which are associated with the conversion of our integrated financial management software, CSI+, to ..Net SQL., work on our standards based lesson planning software, curriculator and our application delivery solution, DeliveryPoint.

The increase in the salaries and wages component of operating expenses was related to an increase in sales and pre-sales salaries, as well as the addition of administrative staff in the second and third quarter of 2006. Other SG&A expenses increased primarily as a result of increased non-compliance related professional fees including expenses for sales consulting, market research and trademark activities, as well as increased marketing costs associated with the re-branding of CSI s products and services.

Technology solutions segment

Through our Technology solutions segment, we provide technology solutions through the sales and distribution of computer based technologies and accessories and offer a wide range of technology hardware and consulting services, including network and systems integration and computer support and maintenance services.

	Three Months Ended		
	September 30, 2006	**September 30, 2005**	**Increase (Decrease)**
NET SALES AND SERVICE REVENUE	$ 5,679,357	$ 5,917,627	$ (238,270)
GROSS PROFIT	778,936	794,771	(15,835)
SEGMENT INCOME	101,709	209,854	(108,145)

SIGNIFICANT ITEMS THAT INCREASED (DECREASED) SEGMENT INCOME	
Gross Profit:	
Sales	$ (238,270)
Cost of sales excluding depreciation	226,015
Depreciation	(3,580)
	(15,835)
Operating Expenses:	
Salaries, wages and benefits	(76,337)
Other SG&A expenses	(15,973)
	$ (108,145)

Technology solutions sales decreased over third quarter 2005 by $238,270 or 4.0%, due to decreases in new hardware sales, which were partially offset by increases in engineering service revenues and third party service agreement revenues. The decrease in new hardware sales is attributed to significant sales of Internet-protocol telephony product sales that occurred in the third quarter of 2005, totaling approximately $2,000,000, for which there were no comparative sales in the third quarter of 2006. These significant decreases where offset in part by increases in sales of interactive white board products and related engineering services. In addition, new hardware sales related to computer systems and peripherals, where CSI purchased the hardware and acted as reseller rather than agent, increased over prior year. Hardware gross profit declined as a result of decreased hardware product sales as discussed above, offset in part by increases in commissions and higher margin engineering services. The significant increase in cost of sales excluding depreciation is the result of the increases in hardware sales where CSI acted as reseller, as well as increases in salaries related to technical delivery and travel and mobile costs.

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The increase in the salaries and wages component of operating expenses was related to an increase in sales and pre-sales salaries, as well as the addition of administrative staff in the second and third quarters of 2006. Other SG&A expenses increased primarily as a result of increased non-compliance related professional fees including expenses for sales consulting, market research, and trademark activities, as well as increased marketing costs associated with the re-branding of CSI s products and services.

The following tables summarize information about segment profit and loss for the quarters ended September 30, 2006 and 2005 and assets allocated to segments as of September 30, 2006 and 2005.

	Software Applications	Technology Solutions	Total Company
Quarter ended September 30, 2006:			
Net sales and service revenue	$ 1,448,180	$ 5,679,357	$ 7,127,537
Gross profit	891,762	778,936	1,670,698
Segment income	359,657	101,709	(*)
Segment assets	3,001,817	4,831,736	7,833,553
Quarter ended September 30, 2005:			
Net sales and service revenue	$ 1,033,723	$ 5,917,627	$ 6,951,350
Gross profit	636,859	794,771	1,431,630
Segment income	130,770	209,854	(*)
Segment assets	2,575,707	5,971,862	8,547,569

* See reconciliation below

Reconciliation of Segment income (non-GAAP measure) to operating income per consolidated Statements of Operations (GAAP measure):

	Quarter Ended September 30, 2006	September 30, 2005
Segment income:		
Software applications segment	$ 359,657	$ 130,770
Technology solutions segment	101,709	209,854
TOTAL SEGMENT INCOME	461,366	340,624
Less: Merger and compliance costs		
Stock based compensation	(179,937)	
Professional and legal compliance and litigation related costs	(72,368)	(161,258)
Reverse acquisition costs	(960)	
Acquisition costs	(21,709)	
OPERATING INCOME Per consolidated Statements of Operations	$ 186,392	$ 179,366

Interest and Other Income and Expenses

Interest expense increased approximately $29,000 in the third quarter of 2006 compared to the third quarter of 2005 due to the additional interest costs incurred related to increased notes payable to our bank and additional interest paid to the five original shareholders of CSI South Carolina and Barron Partners LP as a penalty for deferring payment on the subordinated notes payable associated with the reverse merger transactions. A material decrease in other income and expenses related to the unrealized gain on warrants recorded in 2005 which did not recur in 2006. In the third quarter of 2005, CSI recognized a non-cash gain related to the accounting for the warrants of approximately $1.2 million ($720,000 net of tax) due to an increase in the market value of the warrants based on the Black-Scholes valuation method. While this item did not have a significant impact in the second quarter 2006, the warrant gains in the third and fourth quarters of 2005 had a significant effect on comparability in the third quarter of 2006, and are anticipated to have such a like affect in the fourth quarter of 2006. As a result, CSI s net income in the third quarter of 2006 as discussed below, was significantly below that of the prior year taking into consideration the non-cash gains recorded in 2005 associated with the warrants. Again, we expect that the fourth quarter of 2006 will be likewise affected.

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Income Taxes

Income taxes decreased by $395,830, or 76.8%, in the third quarter of 2006 compared to the third quarter of 2005. The decrease was primarily a result of having no gain associated with the warrants in the third quarter 2006, partially offset by the improvement in operating income.

Net Income (loss) and Earnings (loss) per Share

Net income decreased $817,281, or 105.0%, to a net loss of $39,163 for third quarter 2006. The decrease in net income was the result of the reduction in hardware gross profit, increased operating expenses, the increase of stock based compensation costs, and the absence of the unrealized gain on the warrants in the 2006 quarter, which were partially offset by the improvements in software margins and the absence of reverse acquisition costs.

Basic earnings per share declined from $0.30 in the third quarter of 2005 to a loss per share of $0.01 in the third quarter of 2006. Diluted earnings per share declined, from $.06 per share in third quarter 2005 to $0.01 per share in 2006. The additional preferred stock, common shares underlying warrants and employee held options issued in connection with the merger in February 2005 were included in the calculation of diluted earnings per share for third quarter 2005, but were not included for the third quarter 2006 as their effect would have been anti-dilutive. See Note 2 to the financial statements for additional discussion concerning the calculation of earnings per share.

Consolidated Results of Operations for nine months ended September 30, 2006 versus nine months ended September 30, 2005

The following table and discussion sets forth the change in sales and the major items impacting the change in operating income for the nine month period ended September 30, 2006 compared to the nine month period ended September 30, 2005.

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Increase (Decrease)
NET SALES AND SERVICE REVENUE	$ 22,671,638	$ 18,342,082	$ 4,329,556
GROSS PROFIT	5,371,004	5,127,196	243,808
OPERATING INCOME	332,733	384,894	(52,161)
SIGNIFICANT ITEMS THAT INCREASED (DECREASED) OPERATING INCOME			
Gross Profit:			
Sales			$ 4,329,556
Cost of sales excluding depreciation, amortization and capitalization			(4,301,291)
Depreciation and Amortization			(218,397)
Capitalization of Software Costs			433,940
			243,808
Operating Expenses:			
Salaries, wages and benefits			(379,481)
Reverse acquisition costs			695,154
Stock based compensation			(243,974)
Acquisition Costs			(38,273)
Professional and legal compliance and litigation related costs			(52,462)
Marketing costs			(124,639)
Travel and mobile costs			(56,772)
Depreciation			(68,343)
Other SG&A expenses			(27,179)
			$ (52,161)

Revenue

Our revenues for the first nine months of 2006 were $22,671,638, $4,329,556 or 23.6% higher than the first nine months of 2005. The favorable change resulted from increases in sales over the prior year periods $750,100, $3,403,269 and $176,187 in the first, second and third quarters of 2006. Technology solutions segment product sales of infrastructure and network

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products, instructional hardware, computer systems and printing and fax machines increased substantially through the first and second quarters. However, such sales were down in comparison to the prior year nine months due to significantly decreased Internet-protocol telephony product sales in the third quarter of 2005, with no comparative sales in the same period of 2006. The decrease in the Internet-protocol telephony product sales was offset in part by increases of computer systems and peripherals, where CSI purchased the hardware and acted as reseller rather than agent.

The increase in the Software applications segment sales was due to increases in software support agreement revenues and software service revenues, with the most significant increases related to software support agreement revenues. New client software sales increased in both the first and second quarters of 2006, compared to the same quarters in 2005, and remained relatively flat for the third quarter 2006 in comparison to prior period. Software service revenues were down in the first quarter but picked up in the second and third quarters due to a number of implementations being completed. Additionally, revenues related to support agreement services showed steady growth due in part to the addition of new software clients since the prior year, but more significantly showed improvement in the movement of some existing clients to enhanced support offerings.

Gross Profit

Gross profit was $5,371,004 for the first nine months of 2006, an increase of $243,808 or 4.8% over the same period of the prior year. The gross margin was 23.7% for the first nine months of 2006 versus 28.0% for the same period of 2005. The increase in gross profit for the nine months was attributed to the increase in software profits, partially offset by a decline in hardware gross profits. This overall increase in gross profit for the nine months was driven by the increases in gross profit for both segments in the first quarter, which was completely offset by the decreases in hardware gross profit for the second quarter, leaving the increase in software gross profits in the third quarter as the most substantial driver for the increase in the first nine months of 2006. The overall decrease in margin percentage can be attributed to the decrease in hardware margins due to reduced hardware sales of higher margin product in the third quarter, coupled with the increase in new hardware sales related to large dollar sales of computer systems and peripherals, where CSI purchased the hardware and acted as reseller rather than agent. These factors were partially offset by sales of higher margin engineering services and the improvement in software margins resulting from the increase in new software sales and support coupled with a decrease in related costs due to a decrease in the costs of purchased third party software components for the first nine months of 2006.

Operating Expenses

Operating expenses were $5,038,271 for the first nine months of 2006, an increase of $295,969 or 6.2% over the same period of the prior year. The above table analyzes the major items that account for this increase. The majority of the increase is reflected in the $379,481 increase in salaries and wages, the $243,974 increase in stock based compensation, the $52,462 increase in legal and professional compliance and litigation costs, and the $124,639 increase in marketing costs, all of which were partially offset by the absence of reverse acquisition costs in 2006. The increase in salaries, wages and benefits was primarily due to the increase in the sales and pre-sales staff and increased administrative staff hired in the second and third quarters of 2006. Following is a brief explanation of the other operating expenses and the related impact in the third quarter.

Reverse acquisition costs decreased significantly, by approximately $700,000, in the first nine months of 2006, as the majority of the reverse acquisition costs were incurred and expensed in connection with the completion of the reverse merger in 2005.

Stock based compensation represents costs in connection with the issuance of stock awards to non-employee directors and outside consultants in 2006 and the redemption of options in 2005. Subsequent to the end of the first quarter 2005, our board of directors approved a new plan for the award of stock-based compensation to employees, directors and consultants. The new plan provides for the award of options, restricted stock or stock appreciation rights at the discretion of the compensation committee of the board of up to an aggregate of 1,100,000 shares. In February and March of 2006, the compensation committee of the board of directors reached a definitive agreement as to the terms of compensation for our outside directors, and awarded our outside directors 196,992 shares of common stock and awarded outside consultants 344,734 shares of common stock under our 2005 Incentive Compensation Plan. Additionally, in June 2006, Jeffery A. Bryson was elected to our Board of Directors and awarded 23,350 shares of common stock under our 2005 Incentive Compensation Plan. In July, the Company entered into an Investor Relations Consulting Agreement with Alliance Advisors, LLC, and as a result issued to Alliance sixty thousand (60,000) shares of restricted common stock.

Total stock compensation issued in the first three quarters of 2006 was $1,033,043, of which $613,954 was earned in the first quarter upon issuance of the stock awards following the reaching of a definitive agreement with outside directors and outside consultants as to the terms of compensation for the services performed to date. In second quarter 2006, $81,258 was earned and $179,936 was earned in the third quarter of 2006, leaving $157,895 as unearned stock compensation at September 30, 2006.

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Professional and legal compliance and litigation related costs increased slightly in the first nine months of 2006, over the corresponding period of 2005 by $52,462 due to the costs associated with operating as a public company, including initial Sarbanes-Oxley implementation costs incurred for the first time in the current year, partially offset by reduced registration costs and litigation expenses. A significant amount of these costs in the third quarter of 2006 were related to audit fees, initial Sarbanes-Oxley implementation costs, and various other costs associated with the requirements of operating as a public company. While the costs associated with the reverse merger are likely to decrease in future periods, the Company anticipates that the audit fees and Sarbanes-Oxley related costs will continue. The Company cannot quantify how much professional and legal compliance and litigation related costs will be in future periods as it is unable to project events which may impact these amounts. However, the Company has budgeted approximately $600,000 for these costs in 2006.

Marketing costs increased due to the establishment of a new brand for CSI: CSI *Technology Outfitters* Computers. Software. Innovations. We are using Technology Outfitters to connote our ability to outfit organizations with a variety of technology and software solutions. We have also redesigned our website to match this theme and created a brochure which presents a wider range of offerings that can be communicated quickly in summary form. We spent a total of $124,639 on marketing, including our re-branding efforts in the first, second and third quarters of 2006, while there were virtually no such marketing costs in the same quarters of 2005.

Travel and mobile costs increased slightly in the first nine months of 2006 over the first nine months of 2005 by $56,772. These costs increased due to increased sales staff, increases in fuel costs and increased travel requirements of senior management.

Depreciation expense increased as a result of increased capitalized costs related to the relocation of our corporate headquarters late in 2005 and early in 2006 being depreciated in the first nine months of 2006.

Other SG&A expenses increased as a result of non-compliance related professional fees for sales consulting, market research, and trademark activities, as well as increased marketing costs associated with the re-branding of CSI s products and services.

Operating Income

Operating income for the nine months ended September 30, 2006 was $332,733, a decrease of $52,161 or 13.6% compared to the same period of the prior year. This decrease in operating income was largely the result of the $522,877 improvement in the first quarter of 2006 being more than offset by the decrease of $582,063 in the second quarter of 2006. The overall decline in the first nine months of 2006 was a result of increased sales and improved software margins, offset by reduced hardware margins and increases in our operating expenses primarily as a result of increases in salaries, wages and benefits; professional and legal compliance costs; marketing costs; travel and mobile costs; and depreciation and amortization.

Segment information

Software applications segment

	Nine Months Ended September 30, 2006	September 30, 2005	Increase (Decrease)
NET SALES AND SERVICE REVENUE	$ 3,998,257	$ 3,162,511	$ 835,746
GROSS PROFIT	2,470,816	1,817,419	653,397
SEGMENT INCOME	875,069	474,027	401,042

SIGNIFICANT ITEMS THAT INCREASED (DECREASED) SEGMENT INCOME	
Gross Profit	
Sales	$ 835,746
Cost of sales excluding depreciation, amortization and capitalization	(432,107)
Depreciation and Amortization	(184,182)
Capitalization of Software Costs	433,940
	653,397

Operating Expenses	
Salaries, wages and benefits	(130,504)
Other SG&A expenses	(121,851)
	$ 401,042

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Software applications segment sales increased by $835,746, or 26.4%, due to increases in new client software sales and software service revenues, and continued growth of support agreement revenues. Software service revenues were down in the first quarter but picked up in the second and third quarters due to a number of training projects being completed.

Cost of sales excluding depreciation, amortization and capitalization increased in the first nine months of 2006 by $432,107, or 36.0%, over the first nine months of 2005. This increase was the result of increased salaries and wages due to the addition of the .Net Microsoft SQL (application programming language and database conversion) team throughout 2005, and increased travel and mobile costs, the total of which was offset in part by a decrease in costs associated with purchased components related to software. Installations in the first nine months of 2006 did not require significant purchased third party software components. The increases in deferred software costs and amortization are primarily associated with increased costs and subsequent amortization of those costs, which are associated with the conversion of our integrated financial management software, CSI+, to .Net SQL., work on our standards based lesson planning software, curriculator and our application delivery solution, DeliveryPoint.

The increase in the salaries and wages components of in operating expenses related to an increase in sales and pre-sales salaries and commissions, as a result of increased sales, as well as the addition of administrative staff in the second and third quarters of 2006. Other SG&A expenses increased primarily as a result of increased non-compliance related professional fees for sales consulting, market research, and trademark activities, as well as increased marketing costs associated with the re-branding of CSI s products and services and the hiring of a marketing director in the third quarter of 2006.

Technology solutions segment

	Nine Months Ended September 30, 2006	September 30, 2005	Increase (Decrease)
NET SALES AND SERVICE REVENUE	$ 18,673,381	$ 15,179,571	$ 3,493,810
GROSS PROFIT	2,900,188	3,309,777	(409,589)
SEGMENT INCOME	869,237	1,730,651	(861,414)

SIGNIFICANT ITEMS THAT INCREASED (DECREASED) SEGMENT INCOME	
Gross Profit	
Sales	$ 3,493,810
Cost of sales excluding depreciation	(3,869,184)
Depreciation	(34,215)
	(409,589)
Operating Expenses	
Salaries, wages and benefits	(296,743)
Other SG&A expenses	(155,082)
	$ (861,414)

Technology solutions segment product sales of infrastructure and network products, instructional hardware, computer systems and printing and fax machines increased substantially through the first and second quarters, but were down in comparison to the prior year nine months due to significant decreases Internet-protocol telephony product sales which occurred in the third quarter of 2005, with no comparative sales in the same period of 2006. The decrease in Internet-protocol telephony product sales was offset in part by increases of computer systems and peripherals, where CSI purchased the hardware and acted as reseller rather than agent.

The increase in the salaries and wages component of operating expenses was related to an increase in sales and pre-sales salaries and commissions, as a result of increased sales efforts, as well as the addition of administrative staff in the second and third quarters of 2006. Other SG&A expenses increased primarily as a result of increased non-compliance related professional fees for consulting, market research, and trademark activities, as well as increased marketing costs associated with the re-branding of CSI s products and services, and the hiring of a marketing director in the third quarter of 2006.

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The following tables summarize information about segment profit and loss for the nine month periods ended September 30, 2006 and 2005 and assets allocated to segments as of September 30, 2006 and 2005.

	Software Applications	Technology Solutions	Total Company
Nine months ended September 30, 2006:			
Net sales and service revenue	$ 3,998,257	$ 18,673,381	$ 22,671,638
Gross profit	2,470,816	2,900,188	5,371,004
Segment income	875,069	869,237	(*)
Segment assets	3,001,817	4,831,736	7,833,553
Nine months ended September 30, 2005:			
Net sales and service revenue	$ 3,162,511	$ 15,179,571	$ 18,342,082
Gross profit	1,817,419	3,309,777	5,127,196
Segment income	474,027	1,730,651	(*)
Segment assets	2,575,707	5,971,862	8,547,569

* See reconciliation below

Reconciliation of Segment income (non-GAAP measure) to operating income per consolidated Statements of Operations (GAAP measure):

	Nine Months Ended September 30, 2006	September 30, 2005
Segment income:		
Software applications segment	$ 875,069	$ 474,027
Technology solutions segment	869,237	1,730,651
TOTAL SEGMENT INCOME	1,744,306	2,204,678
Less: Merger and compliance related costs		
Stock based compensation	(875,148)	(631,174)
Payroll tax expenses in Other selling, general and administrative costs related to stock option compensation from stock option redemption in connection with merger		(47,766)
Reverse acquisition costs	(64,129)	(759,283)
Acquisition costs	(38,273)	
Professional and legal compliance costs	(434,023)	(381,561)
OPERATING INCOME Per Statement of Operations	$ 332,733	$ 384,894

Interest and other income and expenses

Interest income decreased by approximately $3,000 due to the Company only receiving interest on overnight invested funds related to its bank line of credit for a few weeks in 2006, while the Company received interest income from approximately $3 million held in a money market account for the first portion of the first quarter in 2005. Interest expense increased $103,645 in the first nine months of 2006 compared to the first nine months of 2005 due to the additional interest costs incurred related to the notes payable to our bank and additional interest paid to the five original shareholders of CSI South Carolina and Barron Partners LP on the subordinated notes payable associated with the reverse merger transaction.

A material decrease in other income and expenses occurred related to the unrealized loss on warrants recorded in 2005 which did not recur in 2006. In the first nine months of 2005, we recognized a non-cash loss related to the accounting for the warrants of approximately $2.0 million (approximately $1.2 million net of tax) due to a decrease in the market value of the warrants based on the Black-Scholes valuation method. Accordingly, the nine month 2006 improvement is significant in comparison to the loss in the prior year s nine month period. However, the warrant loss in the first six months of 2005 was offset by significant gains in the third and fourth quarters of 2005. As a result, CSI s net income for the third quarter of 2006, discussed below, is significantly below that of the prior year taking into consideration the non-cash gains recorded in the 2005 third quarter associated with the warrants. Likewise, CSI s net income to be reported for the fourth quarter of 2006 will likely be similarly affected.

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Income Taxes

Income taxes increased by approximately $800,000, or 112.7%, in the first nine months of 2006 compared to the first nine months of 2005. The increase was due in part to the reduction in operating income but more significantly, the absence in 2006 of the tax effect, approximately $800,000, of the $2.0 million loss associated with the warrants in 2005.

Net Income (Loss) and EPS

For the first nine months of 2006, we reported a net loss of $67,905, reflecting an improvement of $1,734,830, or 96.2%, compared to the net loss of $1,802,735 for first nine months of 2005. The reduced loss was due primarily to the absence of the unrealized loss on the warrants which occurred in 2005, which offset the decrease in operating income.

Basic earnings per share improved from a loss per share of $0.41 in the first nine months of 2005, to a loss per share of $0.02 in the first nine months of 2006. Diluted earnings per share also improved from the $0.41 loss per share in the first nine months of 2005 to a loss per share of $0.02 in the first nine months of 2006. Diluted earnings per share were the same as basic earnings per share for the nine months ended September 30, 2005 and 2006, as the effect of potential shares from the exercise of the preferred stock, options and warrants, due to losses being reported in both periods, was anti-dilutive. Due to being anti-dilutive, the additional preferred stock and common shares underlying warrants and employee held options issued in connection with the merger in February 2005 were not included in the calculation of diluted earnings per share for the nine months ended September 30, 2005 and 2006. See Note 2 to the financial statements for additional discussion surrounding the calculation of earnings per share. Also see comments regarding net income to be reported for the fourth quarter in the Interest and other income and expenses section above.

Liquidity and Capital Resources

Cash remained $0.00 at September 30, 2006, due to cash provided by operations of $2,457,820, cash used for investing activities of $1,751,790 and cash used for financing activities of $706,030.

Cash from Operating Activities

Cash provided by operating activities totaled $2,457,820 in the first nine months of 2006 compared to cash used for operating activities of $1,533,989 in the first nine months of 2005. The increase of $3,991,809 in 2006 is due primarily to the decrease in operating losses, the increase in depreciation and amortization, and the decrease in accounts receivable. These favorable changes were offset against the absence of the loss related to the warrant, the change in deferred income taxes and changes in the additional current assets and liabilities balances as noted below.

Changes since year end to balance sheet items related to operating activities are as follows:

Decreases in the consolidated balance sheet line items for accounts receivable and accounts payable were due to the collection of funds and subsequent payment of vendor invoices in the third quarter of 2006 as a result of large technology deals, which occurred in the second quarter of 2006. In these transactions, we acted as reseller rather than agent, and therefore recorded significant amounts due from clients and due to vendors supplying the product sold related to these deals. Increased hardware demand and timing of sales also resulted in an increase in inventories. The increase in deferred revenue is in connection with the significant increase in support agreements previously discussed, as the revenue associated with these agreements is deferred over the lives of the agreements. The decrease in the taxes receivable balance is the result of the filing of the 2005 tax return, and the subsequent change in management s estimate of timing and realization of the tax benefits related to nondeductible items including sales-side meals and entertainment, acquisition activities, and capitalization of software development costs. The changed estimate resulted in a shift between current and deferred taxes for temporary items, and was also impacted by the payment in 2006 of certain 2005 year end accruals.

Cash from Investing Activities

Cash used for investing activities totaled $1,751,790 in the first nine months of 2006, compared to $828,170 in the first nine months of 2005. The increase of $923,620 is due primarily to the continued investment in development of the .Net version of CSI s major software modules, the investment in curriculator software and increased purchases of property and equipment primarily related to the relocation of the corporate headquarters in the first quarter of 2006.

Cash from Financing Activities

Cash used for financing activities netted to $706,030 in the first nine months of 2006, compared to cash used of $1,294,318 in the first nine months of 2005. The decrease of $588,288 is due primarily to the absence of activities related to the reverse acquisition in 2005.

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EBITDA and Adjusted EBITDA for the Quarter and Nine Month Period Ended September 30, 2006

EBITDA decreased 71.4% to $440,997 in the third quarter of 2006 compared to $1,542,530 reported in the third quarter 2005. This was primarily due to the decrease in net income of $817,281, or 105.0%, over the prior year third quarter net income. Adjusted EBITDA increased 76.9% to $621,894 for the third quarter 2006, compared to $351,604 for the third quarter 2005. The increase in adjusted EBITDA is related to the unrealized gain on the financial instrument that was recognized in third quarter 2005.

EBITDA increased 159.8% to $1,106,383 for the first nine months of 2006 compared to the EBITDA loss of $1,850,358 reported for the first nine months of 2005. This increase was due to the increase in net income of $1,734,830, or 96.2%, over the same period of the prior year. This increase in net income is due to the loss on the financial instrument and the corresponding tax benefit being recorded in the first nine months of 2005, with no such loss or tax effect occurring in the same period of 2006. Adjusted EBITDA for the first nine months of 2006 increased by 32.6% to $2,045,660 compared to the same period in the prior year. This increase is also driven by the increase in net income, but is reduced by the reduction of the adjustments associated with the loss related to the financial instrument and the significant decrease in reverse merger costs in 2006.

EBITDA and Adjusted EBITDA are non-GAAP financial measures used by management, lenders and certain investors as a supplemental measure in the evaluation of some aspects of a corporation s financial position and core operating performance. When evaluating EBITDA and Adjusted EBITDA, investors should consider, among other things, increasing and decreasing trends in both measures and how they compare to levels of debt and interest expense, ongoing investing activities, other financing activities and changes in working capital needs. Moreover, these measures should not be construed as alternatives to net income (as an indicator of operating performance) or cash flows (as a measure of liquidity) as determined in accordance with GAAP. For a reconciliation of EBITDA and Adjusted EBITDA to Net Income under GAAP, please refer to the information discussed above in Non-GAAP Financial Measures: Earnings Before Interest Expense (net), Income taxes, Depreciation and Amortization (EBITDA) and Adjusted EBITDA.

All companies do not calculate EBITDA or adjusted EBITDA in the same manner. Accordingly, the EBITDA and adjusted EBITDA measures presented may not be comparable to similarly titled measures of other companies.

Credit Arrangements

During the first quarter of 2005, in order to support the activities of the reverse acquisition, the Company entered into a $3.0 million line of credit facility with a bank whereby the Company can borrow up to 80% of accounts receivables balances, not to exceed the total facility limit of $3.0 million. In the first quarter of 2006, this facility was renewed with an increased limit of $3.5 million. Eligible accounts receivable balances essentially include all of our trade accounts receivable except, in most cases, those accounts which are more than 90 days past due. Certain other accounts are excluded from eligibility for borrowing including: (i) accounts due from affiliates; (ii) accounts which we have determined to be of doubtful collectibility; and (iii) accounts due from any one of our customers if such accounts constitute more than 20% of the total eligible accounts. Immediately upon entering into the loan agreement in 2005, the Company borrowed $1,500,000 which was used for the paydown of a portion of the subordinated notes issued in connection with the merger. The loans bear interest at Libor plus 0.275%, (8.08% at September 30, 2006), payable monthly. The original facility matured on July 15, 2006, following short-term extensions to align the renewal period to follow the Company s annual reporting and board and stockholder meeting time frames. On July 14, 2006, the Company executed a modification agreement extending the maturity date of the facility from July 15, 2006 to July 15, 2007. The modification agreement also increased the principal amount of the facility from $3.0 million to $3.5 million. The reason for the increase in principal is to support increasing working capital requirements of the Company.

Loans under the facility are secured by a first priority lien on all of our personal property to the lender, including all accounts, equipment, inventory, contract rights and intangibles. Under the facility, CSI is subject to restrictive covenants, the primary terms of which restrict incurring debt, making loans, changing approved executive compensation arrangements or making distributions or investments which would violate the restrictive covenants in the loan agreement. The agreement with our lender also requires the achievement of a debt to Adjusted EBITDA ratio of not more than 2.5:1 measured as of fiscal year end; a debt service coverage of 1.2:1.0 as measured at fiscal year end (measured as Adjusted EBITDA, as defined, divided by current maturities of long-term debt plus interest payments); Adjusted EBITDA of not less than $2,000,000; and a minimum tangible net worth of $1,500,000 (including subordinated debt). Adjusted EBITDA is defined as net income or loss adjusted for net interest expense, income tax expense or benefit, depreciation, amortization, and also certain additional items allowed to be excluded from our debt covenant calculation including other non-cash items such as operating non-cash compensation expense, and the Company s initial reorganization or restructuring related costs, unrealized gain or loss on financial instrument and gain or loss on the disposal of fixed assets. As of September 30, 2006, the Company believes it had complied with the covenants.

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On September 27, 2006, our bank lender under our credit facility entered into an agreement with respect to potential violations arising out of our negotiation, execution and delivery of the letter of intent to acquire the business operations of MCAI. At the time the letter of intent was executed, the Company was required to make an earnest money deposit in the amount of One Hundred Thousand ($100,000.00) to MCAI. Because the Company intended to use loan proceeds from the bank to make the payment to MCAI, certain covenants contained in the loan documents may have been violated. Moreover, the Company s pursuit of an asset acquisition under the terms of the letter of intent may have implicated or violated other provisions of the loan documents. Our bank granted the requested waiver to facilitate CSI entering into the letter of intent to acquire MCAI.

As of September 30, 2006 there was $655,000 of outstanding draws under our bank credit facility, and $2,845,000 was available under the facility.

The Company also has significant commitments under the subordinated notes payable to the original five shareholders of CSI South Carolina and Barron, as a result of the reverse acquisition, totaling $2,250,400, which was due and payable on May 10, 2006. The Company failed to pay the subordinated notes at maturity, and such notes are in default. Interest not paid quarterly and any principal not paid by the due date accrue interest at 15% until paid. Any potential cross-default under our bank credit facilities relating to the nonpayment of the subordinated notes has been waived by our bank lender through July 15, 2007. We have agreed with our bank to cure the default under the subordinated notes by that date if and when any such action might be deemed necessary based on discussions with the subordinated noteholders. Pursuant to the terms of our bank credit facilities, we have also agreed to obtain the consent of the bank to any modification of the terms of the subordinated notes.

Although adequate availability existed under our bank credit facility to repay in full the subordinated notes on the May 10, 2006 maturity date, we did not believe such a use of the facility practicable or in the best interest of CSI. First, we believed that draws under the credit facility to repay the subordinated notes may have left inadequate availability to support our working capital needs for the remainder of the year. Second, and more important, the subordinated debt is counted as equity in the calculations of the minimum tangible net worth requirement with the bank. Utilization on May 10, 2006 of the bank credit facility to repay the subordinated notes would probably have caused us to violate the minimum tangible net worth covenant at the next covenant test date of December 31, 2006. Looking forward, we believe it is unlikely that we will be able to generate sufficient net income during 2006 so as to permit repayment of the subordinated notes with draws under the line of credit this fiscal year and still maintain compliance with the minimum tangible net worth covenant. In addition, we may potentially use available funds under the credit facility to fund MCAI acquisition.

The Company currently plans to use the first $2,250,400 of warrant proceeds, if and when available, to repay the subordinated debt. We may also consider other arrangements, such as negotiating with the noteholders for an extension of the due date or conversion of some or all of the subordinated notes to equity. We may also consider new financing, such as in connection with an acquisition. Although the registration statement registering the resale of the warrant shares was declared effective by the SEC on February 14, 2006, we gave notice on September 11, 2006 pursuant to the registration rights agreement with Barron, to the effect that the registration statement could no longer be utilized to sell shares until the filing of an amendment to include disclosure, among other things, on our proposed acquisition of MCAI. Further, although Barron has communicated an interest in selling some of the shares underlying the warrants, we cannot predict when Barron may exercise the warrants and we will receive proceeds with which to repay the subordinated notes. Also, it should be noted that Barron may procure saleable common shares by first converting its preferred stock, thereby deferring its exercise of the two warrants. We would receive no proceeds from a conversion of the preferred stock.

We have engaged in negotiations with the subordinated noteholders to extend the maturity of the subordinated notes. Such negotiations included the consideration of the conversion of all or a portion of the subordinated notes to equity. Although we are optimistic that a successful resolution of the repayment of the subordinated notes will be obtained, and the default under such notes cured within the waiver period provided by the bank, we can give no assurances that such a resolution will in fact occur. Although the terms of the notes subordinate the rights of the holders to those of senior lenders including the bank and generally prohibit the Company from making any payments on the subordinated notes until the repayment of senior debt, the holders of the subordinated notes could potentially accelerate such debt following nonpayment by the Company at maturity. Although this would not have any direct effect on the Company, it may trigger a default under our bank line of credit. Despite what we believe to be our good relations with our bank, we are unable to predict whether our bank lender would grant another waiver under such circumstances. If our bank did not grant such a waiver, we could be forced to obtain an alternative source of financing. We can give no assurances that replacement financing would be available on acceptable

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terms, or at all. Also, it may be possible for the subordinated noteholders to bring legal action with respect to the subordinated notes, the adverse consequences of which we are unable to evaluate. However, as indicated above, we have discussed with the subordinated noteholders a delay in payment on the notes and alternatives including extending the maturity date. We do not anticipate any of such noteholders taking any action detrimental to the Company. It should be noted that five of the subordinated noteholders are currently significant stockholders of the Company, and four of these are executive officers of the Company. The sixth subordinated noteholder, Barron, holds all of the Company s preferred stock.

Future Capital Needs and Resources

Since inception, and prior to the merger, the Company had funded its operations through cash flow from operations. However, as a result of the recapitalization in connection with the reverse merger the Company has chosen to utilize a line of credit facility and term loan to assist in the financing of future costs.

Ongoing capital resources depend on a variety of factors, including our existing cash balance, the cash flow generated from our operations and external financial sources that may be available. As of December 31, 2004, our capital resources included $3.7 million of cash, which was impacted by the merger and related transactions as described in Note 3 of the interim financial statements. As a result, at December 31, 2005 our cash balance was zero, and we were funding our operations through the use of our $3.0 million line of credit. As of September 30, 2006, the Company plans to continue using the line of credit (now $3.5 million) to fund operations, while using the $400,000 term loan to support capital expenditures. In light of the additional capital needs incurred in connection with the relocation of our main offices, and to provide additional working capital availability under our line of credit, we may seek to increase our term borrowings to $1,000,000. Our ability to generate sufficient operating cash flow is dependent upon, among other things:

- the amount of revenue we are able to generate and collect from our customers;
- the amount of operating expenses required to provide our services;
- the cost of acquiring and retaining customers; and
- our ability to continue to grow our customer base.

In addition, we have submitted an offer for the purchase of substantially all of the assets of the software systems and service business owned and operated by MCAI for total consideration of approximately $4.0 million, of which approximately $3.5 million would be due and payable at closing. Assuming we negotiate a definitive acquisition agreement with MCAI and subsequently consummate the proposed acquisition, we would likely seek an increase in our current revolving loan facility and use the availability under this facility to fund the initial purchase. We are also pursuing other options which could include mezzanine financing and the raising of additional equity capital. All of these options are under consideration, and could provide longer-term financing to match the longer-term nature of an acquisition related investment. Depending on cash flow from current operations and the consummation of the acquisition, we may find longer-term funding unnecessary. In the alternative, we may not take advantage of such options, thereby paying down debt and minimizing any potential for dilution from any additional capital raise or reduced potential for future cash receipts in a warrant reset.

Factors Affecting Capital Needs and Resources

Set forth below are factors which management believes could have a significant impact on our future cash and capital needs and resources.

Customer support billings. We historically bill a significant portion of our service contracts late in the second quarter of the year. Historically this amount has exceeded $2,000,000. While revenue for service contracts is deferred over the life of the contract (typically over a year) significant cash is generated in the third quarter as a result of the service payments being billed and collected as payment for the entire future year s service. The Company borrows through its line of credit based on availability tied to its receivables. Cash collections are first used to pay down the line of credit. Thereafter, funds are available to be borrowed again based on our receivables position and line of credit limit as detailed below. Only if the line of credit was paid down and working capital needs met, would we have significant cash on our balance sheet.

Burden of Professional and Legal Compliance Costs. For the nine months ended September 30, 2006, professional and legal compliance and litigation costs, excluding stock-based (non-cash) compensation, totaled $434,023. These related primarily to compliance costs related to operating as a public company, as well as legal and accounting costs for the registration of shares pursuant to the registration rights agreement. Management anticipates that the current level of expenses should abate due to the reduced registration costs as the Company s registration statement was declared effective with the Securities and Exchange Commission on February 14, 2006. Although the Company is hopeful that costs related to supplementing the

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registration statement for updated financial and other information including a post-effective amendment to include disclosure concerning the proposed acquisition of MCAI will be minimal, there can be no assurances that this will in fact be the case and cost savings realized. Also, the compliance costs associated with public company status are significant and will continue. However management anticipates that some cost efficiencies may be gained as CSI gains experience as a reporting company and management seeks to more aggressively manage compliance costs.

Bank Credit Facility. Absent a significant cash inflow from the cash exercise of the warrants or otherwise, for the foreseeable future, we will rely on our $3.5 million line of credit facility whereby the Company can borrow up to 80% of its receivable balance, not to exceed the total facility limit of $3.5 million. As of September 30, 2006, our facility allowed for borrowing up to $3.5 million (based on adjustments for eligible receivables) of which there was $655,000 of outstanding draws under our bank credit facility, and $2,845,000 was available under the facility for additional loan advances.

Management believed that cash flow from operations was not sufficient to repay both the bank credit facility in full as of its July 2006 maturity and the subordinated promissory notes payable to shareholders in an aggregate amount of $2.3 million which were due May 10, 2006, without risk to its ability to fund working capital requirements and meet debt covenants. Management renewed the bank credit facility prior to its expiration date. On July 14, 2006, the Company and RBC Centura Bank executed a modification agreement extending the maturity date of the facility from July 15, 2006 to July 15, 2007. The modification agreement also increased the principal amount of the facility from $3.0 million to $3.5 million. The reason for the increase in principal is to support increasing working capital requirements of the Company.

Subordinated Promissory Notes. At September 30, 2006, subordinated promissory notes payable to shareholders totaled approximately $2.3 million. As described above, we failed to repay the subordinated promissory notes upon their maturity on May 10, 2006. From discussions with the holders of the subordinated notes, we anticipate that they will cooperate with the Company in formulating a new repayment schedule or other resolution. Such notes are also subordinated to our senior debt, and we believe the ability of the subordinated debt holders to have direct recourse against the Company is currently limited. However, the holders of the subordinated notes may take actions that could adversely affect the Company, including acting to accelerate the subordinated debt, thereby potentially triggering a default under our credit facility with our bank. Such noteholders also may take legal or other adverse collection actions against the Company. For further discussion regarding the subordinated notes please see Credit Arrangements above.

Short Term Capital Requirements. We currently anticipate that our capital needs for 2006 will principally consist of $1.2 million for software development and $660,000 for capital expenditures. These amounts will be funded through cashflow from operations, our line of credit or an increase in our term debt of $1,000,000.

Acquisitions. We are examining the potential acquisition of companies and businesses within our industry. We are unable to predict the nature, size or timing of any such acquisition, and accordingly are unable to estimate the capital resources which may be required. Any acquisition would be subject to our utilizing sources in addition to those described above. These alternative sources could include the issuance of our common stock or other securities in an acquisition, seller financing, and bank and other third party financing, among other things. We can give no assurance that, should the opportunity for a suitable acquisition arise, we will be able to procure the financial resources necessary to fund any such acquisition or that we will otherwise be able to conclude and successfully integrate any acquisition.

As previously disclosed, we entered into a letter of intent on September 14, 2006 to acquire the business operations of McAleer Computer Associates, Inc. We believe the proposed acquisition of this leading provider of fund accounting based financial management software in Alabama fits within our acquisition strategy. We anticipate that the acquisition of MCAI, if consummated, will provide several benefits as previously discussed in Current Challenges and Opportunities of our Business. The Company will likely seek an increase in its current revolving loan facility and use the availability under this facility to fund the initial purchase. CSI is also pursuing other financing alternatives which could include mezzanine financing or other capitalization alternatives. All of these options are under consideration, and could provide longer-term financing to match the longer-term nature of an acquisition related investment.

Potential Capital Inflow from Warrants Exercise. A significant amount of cash and capital for the Company would be generated by the exercise by Barron of its common stock warrants. The exercise of Warrant A, with an exercise price of $1.3972, would generate approximately $5 million. The exercise of Warrant B, with an exercise price of $2.0958, would generate approximately $7.6 million. The complete exercise of the warrants is in the sole discretion of Barron, subject to the restrictions in the preferred stock and the warrants prohibiting Barron from beneficially holding greater than 4.9% of our outstanding common stock, at any time. Although we presume any decision by Barron to exercise the warrants or any portion would depend upon our stock price, results of operations and the long term outlook for the development of our business, among other things, we cannot predict if and when Barron may exercise the warrants. Currently, pursuant to the registration rights agreement with Barron, Barron is unable to sell our warrant shares under the registration statement given the

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Company s notice of its intention to file a post-effective amendment to include disclosure concerning the proposed acquisition of MCAI, among other things. Accordingly, there can be no assurance that Barron will exercise the warrants and that we will receive any resulting capital.

The warrants may be exercised on a cashless basis, in which case the Company would receive no cash proceeds. However, Barron was prohibited from electing a cashless exercise until February 11, 2006, and going forward, is prohibited so long as there is an effective registration statement with respect to the shares underlying the warrants. Accordingly, it will be important in the future for us to maintain the effectiveness of the registration statement covering the warrant shares in order to assure the receipt of equity capital from the exercise of the warrants. Our registration statement was declared effective on February 14, 2006. Barron has not invoked the cashless exercise provision. However, given our notice to Barron of our intent to amend the registration statement and that Barron should refrain from sales thereunder until such amendment is declared effective, Barron may currently effect a cashless exercise pursuant to the terms of the warrants.

Long Term Debt Financing. On February 14, 2006, the Company entered into an agreement with RBC for a 42 month term loan of $400,000 at a fixed interest rate 7.5% per annum. The facility is collateralized by substantially all of the assets of the Company. The purpose of the loan was to finance capital expenditures long term and improve availability under our bank credit facility for working capital purposes. As of September 30, 2006 the Company had paid $15,173 of interest and $60,030 of principal related to the loan.

Adequacy of Liquidity and Capital Resources. Based on the foregoing, our management believes that our cash flow from operations and existing bank credit facility will be adequate to fund our short term liquidity and capital needs, so long as we are able to successfully negotiate an extension or other satisfactory restructuring of our subordinated debt. We believe that our current business plan for the organic growth of our business will not require any additional external funding, except for a possible increase in our credit line facility which we believe is obtainable with increased sales and receivables supporting the facility, and that we will be able to operate and grow our business while servicing our debt obligations. As previously noted, any acquisition would be dependent upon additional funding sources.

As stated in the letter of intent, the acquisition of MCAI is subject to our obtaining satisfactory financing. We will likely seek an increase in our current revolving loan facility and use the availability under this facility to fund the initial purchase. We are also pursuing other financing alternatives which could include mezzanine financing or other capitalization alternatives. All of these options are under consideration, and could provide longer-term financing to match the longer-term nature of an acquisition related investment. Depending on cash flow from current operations and the acquisition, should we find longer-term funding unnecessary, we may not take advantage of such options, thereby paying down debt and minimizing any potential for dilution from any additional capital raised.

In making our assessments of a fully-funded business plan, we have considered:

- cash and cash equivalents on hand or available to our operations of $0.00 at September 30, 2006;
- expected cash flow from operations;
- the anticipated level of capital expenditures of $600,000;
- software development costs of $1.2 million;
- our scheduled debt service; and
- MCAI acquisition.

If our business plans change, including as a result of changes in our products or technology; or if we decide to expand into additional markets; or if economic conditions in any of our markets generally arise and have a material effect on the cash flow or profitability of our business; or if we have a negative outcome related to the debt covenants and are unable to obtain a waiver; or are unable to successfully restructure our subordinated debt; then the anticipated cash needs of our business as well as the conclusions presented herein as to the adequacy of available sources of cash and timing of our ability to generate net income could change significantly. A decision not to exercise warrants or a cashless exercise of the Warrants could result in the necessity to pursue other funding.

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Any of these events or circumstances could involve significant additional funding needs in excess of the identified current available sources, and could require us to raise additional capital to meet these needs. However, our ability to seek additional capital, if necessary, is subject to a variety of additional factors that we cannot presently predict with certainty, including:

- the commercial success of our operations;
- the volatility and demand of the capital markets; and
- the future market prices of our securities.

There is no guarantee CSI could obtain access to additional funding or at reasonable rates. The failure of CSI to meet covenant requirements, raise capital through the exercise of the warrants or find or obtain other funding at reasonable rates, could have a negative impact on the business.

Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and disclosure of financial information by the Company.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This Statement amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The Company does not believe that the adoption of SFAS No. 155 will have a material impact on its financial position, results of operations and cash flows.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. This Statement amends FASB No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; permits an entity to choose its subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities; at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity s exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt SFAS No. 156 as of the beginning of its first fiscal year that begins after September 15, 2006. The Company does not believe the adoption of SFAS No. 156 will have a material impact on its financial position, results of operations and cash flows.

In June 2006, FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes on interpretation of FASB Statement No 109 which addresses accounting for uncertainty in income taxes and is effective for fiscal years beginning after December 15, 2006. FIN 48 is an interpretation of FASB Statement No. 109 (FAS 109), Accounting for Income Taxes. FIN 48 also amends FASB Statement No. 5, Accounting for Contingencies , to eliminate its applicability to income taxes. Under FIN 48, for each material income tax position, an entity must determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. For each tax position that meets the more likely than not recognition threshold, an entity must determine the amount of benefit to recognize in the financial statement. The tax position benefit is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. These determinations will require both technical legal analyses of tax positions as well as somewhat more subjective considerations of possible settlement outcomes. The Company has yet to adopt FIN 48, but plans to do so beginning in the 2007 fiscal year. The Company will apply the provisions of FIN 48 to all tax positions upon initial adoption. Only tax positions that meet the more likely than not recognition threshold will be recognized or continue to be recognized following adoption, with the cumulative effect of applying FIN 48 reported as an adjustment to the opening balance of retained earnings. Management is still in the process of determining the impact of the adoption of FIN 48 and its impact is not known at this time. The cumulative effect of any adjustments will be disclosed following formal adoption and completion of evaluation of the effects of the pronouncement.

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Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company s financial position, results of operations and cash flows.

Item 3. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, including, without limitation, those controls and procedures designed to insure that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosures. Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15e and 15d-15e under the Exchange Act) as of the end of the period covered by this report. Based on and as of the date of such evaluation, these officers concluded that our disclosure controls and procedures were not effective for the reasons described in the following paragraphs.

In March 2005, the Public Company Accounting Oversight Board, or PCAOB, defined a significant deficiency as a deficiency that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected, or that a company will be unable to comply with laws and regulations, which includes the timely filing of required reports with the Securities and Exchange Commission. Based upon evaluation under this standard, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company s disclosure controls and procedures were ineffective due to a significant deficiency in our internal controls over the application of existing accounting principles to new public reporting disclosures and particularly related to the application of generally accepted accounting principles to new transactions. The significant deficiency in our controls related to financial reporting was determined to exist on August 16, 2005, at which time the CFO in consultation with the CEO and the audit committee of the board of directors determined the Company still lacked sufficient internal resources to ensure compliance with new emerging issues, or to fully review its compliance in all areas of financial disclosure on a timely basis, following its inception of reporting as a public company and hiring of its first CFO with SEC reporting experience. Prior to February 11, 2005, we were a public shell with virtually no operations and had limited need for staff with highly technical accounting and public reporting expertise. In addition, our predecessor, Computer Software Innovations, Inc., a South Carolina corporation (CSI South Carolina) was a private company and likewise had no need for staff with technical accounting and public reporting expertise. In the first quarter of 2005, we entered into a complex merger and resumed public reporting of significant operations. It was not until May 6, 2005 that we hired a chief financial officer with prior public reporting experience who is accustomed to dealing with more complex accounting matters. As a result, we were unable to file without utilizing extensions and, as previously disclosed, had to amend certain of our financial reports for 2004 and 2005.

We determined that the deficiencies mentioned above would be addressed both through the hiring or engaging of additional resources and implementation of the Sarbanes-Oxley Act requirements, since this implementation could result in identification of additional areas where we may need technical resources. In January 2006 we hired an additional person with public reporting experience and engaged outside technical resources. However, based on our CFO s experience and with an increase in staff, we expect we will receive additional suggestions for improvement in controls during the process of implementing the Sarbanes-Oxley Act. We will be implementing recommendations throughout the process and are unsure of whether we will be able to entirely eliminate any possibility of a significant deficiency until we have completed this process. Even so, due to the increasing number and complexity of pronouncements, emerging issues and releases, we expect there will always be some risk related to financial disclosures, albeit mitigated following implementation of the Sarbanes-Oxley Act requirements, which we anticipate will be completed in 2007.

As discussed above, we maintain a system of internal accounting controls that is designed to provide assurance that assets are safeguarded and that transactions are executed in accordance with management s authorization and properly recorded. On September 12, 2006, the Audit Committee of our Board of Directors, in consultation with our Chief Financial Officer and Chief Executive Officer, concluded that the previously issued financial statements contained in our quarterly report on Form 10-QSB for the quarter and six months ended June 30, 2006 should not be relied upon due to an error in a transactional report which was used to accrue sales and the associated costs of goods sold in June of 2006. The error occurred despite indiscriminate sample testing of the report calculations during the review process, and corroborative inquiry as to the validity of related operational activity. To mitigate the risk of a similar error occurring in the future, we have implemented a policy to increase report testing including random sampling and a more detailed review of all large dollar amounts. The error was identified, albeit subsequent to the filing of the second quarter Form 10-QSB, due to recent improvements surrounding the reporting process which were proposed by the CFO and Board of Directors based on their experience with reporting in other companies. These changes in reporting, although primarily operationally driven, also relate to the Company s continued focus on internal controls. The event described above and its financial impact were previously disclosed in our Form 8-K which was filed with the Securities and Exchange Commission on September 18, 2006.

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As a result of the error identified through our review, we restated our financial statements as of and for the three and six months ended June 30, 2006, as set forth in our Form 10-QSB/A as filed on October 30, 2006, in order to correct the error in the period in which it originated. The decision to restate was made with the concurrence of Elliott Davis, LLC, our independent registered public accounting firm.

Other than as described above, there were no changes in the Company s internal controls over financial reporting identified in connection with the evaluation of such controls, which occurred during the three and nine month periods ended September 30, 2006, that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On July 10, 2006, the Company entered into an Investor Relations Consulting Agreement (Consulting Agreement) with Alliance Advisors, LLC (Alliance), pursuant to which Alliance shall perform certain consulting services to the Company. Pursuant to the Consulting Agreement, and as part of the compensation paid to Alliance, on August 9, 2006 the Company issued to Alliance sixty thousand (60,000) restricted shares of its common stock. The terms of the Consulting Agreement further provide that if Alliance does not complete the full one-year term of services described therein, a pro-rata portion of fifty-four thousand (54,000) shares issued to Alliance shall be returned to the Company. The issuance of these shares was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant

Our credit arrangement with RBC Centura Bank is a facility under which we may borrow, repay and then reborrow. Advances and repayments under the credit facility occur daily, reflecting cash receipts and the Company s working capital needs. The amount outstanding as of the date of this Report is $655,000. Set forth below is the outstanding balance as of specific dates during 2006. The balances presented reflect aggregate advances and paydowns which the Company deems material, or significant. Such information through July 31, 2006 was previously disclosed by the Company pursuant to our second quarter Form 10-QSB.

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Fiscal Year 2006	
Date	**Loan Balance**
August 21, 2006	1,073,000
August 31, 2006	805,000
September 5, 2006	1,559,000
September 18, 2006	707,000
September 26, 2006	460,000
September 29, 2006	655,000
October 3, 2006	297,000
October 17, 2006	-0-
October 26, 2006	-0-

Item 6. Exhibits.

Exhibit Number	Description
10.1	Letter of Intent by and between the Company, McAleer Computer Associates, Inc. and William J. McAleer dated September 12, 2006.*
10.2	Waiver Agreement by and between the Company and RBC Centura Bank dated September 27, 2006 (incorporated by reference to Exhibit 99.1 of the Company s Current Report on Form 8-K filed October 3, 2006).
10.3	Extension of Letter of Intent by and between the Company and McAleer Computer Associates, Inc. dated October 31, 2006.*
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.*
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.*
32.1	Statement of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350.*

* Filed herewith.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	COMPUTER SOFTWARE INNOVATIONS, INC.
Date: November 13, 2006	By: /s/ Nancy K. Hedrick Nancy K. Hedrick
	President and Chief Executive Officer
Date: November 13, 2006	By: /s/ David B. Dechant David B. Dechant
	Chief Financial Officer

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