Computer Software Innovations, Inc.
Form 10-Q
November 15, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ______ to ______

Commission file number: 000-51758

COMPUTER SOFTWARE INNOVATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**98-0216911**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
900 East Main Street, Suite T, Easley, South Carolina	**29640**
(Address of principal executive offices)	**(Zip Code)**

(864) 855-3900

(Registrant s telephone number, including area code)

[None]

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at November 8, 2010
Common Stock, $0.001 par value per share	**6,541,339 shares**

COMPUTER SOFTWARE INNOVATIONS, INC.

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

COMPUTER SOFTWARE INNOVATIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
REVENUES				
Software Applications Segment	$ 3,595	$ 3,936	$ 11,170	$ 11,073
Technology Solutions Segment	10,871	13,869	30,121	29,382
Net sales and service revenue	14,466	17,805	41,291	40,455
COST OF SALES				
Software Applications Segment				
Cost of sales, excluding depreciation, amortization and capitalization	2,320	1,991	7,051	6,216
Depreciation	49	30	126	88
Amortization of capitalized software costs	387	398	1,085	1,133
Capitalization of software costs	(415)	(240)	(1,270)	(702)
Total Software Applications Segment cost of sales	2,341	2,179	6,992	6,735
Technology Solutions Segment				
Cost of sales, excluding depreciation	9,081	11,815	25,826	24,823
Depreciation	28	26	76	79
Total Technology Solutions Segment cost of sales	9,109	11,841	25,902	24,902
Total cost of sales	11,450	14,020	32,894	31,637
Gross profit	3,016	3,785	8,397	8,818
OPERATING EXPENSES				
Research and development	45	85	122	252
Selling costs	1,154	1,164	3,363	3,608
Marketing costs	118	77	387	372
Stock based compensation	8	29	49	137
Acquisition costs				2
Professional, legal compliance and litigation costs	66	133	385	378
Depreciation and amortization	134	160	434	483
Other general and administrative expenses	755	793	2,496	2,627
Total operating expenses	2,280	2,441	7,236	7,859
Operating income	736	1,344	1,161	959

OTHER INCOME (EXPENSE)				
Interest expense	(54)	(95)	(201)	(302)
Loss on disposal of property and equipment			(2)	(4)
Net other income (expense)	(54)	(95)	(203)	(306)
Income before income tax expense	682	1,249	958	653
INCOME TAX EXPENSE	295	519	443	358
NET INCOME	**$ 387**	**$ 730**	**$ 515**	**$ 295**
BASIC EARNINGS PER SHARE	**$ 0.06**	**$ 0.11**	**$ 0.08**	**$ 0.05**
DILUTED EARNINGS PER SHARE	**$ 0.03**	**$ 0.05**	**$ 0.04**	**$ 0.02**
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	**6,552**	**6,405**	**6,490**	**6,391**
Diluted	**13,912**	**14,095**	**13,889**	**14,081**

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

Table of Contents

COMPUTER SOFTWARE INNOVATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	**September 30, 2010 (Unaudited)**	**December 31, 2009**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	$
Accounts receivable, net	8,694	7,587
Inventories	917	2,628
Prepaid expenses	191	140
Income taxes receivable	43	32
Total current assets	9,845	10,387
PROPERTY AND EQUIPMENT, net	934	732
COMPUTER SOFTWARE COSTS, net	2,773	2,573
GOODWILL	2,431	2,431
OTHER INTANGIBLE ASSETS, net	2,411	2,647
Total assets	**$ 18,394**	**$ 18,770**
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,306	$ 2,229
Deferred revenue	5,560	7,790
Deferred tax liability	617	445
Bank line of credit	1,241	
Notes payable	152	505
Current portion of subordinated notes payable to shareholders	56	1,750
Total current liabilities	10,932	12,719
LONG-TERM DEFERRED TAX LIABILITY, net	139	144
SUBORDINATED NOTES PAYABLE TO SHAREHOLDERS, less current portion	802	
Total liabilities	11,873	12,863
SHAREHOLDERS EQUITY		
Preferred stock - $0.001 par value; 15,000 shares authorized; 6,740 shares issued and outstanding	7	7
Common stock - $0.001 par value; 40,000 shares authorized; 6,541 and 6,448 shares issued and outstanding, respectively	7	6
Additional paid-in capital	9,253	9,075
Accumulated deficit	(2,638)	(3,153)
Unearned stock compensation	(108)	(28)
Total shareholders equity	6,521	5,907
Total liabilities and shareholders equity	**$ 18,394**	**$ 18,770**

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

Table of Contents

COMPUTER SOFTWARE INNOVATIONS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(Amounts in thousands)	Common Stock	Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Unearned Stock Compensation	Total
Balances at December 31, 2009	**$ 6**	**$ 7**	**$ 9,075**	**$ (3,153)**	**$ (28)**	**$ 5,907**
Issuance of common stock	1		44			45
Issuance of stock options			129		(129)	
Exercise of stock options			5			5
Stock based compensation					49	49
Net income for the nine months ended September 30, 2010				515		515
Balances at September 30, 2010	**$ 7**	**$ 7**	**$ 9,253**	**$ (2,638)**	**$ (108)**	**$ 6,521**

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

5

Table of Contents

COMPUTER SOFTWARE INNOVATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	**Nine Months Ended September 30, 2010**	**September 30, 2009**
OPERATING ACTIVITIES		
Net income	$ 515	$ 295
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,721	1,783
Stock compensation expense, net	93	178
Deferred income taxes	168	(234)
Loss on disposal of property and equipment	2	4
Changes in deferred and accrued amounts		
Accounts receivable	(1,107)	3,306
Inventories	1,711	(1,334)
Prepaid expenses	(51)	(88)
Accounts payable	1,077	711
Deferred revenue	(2,230)	(522)
Income taxes receivable/payable	(11)	366
Net cash provided by operating activities	1,888	4,465
INVESTING ACTIVITIES		
Purchases of property and equipment	(604)	(234)
Capitalization of computer software	(1,285)	(732)
Investment in other intangible assets		(32)
Net cash used for investing activities	(1,889)	(998)
FINANCING ACTIVITIES		
Net borrowings (repayments) under line of credit	1,241	(2,926)
Repayments of notes payable	(1,245)	(541)
Proceeds from exercise of stock options and warrants	5	
Net cash provided by (used for) financing activities	1	(3,467)
Net change in cash and cash equivalents		
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 199	$ 395
Income Taxes	$ 287	$ 211

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

Table of Contents

COMPUTER SOFTWARE INNOVATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Amounts in thousands, except where specifically stated)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACTIVITIES

Organization

Computer Software Innovations, Inc. (the Company , CSI or we), a Delaware corporation, was incorporated on September 24, 1999. The Company currently trades in the over the counter market and is reported on the OTC Bulletin Board under the symbol CSWI.OB.

Prior to 2005, under the name VerticalBuyer, Inc. we were a public shell, having no operations for several years. In the first quarter of 2005, we were acquired by Computer Software Innovations, Inc., a South Carolina corporation (CSI South Carolina). Due to reverse merger accounting, our financial history became that of our acquirer CSI South Carolina. CSI South Carolina was organized in 1989 as a software provider, added technology solutions in 1999 and became a public company through the reverse merger in 2005, after which it has continued to produce software and provide technology solutions as described further below.

Description of business and disclosure regarding segments

The Company is in the business of software development of primarily proprietary (internally developed) products and sales of those products both as on premise and off site or Company-hosted solutions. The Company also resells services developed with the use of third-party, primarily software-driven, solutions, which are reported through its Software Applications Segment. The Company is also in the business of sales and distribution of computers, network and communications hardware and accessories, as well as interactive collaborative classroom technologies and other hardware based solutions, accompanied by integration and management services, which activities are reported through its Technology Solutions Segment.

Software Applications Segment

The Company s internally developed software consists of fund accounting based financial management software, standards-based lesson planning software and solutions that facilitate single sign-on application access management provisioning based on Microsoft s Identity Lifecycle Management, referred to as our identity and access management solutions, cloud-based communications and collaboration solutions and Microsoft SharePoint deployments. The Company s primary software product, fund accounting based financial management software, is developed for those entities that track expenditures and investments by fund, or by source and purpose of the funding. The fund accounting software is used primarily by public sector and not-for-profit entities. The Company s standards-based lesson planning software is designed to allow teachers to create lesson plans that are tied to a state s curriculum standards. These lesson plans may be reviewed by administrators and a report generated to determine the standards that have been met or need to be met. The lesson plans can be stored, shared, and retrieved for collaboration, editing and future use. The Company s solutions for single sign-on application access management provide the ability to eliminate the need for users to sign on to every application separately (thereby allowing single sign-on) and provides for other efficiencies related to setting-up and controlling user access.

The Company s solution for communication and collaboration, CSI@K12, is an instructional communications management solution providing tools to manage the regulatory compliance and security standards required within a kindergarten through grade 12 (K-12) education environment and is based on Microsoft s Live@edu hosted email solution. CSI@K12 also provides an integrated portal experience for school administrators, teachers, students and parents providing email, homework and class task, network file access and a rich set of collaboration tools. These include class sites and social media tools, delivered in a browser and native Microsoft Outlook access and views. Through CSI@K12, CSI also provides hosted virtual Private Branch (or entity level) Exchange (PBX) systems services for Voice calls over Internet Protocol (VoIP) or a solution whereby voice calls are communicated from internet protocol based phones and other end user devices over the internet to telecommunications infrastructure equipment at an off premise hosting location where they are linked to the switched (traditional) telecommunications networks (Hosted VoIP). The Internet or World Wide Web is also referred to as the Cloud, generally when in the context of the medium through which off premise hosted hardware and software are accessed. Hosted (i.e. off customer premise) infrastructure used by customers by connecting to the hosted infrastructure through the Cloud (such as with our Hosted VoIP solution) is also referred to as a Cloud Solution and sometimes also referred to in the abbreviated form as the Cloud. Cloud solutions, including our Hosted VoIP solution allow customers to purchase telecommunications switching and other hardware and/or software based solutions as a service rather than having to commit to the capital investment required for the purchase of on premise hardware or software, and allow customers to share, at some level, the cost of infrastructure with other customers who also subscribe to the same hosted or Cloud solutions. Our Cloud based solutions do require some hardware. However, unlike our other Technology Solutions reported through our Technology Solutions Segment, our Cloud based solutions generally are driven by greater software investments in our own or integrated third-party products made by CSI and placed in service in its own or CSI contracted hosting sites. By contrast, our Technology Solutions Segment reporting includes primarily hardware-based solutions which are purchased by customers and placed on premise or hosted at customer or third-party owned or contracted sites. Margins on solutions provided through the Software Applications Segment are generally higher than (can be up to twice) those provided by solutions offered through the Technology Solutions Segment.

Technology Solutions Segment

In connection with its hardware-based solutions, the Company provides a wide range of technology products and services including hardware and design, engineering, installation, training and ongoing support and maintenance. Technology solutions include computers, networking, security, internet protocol (IP) telephony, interactive whiteboard solutions and integrated accessories, distance learning and video communication. Margins on solutions provided through the Technology Solutions Segment are generally lower than (can be roughly half of) those provided by solutions offered through the Technology Solutions Segment.

Market

The Company markets its financial management and technology solutions and its services primarily to a wide variety of education and local government agencies, and not-for-profit entities in the southeastern United States, with a focus on future geographic expansion nationally. Its identity and access management solutions are installed in additional states, with a few installations internationally, and its CSI@K12 products are targeted to K-12 school districts throughout the US. The majority of the Company s business is with K-12 (kindergarten through grade 12) public education entities, with local government entities one of its fastest growing segments and non-for-profits and some corporations also included in its client mix.

Basis of presentation

The consolidated financial statements include CSI Technology Resources, Inc., a wholly-owned subsidiary. CSI Technology Resources, Inc. was acquired by CSI on May 1, 2000 and became the Technology Solutions Segment of CSI. This subsidiary no longer has any significant operations or separate accounting, as all activities are now accounted for within CSI, except that certain vendor contracts are still in the name of CSI Technology Resources, Inc. At a future date, the name on these contracts may be converted and the subsidiary deactivated, subject to a review of any tax or legal implications. As the Company files a consolidated tax return and has been accounting for all activities through the parent, there should be no financial or tax implications related to the formal procedures which would be undertaken to deactivate the subsidiary. Intercompany balances and transactions have been eliminated.

The Company uses the accrual basis of accounting.

Use of estimates and interim adjustments and seasonal considerations impacting financial results

The accounting and reporting policies conform to accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP). GAAP requires us to make estimates, assumptions and judgments and to rely on projections of future results of operations and cash flows. Those estimates, assumptions, judgments and projections are an integral part of the consolidated financial statements. We base our estimates and assumptions on historical data and other assumptions, which include knowledge and experience with regard to past and current events and assumptions about future events 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 consolidated 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. Actual results could differ materially from these estimates, assumptions, projections and judgments.

The interim consolidated balance sheet and the related consolidated statements of operations, changes in shareholders equity and cash flows are unaudited. In our opinion, all adjustments (consisting of normal recurring adjustments) necessary for fair presentation of the interim financial statements have been made. The results of the nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year. The Company s operations are seasonal, being

driven by its primary client base, K-12 schools being closed or having significantly reduced operations during the summer months. At such time infrastructure and systems changes are less disruptive to their operations and so during such times they prefer to have a larger number of projects completed. As a result, and with the Company s fiscal quarter corresponding to the calendar year, the results for the Company s first and fourth quarters of each fiscal year when schools are in session are typically lower than the results for its second and third quarters, which contain the summer months when schools are closed or have significantly reduced operations. These consolidated financial statements should be read in conjunction with the consolidated financial statements, critical accounting policies, significant accounting policies and the notes to the consolidated financial statements included in our most recent Annual Report on Form 10-K.

Reclassification

Certain prior period amounts have been reclassified to conform to the current presentation. Such reclassifications had no impact on previously reported Net income or Shareholders equity.

Recent accounting pronouncements

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

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-20, which amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The amended guidance is effective for activity and period-end balances beginning with the first interim or annual reporting period ending on or after December 15, 2010. The Company is currently evaluating the amended guidance and expects that it may impact its disclosures in future periods, but otherwise will not have a significant effect on its consolidated financial statements.

In April 2010, FASB issued ASU No. 2010-17, concerning the milestone method of revenue recognition. The ASU codified the consensus reached in Emerging Issues Task Force (EITF) Issue No. 08-9, Milestone Method of Revenue Recognition. The amendments to the Codification provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. The Company is currently evaluating the impact of the adoption of this guidance but does not anticipate it will have a material impact on our results of operations or financial condition.

In April 2010, The FASB issued ASU No. 2010-13, concerning stock compensation awarded in the currency of which the underlying equity security trades. The ASU codified the consensus reached in EITF Issue No. 09-J. The amendments to the Codification clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity shares trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The Company is currently evaluating the impact of the adoption of this guidance but does not anticipate it will have a material impact on our results of operations or financial condition.

In February 2010, the FASB issued ASU No. 2010-09, concerning the recognition and disclosure requirements of certain subsequent events. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The FASB believes these amendments remove potential conflicts with the SEC s literature. The Company is currently evaluating the impact of the adoption of this guidance but does not anticipate it will have a material impact on our results of operations or financial condition.

In January 2010, The FASB issued ASU No. 2010-06, concerning disclosures about fair value measurements. The ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification. The FASB s objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends the Codification to now require (1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures (1) For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (2) A reporting entity should provide disclosures about the valuation techniques and inputs used to

Table of Contents

measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009. The Company is currently evaluating the impact of the adoption of this guidance but does not anticipate it will have a material impact on our results of operations or financial condition.

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 or cash flows.

NOTE 2 EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average number of common stock shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common and potential common shares outstanding, including common stock held in escrow, during the period following application of the treasury stock method. The table below presents the weighted average shares outstanding for the three and nine month periods ended September 30, 2010 and 2009, both prior to and after application of the treasury stock method.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted Average Shares Outstanding Prior to Application of the Treasury Stock Method				
Common stock (excluding shares held in escrow)	6,522	6,405	6,490	6,391
Common stock held in escrow	500	800	500	800
Preferred stock	6,740	6,740	6,740	6,740
Warrants	300	6,464	1,226	6,298
Options	642	465	545	440
Total Weighted Average Shares Outstanding	14,704	20,874	15,501	20,669
Weighted Average Shares Outstanding After Application of the Treasury Stock Method				
Common stock (excluding shares held in escrow)	6,522	6,405	6,490	6,391
Common stock held in escrow	500	800	500	800
Preferred stock	6,740	6,740	6,740	6,740
Warrants				
Options	150	150	159	150
Total Weighted Average Shares Outstanding treasury stock method	13,912	14,095	13,889	14,081

NOTE 3 STOCK-BASED COMPENSATION

The Company has a stock based compensation plan, established in 2005, the 2005 Incentive Compensation Plan . The Company accounts for stock based compensation using the fair value method prescribed in the Stock Compensation section of the FASB s Accounting Standard Codification (ASC), which the Company adopted in 2006 using the modified prospective method. The Company utilizes the Black-Scholes model to estimate the fair value of options granted. In 2005, the Company assumed the stock based employee compensation plan of CSI South Carolina as a result of the reverse merger.

The Company has granted options to purchase shares of common stock in connection with acquisitions, certain hiring agreements and to incent and encourage the longevity of senior employees through option vesting. The issuance of options is further detailed below. The fair value of stock-based compensation was estimated at the grant date for each issuance using the Black-Scholes option-pricing model. For further information and discussion related to the weighted average assumptions used in the option pricing model please see the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Assumptions used in calculation of fair value

	For the Nine Months Ended September 30,	
	2010	2009
Expected term (in years)	7	7
Expected volatility	169%	142%
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	2.8%	2.5%

Table of Contents

Stock options

Detail	Number of Options	Weighted Average Exercise Price	Expiration
Options assumed in reverse merger	174	$ 0.12	November 1, 2012
Options granted in McAleer acquisition	100	$ 0.87	January 2, 2017
Options granted to key employees	100	$ 1.42	November 9, 2017
Options granted to other employees	10	$ 1.09	May 28, 2018
Options granted to key employees	50	$ 0.70	April 17, 2019
Options granted to a key and other employees	196	$ 0.70	June 1, 2020

The following table summarizes option activity under the plans for the first nine months of 2010.

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	465	$ 0.64	5.74	$ (21)
Granted	196	0.70		
Cancelled				
Exercised	(31)	0.17		
Forfeited/expired				
Outstanding at September 30, 2010	630	$ 0.69	6.60	$ (54)
Exercisable at September 30, 2010	382	$ 0.60	4.90	$ (1)

The aggregate intrinsic value represents the difference between the Company s closing stock price of $0.60 as of September 30, 2010 and the exercise price multiplied by the number of options outstanding as of that date.

As of September 30, 2010 there remained $108 of unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of approximately three years.

The Company issued 32 shares of common stock to outside Board of Directors under the plan in the first nine months of 2010. During the same period, outside of the plan, the Company issued non-employee based stock awards of 30 shares of common stock as compensation for investor relations services pursuant to the terms of a Consulting Agreement with its investor relations firm (see also *NOTE 5 PREFERRED STOCK AND RELATED WARRANTS*).

Total stock based compensation for the three months ended September 30, 2010 was $32, of which $7 related to the stock issued to the Company s outside Directors, $1 related to stock options granted from acquisition, and the remaining $24 related to employee stock option compensation (wage-related). Total stock based compensation for the three months ended September 30, 2009 was $44, of which $11 related to the stock issued to the Company s investor relations firm, $7 related to the stock issued to the Company s outside Directors, $11 related to stock options granted from acquisition, and the remaining $15 related to employee stock option compensation (wage-related).

Total stock based compensation for the first nine months of 2010 was $93, of which $22 related to the stock issued to the Company s investor relations firm, $22 related to the stock issued to the Company s outside Directors, $5 related to stock options granted from acquisition, and the remaining $44 related to employee stock option compensation (wage-related). Total stock based compensation for the first nine months of 2009 was $178, of which $94 related to the warrants issued to the Company s investor relations firm, $21 related to the stock issued to the Company s investor relations firm, $7 related to the stock issued to the Company s outside Directors, $15 related to stock options granted from acquisition, and the remaining $41 is related to employee stock option compensation (wage-related).

Employee stock option compensation (wage related) is included in the income statement categories of cost of sales or departmental operating expense categories as appropriate.

<u>NOTE 4 LONG-TERM AND SHORT-TERM DEBT, INCLUDING RELATED PARTY TRANSACTIONS, AND OFF-BALANCE SHEET INSTRUMENTS and SUBSEQUENT EVENT</u>

Bank Credit Facilities

The Company maintains a line of credit facility with its bank. The terms of the facility are as follows:

the principal amount of the facility is $8.0 million;

- the latest renewal was on June 25, 2010, with a maturity date of June 30, 2012;
- permissible purposes of the funds borrowed under the revolving facility include funding short-term working capital and general corporate purposes of the Company; and
- the definition of the borrowing base includes 50% of eligible inventory (with a maximum borrowing ability against eligible inventory of $1.0 million), in addition to 80% of eligible accounts receivable.

On June 25, 2010, the Company entered into a modification of the line of credit facility, extending the maturity date from August 31, 2011 to June 30, 2012. This modification temporarily increased the line of credit from $7.0 million to $8.0 million and this increase will be reduced annually by $200 beginning January 31, 2011 until the balance reaches $7.0 million on January 31, 2015 (assuming the facility would be customarily renewed with no significant change in borrowing ability and working capital needs). The increase in the bank s revolving line of credit from $7.0 million to $8.0 million was for the purpose of accommodating a capital need to fund the June 2010 payments of $875, paid on and as agreed in an extension of, the Subordinated Notes (discussed below), while deferring any immediate impact on working capital line availability.

Other than the amendments noted above, the material obligations and provisions of the facility remain unchanged. Previous modifications also memorialized certain previously granted waivers to the restrictive covenants and requirements contained in the agreements with the bank. The bank granted waivers permitting us to enter into acquisitions, including the use of bank credit facility advances to fund such acquisitions, and incurring related mortgage indebtedness for acquired real estate subsequently sold. The bank also waived any cross-default relating to the subordinated notes payable to certain shareholders, which the Company did not repay at their May 2006 maturity. Such waivers and prior modifications have been disclosed in the Company s previous filings on Forms 10-K, 10-Q and 8-K.

Under our bank facility, 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 collectability; and (iii) accounts due from any one of our customers if such accounts constitute more than 20% of the total eligible accounts. The loans bear interest at LIBOR plus 2.50%, subject to a 3% floor, payable monthly. LIBOR plus 2.50% was 2.76% at September 30, 2010 and 2.74% at December 31, 2009.

Our domestic asset-based lending agreement was negotiated to exceed one year with the intent that borrowings on the revolving credit facility would be classified as long-term debt. However, pursuant to the Debt-Classification of Revolving Credit Agreements Subject to Lock-Box Arrangement and Subjective Acceleration Clauses subtopic of the FASB s ASC (the Revolving Credit Subtopic), a revolving credit facility which includes both a subjective acceleration clause and a lock-box arrangement should be classified as a current liability. Our revolving credit facility provides for a lock-box arrangement, whereby cash received is used to reduce the balance on a daily basis. Also, our revolver includes a subjective acceleration clause, providing for acceleration upon a material change in our business or financial condition. This is a customary provision for revolving credit agreements. In accordance with the Revolving Credit Subtopic, the balance outstanding under our revolving credit facility has been classified as a current liability.

The Company maintains an equipment term loan which has been modified and increased from time to time with a term of three to four years. The term loan is used periodically to refinance the Company s capital expenditures initially financed through its bank credit facility and improve its availability under its bank credit facility for working capital purposes. The latest modification prior to September 30, 2010 was November 14, 2008. Pursuant to the modification, the equipment loan was increased from $238 to $1.0 million, and bore interest at 30-day LIBOR plus 250 basis points. Principal and interest were payable in twenty-four consecutive monthly payments of principal and interest of $40 continuing until November 15, 2010.

The amount outstanding on the equipment notes payable to the bank was $152 at September 30, 2010 and $505 at December 31, 2009.

Scheduled principal payments under the Company s notes payable for the years ended are presented below:

2010	$ 152

Total Principal Payments	$ 152

On November 5, 2010, subsequent to the end of the third quarter, the equipment term loan was modified, increasing the loan by $1.0 million, under the same payment and other terms as with its previous modification. The purpose of the latest modification was to refinance the Company s most recent capital expenditures initially financed through its bank credit facility and improve its availability under its bank credit facility for working capital purposes.

The loans under the revolving credit facility and the equipment facility, as well as all other obligations owed by the Company to the bank, are secured by a first priority security interest in substantially all of the Company s assets. Also, the Company is required to comply with certain covenants, including: providing periodic consolidated financial statements to the bank, compliance with Securities and Exchange Commission (the SEC or Commission) reporting requirements, allowing the bank to inspect its secured assets, and the Company maintaining its assets in good operating condition and maintaining sufficient insurance. Also, the Company is required to comply with certain financial covenants. The first financial covenant is a Debt Service Coverage Ratio, which is measured at the end of each year. This ratio is calculated by adding certain nonrecurring special items to EBITDA (Adjusted EBITDA), and then dividing by current maturities of long term debt plus

Table of Contents

interest expense. For the purposes of the amended loan agreement, EBITDA means the total of (i) net income from continuing operations (excluding extraordinary gains or losses), and to the extent deducted in determining net income (ii) interest expense, (iii) income taxes, and (iv) depreciation, depletion and amortization expenses. The Company is required to maintain a Debt Service Coverage Ratio of not less than 1.2 to 1.0. The second financial ratio is Funded Debt to EBITDA, which is also measured annually. A ratio of not greater than 2.5 to 1.0 is required. For the purposes of the ratio, Funded Debt generally means all obligations for borrowed money or for the deferred purchase price of property, and all capitalized lease obligations. Management is not aware of any events of noncompliance with these annual covenants at September 30, 2010 and December 31, 2009.

The amended loan agreement also contains certain restrictive covenants. These include general prohibitions on: (i) disposing of property other than in the ordinary course of business; the Company changing its business; a change in control of the Company; mergers, acquisitions and the creation of new subsidiaries; the incurring of new indebtedness; the creation of new encumbrances or liens; investments, other than certain permitted investments in liquid investment grade paper; and the Company making loans, including loans to officers. Also, the amended loan agreement prohibits the Company from making any distributions (including any dividends on its common stock), or making any repurchases or redemptions of its capital stock, except to the extent there is no event of default either before or after any such distribution, repurchase or redemption. The bank may accelerate the Company s obligations under the amended loan agreement and the related promissory notes upon an event of default under the amended loan agreement. Events of default generally include the Company failing to make payments of principal or interest when due; defaults under loan covenants, subject to periods during which the Company may cure in certain cases; the Company becoming insolvent or being subject to certain bankruptcy proceedings, subject to certain time periods; and the occurrence of a material adverse change in the Company s business or financial condition. Upon an acceleration of the bank s loans to the Company, the bank, among other remedies, would have recourse to substantially all of the Company s assets through its security interest. There was $1,241 of outstanding draws under the facility as of September 30, 2010 and no draws as of December 31, 2009.

Subordinated Notes

The Company has subordinated notes payable to shareholders with amounts outstanding totaling $858 at September 30, 2010, and $1,750 at December 31, 2009. On June 25, 2010, the Company and each of the holders of certain Subordinated Promissory Notes dated February 11, 2005 (the Subordinated Notes) entered into an Extension of Subordinated Notes and Waiver dated June 24, 2010 (the Extension). Pursuant to the Extension:

- the Company agreed to make, within five days of the date of approval of the Extension, principal payments on the notes totaling $875, $438 in the case of the Subordinated Note held by Barron Partners LP (Barron) and $88 each in the case of the other five note holders. These payments were made on June 29, 2010.

- the maturity date of each Subordinated Note was extended from August 30, 2009 until no later than January 1, 2018, on which date all principal and accrued interest will be due and payable in full, if not earlier paid.

- the Company, beginning October 1, 2010, will make quarterly payments on the Subordinated Notes of principal and accrued interest in the amount of $50 in the aggregate to be applied pro-rata among the note holders, $25 on the Barron Subordinated Note and $5 each on the other Subordinated Notes.

- the Company expressed its intention to consider subsequent to each fiscal year end during the term of the Subordinated Notes whether it can make principal payments in addition to those expressly set forth in the Extension. Any such determination by the management and board of directors of the Company is in their sole discretion, and shall be based on factors they deem relevant, including but not limited to the financial performance of the Company during such fiscal year.

- at the discretion of management and the board of directors of the Company, the remaining balance on the Subordinated Notes can be repaid in full at any time without penalty.

the Subordinated Notes will no longer be in default, and each note holder waived any existing or past default based upon the Company failing to make any payment of interest or principal when due.

despite the Subordinated Notes not being in default, they will continue to bear interest at the Default Rate of 15% until repaid.

except as modified by the Extension, all other terms and conditions of the Subordinated Notes were confirmed and shall remain in full force and effect.

The Subordinated Notes were issued on February 11, 2005 as a part of our reverse merger and recapitalization. The Subordinated Notes are unsecured and are subordinated to the Company s senior debt, including its revolving credit and term debt with its bank lender. The original principal of all of the Subordinated Notes aggregated $3,750. At June 25, 2010, immediately prior to the Extension, principal on the Subordinated Notes totaled $1,750 and accrued interest totaled $62. The Company has paid interest at the default rate of 15% per annum since the original maturity date of May 9, 2006, when the Company, with the support of its management, board of directors and the Bank elected to defer the payment and pay the

Table of Contents

default interest rate to use the funds to support working capital needs and investments in acquisitions. The Subordinated Notes were extended several times, the latest being June 25, 2010, as described above, when the maturity date was extended to January 1, 2018. The history of the Subordinated Notes has been previously disclosed in the Company s Form 8-K dated September 3, 2009, as well as in its prior Forms 10-Q and Forms 10-K.

In addition to Barron, which owns all of our preferred stock, the Subordinated Notes are held by the five shareholders of our predecessor, Computer Software Innovations, Inc., a South Carolina corporation. Four of these note holders are currently executive officers of the Company, and include: Nancy K. Hedrick, President and Chief Executive Officer; Thomas P. Clinton, Senior Vice President of Strategic Relationships; Beverly N. Hawkins, Senior Vice President of Software Development; and William J. Buchanan, Senior Vice President of Technical Delivery and Support. The fifth holder, Joe G. Black, formerly served as chief financial officer of the Company. The Extension and the related restructuring of the Subordinated Notes were approved by the Company s three outside directors, none of whom have any interest in the Subordinated Notes.

The restructuring of the Subordinated Notes permits the Company to repay the remaining principal over the approximate seven-year period following the restructure. Although the Company may choose to repay the Subordinated Notes earlier, particularly as a result of superior financial performance, the arrangement removes a default and gives the Company flexibility in managing its future liquidity and capital needs. Such future needs might include future acquisitions, and increased working capital relating to significant sales growth as a result of a turnaround in the general economy or increased Federal funding of technology expenditures for education.

The Extension was formulated in cooperation with the Company s primary lender, RBC Bank (USA) (the Bank), which had previously waived any cross default under the Bank s revolving and other credit facilities as a result of the previous default under the Subordinated Notes. In conjunction with the Company entering into the Extension, it also entered into a related modification of its credit facilities with the Bank.

Scheduled principal payments under the Company s notes payable for the years ended are presented below:

2010	$
2011	75
2012	87
2013	101
2014 and thereafter	595
Total Principal Payments	$ 858

Off Balance Sheet Instruments

As of September 30, 2010, for the periods reported, and through the filing date, CSI had no off-balance sheet instruments except for certain operating leases discussed in Note 7.

Related Party Transactions

During the first nine months of 2010 the Company made principal and interest payments to the five former shareholders of CSI South Carolina, all of whom are significant shareholders of the Company, and four of whom are executive officers, and Barron, who owns all of the Company s preferred shares. These payments were made on the subordinated notes payable which were associated with the reverse merger transaction which occurred in 2005, and represented an annual interest rate of 15% as of September 30, 2010. In 2010, principal and interest payments to the five original shareholders of CSI South Carolina totaled $528 and principal and interest payments to Barron also totaled $528.

NOTE 5 PREFERRED STOCK AND RELATED WARRANTS

Warrants

On February 11, 2005, pursuant to the terms of a Preferred Stock Purchase Agreement with Barron, we issued to Barron common stock purchase warrants to purchase a total of 7,218 shares of our common stock (Barron warrants), and preferred stock of 7,218 shares, convertible 1 for 1 to common stock and containing a liquidation preference and certain other restrictions related to a change in control, but no put, call or dividends.

The warrants expired on February 11, 2010.

Table of Contents

Barron warrant exercises could have been made and preferred stock conversions can be accomplished in one or a series of transactions, subject to a 4.9% beneficial ownership restriction. The terms and conditions of the Barron warrants are identical except with respect to the exercise price. See Note 2 for preferred stock.

On May 13, 2009, pursuant to the terms of a Consulting Agreement with DC Consulting, LLC whereby DC Consulting provided investor relations services, we issued to DC Consulting common stock purchase warrants to purchase a total of 300 shares of our common stock. Under the agreement, if at any time prior to their stated expiration date (noted below) the market price for the Company s common stock equals or exceeds the warrant exercise price for a period of 30 days, and the warrants are not exercised, they expire.

Activity related to the common stock purchase warrants for the three and nine month periods ended September 30, 2010 and outstanding balances are as follows:

Common Stock Purchase Warrants

	Warrant A1	Warrant A2	Warrant B1	Warrant B2	DC Consulting Warrant	DC Consulting Warrant	DC Consulting Warrant
Exercise Price	$ 1.3972	$ 0.70	$ 2.0958	$ 0.85	$ 0.70	$ 1.00	$ 1.20
Expiration Date	2/10/2010	2/10/2010	2/10/2010	2/10/2010	6/1/2011	6/1/2011	6/1/2011

Warrant related activity for the three months ended September 30, 2010

	Warrant A1	Warrant A2	Warrant B1	Warrant B2	DC Consulting Warrant	DC Consulting Warrant	DC Consulting Warrant
Outstanding at June 30, 2010					100	100	100
Issued three months ended September 30, 2010							
Exercised three months ended September 30, 2010							
Expired three months ended September 30, 2010							
Outstanding at September 30, 2010					100	100	100

Warrant related activity for the nine months ended September 30, 2010

	Warrant A1	Warrant A2	Warrant B1	Warrant B2	DC Consulting Warrant	DC Consulting Warrant	DC Consulting Warrant
Outstanding at December 31, 2009	2,000	555	2,000	1,609	100	100	100
Issued nine months ended September 30, 2010							
Exercised nine months ended September 30, 2010							
Expired nine months ended September 30, 2010	(2,000)	(555)	(2,000)	(1,609)			

Outstanding at September 30, 2010	100	100	100

Registration Rights Agreement

In conjunction with the Preferred Stock Purchase Agreement, the Company entered into a Registration Rights Agreement with Barron on February 10, 2005, whereby the Company agreed to register the shares of common stock underlying the preferred stock and warrants to be sold to Barron. Barron could also demand the registration of all or part of such shares on a one-time basis and, pursuant to piggy-back rights, could require the Company (subject to carve back by a managing underwriter) to include such shares in certain registration statements it may file. The Company was obligated to pay all expenses in connection with the registration of the shares. The Company s registration rights obligation ended with the expiration of the warrants held by Barron on February 10, 2010.

NOTE 6 INCOME TAXES

The effective tax rates for the three months ended September 30, 2010 and 2009 were approximately 43.3% and 41.6%, respectively.

The effective tax rates for the nine months ended September 30, 2010 and 2009 were approximately 46.2% and 54.8%, respectively.

The income tax provision for the interim periods presented is computed to arrive at the estimate of the effective rate expected to be applicable in each respective full year using the statutory rate. Income tax expense recorded in the consolidated financial statements differs from the federal statutory income tax rate due to a variety of factors, including state income taxes, non-deductible meals and entertainment expenses, and other miscellaneous permanent differences.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain facilities and equipment under various operating leases. At September 30, 2010, future minimum lease payments under non-cancelable leases were:

2010	$ 273
2011	798
2012	102
Total	$ 1,173

Rent expense for the three months ended September 30, 2010 and 2009 was $253 and $257, respectively. Rent expense for the nine months ended September 30, 2010 and 2009 was $770 and $778, respectively.

The Company entered into an operating lease on November 30, 2005 related to the lease of its office facility. The term of this lease is five years, beginning on April 1, 2006 and ending on March 31, 2011. The original commitment under this lease totaled $701, due on the first of each month in escalating monthly payments. The commitments under this lease are included in the future payments in the table above. If at any time the Company terminates the lease, the lessor may recover from the Company all damages approximately resulting from the termination, including the cost of recovering the premises and the worth of the balance of the lease over the reasonable rental value of the premises for the remainder of the lease term, which shall be due immediately. The Company does not anticipate terminating the lease at any time prior to its expiration. Further, the Company anticipates exercising its option to extend the lease for five additional years beyond March 31, 2011 prior to its expiration.

On April 1, 2008 the Company entered into a one year lease with Edge Developments, LLC for 18,000 square feet of warehouse space located at 903B East Main Street, Easley, SC. The terms of this lease required monthly payments of $4, which are included in the schedule above, and expired on March 31, 2010. On March 23, 2010, the Company entered into a one year lease with Edge Developments, LLC for 30,000 square feet of warehouse space at 903A East Main Street, Easley, SC. The terms of this lease require monthly payments of $5, which are included in the schedule above, and are scheduled to expire on March 31, 2011.

On April 1, 2008, in connection with the acquisition of ICS Systems, Inc. (ICS), the Company entered into a lease with Byers Properties, LLC for the lease by the Company of the former facilities of ICS. Byers Properties is controlled by Michael Byers, who is the sole shareholder of ICS. The term of the Lease begins April 1, 2008 and runs for a period of three years through March 2011. The lease calls for annual rent of $80, payable monthly. The leased property consists of a single-story brick building located on 2.57 acres in Triangle Industrial Park at 8518 Triad Drive, Colfax, North Carolina. The building comprises 7,207 square feet, with approximately 300 square feet being warehouse space. The future minimum lease payments under this lease are included in the schedule above.

In August 2008, the Company entered into a corporate fleet lease program with Enterprise Fleet Services, for which individual vehicle leases are signed that may amount to a total commitment of $2.0 million over a weighted-average lease term of approximately three years. The future minimum lease payment for leases executed under the program as of September 30, 2010 is included in the schedule above.

Executive Officer Employment Agreements

The Company entered into new, separate employment agreements with each of the four most highly compensated executive officers on March 1, 2009, with terms similar to their prior agreements. The term of all the employment agreements is three years, expiring on February 28, 2012. The agreements renew for a one year term automatically upon the expiration of the initial term or any renewal periods unless sooner terminated by any one of the parties. Such agreements provide for minimum salary levels adjusted for performance based on review by the Board of Directors. The aggregate commitment for future salaries at September 30, 2010, excluding bonuses, is approximately $1,228.

NOTE 8 SEGMENT INFORMATION

CSI is organized into the two reportable segments: Software Applications and Technology Solutions. Below is a description of the types of products and services from which each reportable segment derives its revenues.

Software Applications Segment

Through our Software Applications Segment, we report the results of the development, sales, and deployment and provision of ongoing support of our software applications, fund accounting based financial management software, standards based lesson planning software, solutions that facilitate single sign-on application access management provisioning based on Microsoft s Identity Lifecycle Management, cloud-based communication and collaboration solutions, based on Microsoft s Live@edu hosted exchange and SharePoint environments and Microsoft SharePoint deployments, and hosted VoIP communications solutions. These solutions consist of, in many cases, primarily proprietary software, but also can encompass integrated third-party software code. Through this segment we also report the results of operations related to other complimentary third-party applications and services we resell.

Technology Solutions Segment

Through our Technology Solutions Segment, we report the results of the technology solutions products and services through the sales and distribution of computers, network infrastructure, interactive classroom technology, VoIP telecommunications and other hardware based solutions and accessories (hardware and hardware operating centric solutions) and the wide range of technology consulting services, including network and systems integration and computer support and maintenance services, that we provide.

Factors management used to identify our segments:

CSI s reportable segments are analyzed separately because of the differences in margin routinely generated by the major products within each group, and the differences in which sales and investment decisions may be made to evaluate existing or potential new products. Through its Software Applications Segment, the Company develops, sells, deploys and provides ongoing support of its software applications, and hosted communications solutions, which generally have higher margins than its more hardware and hardware operating centric solutions reported in its Technology Solutions Segment. Through its Technology Solutions Segment, the Company provides technology solutions through the sale and distribution of computers, network infrastructure, interactive classroom technology, VoIP telecommunications and other hardware based solutions and accessories and offers a wide range of technology consulting services, including network and systems integration and computer support and maintenance services, which generally provide lower margins than the primarily software centric solutions offered through its Software Applications Segment.

There are no significant transactions between reportable segments. The total of Segment net sales and service revenue from all segments is equal to Net sales as reported in our Consolidated Statements of Operations. Sales and Cost of sales are included in each segment s income as reported in our Consolidated Statements of Operations. Accordingly, the total of the segments Gross profit is equal to Gross profit in our Consolidated Statements of Operations. Operating expenses are allocated to segment income based on estimate of sales and administrative time spent on each segment. None of the income or loss items following Operating income in our Consolidated Statements of Operations are allocated to our segments, since they are reviewed separately by management. Certain non-recurring items (those items occurring for reasons which have not occurred in the prior 2 years and are not likely to reoccur in 2 years) and compliance costs are generally excluded from management s analysis of profitability by segment and the Company s segment presentation. Accordingly, the total of Segment income from all segments, less non-recurring and compliance items, if any, is equal to Operating income as reported in our Consolidated Statements of Operations.

The total of Segment assets for all segments is equal to Total Assets as reported in our Consolidated Balance Sheets. The Company allocates shared assets related to liquidity (e.g., cash, accounts receivable and inventory) based on each segment s percent of revenues to total consolidated revenues. Capitalized computer software costs are allocated to the software segment. Fixed assets, net, are allocated on the same basis as operating expenses (or by time spent on each segment as discussed above), since support equipment usage is generally tied to time utilized. All other assets are generally allocated on the same basis.

Table of Contents

The following tables summarize information about segment income for the three and nine month periods ended September 30, 2010 and 2009, and assets allocated to segments as of September 30, 2010 and 2009.

	Software Applications	Technology Solutions	Total Company
Three months ended September 30, 2010:			
Net sales and service revenue	$ 3,595	$ 10,871	$ 14,466
Gross profit	1,254	1,762	3,016
Segment income	101	709	(*)
Segment assets	10,733	7,661	18,394
Three months ended September 30, 2009:			
Net sales and service revenue	$ 3,936	$ 13,869	$ 17,805
Gross profit	1,757	2,028	3,785
Segment income	497	1,009	(*)
Segment assets	11,169	10,971	22,140

* See reconciliation below

	Software Applications	Technology Solutions	Total Company
Nine months ended September 30, 2010:			
Net sales and service revenue	$ 11,170	$ 30,121	$ 41,291
Gross profit	4,178	4,219	8,397
Segment income	542	1,053	(*)
Segment assets	10,733	7,661	18,394