Computer Software Innovations, Inc.
Form 424B3
November 17, 2010
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-129842

PROSPECTUS SUPPLEMENT NO. 14

To Prospectus dated May 12, 2009

Computer Software Innovations, Inc.

13,252,672 SHARES OF COMMON STOCK

This Prospectus Supplement supplements the Prospectus dated May 12, 2009, as amended and supplemented, relating to the offer and sale by the selling stockholder identified in the Prospectus of up to 13,252,672 shares of common stock of Computer Software Innovations, Inc. (the Company).

This Prospectus Supplement includes the Company s Form 8-K dated November 5, 2010 filed with the Securities and Exchange Commission (the Commission) on November 12, 2010, its Form 10-Q (without exhibits) dated September 30, 2010 filed with the Commission on November 15, 2010, and its Form 8-K dated November 15, 2010 filed with the Commission on November 15, 2010.

The information contained in the report included in this Prospectus Supplement is dated as of the date set forth in such report. This Prospectus Supplement should be read in conjunction with the Prospectus dated May 12, 2009, as supplemented on October 21, 2010, August 17, 2010, July 2, 2010, June 23, 2010, April 22, 2010, April 14, 2010, April 1, 2010, March 9, 2010, December 23, 2009, November 19, 2009, September 25, 2009, August 14, 2009 and May 20, 2009, which Prospectus Supplements are to be delivered with this Prospectus Supplement. This Prospectus Supplement is qualified by reference to the Prospectus except to the extent that the information in this Prospectus Supplement updates and supersedes the information contained in the Prospectus dated May 12, 2009, including any supplements or amendments thereto.

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

The date of this Prospectus Supplement No. 14 is. November 17, 2010.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) November 5, 2010

COMPUTER SOFTWARE INNOVATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

000-51758	**98-0216911**
(Commission File Number)	**(IRS 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)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 1.01. Entry into a Material Definitive Agreement.

On November 5, 2010, Computer Software Innovations, Inc. (the Company) entered into a Modification Agreement (the Modification Agreement) and an Amended and Restated Commercial Promissory Note in the amount of $1,112,827.00 (the Amended and Restated Note , collectively with the Modification Agreement referred to herein as the New Equipment Arrangement) with RBC Bank (USA) (the Bank).

The New Equipment Arrangement amends that certain agreement entered into by the Company on February 14, 2006 with the Bank for a forty-two month equipment term loan of $400,000 at a fixed rate of 7.5% per year (the Equipment Facility). The Equipment Facility was and is collateralized by substantially all of the assets of the Company. It is used periodically to refinance the Company s capital expenditures initially financed through its bank credit facility. On January 2, 2007, the Company entered into a modification of the Equipment Facility, whereby the equipment loan was increased to $800,000 with interest at 7.85% per annum. Following such modification, principal and interest were payable in thirty-six consecutive monthly payments of $25,015 continuing until January 1, 2010. The Equipment Facility was also modified on November 14, 2008. Pursuant to that modification, the equipment loan was increased 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 $40,000 continuing until November 15, 2010.

On November 5, 2010, the Equipment Facility was again modified, increasing the loan by $1.0 million to $1,112,827.00, under the same payment and other terms as with its previous modification. The purpose of the New Equipment Arrangement is 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 Amended and Restated Note is subject to acceleration upon default pursuant to the terms of the Second Amended and Restated Loan and Security Agreement dated September 14, 2007, as amended. Those terms have been previously disclosed in Note 8 to the audited consolidated financial statements for the years ended December 31, 2009 and 2008 in the Company s Form 10-K dated December 31, 2009, and are incorporated herein by reference.

The Amended and Restated Note and the Modification Agreement are filed as Exhibits 10.1 and 10.2, respectively, and are incorporated herein by reference.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The disclosure contained in Item 1.01 above is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

The following exhibits are filed as part of this report:

Exhibit Number	**Description**
10.1*	Amended and Restated Commercial Promissory Note in the amount of $1,112,827.00 dated November 5, 2010 from the Company payable to RBC Bank (USA)
10.2*	Modification Agreement dated November 5, 2010 between the Company and RBC Bank (USA)

* Filed herewith.

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SIGNATURES

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

COMPUTER SOFTWARE INNOVATIONS, INC.

By: /s/ David B. Dechant
David B. Dechant
Chief Financial Officer

Dated: November 12, 2010

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EXHIBIT INDEX

Exhibit Number	Description
10.1*	Amended and Restated Commercial Promissory Note in the amount of $1,112,827.00 dated November 5, 2010 from the Company payable to RBC Bank (USA)
10.2*	Modification Agreement dated November 5, 2010 between the Company and RBC Bank (USA)

* Filed herewith.

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Exhibit 10.1

Bank Use Only: Customer Number
Account Number

Amended and Restated

RBC BANK **Commercial Promissory Note**

$1,112,827.00 Greenville, South Carolina
November 5, 2010

Term Loan

WHEREAS, COMPUTER SOFTWARE INNOVATIONS, INC. (Borrower) with a mailing address of 900 East Main Street, Suite T, Easley, South Carolina 29640, executed that certain Commercial Promissory Note from Borrower to RBC Centura Bank (now known as RBC Bank (USA)) (Bank), dated January 2, 2007, as modified by that certain Modification Agreement dated November 14, 2008 (the Original Note) pursuant to that certain Second Amended and Restated Loan and Security Agreement by and between Borrower and Bank dated September 14, 2007; as amended by a Modification to Revolving Facility dated June 30, 2008; as further amended by a Modification Agreement dated September 11, 2008; as further amended by a Modification Agreement dated December 21, 2009; and as further amended by a Modification Agreement dated June 25, 2010 (the Loan and Security Agreement).

WHEREAS, Bank and Borrower have agreed to modify certain terms of the Loan and Security Agreement and Original Note and desire to amend and restate the Original Note in its entirety.

FOR VALUE RECEIVED, Borrower promises to pay to Bank, or order, the sum of One Million One Hundred Twelve Thousand Eight Hundred Twenty Seven and No/100 Dollars ($1,112,827.00), together with interest at the rate and payable in the manner hereinafter stated. Principal and interest shall be payable at any banking office of Bank in the city or town indicated above, or such other place as the holder of this Note may designate.

Interest Rates

Except as provided below, prior to maturity of this Note, interest will accrue on the unpaid principal of this Note at an interest rate per annum equal to 2.50% plus the LIBOR Base Rate. The LIBOR Base Rate is the London Interbank Offer Rate for U.S. Dollars for a term of one month which appears on Bloomberg Professional screen BBAM (or any generally recognized successor method or means of publication) as of 11:00 a.m., London time, two (2) London business days prior to the day on which the rate will become effective. The rate for the first month or part thereof will initially become effective on the date of the Note as shown on the face hereof. Thereafter, the rate will change and a new rate will become effective on the first calendar day of each succeeding month. If for any reason the London Interbank Offer Rate is not available, then the LIBOR Base Rate shall mean the rate per annum which banks charge each other in a market comparable to England s Eurodollar market on short-term money in U.S. Dollars for an amount substantially equivalent to the principal amount due under this Note as determined at 11:00 A.M., London time, two (2) London business days prior to the day on which the rate will become effective, as determined in Bank s sole discretion. Bank s determination of such interest rate shall be conclusive, absent manifest error.

Upon the occurrence of an Event of Default under this Note, but prior to maturity of this Note, at Bank s option, interest will accrue on the unpaid principal of this Note at the Default Rate. After maturity of this Note, until this Note is paid in full, interest will accrue on the unpaid principal of this Note, and all unpaid interest, fees, premiums, charges and costs and expenses, at the Default Rate. Except as otherwise set forth herein, the Default Rate will be

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equal to the lesser of (i) the maximum rate of interest that may be charged to and collected on commercial loans without violating applicable law or (ii) five percent (5.0%) plus the pre-default interest rate otherwise applicable hereunder.

This is a variable rate note. The rates at which interest accrues under this Note may change from time to time. Any changes in the interest accrual rates will equal changes in the variable rate index to which such interest rates are tied. Bank will not have any obligation to notify Borrower of adjustments in any interest rates under this Note or any of the other Loan Documents. Adjustments to any rate of interest will be effective as of the first day of following month.

All interest payable under this Note will be calculated monthly and will accrue daily on the basis of the actual number of calendar days elapsed and a year of three hundred sixty (360) calendar days. All accrual rates of interest under this Note will be contract rates of interest, whether a pre-default rate or a default rate, and references to contract rates in any Loan Documents executed and delivered by Borrower or others to Bank in connection with this Note will be to such contract rates.

Payment Terms

Prior to maturity of this Note, principal and interest will be paid as follows: thirty (30) equal consecutive monthly payments of principal in the amount of Forty Thousand and No/100ths Dollars ($40,000.00) each, together with accrued but unpaid interest, commencing on December 1, 2010, and continuing on the same day of each calendar month thereafter until April 30, 2013, when one final payment of the entire balance of principal, interest, fees, premiums, charges and costs and expenses then outstanding on this Note will be due and payable in full.

In the event that any payment is due on a calendar day that is not a Business Day, then such payment will be due on the next calendar day that is a Business Day.

If Borrower has authorized Bank, or in the future authorizes Bank, in writing, to automatically draft Borrower s payments under this Note, then on each payment date Bank will draw or debit from the demand deposit account or other account Borrower has designated for such purpose, as shown on Bank s records, the amount of the payment then owing, and Bank will draw or debit from such designated account any other amounts Borrower then owes Bank under this Note and under any of the other Loan Documents. Bank generally will provide Borrower approximately ten (10) calendar days prior notice of each draw or debit, but Bank s failure to provide Borrower prior notice will not limit, negate or otherwise affect Bank s right to draw or debit, or Borrower s obligation to have sufficient available funds on deposit at the time Bank draws or debits Borrower s account. Bank s right to draw upon or debit Borrower s account will not relieve Borrower of its repayment obligations under this Note and the other Loan Documents, and the lack of available funds to pay the amount due at the time Bank draws upon or debits Borrower s account will be an Event of Default under this Note.

Payments made under this Note will be applied in such order as Bank, in its discretion, determines appropriate, unless applicable law mandates a specific order for application of payments. Payments received on a day other than a business day will be deemed received by Bank on the immediately following business day and payments received after 2:00 p.m. (local time in the place designated above for payment) on any business day will be deemed received by Bank on the next business day.

This Note may be prepaid in whole, or in part, at any time without any fee or premium.

Supporting Documents

The terms of the Loan and Security Agreement are incorporated into this Note.

This Note is secured by the Security Documents.

Late Charges and Expenses

Borrower agrees to pay, upon demand by Bank, for each payment past due for fifteen (15) or more calendar days, a late charge in an amount equal to the lesser of (1) five percent (5%) of the amount of the payment past due or (2) the maximum percentage of the payment past due permitted by applicable law, or the maximum amount if not expressed as a percentage.

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If this Note is not paid in full whenever it becomes due and payable, Borrower agrees to pay all of Bank s costs and expenses of collection, including reasonable attorneys fees.

Default and Acceleration

Any Event of Default under the Loan and Security Agreement shall constitute an event of default (Event of Default) under the Note.

Upon the occurrence of an Event of Default under this Note, (1) the entire unpaid principal balance of this Note and all interest, fees, premiums, charges, costs and expenses owing and to be owing under this Note, will, at the option of Bank, become immediately due and payable, without notice or demand, and (2) the Bank may, both before and after acceleration, exercise any of and all of its other rights and remedies under this Note and the other Loan Documents, as well as any additional rights and remedies it may have at law or in equity. The failure by Bank to exercise any of its options will not constitute a waiver of the right to exercise same in the event of any subsequent default.

General Terms

Borrower waives presentment, demand, protest and notice of dishonor.

Time is of the essence for the performance of all of Borrower s covenants and agreements set forth in this Note, including its payment obligations under this Note.

Payment of this Note in whole or in part, or any other partial or full satisfaction or discharge of Borrower s obligations under this Note, will not release or otherwise terminate any of the security interests or liens created by any of the Security Documents, or entitle any person to a release or termination thereof; the terms of each Security Document will be determinative of when and the conditions under which any of the security interests or liens created by such Security Document will be released or otherwise terminated.

This Note will be governed by the substantive laws of the State of South Carolina, excluding, however, the conflict of law and choice of law provisions thereof. Borrower submits to the jurisdiction of either the state courts of the jurisdiction whose laws govern this Note, or a United States District Court for any federal district in such jurisdiction, over any action or proceeding arising from or related to this Note; and, Borrower irrevocably waives the defense of improper venue or an inconvenient forum.

Each provision of this Note will be interpreted in a manner so as to be valid under applicable law, but if any provision of this Note is held invalid under such law by a court or other tribunal of competent jurisdiction, the provision will be ineffective to the extent of such invalidity without invalidating the remainder of such provision or the remaining provisions of this Note, or the application thereof will be in a manner and to an extent permissible under applicable law.

If the rate at which interest accrues under this Note exceeds at any time the maximum contract rate which may be charged to or collected from Borrower on the Credit Facility under applicable law, or if any fees, premiums, charges or costs and expenses assessed against or collected from Borrower exceed those permitted by law, then *ipso facto* the same will be reduced to the limits prescribed by law; and, if Bank receives any interest, fees, premiums, charges or costs and expenses in excess of any limits prescribed by law, such excess will be applied to the reduction of the principal balance owing under this Note in the inverse order of its maturity, even if not then due, or at the option of Bank, paid to Borrower.

Borrower, to the extent permitted by law, waives any right to a trial by jury in any action or proceeding arising from or related to this Note.

This Note will apply to and bind Borrower s successors and assigns. At any time or times and without notice to Borrower or any other person, Bank may sell one or more participations in the Credit Facility and may assign this Note in whole or in part; and, this Note will apply to, be binding upon and inure to the benefit of each one of and all of Bank s participants, successors and assigns, including any person that may administer or service this Note for any holder of this Note or any participants in the Credit Facility. Bank may disclose financial and other information concerning Borrower and any other person obligated on the Credit Facility to any participant or prospective participant, and to any assignee or prospective assignee.

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This Note and the other Loan Documents contain the entire/final agreement between Borrower and Bank relative to the Credit Facility. Bank will be under no obligation to extend, renew or refinance the Credit Facility, or amend, modify or change any provision of this Note. This Note and any of the rights and remedies of any of the parties to this Note may not be changed or waived orally, but only by an agreement in writing signed by the party against whom enforcement of any change or waiver is sought.

Definitions

In this Note: (1) Borrower refers to all signatories of this Note collectively and severally, as the context of this Note requires, and all signatories of this Note will be and the same are jointly and severally liable hereunder; (2) Credit Facility refers to the loan, line of credit or other credit facility evidenced by this Note; (3) Facility Termination Date refers to the last day on which Borrower may request an Advance; (4) maturity of this Note refers to the date on which payment of the entire balance of principal then outstanding on this Note becomes due and payable in full, whether the stated maturity date, by acceleration or otherwise; (5) Note refers to this Amended and Restated Commercial Promissory Note, which amends and restates the Original Note; (6) Security Documents refers to the security documents and supporting obligations which reference that they secure this Note or reference that they secure all obligations of Borrower to Bank, and includes all security documents and supporting obligations shown on Bank s records as being security documents or supporting obligations that secure this Note, whether or not such security documents or supporting obligations correctly or accurately refer to this Note; and (7) any terms defined in the Loan and Security Agreement that are not defined in this Note will have the meanings in this Note given thereto in the Loan and Security Agreement, and the rules of construction or rules related to use of terms in the Loan and Security Agreement will apply to this Note.

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EXECUTED under SEAL by the undersigned as of the day and year first above stated.

Notice Waiver of Right of Appraisal

The laws of South Carolina provide that in any real estate foreclosure proceeding a defendant against whom a personal judgment is taken or asked may within thirty days after the sale of the mortgaged property apply to the court for an order of appraisal. The statutory appraisal value as approved by the court would be substituted for the high bid and may decrease the amount of any deficiency owing in connection with the transaction. THE UNDERSIGNED HEREBY WAIVES AND RELINQUISHES THE STATUTORY APPRAISAL RIGHTS WHICH MEANS THE HIGH BID AT THE JUDICIAL FORECLOSURE SALE WILL BE APPLIED TO THE DEBT REGARDLESS OF ANY APPRAISED VALUE OF THE MORTGAGED PROPERTY.

BORROWER:

COMPUTER SOFTWARE INNOVATIONS, INC.	Witness:
	/s/ Wendy S. Metcalf
By: /s/ David B. Dechant	Print Name: Wendy S. Metcalf
Print Name: David B. Dechant	
Title: Chief Financial Officer	

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Exhibit 10.2

Return to:

Erika B. Newsom, Esq.

Smith Moore Leatherwood, LLP

300 E. McBee Avenue, Suite 500

Greenville, South Carolina 29601

Space Above Line for Processing Data

Modification Agreement

RBC Bank (USA)

(Cover Page)

Prepared by:

Erika B. Newsom, Esq.

Smith Moore Leatherwood, LLP

300 E. McBee Avenue, Suite 500

Greenville, South Carolina 29601

State of South Carolina

County of Greenville

From: COMPUTER SOFTWARE INNOVATIONS, INC., a Delaware corporation (Borrower), with a business/mailing address of 900 East Main Street, Suite T, Easley, South Carolina 29640.

To: RBC BANK (USA) (Bank), with a business address of 134 N. Church Street, Rocky Mount, North Carolina 27804 and a mailing address of Post Office Box 1220, Rocky Mount, North Carolina 27802-1220, which mailing address is the place to which all notices and communications should be sent to Bank regarding this Modification Agreement.

Date: November 5, 2010

Cross Reference to Recorded Documents Modified:	N/A
Original Principal Debt:	$1,112,827.00
Current Principal Debt:	$1,112,827.00

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Customer No.

Loan No.

MODIFICATION

RBC Bank (USA) **AGREEMENT**

THIS MODIFICATION AGREEMENT (Modification Agreement), entered into as of November 5, 2010, by COMPUTER SOFTWARE INNOVATIONS, INC. (Borrower) with a mailing address of 900 East Main Street, Suite T, Easley, South Carolina 29640, and RBC BANK (USA) (Bank), with a mailing address of Post Office Box 1220, Rocky Mount, North Carolina 27802-1220.

A. Borrower has made and issued to Bank a promissory note (the Note) in the original principal amount and dated as indicated on **Attachment 1** attached hereto.

B. As indicated on **Attachment 1**, the Note is secured and the security is set forth in that certain Second Amended and Restated Loan and Security Agreement dated September 14, 2007, as amended, by and between Borrower and Bank (the Loan and Security Agreement).

C. The Note, the Loan and Security Agreement and any security documents described on **Attachment 1** and any other loan and security documents that are outstanding with respect to the extension of credit evidenced by the Note, even if not listed on **Attachment 1**, are hereinafter collectively referred to as the Contract and the Contract is hereby incorporated herein as a part of this Modification Agreement.

D. Bank and Borrower mutually desire to modify the provisions of the Contract in the manner hereinafter set out, it being specifically understood and agreed that, except as herein modified, the terms and provisions of the Contract and the individual instruments, documents and agreements that make up the Contract shall remain unchanged and the Contract, as herein modified, shall continue in full force and effect as therein and herein written.

NOW, THEREFORE, Bank and Borrower, in consideration of the premises and the sum of One Dollar ($1.00) to each in hand paid by the other, receipt and sufficiency of which are hereby acknowledged by each, do hereby agree as follows:

Section 1. Modification. The Contract as it relates to the Note and the Loan and Security Agreement shall be, and the same is, modified in the manner set forth in **Attachment 2**.

Section 2. Effect of Modification. Nothing contained in this Modification Agreement shall in any way impair the security now held for the indebtedness evidenced by the Contract or the lien priority thereof, nor waive, annul, vary or affect any provision, condition, covenant and agreement contained in the Contract, nor affect or impair any rights, powers and remedies under the Contract, except as herein specifically modified to do any one or more of the foregoing. If any provision in this Modification Agreement shall be interpreted or applied by a court or other tribunal with personal and subject matter jurisdiction over the parties hereto and the Contract, as modified, so as to impair the security now held for the indebtedness or lien priority thereof, or do any one or more of any of the foregoing, such provision shall be ineffective to the extent it causes an impairment of such security or the lien priority thereof or causes any of such other consequences, or the application thereof shall be in a manner and to an extent which does not impair such security or the lien priority thereof, or result in the occurrence of any of the other consequences. This Modification Agreement does not extend the expiration dates or enlarge the terms of any property, physical damage, credit and any other insurance written in connection with or financed by said Contract.

Section 3. Financing Statements. Borrower irrevocably authorizes Bank to file such financing statements as may be necessary to protect, in Bank s opinion, Bank s security interests and liens and, to the extent Bank deems necessary or appropriate, to sign the name of Borrower with the same force and effect as if signed by Borrower and to make public in financing statements and other public filings such information regarding

Borrower as Bank deems necessary or appropriate, including, without limitation, federal tax identification numbers, social security numbers and other identifying information.

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Section 4. Credit Investigations; Bank s Responsibilities. Bank is irrevocably authorized by Borrower to make and have made such credit investigations as it deems appropriate to evaluate Borrower s credit, personal and financial standing and employment, and Borrower authorizes Bank to share with consumer reporting agencies and creditors its experiences with Borrower and other information in Bank s possession relative to Borrower. Bank shall not have any obligation or responsibility to do any of the following: (1) protect and preserve any collateral and other security given or to be given in connection with the Contract, as herein modified, against the rights of third persons having an interest therein; (2) provide information to third persons relative to the Contract, as herein modified, Bank s liens and security interests in any collateral and other security, or otherwise with respect to Borrower; and (3) subordinate its liens and security interests in any collateral and other security to the interests of any third persons or to enter into control agreements relative to such collateral and other security.

Section 5. Usury. Bank does not intend to and shall not reserve, charge and collect interest, fees and charges under the Contract, as herein modified, in excess of the maximum rates and amounts permitted by applicable law. If any interest, fees and charges are reserved, charged and collected in excess of the maximum rates and amounts, it shall be construed as a mutual mistake, appropriate adjustments shall be made by Bank and to the extent paid, the excess shall be returned to the person making such a payment.

Section 6. Documentary Stamps, etc. To the extent not prohibited by law and notwithstanding who is liable for payment of the taxes and fees, Borrower shall pay, on Bank s demand, all intangible taxes, documentary stamp taxes, excise taxes and other similar taxes assessed, charged and required to be paid in connection with this Modification Agreement, and any future extension, renewal and modification of the Contract, or assessed, charged and required to be paid in connection with any of the loan documents which make up the Contract.

Section 7. Anti-Terrorism. Borrower represents, warrants and covenants to Bank as follows: (1) Borrower (a) is not and shall not become a person whose property or interest in property is blocked or subject to blocking pursuant to Section 1 of Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)), (b) does not engage in and shall not engage in any dealings or transactions prohibited by Section 2 of such executive order, and is not and shall not otherwise become associated with any such person in any manner violative of Section 2, (c) is not and shall not become a person on the list of Specially Designated Nationals and Blocked Persons, and (d) is not and shall not become subject to the limitations or prohibitions under any other U.S. Department of Treasury s Office of Foreign Assets Control regulation or executive order; (2) Borrower is and shall remain in compliance, in all material respects, with (a) the Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) the Uniting And Strengthening America By Providing Appropriate Tools Required To Intercept And Obstruct Terrorism (USA Patriot Act of 2001); and (3) Borrower has not and shall not use all or any part of the extension of credit evidenced by the Note, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

Section 8. Costs and Expenses. All of the costs and expenses incurred by Bank in connection with this Modification Agreement shall be paid by Borrower upon the request of and at the time of demand for payment thereof made by Bank on Borrower. As used herein, costs and expenses include, without limitation, reasonable attorneys fees and fees of legal assistants, and reasonable fees of accountants, engineers, surveyors, appraisers and other professionals or experts and all references to attorneys fees or fees of legal assistants, or fees of accountants, engineers, surveyors, appraisers or other professionals or experts shall mean reasonable fees.

Section 9. Modification Fee. Upon the execution of this Modification Agreement, Borrower shall pay to Bank a fee for the modification of the Equipment Facility of Five Thousand and No/100ths Dollars ($5,000.00)

Section 10. Maintenance of Records. Bank is authorized to maintain, store and otherwise retain this Modification Agreement and the other documents constituting the Contract in their original, inscribed tangible forms or records thereof in an electronic medium or other non-tangible medium which permits such records to be retrieved in perceivable forms.

Section 11. **Waiver of Jury Trial. Borrower, to the extent permitted by law, waives any right to a trial by jury in any action arising from or related to this Modification Agreement and waives any right to a trial by jury in any action or proceeding arising from or related to the Contract, as herein modified.**

Section 12. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State whose laws govern the Contract, excepting, however, its conflict of law provisions.

Section 13. Reservation of Rights; Entire Agreement. Bank does hereby reserve all rights and remedies it may have against all parties secondarily liable for repayment of the indebtedness evidenced by the Contract. The Contract, as herein modified, contains the entire agreement of the parties and the undersigned do hereby ratify and confirm the terms of the Contract, all of which shall remain in full force and effect, as modified herein. This Modification Agreement shall be binding upon any assignee and successor in interest of the parties hereto. Borrower waives and will not assert against any transferee and assignee of Bank any claims, defenses, set-offs and rights of recoupment which Borrower could assert against Bank, except defenses which Borrower cannot waive. All references herein to the Modification Agreement include any supplemental agreements filed of record to reflect modifications of any of the instruments, documents and other agreements making up the Contract that are of record.

(Signatures On Next Page)

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The undersigned have executed this Modification Agreement under seal as of the day and year first above stated.

BANK:

RBC BANK (USA)

/s/ Charles H. Arndt
Charles H. Arndt, Senior Vice President

COMPUTER SOFTWARE INNOVATIONS, INC.

By: /s/ David B. Dechant
David B. Dechant, Chief Financial Officer

Witness:

/s/ Wendy S. Metcalf
Print Name: Wendy S. Metcalf

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Attachment 1

To

Modification Agreement

1. Describe Note (Date, Original Amount, Current Amount and all Modifications):

   A. Amended and Restated Commercial Promissory Note from Computer Software Innovations, Inc. to RBC Bank (USA) dated November 5, 2010, in the original principal amount of $1,112,827.00, with a current outstanding balance of $1,112,827.00.

2. Describe Security Documents (Type, Date and if recorded, Recording Information):

   A. Second Amended and Restated Loan and Security Agreement by and between Computer Software Innovations, Inc. and RBC Centura Bank (now known as RBC Bank (USA)) dated September 14, 2007; as amended by a Modification to Revolving Facility dated June 30, 2008; as further amended by a Modification Agreement dated September 11, 2008; as further amended by a Modification Agreement dated December 21, 2009; and as further amended by a Modification Agreement dated June 25, 2010.

   B. UCC-1 Financing Statement, filed on January 31, 2007 in the Department of State for Delaware as No. 2007 0088061.

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Attachment 2

to

Modification Agreement

The Contract shall be, and the same is, modified as follows:

1. **Section 2.1(b)** of the **Loan and Security Agreement** is hereby modified so that after modification, it shall read as follows:

(b) Equipment Facility. Bank has made a term loan to Borrower, evidenced by that certain Amended and Restated Promissory Note dated November 5, 2010, in the principal amount of One Million One Hundred Twelve Thousand Eight Hundred Twenty Seven and No/100 Dollars ($1,112,827.00). The Equipment Facility shall be fully funded as of November 5, 2010.

2. **Exhibit A** to the **Loan and Security Agreement** is hereby modified so that after modification, the following definitions shall be added or modified, as applicable, to read as follows:

Equipment Facility means the Credit Extension for equipment financing and other authorized purposes in the principal amount of $1,112,827.00.

3. The Promissory Note of Borrower entitled Commercial Promissory Note and dated January 2, 2007 in the amount of $800,000.00, as amended by that certain Modification Agreement dated November 14, 2008 between Bank and Borrower, is amended and restated by the Note described in Attachment 1. No novation is intended.

Except as modified herein, each of the loan and security documents outstanding with respect to the extension of credit evidenced by the Note set forth on **Attachment 1**, remains in full force and effect and legally binding and enforceable against the Borrower.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) November 15, 2010

COMPUTER SOFTWARE INNOVATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

000-51758	**98-0216911**
(Commission File Number)	**(IRS 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)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 2.02. Results of Operations and Financial Condition.
On November 15, 2010, Computer Software Innovations, Inc. issued a press release announcing its financial results for the third quarter and nine months ended September 30, 2010. A copy of the press release is furnished herewith as Exhibit 99.1.

Item 9.01. Financial Statements and Exhibits.
(d) Exhibits.

The following exhibit is furnished as part of this report:

Exhibit Number	Description
99.1	Press Release dated November 15, 2010

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SIGNATURES

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

COMPUTER SOFTWARE INNOVATIONS, INC.

By: /s/ David B. Dechant
David B. Dechant
Chief Financial Officer

Dated: November 15, 2010

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EXHIBIT INDEX

Exhibit Number	Description
Exhibit 99.1	Press Release dated November 15, 2010

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Exhibit 99.1

COMPUTER SOFTWARE INNOVATIONS, INC. ANNOUNCES THIRD QUARTER 2010 FINANCIAL RESULTS

Easley, SC (MARKET WIRE) November 15, 2010 Computer Software Innovations, Inc. (OTCBB: CSWI), CSI Technology Outfitters(TM) (CSI) today announced its financial results for the third quarter and nine months ended September 30, 2010.

Financial Highlights:

- Revenues (2% up, to $41.3 million), profitability (75% up, to $0.5 million) and EBIDTA (up 5% to $2.9 million) all remain up for the Nine Months 2010 over the same period of the prior year, despite the impact of a challenging, record-breaking prior year Third Quarter included in 2009 Nine Months results.
- Revenues of $14.5 million for the Third Quarter of 2010, a decrease of 19% from 2009;
- Operating Income of $0.7 million for the Third Quarter of 2010, a decrease of 45% from 2009;
- Net Income of $0.4 million for the Third Quarter of 2010, a decrease of 47% over 2009;
- EBITDA of $1.3 million for the First Nine Months of 2010, a decrease of 32% over 2009.

We were able to continue the momentum from second quarter and are pleased with our third quarter results. We were profitable in our software and technology segments, said Nancy Hedrick, CEO of CSI. Our year to date top line and bottom line performance remains improved over 2009, despite the continuing economic challenges for our public sector customer base and against the prior year third quarter s record breaking revenues. Our team has worked hard to achieve these results under very challenging conditions. We are continuing to invest in our education cloud solutions and we are excited to be adding CSI@K12 Voice to our education cloud offerings. These investments in our future are impacting our profitability in our software segment. We have begun to roll out our cloud offerings and look forward to a favorable impact in future periods as we gain traction with these new solutions.

Financial Results:

Three Month Financial Results for the Period Ended September 30, 2010

CSI posted revenues of approximately $14.5 million for the third quarter of 2010, a decrease of $3.3 million or 19% compared to the third quarter of 2009. The revenue decrease was due to a $3.0 million decrease in technology revenues primarily from reduced interactive classroom products and services, combined with a $0.3 million decrease in software revenues primarily from reduced new software sales and services.

CSI s gross profit for the third quarter of 2010 was approximately $3.0 million, a decrease of $0.8 million or 20% compared to the third quarter of 2009. The decrease was due to a $0.5 million decrease in gross profit from the software segment driven by reduced revenues and increased costs for development and a $0.3 million decrease in gross profit from the technology segment primarily from reduced interactive classroom services.

CSI s operating income for the third quarter of 2010 was approximately $0.7 million, a decrease of $0.6 million or 45% compared to the third quarter of 2009. The decrease in operating income came from the decrease in gross profit, partially offset by a decrease in operating expenses.

CSI posted net income for the third quarter of 2010 of approximately $0.4 million or $0.06 earnings per basic share and $0.03 earnings per diluted share, compared to a net income of approximately $0.7 million, or $0.11 earnings per basic share and $0.05 earnings per diluted share for the same period of the prior year. The decrease in net income was due to the decrease in operating income, partially offset by reduced interest expense and a decrease in income tax expense.

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Earnings before interest, taxes, depreciation and amortization (EBITDA) for the third quarter of 2010 was approximately $1.3 million, a decrease of $0.6 million or 32% compared to the third quarter of 2009. (EBITDA is a non-GAAP financial measure. See reconciliation to GAAP measure net income which follows below.) The decrease was primarily a result of the decrease in operating income.

Nine Month Financial Results for the Period Ended September 30, 210

CSI posted revenues of approximately $41.3 million for the nine months ended September 30, 2010, an increase of $0.8 million or 2% compared to the same period of the prior year. The revenue increase was due to a $0.7 million increase in technology revenues primarily from increased personal computer and infrastructure equipment sales combined with a $0.1 million increase in software revenues primarily from increased support revenues.

CSI s gross profit for the nine months ended September 30, 2010 was approximately $8.4 million, a decrease of $0.4 million, or 5%, compared to the same period of the prior year. The decrease was due to a $0.1 million decrease in gross profit from the software segment from increased cost of sales due to increased support for new products recently developed while the technology segment gross profit decreased $0.3 million primarily from decreased interactive classroom services sales.

CSI s operating income for the nine months ended September 30, 2010 was approximately $1.2 million, an increase of $0.2 million, or 21%, compared to the same period of the prior year. The improvement in operating income was due to a decrease in operating expenses primarily due to the impact on the nine months results of a reduction in workforce in May of 2009, partially offset by the decrease in gross profit.

Net income for the nine months ended September 30, 2010 was approximately $0.5 million or $0.08 earnings per basic share and $0.04 earnings per diluted share, compared to a net income of approximately $0.3 million, or $0.05 earnings per basic share and $0.02 earnings per diluted share for the same period of the prior year. The increase in net income was due to the improvement in operating income and reduced interest expenses, partially offset by an increase in income tax expense.

EBITDA increased 5% or $0.1 million to $2.9 million for the nine months ended September 30, 2010 compared to EBITDA of $2.7 million reported for the same period in 2009. (EBITDA is a non-GAAP financial measure. See reconciliation to GAAP measure net income which follows below.) The improvement in EBITDA was primarily due to the increase in operating income.

Conference Call Reminder for Today

The Company will host a conference call today, Monday, November 15, 2010 at 4:15 Eastern Time to discuss the Company s financial and operational results for third quarter 2010, which ended September 30, 2010.

Conference Call Details

Date: Monday, November 15, 2010

Time: 4:15 p.m. (EST)

Dial-in Number: 1-877-941-8418

International Dial-in Number: 1-480-629-9808

It is recommended that participants phone-in approximately 5 to 10 minutes prior to the start of the 4:15 p.m. call. A replay of the conference call will be available approximately three hours after the completion of the call for 30 days, until December 15, 2010. To listen to the replay, dial 1-877-870-5176 if calling within the U.S., 1-858-384-5517 if calling internationally and enter the pass code 4381455.

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The call is also being webcast and may be accessed at CSI s website at www.csioutfitters.com. The webcast will be archived and accessible until December 15, 2010 on the Company website.

About Computer Software Innovations, Inc.

CSI provides software and technology solutions to public sector markets. CSI software solutions have established the Company as a major software provider in the southeast education market including through its award winning financial management solutions for the education and local government market sectors. CSI s Version3 products, which include identity and access management and cloud-based communication and collaboration solutions expand CSI s presence beyond the southeast and internationally.

The CSI 21st Century Connected School solution has established the Company as a major technology provider to the southeast education market. CSI 21st Century Connected School is a seamless integration of instruction, collaboration, and network solutions. CSI financial management applications and the 21st Century Connected School solutions have been a significant factor in nearly doubling company revenue in the past three years to over $50 million and increasing education revenue contribution to approximately 90% of total revenue.

The CSI solution portfolio encompasses proprietary financial management software specialized for the public sector, lesson planning and identity and access management software, cloud-based communication and collaboration solutions, SharePoint development, network infrastructure and end device solutions, IP telephony and IP convergence applications, network management solutions and managed services, and interactive classroom technologies. More information about CSI (OTCBB: CSWI.OB) is available at www.csioutfitters.com.

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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**

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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**

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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**

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COMPUTER SOFTWARE INNOVATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	Nine Months Ended September 30, 2010	Nine Months Ended 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 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

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Non-GAAP Financial Measure: Explanation and Reconciliation of 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 term Earnings Before Interest, Taxes, Depreciation and Amortization and the acronym EBITDA.

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 sophisticated 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 (as discussed further below).

Adjusted EBITDA or Financing EBITDA is a non-GAAP financial measure used in our calculation and determination of compliance with debt covenants related to our bank credit facilities. Adjusted EBITDA is also used as a representation as to how EBITDA might be adjusted by potential lenders for financing decisions and our ability to service debt. 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 (such as stock-based compensation), and the Company s initial reorganization or restructuring related costs, unrealized gain or loss on financial instrument (non-cash related) 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.

We believe the presentation of Adjusted EBITDA is important as an indicator of our ability to obtain additional financing for the business, not only for working capital purposes, but particularly as acquisitions are anticipated as a part of our growth strategy. Accordingly, a significant part of our success may rely on our ability to finance acquisitions.

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.

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A reconciliation of Net Income reported under GAAP to EBITDA and Adjusted (Financing) EBITDA is provided below:

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Reconciliation of net income per GAAP to EBITDA and Adjusted (Financing) EBITDA:				
Net income per GAAP	$ 387	$ 730	$ 515	$ 295
Adjustments:				
Income tax expense	295	519	443	358
Interest expense, net	54	95	201	302
Depreciation and amortization of property and equipment and intangible assets (excluding Software development)	211	216	636	650
Amortization of software development costs	387	398	1,085	1,133
EBITDA	$ 1,334	$ 1,958	$ 2,880	$ 2,738
Adjustments to EBITDA to exclude those items excluded in loan covenant calculations:				
Stock based compensation (non-cash portion)	8	29	49	137
Adjusted (Financing) EBITDA	$ 1,342	$ 1,987	$ 2,929	$ 2,875

Forward-Looking and Cautionary Statements

This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Among other things, these statements relate to our financial condition, results of operations and future business plans, operations, opportunities and prospects. In addition, we and our representatives may from time to time make written or oral forward-looking statements, including statements contained in filings with the Securities and Exchange Commission and in our reports to stockholders. These forward-looking statements are generally identified by the words or phrases may, could, should, expect, anticipate, plan, believe, seek, estimate, predict, project or words of similar import. These forward-looking statements are based upon our current knowledge and assumptions about future events and involve risks and uncertainties that could cause our actual results, performance or achievements to be materially different from any anticipated results, prospects, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are not guarantees of future performance. 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.

In our most recent Form 10-K, we have included risk factors and uncertainties that might cause differences between anticipated and actual future results. 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 marketplace and/or customer requirements.

Company Contact: David Dechant

Computer Software Innovations, Inc.

(864) 855-3900

ddechant@csioutfitters.com

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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	**(I.R.S. Employer**
incorporation or organization)	**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**

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COMPUTER SOFTWARE INNOVATIONS, INC.

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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
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Research and development	45	85	122	252
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Stock based compensation	8	29	49	137
Acquisition costs				2
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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.

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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.

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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.

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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.

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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

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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%

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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.

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

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;

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- 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

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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

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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.

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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.

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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.

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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.

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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
Nine months ended September 30, 2009:			
Net sales and service revenue	$ 11,073	$ 29,382	$ 40,455
Gross profit	4,338	4,480	8,818
Segment income	259	1,217	(*)
Segment assets	11,169	10,971	22,140

* See reconciliation below

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

	Three Months Ended	
	September 30, 2010	September 30, 2009
Segment income:		
Software Applications Segment	$ 101	$ 497
Technology Solutions Segment	709	1,009
TOTAL SEGMENT INCOME	810	1,506
Less: merger-related and compliance costs		
Stock compensation non-cash	(8)	(29)

Acquisition costs		
Professional and legal compliance costs	(66)	(133)
OPERATING INCOME Per Consolidated Statements of Operations	$ 736	$ 1,344

	Nine Months Ended	
	September 30, 2010	**September 30, 2009**
Segment income:		
Software Applications Segment	$ 542	$ 259
Technology Solutions Segment	1,053	1,217
TOTAL SEGMENT INCOME	1,595	1,476
Less: merger-related and compliance costs		
Stock compensation non-cash	(49)	(137)
Acquisition costs		(2)
Professional and legal compliance costs	(385)	(378)
OPERATING INCOME Per Consolidated Statements of Operations	$ 1,161	$ 959

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

(Dollar amounts are presented in thousands, except where specifically stated.)

A. Introduction

Unless the context requires otherwise, Computer Software Innovations, Inc., CSI, we, our, us and the Company refer to the consolidated combined business of Computer Software Innovations, Inc., a Delaware corporation, and its subsidiary, CSI Technology Resources, Inc., a South Carolina corporation.

Products and Services

We develop software applications and provide hardware-based technology solutions, focused primarily on the needs of organizations that employ fund accounting. Fund accounting is used by those entities that track expenditures and investments by fund, or by source and purpose of the funding (e.g., funds provided by government or grant sources), and is utilized primarily by public sector and not-for-profit entities. Our client base consists principally of K-12 (kindergarten through grade 12) public education and local government organizations including counties and municipalities. Our clients also include public libraries, disabilities boards, higher education and other non-governmental clients. We have a significant number of non-education focused clients which represent our fastest growing sector based on increases in the number of new clients being added. However, our education focused customers typically generate more than 80% of our revenues in a given year.

Organization

Our business efforts are focused on two key operating segments. The first is internally developed software applications and sales of that software both on premise and off site or Company-hosted solutions. The segment also includes resales of services developed with the use of third-party, primarily software-driven, solutions, and related service and support of those solutions (our Software Applications Segment). Our other segment is primarily composed of hardware centric technology solutions and related services and support (our Technology Solutions Segment).

Software Applications Segment

Our initial internally developed software product was developed for financial management of public sector entities, primarily local government and kindergarten through grade 12 (K-12) organizations. The largest portion of our revenues are derived from the K-12 education market space with the local government being one of our fastest growing segments. Recently acquired products are used in these markets and also in higher education. We may pursue other markets but currently they are not a substantial focus.

Our internally developed software efforts have grown to consist primarily of four product groups:

- Fund accounting based financial management software
- Standards based lesson planning software
- Identity and access management software
- Cloud-based communication and collaboration solutions

Fund accounting based financial management software

Our initial and primary software product, fund accounting based financial management software, was developed for those entities that track expenditures and investments by fund, or by source and purpose of the funding. Our fund accounting software is used by public sector and not-for-profit entities. These organizations are primarily municipalities, school districts and local governments. Specific software modules include:

- General (or Fund) Ledger;
- Accounts Payable;
- Purchasing;
- Payroll;
- Human Resources;
- Inventory;
- Utility Billing; and

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Other specialty modules designed for government markets.

In the initial state of our focus, South Carolina, and that of an acquired operation, Alabama, more than 90% of the K-12 school districts run our fund accounting software products. We also have a significant presence in the local government market space in these two states. In addition, we have implementations in school districts or local government entities in six other states in the southeast: North Carolina, Georgia, Louisiana, Mississippi, Tennessee and Florida. We are looking to expand our financial management solutions to a national level, which will include accommodating expanded local and state reporting requirements.

Standards based lesson planning software

In September 2005, we acquired standards-based lesson planning software (curriculator®). The software is designed to allow teachers to create lesson plans that are tied to a state s curriculum standards, and curriculum maps. 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 product is in several K-12 schools, but is not currently a significant revenue driver.

Identity and access management software

In August 2008, we acquired our Identity and access management solutions through our acquisition of Version3, Inc. (Version3®). Our identity and access management solutions provide single sign-on, application access management and provisioning based on Microsoft® Identity Lifecycle Management and Microsoft SharePoint deployments. While Version3 solutions are not solely designed for the education market segment, many recent projects have been directed to K-12 and higher education. Prior to the acquisition, CSI was a reseller of Version3 solutions. By joining forces with Version3, we have achieved synergies to expand sales efforts, enhance delivery efficiencies, and allow increased focus on new product development and enhancements to existing solutions. Version3 s solutions do not require the level of integration with local or state reporting as do our financial management products. As a result, the Version3 installations have already expanded to a national level and include a few international implementations.

Cloud-based communication and collaboration solutions

In August 2009 we began development efforts of our CSI@K12 communication and collaboration solution based on Microsoft s Live@edu hosted email solution. CSI@K12 is an instructional communications management solution providing tools to manage the regulatory compliance and security standards required within a K-12 based email environment. 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. This product has been implemented at a few sites as a full release subject to beta testing and functional improvements. It is anticipated this solution, which is E-Rate fundable, will be more widely distributed in the late summer and fall of 2010, and more significantly following the 2010-2011 E-Rate season. (E-Rate is a program which provides government matching funds, up to 90%, for schools located in more economically challenged, such as rural, areas).

In September 2010, we added hosted virtual Private Branch (or entity level) Exchange (PBX) systems services for Voice calls over Internet Protocol (VoIP) or Hosted VoIP to our CSI@K12 communication and collaboration solutions suite. Our Hosted VoIP is a solution whereby voice calls are communicated from internet protocol based phones and other end user devices across 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 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. The addition of voice communications to our CSI@K12 product is a natural extension of our branded communication and collaboration solutions offering, and provides the potential of tighter integration and improved security and management over these services through continued product and systems integration development.

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Margins

As in other competitive software businesses, the sales and support of software products and software based solutions 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 those sales. See Technology Solutions Segment Margins below for a detailed margins comparison of our Software Applications Segment to our Technology Solutions Segment.

Technology Solutions Segment

Solutions

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 (distance learning and classroom learning tools such as interactive white boards and integrated accessories, such as hand held voting devices and audio systems).

Staffing

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 Dell, Hewlett Packard, Cisco, Microsoft, Novell, Promethean and Tandberg, and supports the Software Applications Segment, as needed.

Margins

The combination of traditionally low margin sales of hardware with the sales of services results in a much lower margin for the Technology Solutions Segment when compared to the Software Applications Segment. Gross margins for the Software Applications Segment were 34.9% and 37.4% for the three and nine month periods ended September 30, 2010, respectively, while margins for our Technology Solutions Segment were 16.2% and 14.0%, respectively, for the same periods. Gross margins for the Software Applications Segment were 44.6% and 39.2% for the three and nine month periods ended September 30, 2009, respectively, while margins for the Technology Solutions Segment were 14.6% and 15.2%, respectively, for the same periods.

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 F. Financial Performance below.

Strategy

While we report the business as two segments and use such information for analysis and decision making purposes, we also operate the business collectively, taking advantage of cross-selling opportunities. As a part of our software applications and technology solutions sales efforts we provide systems and software networking and integration services. These services also generate a significant amount of revenue by increasing demand for the computer hardware equipment we sell.

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Our marketing strategy is to provide a suite of software products coupled with full service integration of the hardware solutions that support those products and other back-office functions, and to provide ongoing technical support, monitoring and maintenance services to support the clients continuing needs. We also market our hardware solutions and ability to provide a wide level of services and support independent from our software solutions, which when marketed to a fund accounting based organization may also lead to future software sales and integration services. By providing a client the ability to call one solution provider and circumvent the difficulties that often arise when dealing with multiple vendors, we believe we are able to achieve high long-term client satisfaction and a competitive advantage in the marketplace.

By strategically combining our internally developed software applications with our ability to integrate computer, networking and other hardware solutions, we have been successful in providing software and hardware solutions to over 1,000 clients located primarily in the southeastern states of South Carolina, Alabama, North Carolina, Georgia, Florida, Mississippi, Louisiana and Tennessee. In the states of South Carolina, where CSI was founded, and Alabama where one of our acquired operations was founded, we have account penetration in excess of 90% in the K-12 school district market space.

Our long-term strategy is to pursue a national presence. Our primary initial focus has been on the southeast region of the United States. As a result of our acquisitions, we have expanded our reach into the southeastern states significantly and are beginning to look at other areas of the United States as well. Additionally, with our latest acquisition we have added a small number of customers outside our main southeast footprint, including a few new customers internationally. Not all solutions are marketed to all states. However, we continue to expand the number of solutions offered in each area as resources and expanding vendor relationships permit.

For more information on our strategy, see Acquisitions below and our latest annual report filed on Form 10-K.

Seasonality

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.

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. 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.

- Software companies with operations in the public educational and governmental market segments.

- Consulting firms providing high level professional services. We believe this type of acquisition would enhance our offering of technology planning and project management.

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, the Company has not entered into agreements or understandings for any acquisitions which management deems material.

Because there are a number of competitors of significantly greater size than us, both private and public companies, and as we have significant market penetration on a regional basis in our market space, and valuable software products, we believe CSI is a potential acquisition target. (For more discussion as to competition, see our Form 10-K last filed). Due to the volatile nature of the capital markets, we believe our stock price does not necessarily reflect the value of the business to our shareholders, nor the value to a potential acquirer. Our opinion also takes into account the value of investments we are making or have made that have yet to provide significant return, such as new product development or acquisitions.

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We manage the Company with the goal of improving long-term value for our shareholders. Generally, we believe the opportunities for creating value have been better driven by reinvesting our capital in new products, acquisitions and organic growth. Accordingly, our current strategy is to remain independent and not to be acquired or merged. However, we are contacted from time to time by a variety of interests, both acquiring companies, primarily competitors, and investment firms who are interested in exploring making an investment, acquiring or merging with our business. We continue to keep open lines of communication with the various parties for potential future opportunities. However, the Company has not entered into agreements or understandings for any acquisitions which management deems material.

B. Recent Developments

Extension of Subordinated Notes and Removal of Default

As part of our reverse merger and recapitalization in 2005, we issued Subordinated Notes, originally due in May 2006. At that time, with the support of our management, board of directors and Bank, we did not pay the notes, electing instead to pay the penalty of a higher, default interest rate of 15% to use the funds to support working capital needs and investment in acquisitions. Periodically we negotiated extensions with waivers and removal of the default condition, subject to partial payments, and while continuing to pay the default interest rate. Most recently, we entered into an extension of the Subordinated Notes and Waiver dated June 24, 2010 (the Extension). In connection therewith, we paid approximately half of the then outstanding balance of $1,750 and accrued interest.

The restructuring of the Subordinated Notes permits the Company to repay the remaining $875 in principal over an approximate seven-year period with an annual review to consider an earlier payoff. 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 Subordinated Notes and related events are described in more detail in Note 4 to our unaudited financial statements and - G. Liquidity and Capital Resources below.

New Product and Solutions Development

In August 2009 we began development efforts of our CSI@K12 communication and collaboration solution based on Microsoft s Live@edu hosted email solution. This is an effort driven within our Version3 division, acquired in the fall of 2008. CSI@K12 is an instructional communications management solution providing tools to manage the regulatory compliance and security standards required within a K-12 based email environment. 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 site and social media tools, delivered in a browser and native Microsoft Outlook access and views. This product has been implemented at a few sites as a full release subject to beta testing and functional improvements. It is anticipated this solution will be more widely distributed in late 2010, and more significantly following the 2010-2011 E-Rate season. (E-Rate is a program which provides government matching funds, up to 90%, for schools located in more economically challenged, such as rural, areas). We estimate we will commit more than $1 million to develop this offering, including both research and development and capitalized development costs, as well as capital expenditures to develop and host certain functions related to this solution. We anticipate we will have profitability related to the product in a two to three year period and will recover this investment with double digit internal rates of return within a three to five year period. In the first nine months of 2010 we spent approximately $0.6 million,] including capitalized development costs and hosting equipment.

In September 2010, we added hosted virtual Private Branch (or entity level) Exchange (PBX) systems services for Voice calls over Internet Protocol (VoIP) or Hosted VoIP to our CSI@K12 communication and collaboration solutions suite. Our Hosted VoIP is a solution whereby voice calls are communicated from internet protocol based phones and other end user devices across 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. The addition of voice communications to our CSI@K12 product is a natural extension of our branded communication and collaboration solutions offering, and provides the potential of tighter integration and improved security and management over these services through continued product and systems integration development. Like the email portion of our CSI@K12 offering, the hosted VoIP portion is also E-Rate fundable. We expect our margins on this portion of our solution to more closely resemble those of our other product offerings in our Software Applications Segment than that of our Technology Solutions Segment.

With the addition of Hosted VoIP, our CSI@K12 solution combines our proprietary technology, using our internally developed communications and collaboration tools, with those of third parties to provide a product suite which offers solutions for both voice and data management. The solution set, coupled with our support and services, reduces the management overhead of these services to our customers while providing improved security and compliance for our customer base. The CSI@K12 solutions suite will continue to be enhanced through future additional development and product integration. In the first nine months of 2010 we spent approximately $0.2 million on the Hosted VoIP portion of our CSI@K12 offering, including capitalized purchased software and hosting equipment.

The CSI@K12 solution is not currently a significant revenue generator. However, as the hosted email and VoIP portions of the solution are eligible for the first priority (priority one) level of funding under E-Rate the federal program providing funding for telecommunications, internet access and internal connections for schools. The percentage of a project funded by contributions from E-Rate is based on the percentage of students participating in a subsidized lunch program, due to their being in lower income households. Schools and districts that have a high free and reduced lunch rate count receive a higher percentage of contributions from E-Rate funds to help fund their qualifying projects than do those with a lower count. We believe eligibility for priority one funding coupled with the need for the functionality the product delivers will create revenue growth opportunities in future years. Prior to offering the CSI@K12 solution, CSI s solutions which were E-Rate eligible were only eligible at priority level two. Priority one projects are considered more important and are funded prior to considering priority level two projects. Thereafter, priority two projects are funded until E-Rate funds have run out, leaving many more potential two projects unfunded, than for priority one. For a more detailed discussion of the E-Rate program, refer to the Federal E-Rate Program under our Government Regulation risk factor disclosed in our previously filed annual report on Form 10-K.

Increased Commercial Account Focus

Traditionally, only a very small portion of our business has been to commercial (non-public) enterprises. While many of our solutions are also applicable to the commercial market space, without staff with significant expertise in that market, we have made little effort to penetrate commercial accounts. Recently, we have hired sales and operations talent with significant experience in the commercial sector, and we are looking to allocate a small portion of our efforts to methodically seek commercial opportunities. Currently, commercial business is not significant to our overall revenues. However, we do expect the amount of revenues from these accounts to grow over time. The public sector is traditionally slower to enter a recession but also slower to exit. As a result, we believe, in future periods, adding more commercial business to our account base may accelerate improved performance following challenging economic times as the business climate improves.

The Current Economic Crisis, Our Response, and the American Recovery and Reinvestment Act of 2009 and Guidance

As 2008 progressed, the United States slid into what has been described by economic and financial analysts as a recession. Reductions in business and consumer spending impact our primary client base education and local government customers by reducing their revenues from sales tax. Reductions in property values can impact our clients through reductions in property taxes. Such reductions have the potential to decrease the amount of funds available for the software and technology solutions CSI provides. Some projects, such as new construction, may have funds available through previous bond raising activities, while other projects may not have such funding.

As a result of the impact of the recession on our customers, beginning in 2009 we saw a moderate increase in the amount of projects postponed or changed as a result of customer budget cuts. A potential indicator of ongoing business health the value of quoting activity and incoming service orders received has held steady and at times exceeded modestly that of the recent past. However, we have seen additional scrutiny in the purchase process increase the timeframe significantly from quoting to receiving purchase orders for new projects and software orders. Due to our acquisition activity, we now have a greater geographic region and larger number of potential customers to sell into than at any point in our past history. Also, we have a greater breadth of product offerings, which we believe, coupled with our expanded geographic reach, provides the potential to double our EBIDTA over the next five years. (EBITDA is a non-GAAP measure. Please see our disclosure regarding EBITDA and reconciliation to the nearest GAAP measure under G. Liquidity and Capital Resources Non-GAAP

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Financial Measures: EBITDA and Adjusted EBITDA). However, in light of the current economic climate, and given that our governmental client base generally lags the private sector both in feeling the impact of an economic downturn and benefit from a recovery due to the delay in tax collection cycles, we see significant uncertainty in the short term, and through 2011. Our financial results, including revenues and profitability, will hinge significantly on the mix between the actual impact from decreased customer budgets and our ability to acquire new accounts and increase penetration in existing accounts and with new products. We cannot predict what impact this change in mix, if any, will have on our financial results.

On February 17, 2009, President Obama signed into law The American Recovery and Reinvestment Act of 2009