COMPUTER SOFTWARE INNOVATIONS INC
Form SB-2
March 28, 2005
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

COMPUTER SOFTWARE INNOVATIONS, INC.

(Name of Small Business Issuer in Its Charter)

Delaware	**6770**	**98-0216911**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

1661 East Main Street

Easley, South Carolina 29640

(864) 855-3900

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

Copies of Communications to:

Nancy K. Hedrick

President and Chief Executive Officer

Computer Software Innovations, Inc.

1661 East Main Street

Easley, South Carolina 29640

(864) 855-3900
(Name, Address and Telephone Number of Agent For Service)

William L. Pitman, Esq.

Leatherwood Walker Todd & Mann, P.C.

The Leatherwood Plaza

300 East McBee Avenue, Suite 500

Greenville, South Carolina 29601

(864) 240-2494

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the Registration Statement becomes effective.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box: ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to Be Registered	Proposed Maximum	Proposed Maximum	Amount of Registration

	(1)	Offering Price Per Share(2)	Aggregate Offering Price	Fee
Common Stock, par value $0.001 per share	14,435,472 shares	$4.75	$68,568,492	$8,071

(1) Represents the aggregate number of shares of our common stock that are initially issuable upon conversion of the 7,217,736 shares of Series A Convertible Preferred Stock and the exercise of common stock purchase Warrants for the purchase of 7,217,736 shares, subject to adjustment in certain circumstances. Pursuant to Rule 416 under the Securities Act of 1933, as amended, we are also registering an indeterminate number of shares of common stock that may be issued from time to time upon conversion of the Preferred Stock or the exercise of the Warrants in connection with a stock split, stock dividend, recapitalization or similar event or as a result of the anti-dilution provisions of the Preferred Stock and the Warrants.

(2) Pursuant to Rule 457(c), the offering price is based on the bid ($4.00) and asked ($5.50) prices of one share of Common Stock, as reported on the OTC Bulletin Board on March 24, 2005, and has been established solely for the purpose of calculating the registration fee.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling stockholder named in this prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and the selling stockholder named in this prospectus is not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion dated March 28, 2005

PROSPECTUS

14,435,472 Shares

COMPUTER SOFTWARE INNOVATIONS, INC.

Common Stock

Barron Partners LP, identified in this prospectus as the selling stockholder or Barron, is offering 14,435,472 shares of our common stock, $0.001 par value per share. The shares of our common stock to be sold by the selling stockholder are or will be acquired upon conversion of the shares of our Series A Convertible Preferred Stock or the exercise of certain Common Stock Purchase Warrants held by Barron. We are not selling any shares of common stock under this prospectus and will not receive any proceeds from the sale of the shares by the selling stockholder.

The selling stockholder may sell all or any portion of the shares for its own account from time to time in one or more transactions through brokers or dealers at market prices then prevailing, in underwritten transactions at prices related to then-current market prices or in individually negotiated transactions at such prices as may be agreed upon. See Plan of Distribution.

We will pay all expenses in connection with the registration of the shares under the Securities Act of 1933, as amended, including the preparation of this prospectus. See Plan of Distribution.

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol CSWI. On March 24, 2005, the closing bid and asked prices for our common stock were $4.00 and $5.50, respectively.

Investing in our common stock involves risk. You should read the Risk Factors section beginning on page 8 before buying shares of our common stock.

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

The date of this prospectus is ______, 2005.

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IMPORTANT NOTICE TO READERS

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf registration process, the selling stockholder may, from time to time, offer shares of our common stock issued upon conversion of the Series A Convertible Preferred Stock, or the exercise of Warrants, owned by them. Each time the selling stockholder offers common stock under this prospectus, it is required to provide to potential purchasers a copy of this prospectus and, if applicable, a copy of a prospectus supplement. You should read both this prospectus and, if applicable, any prospectus supplement. See Where You Can Find More Information for more information.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from the information contained in this prospectus. This document may be used only in jurisdictions where offers and sales of these securities are permitted. You should not assume that information contained in this prospectus is accurate as of any date other than the date of the document that contains the information, regardless of when this prospectus is delivered or when any sale of our securities occurs.

In this prospectus, unless the context requires otherwise, (1) Computer Software Innovations, Inc., CSI, we, our, us and the Company refe combined business of Computer Software Innovations, Inc., a Delaware corporation formerly known as VerticalBuyer, Inc., and its subsidiary, CSI Technology Resources, Inc., a South Carolina corporation; (2) VerticalBuyer refers to the Company prior to the merger; and (3) CSI South Carolina refers to Computer Software Innovations, Inc., a South Carolina corporation, prior to the merger.

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PROSPECTUS SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled Risk Factors, our financial statements and the notes thereto and the other documents we refer to in this prospectus for a more complete understanding of us and this offering before making an investment decision.

COMPUTER SOFTWARE INNOVATIONS, INC.

Overview

We are a developer of proprietary fund accounting software applications and a provider of network integration solutions for education and local government organizations. By strategically combining our proprietary fund accounting software with our network integration/hardware division, we have been successful in providing a variety of technological solutions to over 300 clients located in South Carolina, North Carolina and Georgia.

We develop proprietary fund accounting software applications specifically designed for municipalities, education and local government organizations. The software modules include the following: Fund Ledger, Accounts Payable, Purchasing, Payroll, Personnel, Employee Absence/Substitutes, Inventory, Utility Billing and many specialty modules meeting the specific needs of municipalities, education and local governments.

In addition, we provide network integration solutions as a value added reseller of computer hardware and engineering services. These technologies include, but are not limited to, the following:

- technology planning;
- hardware/software sales and installation;
- system integration;
- wide area networking;
- wireless networking;

IP Telephony and IP Surveillance;

project management;

support and maintenance (Novell and Microsoft certified engineers); and

education technologies, including distance learning and classroom learning tools.

History

Prior to February 10, 2005, the Company was known as VerticalBuyer, Inc. Prior to our merger with CSI - South Carolina on February 11, 2005, we were a public shell corporation, having conducted no business operations since September, 2001. A brief history of VerticalBuyer, Inc. is set forth in Business Description VerticalBuyer, Inc.

On February 11, 2005, pursuant to an Agreement and Plan of Merger, CSI - South Carolina merged into the Company, with the Company continuing as the surviving corporation. Accordingly, our current business operations are those of CSI - South Carolina. Because VerticalBuyer had substantially no assets prior to the merger, the merger and related transactions will be accounted for as a recapitalization of CSI South Carolina rather than a business combination. As such, going forward the historical financial statements of CSI - South Carolina will be the historical financial statements of the Company. The merger and related transactions are described in Description of Business The Merger and Recapitalization, and under Management s Discussion and Analysis of Operation Recent Developments.

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Strategy

The overall business goal of CSI is to deliver excellent products, service and support, as we expand our client base**.** By continuing to provide the combined offering of high level service and support with excellent products, we believe we will continue to grow. A strong referral base has been key in our success and will continue to play a vital role in sustained growth. Our goal is to continue to nurture long-standing relationships with our existing clients, and establish trusting relationships with our new customers.

Technology

Expansion of offerings. We are continually seeking new hardware offerings to present to our clients. These new offerings may include storage solutions as well as XML applications, audio and video distribution, metropolitan wireless and additional service capabilities.

Managed services and Guaranteed Service Agreements (GSAs). In addition to GSAs on our software products, we will be offering GSAs on many of our hardware offerings. GSAs allow us to grow our recurring revenue.

Growth through acquisitions. We believe our markets contain a number of attractive acquisition candidates and foresee expanding through acquisition of one or more of the following types of organizations:

Cabling and infrastructure;

Commercial (Fortune 1000) focus products and services;

Commercial (SMB) focus products and services; and

High level professional services (consulting).

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

We are unable to predict the nature, size or timing of any such acquisition. As discussed in Management s Discussion and Analysis of Operation, we are also unable to estimate the capital resources which may be required for any such acquisition. Any acquisition would likely be subject to our utilizing sources in addition to capital sources which are currently available, consisting of our operating cash flow and our bank credit facility. We can give no assurance that we will find and reach agreement with any target organization, that we will be able to procure the financial resources necessary to fund any such acquisition or that we will otherwise be able to conclude and successfully integrate any acquisition.

Fund Accounting Software

New product development. The release of our industry-standard, SQL/.NET product will allow us to expand more easily into additional states. We will continue to expand our product offerings to meet the needs of our clients both in the current version and in the new version.

Service+*Plus*. Our new service offering provides version protection for major releases of the software without additional fees, free attendance to webinars, free user conference attendance, disaster recovery (off-site data storage) and more.

Hosted services (ASP). We are beginning to offer an ASP (hosted) solution to new clients. This offering is being tested in 2005 and will be more widely available in 2006.

Reseller model. In order to move into new regions and states, we are pursuing a reseller model in those areas where it will be the most expedient way to introduce CSI Accounting+*Plus*. There are often IT organizations established in an area that have the sales staff in place to market our products.

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Our corporate headquarters are located at 1661 East Main Street, Easley, South Carolina 29640, and our telephone number is (864) 855-3900. Our Internet address is www.csi-plus.com. The information contained in our website is not part of this prospectus.

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The Offering

Securities Offered	A total of 14,435,472 shares of common stock, $0.001 par value per share.
Shares Outstanding	As of March 25, 2005, we had 2,631,752 shares of common stock outstanding. This includes 2,526,904 shares held by executive officers of the Company. The shares held by such executive officers are restricted securities as that term is defined under Rule 144 under the securities act of 1933, as amended, and accordingly are subject to certain restrictions on resale. Also, pursuant to the Preferred Stock Purchase Agreement with Barron, all officers and directors are prohibited from selling any of their shares until February 11, 2007. The number of outstanding shares set forth above does not include the shares of common stock offered by the selling stockholder under this prospectus, which shares will be acquired by the selling stockholder upon the conversion of the shares of Series A Convertible Preferred Stock and the exercise of Warrants. See The Selling Stockholder. The total number of outstanding shares presented above also does not include 268,343 shares held by employees under immediately exercisable options and approximately 360,000 shares of common stock which we anticipate awarding to certain outside directors and a consultant as compensation for their services. See Management Directors Compensation and Certain Relationships and Related Transactions.
OTC Bulletin Board Symbol	CSWI
Use of Proceeds	We will not receive any of the proceeds from the resale by the selling stockholder of the common stock issuable upon conversion of the Series A Convertible Preferred Stock or the exercise of the Warrants. See Use of Proceeds.
Registration Rights	We filed the registration statement of which this prospectus is a part pursuant to a Registration Rights Agreement, dated February 11, 2005, between the selling stockholder and us. The Registration Rights Agreement requires us to file a registration statement by March 27, 2005 and to use our best efforts to have the registration statement declared effective within 120 days of February 11, 2005, subject to certain exceptions. We are also required to use our best efforts to keep the registration effective until the earliest of the following has occurred: all securities covered by the registration statement have been sold; all securities covered by the registration statement become freely tradable without registration pursuant to Rule 144 under the Securities Act; or until February 10, 2008. Failure to meet the above requirements will result in our being subject to liquidated damages in an amount equal to twenty-five percent (25%) of Barron s purchase price for the preferred stock per annum.
Risk Factors	See Risk Factors beginning on page 8 and other information set forth in this prospectus for a discussion of factors that you should carefully consider before deciding to invest in the shares of our common stock.

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RISK FACTORS

We depend on county and city governments and school districts for the sale of our products and services and our business will be affected by governmental spending patterns and governmental approval processes.

Substantially all of our revenues are from sales of software and services to county and city governments and school districts. We expect that sales to public sector customers will continue to account for substantially all of our revenues in the future. The sales cycle associated with the purchase of our products typically is complex, lengthy and subject to a number of significant risks, including customers budgetary constraints and governmental acceptance reviews over which we have little or no control. For each contract with a public sector customer, we typically are subject to a procurement process. The process can include a detailed written response to the demonstrations, the design of software that addresses customer-specified needs, the integration of our products with third party products, political influences, award protests initiated by unsuccessful bidders and changes in budgets or appropriations which are beyond our control. The procurement process often is onerous and may include profit limitations and rights of the agency to terminate for convenience or if funds are unavailable. Some public sector customers require liquidated damages for defective products and/or for delays or interruptions caused by system failures. Payments under some public sector contracts are subject to achieving implementation milestones and could in the future have differences with customers as to whether milestones have been achieved. Government organizations require compliance with various legal and other special considerations in the procurement process. The adoption of new or modified procurement regulations could harm us by increasing the costs of competing for sales or by impacting our ability to perform government contracts. Any violation, intentional or otherwise, of these regulations could result in fines and/or debarment from award of additional government contracts which could harm our business.

If our customers do not renew their annual maintenance and support agreements for our products and services or if they do not renew them on terms that are favorable to us, our business might suffer.

Most of our maintenance agreements are for a term of one year. As the end of the annual period approaches, we pursue the renewal of the agreement with the customer. Maintenance renewals represented 7% of our total revenue in 2003 and 9% of our total revenue in 2004. Because of this characteristic of our business, if our customers chose not to renew their maintenance and support agreements with us on beneficial terms, our business, operating results and financial condition could be harmed.

A material portion of our revenue is derived from the sale of our Accounting+Plus software. We believe that the use by our customers of our software also gives us a competitive advantage in our providing system integration services, including the sale of hardware, to these customers. Reduced acceptance of our Accounting+Plus software and upgrades of such software could harm our business.

We derive a material amount of our revenue from the sale of our Accounting+*Plus* software and related services, and revenue from this product and related services is expected to remain a material component of our revenue for the foreseeable future. For the 2003 and 2004 fiscal years, software sales and related revenues accounted for approximately 10.4% and 12.6% of our total revenues, respectively**.** Because we generally sell licenses to our products on a perpetual basis and deliver new versions and enhancements to customers who purchase annual maintenance and support, our future license, services and maintenance revenue are substantially dependent on sales to new customers. In addition, if demand for our Accounting+*Plus* software declines, our business would suffer.

We encounter long sales and implementation cycles, particularly for our largest customers, which could have an adverse effect on the size, timing and predictability of our revenue and sales.

Potential customers, particularly large clients, generally commit significant resources to an evaluation of available software and require us to expend substantial time, effort and money educating them as to the value of our software and services. Sales of our core software products to these larger customers often require an extensive education and marketing effort.

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We could expend significant funds and management resources during the sales cycle and ultimately fail to close the sale. Our core software product sales cycle averages approximately 3 months for sales to existing customers and from 3 to 9 months for sales to new customers and large organizations. Our implementation cycle for large organizations can extend for 3 to 6 months or more, which can negatively impact the timing and predictability of our revenue. Our sales cycle for all of our products and services is subject to significant risks and delays over which we have little or no control, including:

- our customers budgetary constraints;
- the timing of our clients budget cycles and approval processes;
- our clients willingness to replace their current methods or software solutions;
- our need to educate potential customers about the uses and benefits of our products and services; and
- the timing and expiration of our clients current license agreements or outsourcing agreements for similar services.

If we are unsuccessful in closing sales after expending significant funds and management resources or if we experience delays as discussed above, it could have a material adverse effect on the size, timing and predictability of our revenue.

We are dependent on strategic relationships with our vendors and our business would be materially and adversely affected if we were to lose our existing, or fail to gain additional, strategic relationships.

The vendors that we currently work with are listed under Business Description Products & Services. The segment of our business that includes hardware sales and related support services is dependent upon the strong relationships that have been established with these vendors. As a value added reseller, we purchase equipment from these vendors and add our engineering services to provide a total solution to the customer. Without the vendor products, we would lose the margin on the hardware sale as well as the margin provided by our engineering services.

These relationships could be terminated if we fail:

- to maintain adequate certified engineers and staff that can implement and support the vendors products;
- to receive satisfactory feed back from our customers; or
- to pay for purchased equipment and services on a timely basis.

Our quarterly financial results fluctuate and may be difficult to forecast and, if our future results are below either any guidance we may issue or the expectations of public market analysts and investors, the price of our common stock may decline.

Our quarterly revenue and results of operations are difficult to forecast. We have experienced, and expect to continue to experience, fluctuations in revenue and operating results from quarter to quarter. As a result, we believe that quarter-to-quarter comparisons of our revenue and operating results are not necessarily meaningful and that such comparisons might not be accurate indicators of future performance. The reasons for these fluctuations include but are not limited to:

- the size and timing of sales of our software, including the relatively long sales cycles associated with many of our large software sales;
- budget and spending decisions by our customers;
- market acceptance of new products we release;
- the amount and timing of operating costs related to the expansion of our business, operations and infrastructure;
- changes in our pricing policies or our competitors pricing policies;
- seasonality in our revenue;
- general economic conditions; and
- costs related to acquisitions of technologies or businesses;

Our operating expenses, which include sales and marketing, research and development and general and administrative expenses, are based on our expectations of future revenue and are, to a large extent, fixed in the short term. If revenue falls below our expectations in a quarter and we are not able to quickly reduce our operating expenses in response, our operating results for that quarter could be adversely affected. It is possible that in some future quarter our operating results may be below either any guidance we may issue or the expectations of public market analysts and investors and, as a result, the price of our common stock may fall.

Our failure to compete successfully could cause our revenue or market share to decline.

Our market is fragmented, competitive and rapidly evolving, and there are limited barriers to entry for some aspects of this market. We have three primary sources of competition:

- software developers offering integrated specialized products designed to address specific needs of governmental organizations;
- custom-developed products created either internally or outsourced to custom service providers; and
- software developers offering general products not designed to address specific needs of governmental organizations.

The companies we compete with, and other potential competitors, may have greater financial, technical and marketing resources and generate greater revenue and better name recognition than we do. If one or more of our competitors or potential competitors were to merge or partner with one of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. For example, a large diversified software enterprise, such as Microsoft, Oracle or PeopleSoft, could decide to enter the market directly, including through acquisitions.

Loss of significant clients could hurt our business by reducing our revenues and profitability.

Our success depends substantially upon retaining our significant clients. Generally, we may lose clients due to conversion to a competing service provider. We cannot guarantee we would be able to retain long term relationships or secure renewals of short term relationships with our significant clients in the future. Our top ten clients comprised 40% of our revenue in 2003 and 2004. The loss of these clients or a significant portion thereof would have a material adverse effect on the profitability and financial condition.

We may not be able to manage our future growth efficiently or profitably.

We have experienced significant growth since our inception, and we anticipate that continued expansion will be required to address potential market opportunities. For example, we will need to expand the size of our sales and marketing, product development and general and administrative staff and operations, as well as our financial and accounting controls. There can be no assurance that our infrastructure will be sufficiently scalable to manage our projected growth. For example, our anticipated growth will result in a significant increase in demands on our maintenance and support services professionals to continue to provide the high level of quality service that our customers have come to expect. If we are unable to sufficiently address these additional demands on our resources, our profitability and growth might suffer. Also, if we continue to expand our operations, management might not be effective in expanding our physical facilities and our systems, procedures or controls might not be adequate to support such expansion. Our inability to manage our growth could harm our business.

Because competition for highly qualified personnel is intense, we may not be able to attract and retain the employees we need to support our planned growth.

To execute our continuing growth plans, we will need to increase the size and maintain the quality of our sales force, software development staff and our professional services organization. To meet our objectives successfully, we must attract and retain highly qualified personnel with specialized skill sets focused on the educational and local government market. Competition for qualified personnel can be intense, and we might not be successful in attracting and retaining them. The pool of qualified personnel with experience working with or selling to nonprofit organizations is limited overall and specifically in Easley, South Carolina, where our principal office is located. Our ability to maintain and expand our sales, product development and professional services teams will depend on our ability to recruit, train and retain top quality people with advanced skills who understand sales to, and the specific needs of, educational institutions and local governments. For these reasons, we have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications for our business. In addition, it takes time for our new sales and services personnel to become productive, particularly with respect to obtaining and supporting major customer accounts. In particular, we plan to continue to increase the number of services personnel to attempt to meet the needs of our customers and potential new customers. In addition to hiring services personnel to meet our needs, we might also engage additional third-party consultants as contractors, which could have a negative impact on our earnings. If we are unable to hire or retain qualified personnel, or if newly hired personnel fail to develop the necessary skills or reach productivity slower than anticipated, it would be more difficult for us to sell our products and services, and we could experience a shortfall in revenue or earnings, and not achieve our planned growth.

Our integration services revenue produces substantially lower gross margins than our software license revenue.

An increase in services revenue relative to license revenue would harm our overall gross margins. A shift in our product mix toward lower margin products would adversely affect our overall profitability.

If our products fail to perform properly due to undetected errors or similar problems, our business could suffer, and we could become subject to product or general liability or errors and omissions claims. Such claims would be time-consuming and costly. Furthermore, any negligence or misconduct on the part of our consultants could result in financial or other damages to our customers.

Complex software such as ours often contains undetected errors or bugs. Software errors are frequently found after introduction of new software or enhancements to existing software. We continually introduce new products and new versions of our products. If we detect any errors before we ship a product, we might have to delay product shipment for an extended period of time while we address the problem. We might not discover software errors that affect our new or current products or enhancements until after they are deployed, and we may need to provide enhancements to correct such errors. Therefore, it is possible that, despite testing by us, errors may occur in our software. These errors, as well as any negligence or misconduct on the part of our consultants, could result in:

- harm to our reputation;
- lost sales;
- delays in commercial release;
- product liability, general liability or errors and omissions claims;
- delays in or loss of market acceptance of our products;
- license terminations or renegotiations; and
- unexpected expenses and diversion of resources to remedy errors.

Furthermore, our customers may use our software together with products from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our software does not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our product development efforts, impact our reputation and cause significant customer relations problems.

Our failure to integrate third-party technologies could harm our business.

We intend to continue licensing technologies from third parties, including applications used in our research and development activities and technologies which are integrated into our products. These technologies may not continue to be available to us on commercially reasonable terms or at all. Our inability to obtain any of these licenses could delay product development until equivalent technology can be identified, licensed and integrated. This inability in turn would harm our business and operating results. Our use of third-party technologies exposes us to increased risks, including, but not limited to, risks associated with the integration of new technology into our products, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs.

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Our success depends on our ability to respond quickly to changing technology and we must develop new software programs utilizing modern technology

The market for our products and services is characterized by rapid technological change, evolving industry standards in computer hardware and software technology, changes in customer requirements and frequent new product introductions and enhancements. The introduction of products embodying new technologies and the emergence of new industry standards can cause customers to delay their purchasing decisions and render existing products obsolete and unmarketable. The life cycles of our software products are difficult to estimate. As a result, our future success will depend, in part, upon our ability to continue to enhance existing products and to develop and introduce in a timely manner new products with technological developments that satisfy customer requirements and achieve market acceptance. We may not be able to successfully identify new product opportunities and develop and bring new products to market in a timely and cost-effective manner. In addition, products, capabilities or technologies developed by others could render our products or technologies obsolete or noncompetitive or shorten product life cycles. If we are unable to develop on a timely and cost-effective basis new software products or enhancements to existing products or if new products or enhancements do not achieve market acceptance, our business may be harmed. As a result of the complexities inherent in software development, and in particular development for multi-platform environments, and the broad functionality and performance demanded by our customers, major new product enhancements and new products can require long development and testing periods before they are released commercially. We have on occasion experienced delays in the scheduled introduction of new and enhanced products, and future delays could harm our business.

We have made significant investments in research and development and our growth plans are premised in part on generating substantial revenue from new product introductions. New product introductions involve significant risks. For example, delays in new product introductions, or less-than-anticipated market acceptance of our new products are possible and would have an adverse effect on our revenue and earnings. We cannot be certain that our new products or future enhancements to existing products will meet customer performance needs or expectations when shipped or that they will be free of significant software defects or bugs.

If they do not meet customer needs or expectations, for whatever reason, upgrading or enhancing these products could be costly and time consuming. In addition, the selling price of software products tends to decline significantly over the life of the product. If we are unable to offset any reductions in the selling prices of our products by introducing new products at higher prices or by reducing our costs, our revenue, gross margin and operating results would be adversely affected.

If the security of our software is breached, our business and reputation could suffer.

Fundamental to the use of our products is the secure collection, storage and transmission of confidential information. Third parties may attempt to breach our security or that of our customers and their databases. We may be liable to our customers for any breach in such security, and any breach could harm our customers, our business and our reputation. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage, could harm our reputation and our business and our operating results. Also, computers, including those that utilize our software, are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We may be required to expend significant capital and other resources to protect further against security breaches or to rectify problems caused by any security breach.

Future acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and strain our resources.

We intend to acquire companies, products, services and/or technologies that we feel could complement or expand our existing business operations, augment our market coverage, enhance our technical capabilities, provide us with important customer contacts or otherwise offer growth opportunities. Acquisitions and investments involve numerous risks, including:

- improper valuation of the acquired business;
- difficulties in integrating operations, technologies, services, accounting and personnel;

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- difficulties in supporting and transitioning customers of our acquired companies;
- diversion of financial and management resources from existing operations;
- risks of entering new sectors of the educational and governmental market;
- potential loss of key employees; and
- inability to generate sufficient revenue to offset acquisition or investment costs.

Acquisitions also frequently result in recording of goodwill and other intangible assets, which are subject to potential impairments in the future that could harm our operating results. In addition, if we finance acquisitions by issuing equity securities or securities convertible into equity securities, our existing stockholders would be diluted, which, in turn, could affect the market price of our stock. Moreover, we could finance any acquisition with debt, resulting in higher leverage and interest costs. As a result, if we fail to evaluate and execute acquisitions or investments properly, we might not achieve the anticipated benefits of any such acquisition, and we may incur costs in excess of what we anticipate.

There can be no assurance suitable acquisition candidates will be available, that we will be able to purchase or profitably manage acquired companies, that future acquisitions will further the successful implementation of our overall strategy or that acquisitions ultimately will produce returns that justify the investment. In addition, we may compete for acquisition and expansion opportunities with companies which have significantly greater resources than we do. We currently do not have agreements or understandings with regard to any acquisitions.

We currently do not have any issued patents, but we rely upon trademark, copyright, patent and trade secret laws to protect our proprietary rights, which might not provide us with adequate protection.

Our success and ability to compete depend to a significant degree upon the protection of our software and other proprietary technology rights. We might not be successful in protecting our proprietary technology, and our proprietary rights might not provide us with a meaningful competitive advantage. To protect our proprietary technology, we rely on a combination of patent, trademark, copyright and trade secret laws, as well as nondisclosure agreements, each of which affords only limited protection. Moreover, we have no patent protection for Accounting+*Plus* software, which is one of our core products. Any inability to protect our intellectual property rights could seriously harm our business, operating results and financial condition.

In addition, the laws of some foreign countries do not protect our proprietary rights in our products to the same extent as do the laws of the United States. Despite the measures taken by us, it may be possible for a third party to copy or otherwise obtain and use our proprietary technology and information without authorization. Policing unauthorized use of our products is difficult, and litigation could become necessary in the future to enforce our intellectual property rights. Any litigation could be time consuming and expensive to prosecute or resolve, result in substantial diversion of management attention and resources, and materially harm our business, financial condition and results of operations.

Claims that we infringe upon third parties   intellectual property rights could be costly to defend or settle.

Litigation regarding intellectual property rights is common in the software industry. We expect that software products and services may be increasingly subject to third-party infringement claims as the number of competitors in our industry segment grows and the functionality of products in different industry segments overlaps. We may from time to time encounter disputes over rights and obligations concerning intellectual property. Although we believe that our intellectual property rights are sufficient to allow us to market our software without incurring liability to third parties, third parties may bring claims of infringement against us. Such claims may be with or without merit. Any litigation to defend against claims of infringement or invalidity could result in substantial costs and diversion of resources. Furthermore, a party making such a claim could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from selling our software. Our business, operating results and financial condition could be harmed if any of these events occurred.

In addition, we have agreed, and will likely agree in the future, to indemnify certain of our customers against certain claims that our software infringes upon the intellectual property rights of others. We could incur substantial costs in defending ourselves and our customers against infringement claims. In the event of a claim of infringement, we and our customers might be required to obtain one or more licenses from third parties. We, or our customers,

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might be unable to obtain necessary licenses from third parties at a reasonable cost, if at all. Defense of any lawsuit or failure to obtain any such required licenses could harm our business, operating results and financial condition.

Increasing government regulation could affect our business.

We are subject not only to regulations applicable to businesses generally but also to laws and regulations directly applicable to electronic commerce. Although there are currently few such laws and regulations, state, Federal and foreign governments may adopt laws and regulations applicable to our business. Any such legislation or regulation could dampen the growth of the internet and decrease its acceptance. If such a decline occurs, companies may decide in the future not to use our products and services. Any new laws or regulations in the following areas could affect our business:

- user privacy;
- the pricing and taxation of goods and services offered over the internet;
- the content of websites;
- copyrights;
- consumer protection, including the potential application of do not call registry requirements on our customers and consumer backlash in general to direct marketing efforts of our customers; and
- the online distribution of specific material or content over the internet.

A significant portion of our revenues stem from sales to schools receiving funding through the E-Rate Program. A loss of such funding could have a material adverse impact on our revenues and business operations.

Through our division, CSI Technology Resources, we participate in the E-Rate Program, a government program providing funding for telecommunications, internet access and internal connections for schools that have a very high free and reduced lunch rate count. Schools and school districts that have developed an approved technology plan may receive funds to implement the plan. Service providers may sell to such schools and districts through an open and competitive bidding process. We have received funding through the E-Rate program since 2001. The Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), which administers the program, may conduct audits with respect to previous funding years. If SLD finds that either we or the school to which we have made sales did not comply with the rules and regulations of the program, previous funding may have to be repaid. To date, we have not had to repay any money received in connection with the program, but there is no guarantee that this will never happen in the future.

The requirements of being a public company might strain our resources and distract management.

As a newly public company, we are subject to a number of additional requirements, including the reporting requirements of the Securities Exchange Act of 1934, and the Sarbanes-Oxley Act of 2002. These requirements might place a strain on our systems and resources. The Securities Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, significant resources and management oversight will be required. As a result, our management s attention might be diverted from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002