

COMPUTER SOFTWARE INNOVATIONS INC
Form 10QSB
May 15, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007.

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number _____

COMPUTER SOFTWARE INNOVATIONS, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

900 East Main Street, Suite T
Easley, South Carolina 29640

(864) 855-3900

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

(Address and Telephone Number of Principal Executive Offices)

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,497,030 as of May 9, 2007.

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

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)**

	Three Months Ended	
	March 31,	March 31,
	2007	2006
REVENUES		
Software applications segment	\$ 2,739,436	\$ 1,104,072
Technology solutions segment	8,912,296	3,738,332
Net sales and service revenue	11,651,732	4,842,404
COST OF SALES		
Software applications segment:		
Cost of sales, excluding depreciation, amortization and capitalization	1,418,727	474,255
Depreciation	14,310	18,400
Amortization of capitalized software costs	239,197	151,009
Capitalization of software costs	(226,973)	(181,775)
Total software applications segment cost of sales	1,445,261	461,889
Technology solutions segment:		
Cost of sales, excluding depreciation	7,651,606	2,855,308
Depreciation	21,464	21,600
Total technology solutions segment cost of sales	7,673,070	2,876,908
Total cost of sales	9,118,331	3,338,797
Gross profit	2,533,401	1,503,607
OPERATING EXPENSES		
Salaries and wages and benefits (excluding stock-based compensation)	1,072,307	771,215
Stock based compensation	85,786	613,954
Acquisition expenses	69,655	
Professional and legal compliance related costs	219,871	342,680
Marketing costs	43,649	89,904
Travel and mobile costs	153,421	82,445
Depreciation and amortization	90,247	35,111
Other selling, general and administrative expenses	218,660	95,710
Total operating expenses	1,953,596	2,031,019
Operating income (loss)	579,805	(527,412)
OTHER INCOME (EXPENSE)		
Interest income	2,705	2,181
Interest expense	(134,019)	(92,385)
Amortization of loan fees		(17,458)
Loss on disposal of property and equipment	(1,218)	
Net other income (expense)	(132,532)	(107,662)

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Income (loss) before income taxes	447,273	(635,074)
INCOME TAX EXPENSE (BENEFIT)	162,490	(205,544)
Net income (loss)	\$ 284,783	\$ (429,530)
BASIC EARNINGS (LOSS) PER SHARE	\$ 0.08	\$ (0.15)
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.02	\$ (0.15)
WEIGHTED AVERAGE SHARES OUTSTANDING Basic	3,489,015	2,891,556
WEIGHTED AVERAGE SHARES OUTSTANDING Diluted	13,675,910	2,891,556

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

COMPUTER SOFTWARE INNOVATIONS, INC.**CONSOLIDATED BALANCE SHEETS**

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$	\$
Accounts receivable, net	5,493,438	3,828,190
Inventory	52,160	2,569,382
Prepaid expenses	107,965	56,174
Income taxes receivable	43,651	43,651
Total current assets	5,697,214	6,497,397
PROPERTY AND EQUIPMENT, net	1,372,345	771,472
COMPUTER SOFTWARE COSTS, net	2,124,835	1,505,458
DEFERRED TAX ASSET	205,125	366,476
GOODWILL	1,480,587	
OTHER ASSETS	1,662,308	318,884
	\$ 12,542,414	\$ 9,459,687
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 3,176,868	\$ 3,995,021
Deferred revenue	3,847,621	2,079,492
Deferred tax liability	407,500	373,960
Bank line of credit	1,341,000	551,000
Current portion of notes payable	238,007	109,274
Subordinated notes payable to shareholders	2,250,400	2,250,400
Total current liabilities	11,261,396	9,359,147
NOTES PAYABLE, less current portion	1,007,960	204,680
Total liabilities	12,269,356	9,563,827
SHAREHOLDERS EQUITY (DEFICIT)		
Preferred stock - \$0.001 par value; 15,000,000 shares authorized; 6,944,736 and 7,012,736 shares issued and outstanding, respectively	6,945	7,013
Common stock - \$0.001 par value; 40,000,000 shares authorized; 3,544,385 and 3,429,030 shares issued and outstanding, respectively	3,544	3,429
Additional paid-in capital	6,634,624	6,473,342
Accumulated deficit	(6,240,990)	(6,525,773)
Unearned stock compensation	(131,065)	(62,151)
Total shareholders equity (deficit)	273,058	(104,140)
	\$ 12,542,414	\$ 9,459,687

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

COMPUTER SOFTWARE INNOVATIONS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

(UNAUDITED)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Unearned Stock Compensation	Total
Balances at December 31, 2006	\$ 3,429	\$ 7,013	\$ 6,473,342	\$ (6,525,773)	\$ (62,151)	\$ (104,140)
Barron's conversion of preferred stock into common stock	68	(68)				
Exercise of stock options	47		6,582			6,629
Stock-based compensation			154,700		(68,914)	85,786
Net income for three months ended March 31, 2007				284,783		284,783
Balances at March 31, 2007	\$ 3,544	\$ 6,945	\$ 6,634,624	\$ (6,240,990)	\$ (131,065)	\$ 273,058

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

COMPUTER SOFTWARE INNOVATIONS, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Three Months Ended	
	March 31,	March 31,
	2007	2006
OPERATING ACTIVITIES		
Net income (loss)	\$ 284,783	\$ (429,530)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	365,218	243,578
Stock compensation expense, net	85,786	613,954
Deferred income taxes	161,141	13,705
Loss on disposal of fixed assets	1,218	
Changes in deferred and accrued amounts		
Accounts receivable	(1,665,248)	2,422,825
Inventories	2,517,222	(14,506)
Prepaid expenses and other assets	51,994	(24,621)
Accounts payable	(818,153)	173,876
Deferred revenue	1,768,129	(273,730)
Taxes payable (receivable)		(225,568)
Net cash provided by operating activities	2,752,090	2,499,983
INVESTING ACTIVITIES		
Purchases of property and equipment	(82,639)	(351,484)
Capitalization of computer software	(226,973)	(181,775)
Purchase of computer software	(21,601)	(10,000)
Trademarks		(4,354)
Purchase of McAleer Computer Associates, Inc.	(4,149,519)	
Net cash used for investing activities	(4,480,732)	(547,613)
FINANCING ACTIVITIES		
Net borrowings (repayments) under line of credit	790,000	(1,701,000)
Borrowings under long term notes payable	972,046	400,000
Repayments of long term notes payable	(40,033)	(8,245)
Exercise of stock options	6,629	
Net cash provided by (used for) financing activities	1,728,642	(1,309,245)
Net change in cash and cash equivalents		643,125
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	\$ 643,125