

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

(Amounts in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>REVENUES</b>				
Software applications segment	\$ 3,816	\$ 3,807	\$ 7,137	\$ 6,864
Technology solutions segment	9,957	13,744	15,513	22,750
Net sales and service revenue	<u>13,773</u>	<u>17,551</u>	<u>22,650</u>	<u>29,614</u>
<b>COST OF SALES</b>				
<i>Software applications segment</i>				
Cost of sales, excluding depreciation, amortization and capitalization	2,100	1,985	4,225	3,651
Depreciation	29	27	58	52
Amortization of capitalized software costs	377	314	735	598
Capitalization of software costs	(214)	(203)	(462)	(500)
Total Software applications segment cost of sales	<u>2,292</u>	<u>2,123</u>	<u>4,556</u>	<u>3,801</u>
<i>Technology solutions segment</i>				
Cost of sales, excluding depreciation	8,202	10,771	13,008	18,103
Depreciation	27	30	53	59
Total Technology solutions segment cost of sales	<u>8,229</u>	<u>10,801</u>	<u>13,061</u>	<u>18,162</u>
Total cost of sales	<u>10,521</u>	<u>12,924</u>	<u>17,617</u>	<u>21,963</u>
Gross profit	3,252	4,627	5,033	7,651
<b>OPERATING EXPENSES</b>				
Research and development	76	—	167	—
Selling costs	1,211	1,143	2,444	2,004
Marketing costs	140	158	295	197
Stock based (non-employee wage) compensation	106	5	108	9
Acquisition costs	2	9	2	33
Professional and legal compliance costs	150	138	245	234
Depreciation and amortization	159	122	323	228
Other general and administrative expenses	907	1,236	1,834	2,306
Total operating expenses	<u>2,751</u>	<u>2,811</u>	<u>5,418</u>	<u>5,011</u>
Operating income (loss)	501	1,816	(385)	2,640
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(94)	(131)	(207)	(263)
Loss on disposal of property and equipment	—	—	(4)	—
Net other income (expense)	<u>(94)</u>	<u>(131)</u>	<u>(211)</u>	<u>(263)</u>
Income (loss) before income tax expense (benefit)	407	1,685	(596)	2,377
<b>INCOME TAX EXPENSE (BENEFIT)</b>	192	674	(161)	938
<b>NET INCOME (LOSS)</b>	<u>\$ 215</u>	<u>\$ 1,011</u>	<u>\$ (435)</u>	<u>\$ 1,439</u>
<b>BASIC EARNINGS (LOSS) PER SHARE</b>	<u>\$ 0.03</u>	<u>\$ 0.21</u>	<u>\$ (0.07)</u>	<u>\$ 0.30</u>
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>	<u>\$ 0.02</u>	<u>\$ 0.08</u>	<u>\$ (0.07)</u>	<u>\$ 0.12</u>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>				
– Basic	<u>6,386</u>	<u>4,908</u>	<u>6,384</u>	<u>4,804</u>
– Diluted	<u>14,095</u>	<u>12,367</u>	<u>6,384</u>	<u>12,263</u>

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

(Amounts in thousands)

	<b>June 30, 2009</b> <b>(Unaudited)</b>	<b>December 31,</b> <b>2008</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable, net	10,821	13,862
Inventories	4,598	1,552
Prepaid expenses	242	98
Taxes receivable	336	223
Total current assets	15,997	15,735
<b>PROPERTY AND EQUIPMENT, net</b>	821	898
<b>COMPUTER SOFTWARE COSTS, net</b>	2,754	3,001
<b>GOODWILL</b>	2,431	2,431
<b>OTHER INTANGIBLE ASSETS, net</b>	2,794	2,970
Total assets	<b>\$ 24,797</b>	<b>\$ 25,035</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,918	\$ 3,644
Deferred revenue	7,887	6,696
Deferred tax liability	439	421
Bank line of credit	2,811	—
Current portion of notes payable	465	447
Subordinated notes payable to shareholders	1,750	1,950
Total current liabilities	19,270	13,158
<b>LONG-TERM DEFERRED TAX LIABILITY, net</b>	157	329
<b>NOTES PAYABLE, less current portion</b>	271	515
<b>BANK LINE OF CREDIT</b>	—	5,634
Total liabilities	19,698	19,636
<b>SHAREHOLDERS' EQUITY</b>		
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; 6,396 shares issued and outstanding	6	6
Additional paid-in capital	9,014	8,884
Accumulated deficit	(3,878)	(3,443)
Unearned stock compensation	(50)	(55)
Total shareholders' equity	5,099	5,399
Total liabilities and shareholders' equity	<b>\$ 24,797</b>	<b>\$ 25,035</b>

**COMPUTER SOFTWARE INNOVATIONS, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

<i>(Amounts in thousands)</i>	Common Stock	Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Unearned Stock Compensation	Total
<b>Balances at December 31, 2008</b>	<b>\$ 6</b>	<b>\$ 7</b>	<b>\$ 8,884</b>	<b>\$ (3,443)</b>	<b>\$ (55)</b>	<b>\$ 5,399</b>
Issuance of stock options	—	—	26	—	(26)	—
Issuance of common stock	—	—	10	—	—	10
Issuance of warrants	—	—	94	—	—	94
Stock based compensation	—	—	—	—	31	31
Net loss for the six months ended June 30, 2009	—	—	—	(435)	—	(435)
<b>Balances at June 30, 2009</b>	<b>\$ 6</b>	<b>\$ 7</b>	<b>\$ 9,014</b>	<b>\$ (3,878)</b>	<b>\$ (50)</b>	<b>\$ 5,099</b>

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

(Amounts in thousands)

	<b>Six Months Ended</b>	
	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (435)	\$ 1,439
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities		
Depreciation and amortization	1,169	937
Stock compensation expense, net	134	46
Deferred income tax expense	(154)	(19)
Loss on disposal of fixed assets	4	—
Changes in deferred and accrued amounts		
Accounts receivable	3,041	(4,724)
Inventories	(3,046)	(2,074)
Prepaid expenses	(144)	(109)
Accounts payable	2,274	2,524
Deferred revenue	1,191	1,193
Income taxes receivable/payable	(113)	518
Net cash provided by (used for) operating activities	3,921	(269)
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(185)	(328)
Capitalization of computer software	(487)	(575)
Payment for acquisitions	—	(1,348)
Net cash used for investing activities	(672)	(2,251)
<b>FINANCING ACTIVITIES</b>		
Net (repayments) borrowings under line of credit	(2,823)	2,958
Repayments of notes payable	(426)	(438)
Net cash (used for) provided by financing activities	(3,249)	2,520
Net change in cash and cash equivalents	—	—
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	—	—
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ —	\$ —
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 301	\$ 342
Income Taxes	\$ 107	\$ 440

## 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Reconciliation of net income (loss) per GAAP to EBITDA and Adjusted (Financing) EBITDA:</b>				
Net income (loss) per GAAP	\$ 215	\$ 1,011	\$ (435)	\$ 1,439
Adjustments:				
Income tax expense (benefit)	192	674	(161)	938
Interest expense, net	94	131	207	263
Depreciation and amortization of property and equipment and intangible assets (excluding Software development)	215	179	434	339
Amortization of software development costs	377	314	735	598
EBITDA	<u>\$ 1,093</u>	<u>\$ 2,309</u>	<u>\$ 780</u>	<u>\$ 3,577</u>
Adjustments to EBITDA to exclude those items excluded in loan covenant calculations:				
Stock based compensation (non-cash portion)	106	5	108	9
Adjusted (Financing) EBITDA	<u>\$ 1,199</u>	<u>\$ 2,314</u>	<u>\$ 888</u>	<u>\$ 3,586</u>

### **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.

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