

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

(Amounts in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
REVENUES				
Software applications segment	\$ 3,936	\$ 3,256	\$ 11,073	\$ 10,120
Technology solutions segment	13,869	13,466	29,382	36,216
Net sales and service revenue	<u>17,805</u>	<u>16,722</u>	<u>40,455</u>	<u>46,336</u>
COST OF SALES				
<i>Software applications segment</i>				
Cost of sales, excluding depreciation, amortization and capitalization	1,991	1,805	6,216	5,456
Depreciation	30	29	88	81
Amortization of capitalized software costs	398	346	1,133	944
Capitalization of software costs	(240)	(240)	(702)	(740)
Total Software applications segment cost of sales	<u>2,179</u>	<u>1,940</u>	<u>6,735</u>	<u>5,741</u>
<i>Technology solutions segment</i>				
Cost of sales, excluding depreciation	11,815	11,410	24,823	29,513
Depreciation	26	31	79	90
Total Technology solutions segment cost of sales	<u>11,841</u>	<u>11,441</u>	<u>24,902</u>	<u>29,603</u>
Total cost of sales	<u>14,020</u>	<u>13,381</u>	<u>31,637</u>	<u>35,344</u>
Gross profit	3,785	3,341	8,818	10,992
OPERATING EXPENSES				
Research and development	85	—	252	—
Selling costs	1,164	1,140	3,608	3,144
Marketing costs	77	107	372	304
Stock based (non-employee wage) compensation	29	5	137	14
Acquisition costs	—	13	2	46
Professional and legal compliance costs	133	103	378	337
Depreciation and amortization	160	141	483	369
Other general and administrative expenses	793	967	2,627	3,273
Total operating expenses	<u>2,441</u>	<u>2,476</u>	<u>7,859</u>	<u>7,487</u>
Operating income	1,344	865	959	3,505
OTHER EXPENSE				
Interest expense	95	144	302	407
Loss on disposal of property and equipment	—	4	4	4
Other expense	95	148	306	411
Income before income tax expense	1,249	717	653	3,094
INCOME TAX EXPENSE	519	269	358	1,207
NET INCOME	<u>\$ 730</u>	<u>\$ 448</u>	<u>\$ 295</u>	<u>\$ 1,887</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.11</u>	<u>\$ 0.08</u>	<u>\$ 0.05</u>	<u>\$ 0.37</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.05</u>	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.15</u>
WEIGHTED AVERAGE SHARES OUTSTANDING:				
– Basic	<u>6,405</u>	<u>5,555</u>	<u>6,391</u>	<u>5,056</u>
– Diluted	<u>14,095</u>	<u>13,192</u>	<u>14,081</u>	<u>12,438</u>

COMPUTER SOFTWARE INNOVATIONS, INC.
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable, net	10,556	13,862
Inventories	2,886	1,552
Prepaid expenses	186	98
Income taxes receivable	—	223
Total current assets	13,628	15,735
PROPERTY AND EQUIPMENT, net	744	898
COMPUTER SOFTWARE COSTS, net	2,600	3,001
GOODWILL	2,431	2,431
OTHER INTANGIBLE ASSETS, net	2,737	2,970
Total assets	\$ 22,140	\$ 25,035
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 4,355	\$ 3,644
Deferred revenue	6,174	6,696
Deferred tax liability	406	421
Income taxes payable	143	—
Bank line of credit	2,708	—
Current portion of notes payable	469	447
Subordinated notes payable to shareholders	1,750	1,950
Total current liabilities	16,005	13,158
LONG-TERM DEFERRED TAX LIABILITY, net	111	329
NOTES PAYABLE, less current portion	152	515
BANK LINE OF CREDIT	—	5,634
Total liabilities	16,268	19,636
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; 6,422 shares issued and outstanding	6	6
Additional paid-in capital	9,057	8,884
Accumulated deficit	(3,148)	(3,443)
Unearned stock compensation	(50)	(55)
Total shareholders' equity	5,872	5,399
Total liabilities and shareholders' equity	\$ 22,140	\$ 25,035

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
Balances at December 31, 2008	\$ 6	\$ 7	\$ 8,884	\$ (3,443)	\$ (55)	\$ 5,399
Issuance of stock options	—	—	51	—	(51)	—
Issuance of common stock	—	—	28	—	—	28
Issuance of warrants	—	—	94	—	—	94
Stock based compensation	—	—	—	—	56	56
Net income for the nine months ended September 30, 2009	—	—	—	295	—	295
Balances at September 30, 2009	\$ 6	\$ 7	\$ 9,057	\$ (3,148)	\$ (50)	\$ 5,872

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

(Amounts in thousands)

	Nine Months Ended	
	September 30, 2009	September 30, 2008
OPERATING ACTIVITIES		
Net income	\$ 295	\$ 1,887
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Depreciation and amortization	1,783	1,484
Stock compensation expense, net	178	69
Deferred income tax expense	(234)	(14)
Loss on disposal of fixed assets	4	4
Changes in deferred and accrued amounts		
Accounts receivable	3,306	(6,316)
Inventories	(1,334)	(1,663)
Prepaid expenses	(88)	(72)
Accounts payable	711	2,368
Deferred revenue	(522)	(610)
Income taxes receivable/payable	366	62
Net cash provided by (used for) operating activities	4,465	(2,801)
INVESTING ACTIVITIES		
Purchases of property and equipment	(234)	(493)
Capitalization of computer software	(732)	(862)
Investment in other intangible assets	(32)	—
Payment for acquisitions	—	(1,551)
Net cash used for investing activities	(998)	(2,906)
FINANCING ACTIVITIES		
Net (repayments) borrowings under line of credit	(2,926)	6,217
Repayments of notes payable	(541)	(510)
Net cash (used for) provided by financing activities	(3,467)	5,707
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	\$ 395	\$ 477
Income Taxes	\$ 211	\$ 1,159

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Reconciliation of net income per GAAP to EBITDA and				
Adjusted (Financing) EBITDA:				
Net income per GAAP	\$ 730	\$ 448	\$ 295	\$ 1,887
Adjustments:				
Income tax expense (benefit)	519	269	358	1,207
Interest expense, net	95	144	302	407
Depreciation and amortization of property and equipment and intangible assets (excluding Software development)	216	201	650	540
Amortization of software development costs	398	346	1,133	944
EBITDA	<u>\$ 1,958</u>	<u>\$ 1,408</u>	<u>\$ 2,738</u>	<u>\$ 4,985</u>
Adjustments to EBITDA to exclude those items excluded in loan covenant calculations:				
Stock based compensation (non-cash portion)	29	5	137	14
Adjusted (Financing) EBITDA	<u>\$ 1,987</u>	<u>\$ 1,413</u>	<u>\$ 2,875</u>	<u>\$ 4,999</u>