CONVERSION SERVICES INTERNATIONAL INC
Form 10QSB/A
April 13, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A
Amendment No. 1

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

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 0-30420

CONVERSION SERVICES INTERNATIONAL, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	20-1010495 (I.R.S. EMPLOYER IDENTIFICATION NO.)
100 EAGLE ROCK AVENUE, EAST HANOVER, NJ (ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)	07936 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (973) 560-9400

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

The number of shares outstanding of the registrant's common stock, par value $0.001, as of May 15, 2004 was 689,275,000.

CONVERSION SERVICES INTERNATIONAL, INC. AND SUBSIDIARY
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Explanatory Note

This Amendment No. 1 to this Quarterly Report on Form 10-QSB for the quarter ended March 31, 2004 was filed in order to restate the consolidated financial statements as of and for the three months ended March 31, 2004 to revise the accounting treatment related to the purchase accounting for the Company's acquisition of DeLeeuw Associates, Inc, certain merger costs associated with the reverse merger with LCS Group, Inc. and to revise the accounting for a deferred tax liability recorded in connection with the DeLeeuw Associates acquisition. See Note 1, Restatement of Financial Statements.

Part 1 has been amended herein to reflect this change. This amendment does not otherwise update information in the original filing to reflect facts or events occurring subsequent to the date of the original filing. All information contained in this amendment and the original filing is subject to updating and supplementing as provided in periodic reports subsequent to the original filing date of this Form 10-QSB with the Securities and Exchange Commission.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
MARCH 31, 2004
(UNAUDITED)

	(Restated)
ASSETS	
CURRENT ASSETS	
Cash	$ 287,275
Restricted cash	83,375
Accounts receivable, net of allowance for doubtful accounts of $110,874	4,300,297
Prepaid expenses	76,213
Deferred tax asset	252,300
TOTAL CURRENT ASSETS	4,999,460
PROPERTY AND EQUIPMENT, at cost, net	316,920
OTHER ASSETS	
Due from stockholders, including accrued interest of $22,905	204,988
Goodwill	15,987,021
Intangible assets, net of accumulated amortization of $123,870	1,570,944
Deferred loan costs	30,534
Deferred tax asset	191,000
Equity investment in limited liability company	54,174
Security deposits	2,070
	18,040,731
Total Assets	$23,357,111
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Line of credit	$ 2,548,201
Current portion of long-term debt	31,262
Cash overdraft	136,050
Accounts payable and accrued expenses	1,795,691
Deferred revenue	89,242
Other current liabilities	41,816
TOTAL CURRENT LIABILITIES	4,642,262
LONG-TERM DEBT, net of current portion	2,052,250
DEFERRED TAXES	36,900
Total Liabilities	6,731,412

COMMITMENTS	--
STOCKHOLDERS' EQUITY	
Common stock, $0.001 par value, 1,000,000,000 shares authorized; 673,000,000 issued and outstanding	673,000
Additional paid in capital	16,614,250
Accumulated deficit	(661,551)
Total Stockholders' Equity	16,625,699
Total Liabilities and Stockholders' Equity	$23,357,111

See Notes to Consolidated Financial Statements.

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CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,	
	2004	2003
	(Restated)	
REVENUE	$ 5,262,037	$ 3,437,483
COST OF SERVICES	3,839,300	2,583,518
GROSS PROFIT	1,422,737	853,965
OPERATING EXPENSES		
Selling and marketing	581,425	315,820
General and administrative	1,412,952	502,626
Depreciation and amortization	50,244	44,700
	2,044,621	863,146
LOSS FROM OPERATIONS	(621,884)	(9,181)
OTHER INCOME (EXPENSE)		
Equity in losses from investment in limited liability company	(1,602)	--
Interest income	443	--
Interest expense	(32,553)	(30,166)
Other income	6,551	--
	(27,161)	(30,166)

LOSS BEFORE TAXES	(649,045)	(39,347)
INCOME TAXES (BENEFIT)	(215,600)	--
NET LOSS	$ (433,445)	$ (39,347)
UNAUDITED PRO FORMA DATA (Note 1):		
Loss before income taxes (benefit)	$ --	$ (39,347)
Income taxes (benefit)	--	(15,715)
Net Loss	$ --	$ (23,632)
Net Loss per share	$ (0.00)	$ (0.00)
Weighted average number of common shares used in the actual and pro forma net loss per share calculations	572,700,000	450,000,000

See Notes to Consolidated Financial Statements.

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31,	
	2004	2003
	(Restated)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (433,445)	$ (39,347)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	16,623	24,000
Amortization of intangible assets and deferred loan costs	34,160	20,700
Deferred tax benefit	(215,600)	--
Allowance for doubtful accounts	18,874	18,000
Write-off deferred loan costs	24,862	--
Loss on disposal of equipment	35,496	--
Equity loss in investment in limited liability company	1,602	--
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,291,315)	(693,285)
Decrease in prepaid expenses	37,587	(71,307)
Increase in due from stockholders	(1,365)	
Decrease in security deposits	14,721	
Increase in accounts payable and accrued expenses	543,104	5,630
Increase in deferred revenue	89,242	--

Increase (decrease) in other current liabilities	41,816	(2,097)
Net cash used in operating activities	(1,083,638)	(737,706)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(33,594)	(11,975)
Investment in DeLeeuw Associates, net of cash acquired	(1,059,266)	--
Net cash used in investing activities	(1,092,860)	(11,975)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash overdraft	84,150	28,733
Net advances under line of credit	2,548,201	999,863
Line of credit repayment	(1,789,110)	--
Issuance of convertible line of credit note	2,000,000	--
Deferred loan costs in connection with long-term debt	(30,534)	--
Principal payments on long-term debt	(673,818)	(103,673)
Principal payments on capital lease obligations	(3,327)	--
Distributions to stockholders	--	(175,242)
Restricted cash	(83,375)	--
Net cash provided by financing activities	2,052,187	749,681
NET DECREASE IN CASH	(124,311)	--
CASH, beginning of period	411,586	--
CASH, end of period	$ 287,275	$ --

See Notes to Consolidated Financial Statements.

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three m
	2004
	(Unaudited) (Restated)

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:

During the 3 months ended March 31, 2004 and 2003, the Company entered into various capital lease arrangements for computer equipment in the amount of $64,749 and $0, respectively.

On March 4, 2004, the Company acquired DeLeeuw Associates, Inc. The components and allocation of the purchase price were based on the fair value of assets and liabilities acquired as of the acquisition date.

COMPONENTS OF PURCHASE PRICE (in thousands)	
Cash payments	$
Acquisition costs	
Value of Common Stock	
	$

ALLOCATION OF PURCHASE PRICE (in thousands)	
Approved vendor status (40 month life)	
Accounts receivable	
Tradename (indefinite life)	
Goodwill	(
Other assets	
Current liabilities assumed	
	$

See Notes to Consolidated Financial Statements.

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS

Conversion Services International, Inc. ("CSI" or "Company") was incorporated in the State of Delaware and has been conducting business since 1990. CSI and Doorways, Inc., a wholly-owned subsidiary of CSI, are principally engaged in the information technology services industry in the following areas: data warehousing, business intelligence, management consulting and professional services, on credit, to its customers principally located in the northeastern United States. In November 2002, the Company acquired the operations of Scosys, Inc. On January 30, 2004, CSI became a public company through our merger with a wholly-owned subsidiary of the Registrant, LCS Group, Inc. In March 2004, the Company acquired DeLeeuw Associates, Inc. Both Scosys and DeLeeuw Associates are engaged in the information technology services industry.

BASIS OF PRESENTATION

In the opinion of management, the accompanying consolidated balance sheet and related interim consolidated statements of operations and cash flows include all adjustments necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results and outcomes may differ from management's estimates and assumptions.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-QSB should be read in conjunction with

Management's Discussion and Analysis and financial statements and notes thereto included in the Conversion Services International, Inc. Form 8-K/A filed with the Securities and Exchange Commission on April 1, 2004.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of CSI and its wholly-owned subsidiaries, Doorways, Inc. and DeLeeuw Associates, LLC. All intercompany transactions and balances have been eliminated in consolidation.

REVENUE RECOGNITION

Revenue from consulting and professional services is recognized at the time the services are performed on a project by project basis. For projects charged on a time and materials basis, revenue is recognized based on the number of hours worked by consultants at an agreed-upon rate per hour. For large services projects where costs to complete the contract could reasonably be estimated, the Company undertakes projects on a fixed-fee basis and recognizes revenues on the percentage of completion method of accounting based on the evaluation of actual costs incurred to date compared to total estimated costs. Revenues recognized in excess of billings are recorded as accrued revenues. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met. Reimbursements, including those relating to travel and other out-of-pocket expenses, are included in revenues, and an equivalent amount of reimbursable expenses are included in cost of services.

ACCOUNTS RECEIVABLE

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and adjusts the allowance for doubtful accounts, when deemed necessary, based upon its history of past write-offs and collections, contractual terms and current credit conditions.

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PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and includes equipment held under capital lease arrangements. Depreciation, which includes amortization of leasehold improvements, is computed principally by an accelerated method and is based on the estimated useful lives of the various assets ranging from three to seven years. When assets are sold or retired, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Expenditures for maintenance and repairs have been charged to operations. Major renewals and betterments have been capitalized.

AMORTIZATION

The Company amortizes deferred loan costs on a straight-line basis over the term of the related loan instrument. Acquired customer contracts are amortized over a period that approximates the estimated life of the contracts, based upon the estimated annual cash flows obtained from those contracts, generally five to six years. In conjunction with the DeLeeuw acquisition, an intangible asset (Approved Vendor Status) was acquired, which has been determined to have a 40 month life and is being amortized over this period.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the amounts paid in connection with a settlement agreement with the Elligent Consulting Group to re-acquire the ownership rights to the Company in 1998 and in connection with the acquisitions of both Scosys, Inc. and DeLeeuw Associates, Inc. Additionally, as part of both the Scosys and DeLeeuw acquisitions, the Company acquired intangible assets. FASB Statement 142 was adopted as of January 1, 2002 for all goodwill recognized in the Company's balance sheet as of December 31, 2001. This statement changed the accounting for goodwill from an amortization method to an impairment-only approach, and introduced a new model for determining impairment charges.

Goodwill and intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist, or at least annually. The Company assesses the recoverability of its assets, in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets," comparing projected undiscounted cash flows associated with those assets against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. The Company's goodwill and intangible assets were evaluated and deemed not to be impaired at December 31, 2003. There have been no events or circumstances that would indicate that there has been any impairment during the three months ended March 31, 2004.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk are cash and accounts receivable arising from its normal business activities. The Company routinely assesses the financial strength of its customers, based upon factors surrounding their credit risk, establishes an allowance for doubtful accounts, and as a consequence believes that its accounts receivable credit risk exposure beyond such allowances is limited. At March 31, 2004, two customers exceeded 25% of the Company's accounts receivable balance.

ADVERTISING

The Company expenses advertising costs as incurred. Advertising costs amounted to $12,650 and $1,677 for the three month periods ended March 31, 2004 and 2003, respectively.

INCOME TAXES

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in the tax laws or rates.

On January 1, 2001, CSI elected to be an "S" Corporation, whereby the stockholders account for their share of CSI earnings, losses, deductions and credits on their federal and various state income tax returns. CSI is subject to New York City and various state income taxes. On September 30, 2003, CSI's "S" Corporation status was revoked in connection with the conversion of convertible subordinated debt into common shares. Effective October 1, 2003, as a result of the revocation, the Company's tax status reverted to a "C" Corporation and on a prospective basis, the Company expects to have an effective income tax rate of approximately 40%.

For informational purposes, the accompanying statements of operations include an unaudited pro forma adjustment for income taxes which would have been recorded if CSI had not been an "S" Corporation.

DERIVATIVES

In September 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133), which requires the recognition of all derivatives as either assets or liabilities measured at fair value, with changes in value reflected as current period income (loss) unless specific hedge accounting criteria are met. The effective date of SFAS No. 133, as amended by SFAS No. 138, is for fiscal years beginning after September 15, 2000. The Company adopted SFAS No. 133 as of January 1, 2001, resulting in no material impact upon adoption or on the subsequent reporting periods.

EQUITY INVESTMENT IN LIMITED LIABILITY COMPANY

In August 2003, DeLeeuw Associates acquired a non-controlling interest in DeLeeuw International Ltd. (a limited liability company). The Company is accounting for its share of the income (losses) of this investment under the equity method.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restatement of Financial Statements (unaudited)

As a result of discussions with the Staff at the Securities and Exchange Commission, the Company made the decision to restate its accounting for the acquisition of DeLeeuw Associates, Inc. The original purchase accounting for the DeLeeuw acquisition was recorded by the Company in the Quarterly Report on Form 10-QSB for the quarter ended March 31, 2004. Additionally, during this process, it was determined that a deferred tax liability and accounting for certain merger costs were initially recorded incorrectly. Corrections of these two items are also included in this restatement. These changes require restatement of the Company's Quarterly Reports for the periods ending March 31, June 30 and September 30 2004.

The restatement relates to the following accounting transactions:

- The cost of the common stock issued in the acquisition is being recorded based upon the weighted average trading price of the Company's stock on the OTC Bulletin Board for the four days before and after the announcement of the transaction. The Company previously used an alternative method for valuing the stock issued by the Company in these transactions;

- The Company recorded an intangible asset as a result of the DeLeeuw acquisition and initially classified this asset as having an indefinite life. The Company has revised the classification of this intangible asset and assigned a definitive life to the asset. As a result of this change, approximately $15,000 of additional amortization expense was recorded by the Company during 2004.

- The Company initially recorded $300,000 deferred tax liability as part of the DeLeeuw Associates purchase accounting with the corresponding offset to goodwill. This accounting was subsequently determined to be incorrect and was reversed.

- The Company recorded certain merger costs associated with its reverse merger into LCS Group as a reduction of additional paid in capital. It was subsequently determined to be incorrect and this item was recorded as additional expense.

A summary of the balance sheet and income statement effects of the restatement for the three months ended March 31, 2004 is as follows:

	March 31, 2004	
	As reported	Restated
Goodwill	1,547,081	15,987,021
Intangible assets, net	2,642,600	1,570,944
Deferred taxes	(336,900)	(36,900)
Total assets	9,988,827	23,357,111
Accumulated deficit	(552,403)	(661,551)
Additional paid-in capital	2,836,818	16,614,250

	Three months ended March 31, 2004	
	As reported	Restated
Depreciation and amortization	36,774	50,244
General and Administrative	1,317,274	1,412,952
Loss from operations	(512,736)	(621,884)
Loss before taxes	(539,897)	(649,045)
Net loss	(324,297)	(433,445)
Loss per share	(0.00)	(0.00)

NOTE 2 - ACQUISITION OF DELEEUW ASSOCIATES, INC.

In February 2004, the Company formed a wholly owned acquisition subsidiary, DeLeeuw Conversion LLC ("DCL"), for the purpose of consummating a merger with DeLeeuw Associates, Inc. a privately-held New Jersey corporation ("DAI"). On March 4, 2004, DCL completed the merger with DAI, whereby DAI was merged with and into DCL, and Robert C. DeLeeuw, the president and sole stockholder of DAI, received $2,000,000 and 80,000,000 shares of common stock of CSI (at the time, approximately 11.9% of the outstanding shares). On March 5, 2004, DCL changed its name to DeLeeuw Associates, LLC. The Company's consolidated financial statements include DeLeeuw Associates results of operations for the period subsequent to its acquisition on March 4, 2004. During this period, the operations of DeLeeuw Associates contributed approximately $372,000 and $16,000 of revenue and net income, respectively. Including consideration of $951,000 paid by the Company subsequent to March 2004, the components and allocation of the purchase price of DeLeeuw Associates is as follows:

COMPONENTS OF PURCHASE PRICE (in thousands)

Cash payments	$ 1,939
Acquisition costs	71
Value of Common Stock	15,840
	$17,850

ALLOCATION OF PURCHASE PRICE (in thousands)

Approve vendor status (a)	(539)	.......(40 month life)
Accounts receivable	(975)	
Tradename	(722)	.......(indefinite life)
Goodwill	(15,844)	
Other assets	(56)	
Current liabilities assumed	286	
	$ --	

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The following unaudited statements of income and financial position reflect the pro-forma consolidated results as of March 31, 2004 and 2003 and for the three month periods then ended. These statements present the consolidated results of Conversion Services International, Inc. and DeLeeuw Associates, LLC for the aforementioned periods as if the entities had been consolidated for the entire three month periods in both years presented.

	Three Months Ended March 31,	
	2004	2003
Revenues	$ 6,356,816	$ 4,464,807
Net Loss	$ (456,399)	$ (69,111)
Net Loss per share	$ (0.00)	$ (0.00)

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	March 31, 2004
Computer equipment	$ 672,276
Furniture and fixtures	103,777
Automobiles	72,833
Leasehold improvements	87,546
	936,432
Accumulated depreciation	(619,512)
	$ 316,920

NOTE 4 - INTANGIBLE ASSETS

Intangibles acquired have been assigned as follows:

	March 31, 2004
Approved vendor status	$ 538,814
Proprietary rights and rights to the name	

of DeLeeuw Associates, Inc.	722,000
Customer contracts	414,000
Proprietary rights and rights to the name of Scosys Inc.	20,000
	1,694,814
Accumulated amortization	(123,870)
	$ 1,570,944

NOTE 5 - LINE OF CREDIT

The Company maintained a line of credit facility with a bank which provided for maximum borrowings of $2,250,000, based on eligible accounts receivable. The interest rate was at the bank's prime rate plus one percent. The line was collateralized by all corporate assets, guaranteed by the Company's shareholders, and had an expiration date of June 30, 2004. This line of credit facility was terminated and all outstanding amounts were repaid on March 30, 2004. Funds obtained from the revolving line of credit executed on March 30, 2004 (see below) were utilized to repay the outstanding amounts under this line of credit.

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On March 30, 2004, the Company executed a $3,000,000 revolving line of credit secured by substantially all of the corporate assets with a new financial institution. This credit facility was utilized to replace the existing line of credit facility expiring in June 2004 and both notes payable to a bank. The terms of this new note provide for interest accruing on advances at seven eighths of one percent (7/8%) over the institution's prime rate. This line of credit contains certain financial covenants including a) debt service coverage ratios; b) minimum tangible capital funds limits; and c) current ratio limits, as defined. The Company will be measured quarterly on these covenants beginning June 30, 2004.

NOTE 6 - LONG TERM DEBT

Long-term debt consisted of the following:

Convertible line of credit note with a maturity date of October 28, 2008 unless converted into common stock at the Company or the note holder's option. Interest accrues at 7% per annum. The conversion price of the shares of common stock is equal to 75% of the average bid price for the prior ten trading days.

Notes payable under capital lease obligations payable to various finance companies for equipment at varying rates of interest and maturity dates through 2006

Less: Current portion of long-term debt, including obligations under capital leases of

Future annual payments of long-term debt is as follows:

YEARS ENDING MARCH 31,	
2004	$ 31,262
2005	35,230
2006	17,020
2007	-
2008	2,000,000
	$ 2,083,512

NOTE 7 - OBLIGATIONS UNDER CAPITAL LEASES

The Company has entered into various capital leases that are collateralized by computer equipment with an original cost of approximately $114,306.

The following schedule lists future minimum lease payments under the capital leases with their present value as of March 31, 2004:

YEARS ENDING MARCH 31,	
2004	$ 44,558
2005	42,343
2006	18,853
	105,754
Less: Amount representing interest	(22,242)
	$ 83,512

NOTE 8 - STOCK OPTIONS

The 2003 Incentive Plan authorizes the issuance of up to 100,000,000 shares of common stock for issuance upon exercise of options. It also authorizes the issuance of stock appreciation rights. On March 29, 2004, the Company granted 19,200,000 options to purchase its common stock at an exercise price of $0.165. The options granted are a combination of both incentive and nonqualified options, vest over a three year period from the date of grant, and expire ten years from the date of grant. As of March 31, 2004, no options had vested.

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its employee stock options. Under APB25, because the exercise of the Company's employee stock option equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's consolidated statements of operations. The Company is required under Statement of Financial Accounting Standards (SFAS) 123, "Accounting for Stock-Based Compensation", which established a fair value based method of accounting for stock compensation plans with employees and others to disclose pro forma financial information regarding option grants made to its employees.

The following pro forma net income and earnings per share (EPS) reflects the difference between stock compensation costs charged to operations under the APB 25 intrinsic value method and pro forma stock compensation cost that would have been recorded if the SFAS 123 fair value method had been applied. The Black-Scholes option pricing model used in this valuation was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions. CSI's stock-based compensation has characteristics significantly different from those of traded options, and changes in the assumptions used can materially affect the fair value estimate.

	Three months ended March 31, 2004
Reported net loss	$ (433,445)
Pro-forma stock compensation, net of tax	--
Pro-forma net loss	$ (433,445)
Basic EPS:	
As reported	$ --
Pro-forma	$ --
Diluted EPS:	
As reported	$ --
Pro-forma	$ --
Weighted average fair value per option share granted	$ 0.12
Weighted average assumptions used to value options granted:	
Risk free interest rate	1.33%
Expected volatility	196%
Expected life (years)	3.00

NOTE 9 - EARNINGS PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options using the "treasury stock" method.

The components of basic and diluted earnings per share are as follows:

	Three Months Ended Mar	
	2004	20

Net income available for common shareholders (A)	$ (433,445)	$
Weighted average outstanding shares of common stock (B)	572,700,000	450,
Common stock and common stock equivalents (C)	572,700,000	450,
Earnings per share:		
Basic (A/B)	$ (0.00)	$
Diluted (A/C)	$ (0.00)	$

For the three months ended March 31, 2004, 19,200,000 million shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the effect was antidilutive. There were no stock options outstanding during 2003.

NOTE 10 - INCOME TAXES

Our provision for income taxes is based on estimated effective annual income tax rates. The provision differs from income taxes currently payable because certain items of income and expense are recognized in different periods for financial statement purposes than for tax return purposes.

During the current quarter, our effective tax rate was estimated to be approximately 40%, which is consistent with the rates in effect during the prior year.

NOTE 11 - SUBSEQUENT EVENTS

On April 29, 2004, the Company obtained a $2,000,000 equity investment from a private investor in exchange for 16,275,000 shares of CSI common stock. Subsequent to this transaction, the Company has 689,275,000 shares outstanding.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Management's Discussion and Analysis (MD&A) contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in "Issues and Uncertainties" and elsewhere in this report. We undertake no duty to update any forward-looking statement to conform the statement to actual results or changes in our expectations.

We are in the business of supplying professional services relating to information technology management consulting, data warehousing, business intelligence and e-business. Our clients are primarily in the financial services, pharmaceutical and telecommunications industries, although we have clients in other industries as well. Our clients are primarily located in the northeastern United States. We enable organizations to leverage their corporate information assets by providing strategy, process and methodology, best practices data warehousing, business intelligence, enterprise reporting and analytic solutions.

Conversion Services International, Inc. began operations in 1990. Our services were originally focused on e-business solutions and data warehousing. In the late 1990s, we strategically repositioned ourselves to capitalize on our data warehousing expertise in the fast growing business intelligence/data warehousing space. We became a public company through our merger with a wholly owned subsidiary of LCS Group, Inc., effective as of January 30, 2004.

Our core strategy includes capitalizing on the already established in-house Business Intelligence/Data Warehousing (BI/DW) technical expertise and our seasoned sales force. This is expected to result in organic growth through the acquisition of new customers. In addition, this foundation will be leveraged as we pursue targeted strategic acquisitions. The BI/DW industry as a whole is an extremely fragmented marketplace which we believe is ready for consolidation.

One of our objectives is to make acquisitions of companies in the BI/DW industry that will enable us to accelerate our business plan at lower costs than we would generate internally and also improve our competitive positioning and expand our offerings in a larger geographic area. We intend to seek acquisitions of other consulting firms that have expertise and clients in strategic locations or industries.

Revenue from consulting and professional services is recognized at the time the services are performed on a project by project basis. For projects charged on a time and materials basis, revenue is recognized based on the number of hours worked by consultants at an agreed-upon rate per hour. Our services range from providing clients with a single consultant to multi-personnel full-scale projects. Our contracts provide that its services are terminable upon relatively short notice, typically not more than 30 days. There can be no assurance that our clients will continue to enter into contracts with us or that existing contracts will not be terminated. We provide our services directly to end-user organizations, in most cases.

During the three month period ended March 31, 2004, two of our clients accounted for approximately 31% of total revenues. During the three month period ended March 31, 2003, two clients accounted collectively for approximately 45% of total revenues.

Our most significant costs are personnel expenses, which consist of consultant fees, benefits and payroll-related expenses, and outside consultants.

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RESULTS OF OPERATIONS (as restated)

REVENUE

Our revenues are primarily comprised of billings to clients for consulting hours worked on client projects. Revenue for the first quarter of 2004 was $5.3 million, an increase of 53.1% over the first quarter of 2003. This increase was primarily attributable to project design and infrastructure projects obtained in the fourth quarter of 2003 that are still ongoing, the acquisition of several new clients and the DeLeeuw Associates business during the March 2004 quarter, and a general increase in consulting business as the overall economy improves.

COST OF SERVICES

Cost of services primarily includes payroll and benefits costs for our consultants. Cost of services was $3.8 million, or 73.0% of revenue, in the first quarter, compared to $2.6 million, or 75% of revenue, in the first quarter of the prior year. The increase in absolute dollars resulted primarily from costs related to consultants on project design and infrastructure projects, the acquisition of DeLeeuw Associates, Inc. in March 2004, and additional consultants hired to staff projects for the new clients that we obtained. Cost of services declined as a percentage of revenue due to a shift in the mix of business to higher level projects that have increased hourly billing rates, and higher gross margin percentages associated with them.

SELLING AND MARKETING

Selling and marketing expenses include payroll, employee benefits and other headcount-related costs associated with sales and marketing personnel and advertising, promotions, tradeshows, seminars and other programs. Selling and marketing expenses were $0.6 million in the first quarter 2004, or 11.0% of revenue, compared to $0.3 million in the first quarter 2003, or 9.2% of revenue. Selling and marketing costs increased in absolute dollars primarily due to increased payroll and related costs associated with the increased headcount in our sales force. We have hired additional salespeople as part of our strategy to gain new clients and increase our revenue.

GENERAL AND ADMINISTRATIVE

General and administrative costs include payroll, employee benefits, and other headcount-related costs associated with the finance, legal, facilities, certain human resources and other administrative headcount, and legal and other professional and administrative fees. General and administrative costs were $1.4 million, or 26.9% of revenue, in the first quarter 2004 compared to $0.5 million, or 14.6% of revenue, in the first quarter 2003. General and administrative costs increased in the first quarter 2004 primarily from increased headcount resulting from the acquisition of DeLeeuw Associates, Inc., increased salaries paid to our officers due to hiring a chief financial officer during the fourth quarter of 2003 and increasing the salaries of our other company officers to compensate them competitively with other public companies our size. We also increased general and administrative headcount in the first quarter to support the increased size of the business which increased overall salary expense, incurred increased legal and accounting fees associated with becoming a public company and higher insurance premiums due to the growth of the Company. We also incureed $0.1 million of merger related costs in connection with our merger with LCS.

DEPRECIATION AND AMORTIZATION

Depreciation expense is recorded on our property and equipment which is generally depreciated over a period between three to seven years. Amortization is recorded for acquired intangible assets that have a finite useful life and for financing costs. Financing costs are amortized over the life of the related loans. Depreciation and amortization expenses were $50,000 in the first quarter of 2004 compared to $44,700 in the first quarter 2003.

OTHER INCOME (EXPENSE)

We incur interest expense on loans from financial institutions and from capital lease obligations related to the acquisition of equipment used in our business. Interest expense was $33,000 during the first quarter 2004 compared to $30,000 in the first quarter 2003. We earn interest income on deposits with our financial institution. Interest income in the first quarter was $400 compared to zero in the comparable quarter of the prior year. We also recorded a charge of $1,602 in the first quarter of 2004 related to our equity in the loss of our investment in a limited liability company and recorded $6,500 of other income related to an insurance refund received by the Company.

INCOME TAXES

An income tax benefit of $215,600 was recorded in the first quarter of 2004. This benefit was computed by multiplying our net loss by our estimated effective tax rate of 40%. No income tax expense or benefit was recorded in the prior year as the Company was an "S" Corporation. Pro forma income taxes for the prior year would have been an income tax benefit of $15,715, using the effective tax rate of 40%.

LIQUIDITY AND CAPITAL RESOURCES

Cash totaled $0.3 million as of March 31, 2004 compared to $0.4 million as of December 31, 2003. Our cash balance is primarily derived from customer remittances and bank borrowings and is used for general working capital needs. We had $83,000 on deposit with a financial institution as collateral for a letter of credit and have classified this as restricted cash on the accompanying consolidated balance sheet. On April 29, 2004, we obtained an additional $2,000,000 cash investment in return for 16,275,000 shares of our common stock.

Cash used by operations during the three months ended March 31, 2004 was $1.0 million, an increase of $0.3 million from the three months ended March 31, 2003. This increase in cash used by operations is primarily due to a $1.3 million increase in accounts receivable during the three month period and the net loss of $0.3 million, which was partially offset by an increase in accounts payable and accrued expenses of $0.5 million. The increase in accounts receivable is due to billings to new clients and to slower payment by several established clients. Non-cash expenses included depreciation, amortization, and the allowance for doubtful accounts.

Cash used by investing activities was $1.1 million during the first quarter 2004. This was due to payments of $1.1 million made for acquisition of DeLeeuw Associates, Inc. during this quarter, and for the purchases of equipment for the Company.

Cash provided by financing activities was $2.0 million during the first quarter 2004. During the first quarter of 2004, $2.0 million was raised from the issuance of a convertible line of credit note, all outstanding amounts under our previous line of credit and notes payable agreements with Fleet Bank, totaling $2.3 million, were repaid and $2.5 million was borrowed from our new line of credit with TrustCompany Bank. The line of credit agreement with TrustCompany Bank contains both financial and non-financial covenants that we are not required to report on, or comply with, until the second quarter of 2004. We do not expect to be in compliance with all of the covenants by June 30, 2004 and, as a result, we are actively working with our financial institution to establish new covenants. We believe that we will be successful in negotiating covenants acceptable to both the Company and our financial institution. However, there can be no assurance that we will be successful in these efforts. In the event that we are unsuccessful in these negotiations and our financial institution demands repayment in full by the Company, we believe that we have alternative financing options available to us in order to satisfy these obligations.

We believe existing cash, borrowing capacity under the line of credit or alternative financing sources, and funds generated from operations should be sufficient to meet operating requirements over the upcoming twelve month period. We may raise additional funds in order to fund expansion, to develop new or enhanced products and services, to respond to competitive pressures, or to acquire complementary businesses or technologies. There is no assurance, however, that additional financing will be available, or if available, will be available on acceptable terms. Any decision or ability to obtain additional financing through debt or equity investment will depend on various factors, including, among others, revenues, financial market conditions, strategic acquisition and investment opportunities, and developments in the Company's markets. The sale of additional equity securities or future conversion of convertible debt would result in additional dilution to the Company's stockholders.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any transactions, agreements or other contractual arrangements that constitute off-balance sheet arrangements.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2003, the FASB issued Interpretation 46R (FIN 46R), a revision to Interpretation 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R is effective at the end of the first interim period ending after March 15, 2004. Entities that have adopted FIN 46 prior to this effective date can continue to apply the provisions of FIN 46 until the effective date of FIN 46R. The Company adopted FIN 46 on January 1, 2004 and it did not have a material impact on our financial statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenue from consulting and professional services is recognized at the time the services are performed on a project by project basis. For projects charged on a time and materials basis, revenue is recognized based on the number of hours worked by consultants at an agreed-upon rate per hour. For large services projects where costs to complete the contract could reasonably be estimated, the Company undertakes projects on a fixed-fee basis and recognizes revenues on the percentage of completion method of accounting based on the evaluation of actual costs incurred to date compared to total estimated costs. Revenues recognized in excess of billings are recorded as accrued revenues. Billings in excess of revenues recognized are recorded as deferred revenues until revenue recognition criteria are met. Reimbursements, including those relating to travel and other out-of-pocket expenses, are included in revenues, and an equivalent amount of reimbursable expenses are included in cost of services.

ACCOUNTS RECEIVABLE

We carry our accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, we evaluate our accounts receivable and change the allowance for doubtful accounts, when deemed necessary, based on our history of past write-of fee and collections, contractual terms and current credit conditions.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and includes equipment held under capital lease agreements. Depreciation, which includes amortization of leased equipment, is computed principally by an accelerated method and is based on the estimated useful lives of the various assets ranging from three to seven years. When assets are sold or retired, the cost and accumulated depreciation are removed from the accounts and any gain or lose is included in operations.

Expenditures for maintenance and repairs have been charged to operations. Major renewals and betterments have been capitalized.

AMORTIZATION

We amortize deferred loan coats on a straight-line basis over the term of the related loan instrument. We amortize acquired client lists and contracts over an estimated useful life of 5 years. In conjunction with the DeLeeuw acquisition, an intangible asset (Approved Vendor Status) was acquired, which has been determined to have a 40 month life and is being amortized over this period.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the amounts paid in connection with a settlement agreement with the Elligent Consulting Group in connection with the re-acquisition of the ownership rights to CSI in 1998 and in connection with CSI's acquisition of Scosys, Inc. in November 2002. Additionally, as part of our acquisition of Scosys, Inc., we acquired certain intangible assets. We adopted FASB Statement 142 as of January 1, 2002 for all goodwill recognized in our balance sheet as of December 31, 2001. This statement changed the accounting for goodwill from an amortization method to an impairment-only approach, and introduced a new model for determining impairment charges.

Goodwill and intangible assets are reviewed for impairment whenever events or circumstances indicate impairment might exist or at least annually. We assess the recoverability of our assets, in accordance with FASB No. 142 "Goodwill and Other Intangible Assets," comparing projected undiscounted cash flows associated with those assets against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Our goodwill and intangible assets were not impaired at December 31, 2003. There have been no events or circumstances that would indicate that there has been any impairment during the three months ended March 31, 2004.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject us to concentration of credit risk are cash and accounts receivable arising from our normal business activities. We routinely assess the financial strength of our clients, based upon factors surrounding their credit risk, establishes an allowance for doubtful accounts, and as a consequence believes that our accounts receivable credit risk exposure beyond such allowances is limited. At December 31, 2003, one client approximated 25% of our accounts receivable balance.

We maintain our cash with a high credit quality financial institution. Each account is secured by the Federal Deposit Insurance Corporation up to $100, 000

INCOME TAXES

We account for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In estimating future tax consequences, we generally consider all expected future events other than enactments of changes in the tax laws or rates.

On January 1, 2001, we elected to be an "S" Corporation, whereby the stockholders account for their share of our earnings, losses, deductions and credits on their federal and various state income tax returns. We are subject to New York City and various state income taxes. On September 30, 2003, our "S" Corporation status was revoked in connection with the conversion of convertible subordinated debt into common shares. As a result of the revocation of our "S" Corporation status, we converted into a "C" Corporation and we expect to have an effective income tax rate of approximately 40%.

ISSUES AND UNCERTAINTIES

This Quarterly Report on Form 10-Q contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of issues and uncertainties such as those referenced below and elsewhere in this report, which, among others, should be considered in evaluating our financial outlook.

For further information, refer to the business description and risk factors sections included in our Form SB-2 filed with the SEC on May 6, 2004.

ITEM 3. CONTROLS AND PROCEDURES

CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act of 1934 Rule 13a-15(e) as of the end of the period covered by this report. Based on their evaluation, our management concluded at the time of our original Form 10-QSB filing that our disclosure controls and procedures were effective. As a result of comments received in February 2005 from the Staff of the SEC pertaining to our Registration Statement on Form SB-2/A, File No. 333-115243 (the "Registration Statement"), our chief executive officer and our chief financial officer have concluded that a material weakness exists with regard to the valuation and purchase accounting of our recent acquisitions, including the inability to prepare financial statements and footnotes in accordance with SEC rules and regulations.

In connection with our acquisitions of DeLeeuw Associates, Inc. in March 2004 and Evoke Software Corporation in June 2004, we misapplied generally accepted accounting principles whereby we did not value the acquisitions and record the resulting purchase accounting in accordance with SFAS 141 and EITF 99-12. As a result, we were required in March 2005 to restate our financial statements for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004. Management now believes and has determined that the disclosure controls and procedures for these three quarters were not effective.

In light of the need for these restatements and the material weakness in our valuation and purchase accounting for recent acquisitions, commencing in the first quarter of our 2005 fiscal year, we are beginning to undertake a review of our disclosure, financial information and internal controls and procedures regarding these areas for future acquisitions. This review will include efforts by our management and directors, as well as the use of additional outside resources, as follows:

- o Senior accounting personnel and our chief financial officer will continue to review any future acquisition or divestiture in order to evaluate, document and approve its accounting treatment in accordance with SFAS 141 and EITF 99-12;

- o We will augment, as necessary, such procedures by obtaining concurrence with independent outside accounting experts prior to finalizing financial reporting for such transactions; and

- o We will incorporate the applicable parts of the action plan described in the next paragraph.

In conjunction with the measures outlined below, we believe these actions will strengthen our internal control over our valuation and purchase accounting of future acquisitions, and this material weakness should be resolved. Management does not anticipate any extra cost from this change in its valuation and purchase accounting of future acquisitions.

In addition, we previously identified two internal control matters. Neither relates to the subject matter of the material weakness described above, yet combined with the above-referenced material weakness, constitute in the aggregate a material weakness in our internal control over financial reporting. These internal control matters, identified in October 2004 by Friedman LLP, our independent registered public accounting firm, are summarized as follows:

- o Lack of certain internal controls over period-end financial reporting related to the identification of transactions, primarily contractual, and accounting for them in the proper periods; and

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- o Accounting and reporting for our complex financing transactions related to the beneficial conversion features and the determination of the fair value of warrants in such transactions.

Management is establishing an action plan that it believes will correct the aggregated material weaknesses described above. Our estimated costs related to the correction of these material weaknesses is approximately $125,000, most notably related to our conversion to the Great Plains accounting system during the third quarter of 2004. The conversion to the Great Plains accounting system required inconsequential modifications to our transaction processing systems. The effect of the migration to this system has been to provide a better audit trail than our previous system. The batch processing of transactions provides the ability for review of transactions prior to being posted in the accounting system. Further, the ability to close and lock periods to prevent changes to prior periods provides greater reliability of the data and the financial statements (resulting from the financial statements being prepared directly by the accounting system as opposed to using spreadsheets, which have greater potential for error). Finally, this system has the ability to provide comparative financial statements to expectations, which drives variance reporting. As a result of this system change, there were changes in our internal control over financial reporting starting in the third quarter of 2004, as we have redesigned the organization structure to drive more focus on our internal control environment. Other measures included in our action plan are as follows:

- We have formed a Disclosure Committee consisting of our chief executive officer, chief operating officer, senior vice president of sales, general counsel and controller, chaired by our chief financial officer. The Disclosure Committee is comprised of these key members of senior management who have knowledge of significant portions of our internal control system, as well as the business and competitive environment in which we operate. One of the key responsibilities of each Disclosure Committee member is to review quarterly reports, annual reports and registration statements to be filed with the SEC as each progress through the preparation process. Open lines of communication to financial reporting management exist for Disclosure Committee members to convey comments and suggestions;

- A process to be established whereby material agreements are reviewed by the legal, accounting and sales departments and an executive management member that includes determination of appropriate accounting and disclosure;

- Our accounting and legal departments are now working more closely and in conjunction to accurately account for period-end financial reporting and complex financing transactions;

- We are constantly assessing our existing environment and continue to make further changes, as appropriate, in our finance and accounting organization to create clearer segregation of responsibilities and supervision, and to increase the level of technical accounting expertise including the use of outside accounting experts;

- There will be closer monitoring of the preparation of our monthly and quarterly financial information. We are in the process of instituting regular quarterly meetings to review each department's significant activities and respective disclosure controls and procedures and to have such in place by the end of the second quarter of 2005;

- Department managers have been tasked with tracking relevant non-financial operating metrics and other pertinent operating information and communicating their findings to a member of the Disclosure Committee; and

- We will conduct quarterly reviews of the effectiveness of our disclosure controls and procedures, and we have enhanced our quarterly close process to include detailed analysis in support of the financial accounts, and improved supervision over the process.

We believe that we will satisfactorily address the control deficiencies and material weakness relating to these matters by the end of the second quarter of 2005, although there can be no assurance that we will do so.

At the same time as we continue our efforts to improve our internal control environment, management of the Company is still in the process of implementing the above procedures and controls, including review and evaluation, to mitigate recognized weaknesses specifically for the preparation of future financial statements. Management believes that these procedures and controls are not yet effective in ensuring the proper collection, evaluation and disclosure of the financial information for the periods covered by this.

In connection with restating our financial statements as provided in this report, our chief executive officer and our chief financial officer, with the participation of other management, re-evaluated the effectiveness of our disclosure controls and procedures for the quarter ended March 31, 2004 and based on the re-evaluation by our chief executive officer and our chief financial officer, they concluded that, as of March 31, 2004, there were certain material weaknesses in our internal control procedures and in our valuation and purchase accounting of our acquisitions in 2004, which has resulted in a conclusion that such disclosure controls were not effective at a reasonable assurance level.

Management, including our chief executive officer and our chief financial officer, does not expect that our disclosure controls and internal controls will prevent all error or all fraud, even as the same are improved to address any deficiencies and/or weaknesses. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

Changes in internal control over financial reporting.

Our company also maintains a system of internal controls. The term "internal controls," as defined by the American Institute of Certified Public Accountants' Codification of Statement on Auditing Standards, AU Section 319, means controls and other procedures designed to provide reasonable assurance regarding the achievement of objectives in the reliability of our financial reporting, the effectiveness and efficiency of our operations and our compliance with applicable laws and regulations. During the first quarter of 2004, there were no changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting. Subsequent to the first quarter of 2004, in connection with the preparation of the Registration Statement, our management identified certain weaknesses in our internal control procedures and in our valuation and purchase accounting of our acquisitions in 2004. Our management and Board have adopted corrective measures as described in the third and fourth paragraphs of this Controls and Procedures section above. The following measures have materially affected our internal control over financial reporting since our last Quarterly Report:

- Senior accounting personnel and our chief financial officer will continue to review any future acquisition or divestiture in order to evaluate, document and approve its accounting treatment in accordance with SFAS 141 and EITF 99-12;

- We will augment, as necessary, such procedures by obtaining concurrence with independent outside accounting experts prior to finalizing financial reporting for such transactions;

- We have formed a Disclosure Committee consisting of our chief executive officer, chief operating officer, senior vice president of sales, general counsel and controller, chaired by our chief financial officer. The Disclosure Committee is comprised of these key members of senior management who have knowledge of significant portions of our internal control system, as well as the business and competitive environment in which we operate. One of the key responsibilities of each Disclosure Committee member is to review quarterly reports, annual reports and registration statements to be filed with the SEC as each progress through the preparation process. Open lines of communication to financial reporting management exist for Disclosure Committee members to convey comments and suggestions;

- Our accounting and legal departments are now working more closely and in conjunction to accurately account for period-end financial reporting and complex financing transactions;

- There will be closer monitoring of the preparation of our monthly and quarterly financial information. We are in the process of instituting regular quarterly meetings to review each department's significant activities and respective disclosure controls and procedures and to have such in place by the end of the second quarter of 2005; and

- Department managers have been tasked with tracking relevant non-financial operating metrics and other pertinent operating information and communicating their findings to a member of the Disclosure Committee.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently involved in any legal proceedings.

We have no knowledge of any material litigation to which we may become a party or to which any of our property is subject.

ITEM 2. CHANGES IN SECURITIES.

On August 21, 2003, the Registrant entered into an agreement to reorganize with and into privately-held Conversion Services International, Inc. (Old CSI) and certain affiliated stockholders of Old CSI. The closing of this transaction occurred on January 30, 2004, and at that time, LCS changed its name to "Conversion Services International, Inc." and the former stockholders of Old CSI gained control of our Board of Directors and were issued approximately 84.3% of the outstanding shares of our common stock at that time. Approximately 500,000,000 unregistered shares were issued in connection with the merger.

On March 4, 2004, the Company through its wholly owned subsidiary acquired DeLeeuw Associates, Inc., in which 80,000,000 unregistered shares were issued in connection with the transaction. See Note 2 to Financial Statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a) A special meeting of the stockholders was held on January 23, 2004.

(b) All of the Company's director nominees, as set forth below, were elected. There was no solicitation in opposition to the Company's nominees.

(c) Matters voted on at the meeting and the number of votes cast:

1. To approve amending the Company's Certificate of Incorporation to change its name to "Conversion Services International, Inc.":

Voted For	Voted Against	Abstentions
26,392,922	387,074	2,000

2. To increase the number of authorized shares of common stock from 50,000,000 to 1,000,000,000:

Voted For	Voted Against	Abstentions
26,348,558	418,434	4

3. To authorize the issuance of up to 20,000,000 shares of preferred stock in such series, each with different rights, preferences and designations and qualifications, limitations and restrictions as may be determined by the board of directors without the approval of stockholders:

Voted For	Voted Against	Abstentions
26,319,361	2,004	197

4. Limitation of directors' liability and indemnification of officers and directors:

Voted For	Voted Against	Abstentions
26,312,214	2,008	0

5. Elect to the board of directors Scott Newman, Glenn Peipert and Lawrence K. Reisman to serve until their respective successors are elected and qualified:

	Voted For	Withheld
Scott Newman	26,396,392	385,064
Glenn Peipert	26,396,392	385,064
Lawrence K. Reisman	26,396,392	385,064

6. Adopt the 2003 Incentive Plan:

Voted For	Voted Against	Abstentions
26,317,958	464,034	4

ITEM 5. OTHER INFORMATION.

CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANTS

In connection with the merger of Conversion Services International, Inc. with and into the Company's wholly owned subsidiary, LCS Acquisition Corp. (now known as CSI Sub Corp. (DE)) on January 30, 2004, the Company on January 30, 2004 dismissed Eisner LLP ("Eisner"), its independent certified public accountants for the fiscal years ended February 28, 2003 and 2002. The reports by Eisner on the financial statements of the Company during the fiscal years ended February 28, 2003 and 2002 contained a going concern opinion. During the Company's two most recent fiscal years and subsequent period up to January 30, 2004, there were no disagreements with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

On January 30, 2004, upon receipt of approval of its Board of Directors, the Company engaged Ehrenkrantz Sterling & Co. LLC ("Ehrenkrantz") to serve as the Company's independent certified public accountants. During the Company's two most recent fiscal years, and during any subsequent period through January 30, 2004, the Company did not consult with Ehrenkrantz on any accounting or auditing issues; however, Ehrenkrantz has previously audited the financial statements of our wholly owned subsidiary CSI Sub Corp. (DE) (formerly known as LCS Acquisition Corp.), for the periods December 31, 2003 and 2002.

CHANGE IN FISCAL YEAR

On January 30, 2004, the Company's Board of Directors signed a resolution changing the fiscal year end of the Company to December 31 from February 28. No transition period report will be filed in connection with the change in the fiscal year since the Company is adopting the fiscal year end of its wholly owned subsidiary CSI Sub Corp. (DE) (formerly known as LCS Acquisition Corp.), which comprises all of the Company's operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following is a list of exhibits to this Form 10-QSB:

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934

32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350

(b) Reports on Form 8-K:

Two reports on Form 8-K were filed during the reporting period, as follows:

Form 8-K filed by the Company on February 17, 2004, pertaining to Item Nos. 1, 5 and 7 regarding a change in control of the registrant.

Form 8-K filed by the Company on March 16, 2004, pertaining to Item Nos. 2 and 7 regarding the acquisition by the registrant of DeLeeuw Associates, Inc.

SIGNATURE

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 thereunto duly authorized.

Date: April 12, 2005

CONVERSION SERVICES INTERNATIONAL, INC.

By: /S/ SCOTT NEWMAN

Name: Scott Newman
Title: President and Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)