

CONVERSION SERVICES INTERNATIONAL INC
Form 10-K
March 23, 2011

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

FORM 10-K

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ending December 31, 2010

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 001-32623

CONVERSION SERVICES INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

20-0101495
(IRS Employer
Identification number)

100 Eagle Rock Avenue, East Hanover, NJ
(Address of Principal Executive Offices)

07936
(Zip Code)

973-560-9400
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class
Common Stock, \$.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$750,568 as of June 30, 2010 (based on the closing price for such stock as of June 30, 2010).

As of March 18, 2011, there were 129,345,353 shares of common stock, par value \$0.001 per share, of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

References in this Form 10-K to the “Company,” “CSI,” “we,” “our” and “us” refer to Conversion Services International, Inc. and our consolidated subsidiaries. We are a technology and business process improvement/management firm providing professional services to the Global 2000 as well as mid-market clientele. Our core competency areas include strategic consulting, data warehousing, business intelligence, business process optimization, operational merger support, change management, Lean and Six Sigma consulting and data management consulting. Our clients are primarily in the financial services, pharmaceutical, healthcare and telecommunications industries, although we do have clients in other industries. Our clients are primarily located in the northeastern United States. We enable organizations to leverage their corporate information assets by providing strategy, process, methodology, data warehousing, business intelligence, enterprise reporting and analytic solutions. Our organization delivers value to our clients, utilizing a combination of business acumen, technical proficiency, experience and a proven set of “best practices” methodologies to deliver cost effective services primarily through time and material engagements.

We believe that we possess the following attributes which differentiate us from our competitors:

- role as a full life-cycle solution provider;
- ability to provide strategic guidance and ensure that business requirements are properly supported by technology;
 - ability to provide solutions that integrate people, improve process and integrate technologies;
 - full range of service offerings relating to data warehousing, business intelligence, strategy and data quality;
 - perspective regarding the accuracy of data and our data purification process;
 - best practices methodology, process and procedures;
- experience in architecting, recommending and implementing large and complex data warehousing and business intelligence solutions;
- understanding of data management solutions that through our integrated offering combine the best of business intelligence and business process concepts;
- ability to consolidate inefficient environments into robust, scalable, reliable and manageable enterprise solutions;
 - end-to-end process review and design capabilities; and
- significant large-scale merger experience, from both the operational and strategic perspectives, in the Financial Services Industry.

Our goal is to be the premier provider of data warehousing, business intelligence, business process optimization solutions and related strategic consulting services for organizations seeking to leverage their corporate information. In support of this goal we intend to:

- enhance our brand and mindshare;

- continue growth both organically and via acquisition;
- increase our geographic coverage;
- expand our client relationships;
- introduce new and creative service offerings; and
- leverage our strategic alliances.

We are committed to being a leader in data warehousing and business intelligence consulting. As a data warehousing and business intelligence specialist, we approach business intelligence from a strategic perspective, providing integrated data warehousing and business intelligence strategy and technology implementation services to clients that are attempting to leverage their enterprise information. Our matrix of services includes strategy consulting, data warehousing and business intelligence architecture and implementation solutions, data quality solutions and data management solutions. We have developed a methodology which provides a framework for each stage of a client engagement, from helping the client conceive its strategy, to architecting, engineering and extending its information. We believe that our integrated methodology allows us to deliver reliable, robust, scalable, secure and extensible business intelligence solutions in rapid timeframes based on accurate information. We also strive to be the leading provider of business process optimization solutions for organizations seeking to transform their businesses. We bring full-service implementation capabilities to handle any business, process or technical change. We provide value to our business process optimization clients through end-to-end review and design capabilities, by providing business/technology alignment to support continuous process improvement and we employ experienced change management professionals with functional expertise in their industries. We are at the forefront of utilizing the most current quality process and change techniques and adapt those to the best and highest needs of our clients business needs (to include “facilitated design sessions”, Lean and Six Sigma tools; and Change Adoption techniques). We integrate the best of both business intelligence and process reengineering to help clients build the capability to make business decisions based on metrics in real time.

We are a Delaware corporation formerly named LCS Group, Inc. In January 2004, a privately-held company named Conversion Services International, Inc. (“Old CSI”) merged with and into our wholly owned subsidiary, LCS Acquisition Corp. In connection with such transaction: (i) a 14-year old information technology business (formed in 1990) became our operating business, (ii) the former stockholders of Old CSI assumed control of our Board of Directors and were issued approximately 75.9% of the outstanding shares of our common stock at that time (due to subsequent events, that percentage of ownership has decreased), and (iii) we changed our name to “Conversion Services International, Inc.”

On September 21, 2005, our common stock began trading on the American Stock Exchange under the symbol “CVN.” We voluntarily withdrew trading of our common stock from AMEX effective September 8, 2008, and begun trading on the Over-the-Counter Bulletin Board on that day under the symbol “CVNS.”

Our offices are located at 100 Eagle Rock Avenue, East Hanover, New Jersey 07936, and our telephone number is (973) 560-9400.

Our Services

As a full service strategic consulting, business intelligence, data warehousing and data management firm, we offer services in the following solution categories:

Strategic Consulting: Involves planning and assessing both process and technology, performing gap analysis, making recommendations regarding technology and business process improvements to help our clients realize their business goals and maximize their investments in people and technology. Leveraging our long lineage in data warehousing and business intelligence, CSI understands that accurate, validated, and consolidated information is the keystone of accelerated decision making. We also understand that accelerated decision making requires the ability to act on knowledge through proven business process optimization programs which align business initiatives with technology, reduce complexity in process, and implement a holistic approach to business transformation. Our business process optimization solutions include:

- Customer Experience-Based Process Improvement
- ClarityPath™ Facilitated Sessions
- Merger/Acquisition/Integration Management
- Change Management, Project Management Office, Program Governance
- Change Adoption and Communications Programs

Business and Process Consulting

- Change Management Consulting - Assist clients with implementing project management governance and best practices for large scale change initiatives, including consolidations, conversions, integration of new business processes and systems applications.
- Integration Management, Mergers and Acquisitions - Work with clients to implement best practices for mergers and acquisitions. Support all aspects of the integration process from initial assessment through implementation support.
- Acquisition Readiness - Work with clients to better prepare them for large scale acquisitions in the financial services domain. This includes building best practices, mapping and gapping and implementing a strategic roadmap to integrate multiple companies.
- Process Improvement (Lean, Six Sigma) - Provide a full array of products and services in support of Lean and Six Sigma, including training, process improvement, project management and implementation support.
- Regulatory Compliance (The Health Insurance Portability and Accountability Act of 1996, Basel II) - Work with clients to analyze, design and implement operational control, procedures and business intelligence that will align the organization to meet new regulatory requirements.
- Project Management (PMO) - Setting up an internal office at a client location, staffed with senior/certified project managers that act in accordance with the policies and procedures identified in CSI Best Practices for Project Management.
- Request For Proposal Creation and Responses - Gather user and technical requirements and develop Requests For Proposals (RFP) on behalf of our clients. Respond to client RFPs with detailed project plans, solutions and cost.

Strategic Technology Consulting

CSI's data warehousing consulting services are focused on providing our clients the ability to fully leverage corporate data. CSI's data warehouse solutions can be customized into scalable service packages designed to meet client needs for data marts, department warehouses, enterprise warehouses, and data migrations. These packages quickly derive business value with the initial implementation and easily scale to meet rapidly changing business needs. CSI's data warehousing consulting services are focused on providing our clients the ability to fully leverage corporate data. Successful consolidation and transformation of data to a single, pure and accurate source of information, provides the basis for visual trending, analytics and reporting through our business intelligence practice. CSI's business intelligence consulting services are focused on providing our clients the ability to fully understand and leverage corporate data. CSI focuses on the following solutions:

Strategic Planning, including Assessment services
Design, Development and Implementation
Proof of Concept and Prototypes
Tool Standardization and Selection
Platform Rollouts
Dashboards

- Data Warehousing and Business Intelligence Strategic Planning - Helping clients develop a strategic roadmap to align with a data warehouse or business intelligence implementation. These engagements are focused on six strategic domains that have been identified and documented by CSI: Business Case, Program Formulation,

Organizational Design, Program Methodologies, Architecture and Operations and Servicing.

- Information Management Strategy & Roadmap – Helping clients develop a roadmap to leverage and integrate enterprise information. The solution can support a business intelligence/data warehouse solution, rationalization of a complex environment, sunseting of old applications and migration to new applications.

- Information Management Software Selection – Evaluation, analysis and recommendation of appropriate software tools for deploying business intelligence/data warehousing solutions. Gather business and technical requirements and measure those requirements against the capabilities of available tools in the current marketplace. Software evaluated and recommended include reporting, ad-hoc query, analytics, extract, transform and load processes (ETL), data profiling, database and data modeling.

Business Intelligence: A category of applications and technologies for gathering, storing, analyzing and providing access to data to help enterprise users make better and quicker business decisions.

- Business Intelligence, Architecture and Implementation - Develop architecture plans and install all tools required to implement a business intelligence solution, including enterprise reporting, ad-hoc reporting, analytical views and data mining. Solutions are typically developed using tools such as Cognos, Business Objects, MicroStrategy, SAS and Crystal Reports.
- Business Intelligence Competency Center - Set up an internal office at a client location, staffed with a mix of senior business intelligence developers and business intelligence architects that will implement best practices, policies, procedures, standards and provide training and mentoring to further increase the use of the data warehouse and facilitate the business owners embracing of the business intelligence solution.
- Analytics and Dashboards - Identify and document dashboard requirements. These requirements are typically driven by Key Performance Indicators (KPIs) identified by upper management. Architect a supporting database structure to support the identified hierarchies, drill-downs and slice and dice requirements, implement a dashboard tool, provide training and education.
- Business Performance Management - Leveraging a new or existing business intelligence implementation to monitor and manage both business process and IT events through key performance indicators.
- Data Mining - Implementing data mining tools that extract implicit, previously unknown, and potentially useful information from data. These tools typically use statistical and visualization techniques to discover and present knowledge in a form which is easily comprehensible. Business intelligence tools will answer questions based on information that has already been captured (history). Data mining tools will discover information and project information based on historic information.
- Proof of Concepts and Prototypes - Gather requirements, design and implement a small scale business intelligence implementation called a Proof of Concept. The Proof of Concept will validate the technology and/or business case, as well as “sell” the concept of business intelligence to management.
- Outsourcing - Development of new reports offsite and redeployment of reports in new technologies in support of technology consolidation.
 - Training and Education - Provide formal classroom training for Business Objects software products. Provide training in data warehousing and business intelligence methodologies and best practices, as well as technology tool training, including business intelligence tools such as Cognos and MicroStrategy.

Data Warehousing: A consolidated view of high quality enterprise information, making it simpler and more efficient to analyze and report on that information.

- Data Warehousing and Data Mart Design, Development and Implementation - Design, development and implementation of custom data warehouse solutions. These solutions are based on our methodology and best practices which include six sigma type tools used in the requirements gathering and warehouse building process.
- Proof of Concepts and Prototypes - Gather requirements, design and implement a small scale data warehouse that is called a Proof of Concept. The Proof of Concept will validate the technology and/or business case, as well as “sell” the concept of data warehousing to management.

- Extract, Transformation and Loading (ETL) - Design, development and implementation of data integration solutions with particular expertise and best practices for integrating ETL tools with other data warehouse tools.
 - Outsourcing - Implementing and supporting a client data warehouse solution at a CSI location.

Data Management: Innovative solutions for managing data (information) throughout an enterprise.

- Enterprise Information Architecture - Leveraging our Information, Process and Infrastructure (IPI) Diagrams to create a “snapshot” of the current information flow and desired information flow throughout the enterprise.
- Data Quality Center of Excellence - Set up an internal office at a client location, staffed with a mix of senior data quality developers and data quality architects that will implement best practices, policies, procedures, standards and provide training and mentoring to further increase the level of data quality throughout the enterprise and increase the awareness and importance of data quality as it pertains to decision making.
- Data Quality/Cleansing/Profiling - Leveraging profiling as an automated data analysis process that significantly accelerates the data analysis process. Leveraging our best practices to identify data quality concerns and provide rules to cleanse and purify the information.
- Data Migrations and Conversions - Design, development and implementation of custom data migrations. These solutions are based on our methodology and best practices.
- Application Development - Custom application development or integration to support data management or data warehouse initiatives. This may include modification of existing enterprise applications to capture additional information required in the warehouse or may be a standalone application developed to facilitate improved integration of existing information.
- Infrastructure Management and Support - An infrastructure must be in place to support any data warehouse or data management initiative. This may include servers, cables, disaster recovery or any process and procedure needed to support these types of initiatives.

Clients

For 21 years, we have helped our clients develop strategies and implement technology solutions to help them leverage corporate information.

Our clients are primarily in the financial services, pharmaceutical, healthcare and telecommunications industries and are primarily located in the northeastern United States. During the year ended December 31, 2010, two of our clients, PNC Bank (31.6%) and Bank of America (14.4%) accounted collectively for approximately 46.0% of our total revenues. During the year ended December 31, 2009, two of our clients, PNC Bank (28.6%) and Bank of America (10.2%) accounted collectively for approximately 38.8% of our total revenues. The loss of any of our largest customers could have a material adverse effect on our business. We have not had any collections problems with any of these customers to date.

Marketing

We currently market our services through our internal marketing group and our sales force comprised of 12 employees as of December 31, 2010. We also receive new business opportunities through referrals from current clients, strategic partners, independent industry analysts and industry associations. We are engaging in the following specific sales

related programs and activities to expand our brand awareness and generate sales leads:

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- Advertising and Sponsorships: Through advertising and sponsorship programs within the leading industry portals, we obtain new business leads and further increase our brand awareness. Throughout the year, we sponsor publications and newsletters published by various industry portals, as well as engage in cross-linking partnerships to promote CSI white papers and best practices research.
- Web Site Promotion: Our website (www.csiwhq.com) provides a comprehensive view of our service offerings and promotes our subject matter expertise via white papers, articles and industry presentations. We are currently promoting our website through internet search engine advertising, online directories in different industries, and through reciprocity from partner sites.
- Trade Show and Conference Participation: Our participation in trade shows and conferences has helped our position within our industry. There are a number of trade shows and conferences within our target industry that provide significant exposure to prospective customers, business and trade media and industry analysts, as well as collaborative networking with technology partners. As with most trade show events, the higher the level of sponsorship, the greater exposure and benefits received, such as the location of our booth, banner and advertising space, and position on the conference agenda.
- Web Seminars: Participation in web seminars provides exposure to new sales prospects and affords us the opportunity to demonstrate our subject matter expertise. We plan to perform approximately 4 web seminars or on-demand webcasts in 2011.
- Thought Leadership: We continually demonstrate our thought leadership by writing and promoting our white papers via our web site and through email campaigns. CSI sponsors the Financial Services ISixSigma portal and frequent articles by our consultants are published in the iSix Sigma financial services channel. Published thought leadership can be found in the Knowledge Center of our website at www.csiwhq.com.
- Sponsorships of Vendor Marketing Activities: We expect that joint marketing activities with leading software vendors should also stimulate new business prospect generation. This participation also enhances the market perception of CSI as experts in individual product areas by co-sponsoring and participating in vendor marketing activities. We are invited to write white papers and articles for vendors such as Microsoft, Business Objects and SAP as well as new product launch seminars with Business Objects.
- Expanded Direct Sales Activities: We are continually updating and increasing our direct contact programs for lead generation, cross selling and up-selling. We conduct direct sales activities, such as email and direct mail campaigns, telemarketing, networking and attending partnership functions to generate leads for direct sales opportunities. In addition, we have developed a number of best practices service offerings which encompass selection, deployment, implementation, maintenance and knowledge transfer. In some cases, these service offerings include methodologies and best practices for integrating several vendor technology platforms resulting in cross selling and up selling opportunities when applicable.

·Vendor Relations: We are continually identifying key vendor relationships. With the ability to leverage our 21 year history, we intend to continue to forge and maintain relationships with technical, service and industry vendors. We have solidified and continue to develop strategic relationships with technology vendors in the data warehousing and business intelligence arena. These relationships designate our status as a systems integration and/or reseller which authorizes us to provide consulting services and to resell select vendor software. We employ certified consultants in our vendor partner technology platforms. We maintain vendor independence by consistently evaluating the respective vendors' technologies in our lab located at our headquarters in East Hanover, New Jersey. We regularly attend vendor partnership events, including partner summits and user group meetings, in support of our partnership programs. We currently maintain relationships with the following:

Business Solutions Vendors:

SAP We are an SAP partner focusing on Business Objects integration.

Database Vendors:

Oracle We are part of the Oracle Partner Program (OPP) as a Certified Solution Provider (CSP).

Microsoft We are a Registered Partner.

Business Intelligence Vendors:

SAP We are a partner focusing on integration of the Business Objects suite of products.

Oracle We are a Systems Integration and Reseller Partner.

Cognos We are a Systems Integration and Reseller Partner.

Informatica We are a Systems Integration and Reseller Partner.

TIBCO Spotfire We are an analytic solution partner to Spotfire.

Protection Against Disclosure of Client Information

As our core business relates to the storage and use of client information, which is often confidential, we have implemented policies to prevent client information from being disclosed to unauthorized parties or used inappropriately. Our employee handbook which every employee receives and acknowledges, mandates that it is strictly prohibited for employees to disclose client information to third parties. Our handbook further mandates that disciplinary action be taken against those who violate such policy, including possible termination. Our outside consultants sign non-disclosure agreements prohibiting disclosure of client information to third parties, among other things, and we perform background checks on employees and outside consultants.

Intellectual Property

The trademarks "TECH SMART BUSINESS WISE", "QUALITY MANAGEMENT OFFICE", "QMO" and DQXPRESS have been registered with the United States Patent and Trademark Office. We use non-disclosure agreements with our

employees, independent contractors and clients to protect information which we believe are proprietary or constitute trade secrets.

Competition

To our knowledge, there are no publicly-traded competitors that focus solely on data warehousing and business intelligence and business process optimization consulting and strategy. However, we have several competitors in the general marketplace, including data warehouse and business intelligence practices within large international, national and regional consulting and implementation firms, as well as smaller boutique technology firms. Many of our competitors are large companies that have substantially greater market presence, longer operating histories, more significant client bases, and financial, technical, facilities, marketing, capital and other resources than we have. We believe that we compete with these firms on the basis of the quality of our services, industry reputation and price. We believe our competitors include firms such as:

- Accenture
- Paragon Computer Professionals
- IBM Global Services
- Fujitsu
- FYI
- CDI
- EMC
- Hewlett Packard
- Kforce

Employees

As of December 31, 2010, we had 30 outside consultants, 43 consultants on the payroll and 27 non-consultant employees. Outside consultants are not our employees, and as such, do not receive benefits or have taxes withheld.

These consultants are members or employees of separate corporations, they are responsible for providing us with a current certificate of insurance and they are responsible for filing and payment of their own taxes. Consultants on the payroll may be either full time or hourly employees. Such consultants are billable to clients, and they have taxes withheld similar to other employees.

None of our employees are represented by a labor union or subject to a collective bargaining agreement. We have never experienced a work stoppage and we believe that our relations with employees are good.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). You may read and copy any document we file with the Commission at the Commission's public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549, 233 Broadway, New York, New York 10279, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. Our Commission filings are also available to the public from the Commission's Website at "<http://www.sec.gov>." We make available

free of charge our annual, quarterly and current reports, proxy statements and other information upon request. To request such materials, please send a written request to William Hendry, our Chief Financial Officer, at our address as set forth above or at (973) 560-9400.

We maintain a website at www.csiwhq.com (this is not a hyperlink, you must visit this website through an internet browser). Our website and the information contained therein or connected thereto are not incorporated into this Annual Report on Form 10-K.

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the sections entitled “Business”, “Risk Factors”, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date thereof. We undertake no obligation to revise or publicly release the results of any revision of these forward-looking statements. Readers should carefully review the risk factors described in this Annual Report and in other documents that we file from time to time with the Securities and Exchange Commission.

In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plan,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “proposed,” “intended,” or “continue” or the negative of these other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other “forward-looking” information. There may be events in the future that we are not able to accurately predict or control. You should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this Annual Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements.

Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results. The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this report.

We cannot give any guarantee that these plans, intentions or expectations will be achieved. All forward-looking statements involve risks and uncertainties, and actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those factors described in the “Risk Factors” section of this Annual Report. Listed below and discussed elsewhere in this Annual Report are some important risks, uncertainties and contingencies that could cause our actual results, performances or achievements to be materially different from the forward-looking statements included in this Annual Report. These risks, uncertainties and contingencies include, but are not limited to, the following:

- our ability to finance our operations on acceptable terms, either through the raising of capital, the incurrence of convertible or other indebtedness or through strategic financing partnerships;
 - our ability to retain members of our management team and our employees;
 - our ability to retain existing clients or attract new clients;
- our ability to adapt to the rapid technological change constantly occurring in the areas in which we provide services;
 - our ability to offer pricing for services which is acceptable to clients;
 - our ability to pay our debts;

- the competition that may arise in the future; and
- identifying suitable acquisition candidates and integrating new acquisitions.

The foregoing does not represent an exhaustive list of risks. Please see “Risk Factors” below for additional risks which could adversely impact our business and financial performance. Moreover, new risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. All forward-looking statements included in this Report are based on information available to us on the date of this Report. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Report.

Item 1A. Risk Factors

The following factors should be considered carefully in evaluating the Company and its business:

Risks Relating to Our Business

Because we depend on a small number of key clients, non-recurring revenue and contracts terminable on short notice, our business could be adversely affected if we fail to retain these clients and/or obtain new clients at a level sufficient to support our operations and/or broaden our client base.

During the year ended December 31, 2010, two of our clients, PNC Bank (31.6%) and Bank of America (14.4%) accounted collectively for approximately 46.0% of our total revenues. During the year ended December 31, 2009, two of our clients, PNC Bank (28.6%) and Bank of America (10.2%) accounted collectively for approximately 38.8% of our total revenues. Further, the majority of our current assets consist of accounts receivable, and as of December 31, 2010, receivables relating to PNC Bank and Bank of America accounted for 33.5% and 25.3% of our accounts receivable balance, respectively. The loss of any of our largest clients could have a material adverse effect on our business. In addition, our contracts provide that our services are terminable upon short notice, typically not more than 30 days. Non-renewal or termination of contracts with these or other clients without adequate replacements could have a material and adverse effect upon our business. In addition, a large portion of our revenues are derived from information technology consulting services that are generally non-recurring in nature. There can be no assurance that we will:

- obtain additional contracts for projects similar in scope to those previously obtained from our clients;
 - be able to retain existing clients or attract new clients;
 - provide services in a manner acceptable to clients;
 - offer pricing for services which is acceptable to clients; or
- broaden our client base so that we will not remain largely dependent upon a limited number of clients that will continue to account for a substantial portion of our revenues.

The Company has received a qualified audit opinion on its ability to continue as a going concern.

The audit report our independent registered public accounting firm issued on our audited financial statements for the fiscal year ended December 31, 2010 contains a qualification regarding our ability to continue as a going concern. This qualification indicates that the Company’s recent losses, other than in fiscal year 2009, negative cash flows from operations, its net working capital deficiency and its ability to pay its outstanding debt as they become due raises

substantial doubt that we can continue as a going concern in default of covenants with our financial institution. Such a qualified opinion from our independent registered public accounting firm may limit our ability to access certain types of financing, or may prevent us from obtaining financing on acceptable terms.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business and operating results. In addition, current and potential stockholders could lose confidence in our financial reporting, which could have a material adverse effect on our stock price.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed.

We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting. During the course of our testing, we may identify deficiencies which we may not be able to remediate in time for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time; we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could also cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

There is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters and general controls over information technology security and user access. This constitutes a weakness in financial reporting. Furthermore, the Company's Chief Financial Officer is the only person with an appropriate level of accounting knowledge, experience and training in the selection, application and implementation of generally accepted accounting principles as it relates to complex transactions and financial reporting requirements.

At present, the Company's ability to rectify the internal control weaknesses relating to the segregation of duties and the general controls over information technology security and user access is limited due to budgetary constraints. If we cannot rectify these material weaknesses through remedial measures and improvements to our systems and procedures, management may encounter difficulties in timely assessing business performance and identifying incipient strategic and oversight issues. Management is reviewing possible improvements to internal controls, and compensating controls, and this focus will require management from time to time to devote its attention away from other planning, oversight and performance functions.

We cannot provide assurances as to the result of these efforts. We cannot be certain that any measures we take will ensure that we implement and maintain adequate internal controls in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

Our disclosure controls and procedures and internal controls over financial reporting have been materially deficient.

Our management, under the supervision and with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures and internal control over financial reporting as defined in Exchange Act Rules 13a-15(e) and (f) and 15d-15(e) and (f) as of the end of the period covered by this Report based upon the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such evaluation, our management has made an assessment that our disclosure controls and procedures and internal control over financial reporting is not effective as of December 31, 2010.

Certain client-related complications may materially adversely affect our business.

We may be subject to additional risks relating to our clients that could materially adversely affect our business, such as delays in clients paying their outstanding invoices, lengthy client review processes for awarding contracts, delay, termination, reduction or modification of contracts in the event of changes in client policies or as a result of budgetary constraints, and/or increased or unexpected costs resulting in losses under fixed-fee contracts, which factors could also adversely affect our business.

We have a history of losses and we could incur losses in the future.

During the year ended December 31, 2010, we sustained a net loss of \$771,753 and for the year ended December 31, 2009 we reported net income of \$31,956 and we cannot be sure that we will operate profitably in the future. During the fiscal year ended December 31, 2008, we reported a net loss in the approximate amount of \$10.5 million. If we do not become profitable on an ongoing basis, we could have difficulty obtaining funds to continue our operations. Except for the year ended December 31, 2009, we have incurred net losses each year since our merger with LCS Group, Inc.

We have a significant amount of debt, which, in the event of a default, could have material adverse consequences upon us.

Our total debt as of December 31, 2010 was approximately \$6.9 million. The degree to which we are leveraged could have important consequences to us, including the following:

- A portion of our cash flow must be used to pay interest on our indebtedness, and therefore is not available for use in our business;
 - Our indebtedness increases our vulnerability to changes in general economic and industry conditions;
- Our ability to obtain additional financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired;
- Our failure to comply with restrictions contained in the terms of our borrowings could lead to a default which could cause all or a significant portion of our debt to become immediately payable; and
- If we default, the loans will become due and we may not have the funds to repay the loans, and we could discontinue our business and investors could lose all their money.

In addition, certain terms of such loans require the prior consent of Access Capital Inc. on many corporate actions including, but not limited to, mergers and acquisitions—which is part of our ongoing business strategy.

Our failure to maintain adequate working capital triggered an event of default under our line of credit with Access Capital.

As of April 2008 and since that point in time, we failed to maintain \$400,000 of working capital that is required by the Loan and Security Agreement with Access Capital, which constitutes an event of default. In connection with the default, the Company and Access entered into a Limited Waiver Agreement whereby Access Capital waived the default, on the condition that (i) all debts owed to Access Capital bear an interest rate of 18% per annum from May 1, 2008 until such time as we maintain working capital of at least \$400,000 and (ii) that we pay to Access a waiver fee in the amount of \$5,000. Although Access Capital waived certain rights and remedies in connection with this event of default, Access Capital may not waive these rights in the future. As of December 31, 2010, the Company remained in default with respect to the Access Capital Loan and Security Agreement. Although the Company remains in default of the Loan and Security Agreement, in January 2010 Access Capital reduced the interest rate on borrowings under the line of credit from 18% to 12% per annum.

The promissory note and related agreements delivered to Access Capital in connection with the line of credit contain several events of default which include:

- failure to pay interest, principal payments or other fees when due;
- failure to maintain a minimum of \$400,000 of working capital;
- failure to pay taxes when due unless such taxes are being contested in good faith;
- breach by us of any material covenant or term or condition of the notes or any agreements made in connection therewith;
 - default on any indebtedness to which we or our subsidiaries are a party which has a material adverse effect;
- breach by us of any material representation or warranty made in the notes or in any agreements made in connection therewith;
-

attachment is made or levy upon collateral securing the Access Capital debt which is valued at more than \$25,000 and is not timely mitigated;

- any lien created under the notes and agreements is not valid and perfected having a first priority interest;
 - assignment for the benefit of our creditors, or a receiver or trustee is appointed for us;
- bankruptcy or insolvency proceeding instituted by or against us and not dismissed within 45 days;
 - the inability to pay debts as they become due or cease business operations;
 - sale, assignment, transfer or conveyance of any assets except as permitted;
- a person or group becomes a beneficial owner of 20% on a fully diluted basis of the outstanding voting equity interest or the present directors cease to be the majority on the Board of Directors;
- indictment or threatened criminal indictment, or commencement of threatened commencement of any criminal or civil proceeding against us or any executive officer; and
- take any action which would be prohibited under the provisions of any subordination agreement or make any payment on subordinated debt that any person was not entitled to receive under the provisions of the applicable subordination agreement.

If Access Capital demands all amounts due and payable, the cash required to pay such amounts would most likely come out of working capital, which may not be sufficient to repay the amounts due. The default payment shall be the outstanding principal amount of the note, plus accrued but unpaid interest, all other fees then remaining unpaid, and all other amounts payable thereunder. In addition, since we rely on our working capital for our day to day operations, such a default on the note could materially adversely affect our business, operating results or financial condition to such extent that we are forced to restructure, file for bankruptcy, sell assets or cease operations. Further, our obligations under the notes are secured by substantially all of our assets. Failure to fulfill our obligations under the notes and related agreements could lead to loss of these assets, which would be detrimental to our operations.

As of March 17, 2011, Access Capital has not exercised any other of its default rights and the Company is in the process of negotiating the terms for extending the Loan and Security Agreement on maturity. The Company expects the interest rate to remain at 12% per annum and other terms of the new Loan and Security Agreement to be similar to the terms of the existing agreement.

Our operating results are difficult to forecast.

We may increase our general and administrative expenses in the event that we increase our business and/or acquire other businesses, while our operating expenses for sales and marketing and costs of services for technical personnel to provide and support our services also increases. Additionally, although many of our clients are large, creditworthy entities, at any given point in time, we may have significant accounts receivable balances with clients that expose us to credit risks if such clients either delay or elect not to pay or are unable to pay such obligations. If we have an unexpected shortfall in revenues in relation to our expenses, or significant bad debt experience, our business could be materially and adversely affected.

Our profitability, if any, will suffer if we are not able to retain existing clients or attract new clients. A continuation of current pricing pressures could result in permanent changes in pricing policies and delivery capabilities.

Our gross profit margin is largely a function of the rates we are able to charge for our information technology services. Accordingly, if we are not able to maintain the pricing for our services or an appropriate utilization of our

professionals without corresponding cost reductions, our margins will suffer. The rates we are able to charge for our services are affected by a number of factors, including:

- our clients' perceptions of our ability to add value through our services;

- pricing policies of our competitors;
- our ability to accurately estimate, attain and sustain engagement revenues, margins and cash flows over increasingly longer contract periods;
- the use of globally sourced, lower-cost service delivery capabilities by our competitors and our clients; and
- general economic and political conditions.

Our gross margins are also a function of our ability to control our costs and improve our efficiency. If the continuation of current pricing pressures persists it could result in permanent changes in pricing policies and delivery capabilities and we must continuously improve our management of costs.

Unexpected costs or delays could make our contracts unprofitable.

In the future, we may have many types of contracts, including time-and-materials contracts, fixed-price contracts and contracts with features of both of these contract types. Any increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could make these contracts less profitable or unprofitable, which would have an adverse effect on all of our margins and potential net income.

Our business could be adversely affected if we fail to adapt to emerging and evolving markets and economic conditions.

The markets for our services are changing rapidly and evolving and, therefore, the ultimate level of demand for our services is subject to substantial uncertainty. Most of our historic revenue was generated from providing information technology services only. During the last several years, we have focused our efforts on providing data warehousing services in particular since we believe that there is going to be an increased need in this area. Any significant decline in demand for programming, applications development, information technology or data warehousing consulting services could materially and adversely affect our business and prospects.

Our ability to achieve growth targets is dependent in part on maintaining existing clients and continually attracting and retaining new clients to replace those who have not renewed their contracts. Our ability to achieve market acceptance, including for data warehousing, will require substantial efforts and expenditures on our part to create awareness of our services.

If we should experience rapid growth, such growth could strain our managerial and operational resources, which could adversely affect our business.

Any rapid growth that we may experience would most likely place a significant strain on our managerial and operational resources. If we acquire other companies, we will be required to manage multiple relationships with various clients, strategic partners and other third parties. Further growth (organic or by acquisition) or an increase in the number of strategic relationships may increase this strain on existing managerial and operational resources, inhibiting our ability to achieve the rapid execution necessary to implement our growth strategy without incurring additional corporate expenses.

Lack of detailed written contracts could impair our ability to collect fees, protect our intellectual property and protect ourselves from liability to others.

We try to protect ourselves by entering into detailed written contracts with our clients covering the terms and contingencies of the client engagement. In some cases, however, consistent with what we believe to be industry practice, work is performed for clients on the basis of a limited statement of work or verbal agreements before a detailed written contact can be finalized. To the extent that we fail to have detailed written contracts in place, our ability to collect fees, protect our intellectual property and protect ourselves from liability from others may be impaired.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act, new SEC regulations and exchange rules (although not, as of the date of this Annual Report, applicable to us), are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act and the related regulations regarding our required assessment of our internal controls over financial reporting will require the commitment of significant financial and managerial resources. Further, our Board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified Board members and executive officers, which could harm our business. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

We face intense competition and our failure to meet this competition could adversely affect our business.

Competition for our information technology consulting services, including data warehousing, is significant and we expect that this competition will continue to intensify due to the low barriers to entry. We may not have the financial resources, technical expertise, sales and marketing or support capabilities to adequately meet this competition. We compete against numerous large companies, including, among others, multi-national and other major consulting firms. These firms have substantially greater market presence, longer operating histories, more significant client bases and greater financial, technical, facilities, marketing, capital and other resources than we have. If we are unable to compete against such competitors, our business will be adversely affected.

Our competitors may respond more quickly than us to new or emerging technologies and changes in client requirements. Our competitors may also devote greater resources than we can to the development, promotion and sales of our services. If one or more of our competitors develops and implements methodologies that result in superior productivity and price reductions without adversely affecting their profit margins, our business could suffer. Competitors may also:

- engage in more extensive research and development;
- undertake more extensive marketing campaigns;
- adopt more aggressive pricing policies; and
- make more attractive offers to our existing and potential employees and strategic partners.

In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties that could be detrimental to our business.

New competitors, including large computer hardware, software, professional services and other technology companies, may enter our markets and rapidly acquire significant market share. As a result of increased competition and vertical and horizontal integration in the industry, we could encounter significant pricing pressures. These pricing pressures could result in substantially lower average selling prices for our services. We may not be able to offset the effects of any price reductions with an increase in the number of clients, higher revenue from consulting services, cost reductions or otherwise.

In addition, professional services businesses are likely to encounter consolidation in the future, which could result in decreased pricing and other competition.

We depend on our management and qualified personnel. If we fail to retain key personnel, our business could be adversely affected.

There is intense competition for qualified personnel in the areas in which we operate. The loss of existing personnel or the failure to recruit additional qualified managerial, technical and sales personnel, as well as expenses in connection with hiring and retaining personnel, particularly in the emerging area of data warehousing and in business process consulting, could adversely affect our business. We also depend upon the performance of our executive officers and key employees in particular, Lori Cohen and Bryan Carey. Our employment agreement with Ms. Cohen has expired. Ms. Cohen's employment with us continues at an "at-will" basis. In addition, we have not obtained "key man" life insurance on the lives of Ms. Cohen or Mr. Carey.

We will need to attract, train and retain more employees for management, engineering, programming, sales and marketing, and client service and support positions. As noted above, competition for qualified employees, particularly engineers, programmers and consultants, continues to be intense. Consequently, we may not be able to attract, train and retain the personnel we need to continue to offer solutions and services to current and future clients in a cost effective manner, if at all.

If we fail to raise capital that we may need to support and increase our operations, our business could be adversely affected.

Our future capital uses and requirements will depend on several factors, including:

- the extent to which our solutions and services achieve market acceptance;
- the level of revenues from current and future solutions and services;
 - the expansion of operations;
- the costs and timing of product and service developments and sales and marketing activities;
 - the costs related to acquisitions of technology or businesses; and
 - competitive developments.

We will require additional capital in order to continue to support and increase our sales and marketing efforts, continue to expand and enhance the solutions and services we are able to offer to current and future clients and fund potential acquisitions. This capital may not be available on terms acceptable to us, if at all. In addition, we may be required to spend greater-than-anticipated funds if unforeseen difficulties arise in the course of these or other aspects of our business. As a consequence, we will be required to raise additional capital through public or private equity or debt financings, collaborative relationships, bank facilities or other arrangements. We cannot assure that such additional capital will be available on terms acceptable to us, if at all. Any additional equity financing is expected to be dilutive to our stockholders, and debt financing, if available, may involve restrictive covenants and increased interest costs. Our inability to obtain sufficient financing may require us to delay, scale back or eliminate some or all of our expansion programs or to limit the marketing of our services. This could have a material and adverse effect on our business.

We could have potential liability for intellectual property infringement, personal injury, property damage or breach of contract to our clients that could adversely affect our business.

Our services involve development and implementation of computer systems and computer software that are critical to the operations of our clients' businesses. If we fail or are unable to satisfy a client's expectations in the performance of our services, our business reputation could be harmed or we could be subject to a claim for substantial damages, regardless of our responsibility for such failure or inability. In addition, in the course of performing services, our personnel often gain access to technologies and content which include confidential or proprietary client information.

Although we have implemented policies to prevent such client information from being disclosed to unauthorized parties or used inappropriately, any such unauthorized disclosure or use could result in a claim for substantial damages. Our business could be adversely affected if one or more large claims are asserted against us that are uninsured, exceed available insurance coverage or result in changes to our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements. Although we maintain general liability

insurance coverage, including coverage for errors and omissions, there can be no assurance that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims.

One major investor controls a significant number of the outstanding shares of our common stock and will continue to have significant control of our voting securities for the foreseeable future.

As of December 31, 2010, one major investor, Matthew Szulik, controls approximately 45.9% of our common stock. Such percentages include options, warrants and convertible securities that are exercisable into common stock within sixty (60) days and is based on using the conversion feature for the number of shares to be issued with respect to the Series A convertible preferred stock. If the Company redeems the Series A convertible preferred stock in shares of Company stock, this percentage would be different as the redemption calculation would be based on the Volume Weighted Average Price of the common stock for the fifteen business days immediately prior to the redemption date. This concentration of ownership of our common stock may:

- delay or prevent a change in the control;
- impede a merger, consolidation, takeover or other transaction involving us; or

- discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

The authorization and issuance of “blank check” preferred stock could have an anti-takeover effect detrimental to the interests of our stockholders.

Our certificate of incorporation allows the Board of Directors to issue 20,000,000 shares of preferred stock with rights and preferences set by our Board without further stockholder approval. The issuance of shares of this "blank check preferred" under particular circumstances could have an anti-takeover effect. For example, in the event of a hostile takeover attempt, it may be possible for management and the Board to endeavor to impede the attempt by issuing shares of blank check preferred, thereby diluting or impairing the voting power of the other outstanding shares of common stock and increasing the potential costs to acquire control of us. Our Board of Directors has the right to issue blank check preferred without first offering them to holders of our common stock, as the holders of our common stock have no preemptive rights. To date, the Company has issued 19,000 shares of Series A Convertible Preferred Stock to investors represented by TAG Virgin Islands, Inc. and 20,000 shares of Series B Convertible Preferred Stock to an individual investor.

The Company is in default with respect to redemption of its Series A Convertible Preferred Stock

The Company issued 19,000 shares of Series A Convertible Preferred Stock (“Series A Preferred”) to investors represented by TAG Virgin Islands, Inc. on February 2, 2006 which was to be redeemed on February 1, 2011 in either cash or in shares of the Company’s Common Stock, at the Company’s option. On the redemption date, the Company was unable to redeem the Series A Preferred for cash and did not have sufficient authorized but unissued shares available to redeem the Series A Preferred in Common Stock.

The Company expects to, at its next annual meeting of shareholders, propose to the Company’s stockholders an amendment to the Company’s Certificate of Incorporation to increase the number of authorized shares of Common Stock in an amount as to allow the Company to pay the redemption price in shares of Common Stock. If and when such a proposal is approved by the Company’s shareholders, the Company expects to redeem the Series A Preferred with shares of Common Stock.

Until the Company pays the redemption price of the Series A Preferred, holders of the Series A Preferred will continue to receive dividends in the amount of 5% per annum as set forth in the Certificate of Designations.

Our services or solutions may infringe upon the intellectual property rights of others.

We cannot be sure that our services and solutions, or the solutions of others that we offer to our clients, do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us or against our clients. These claims may harm our reputation, cost us money and prevent us from offering some services or solutions. In some instances, the amount of these expenses may be greater than the revenues we receive from the client. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly, injure our reputation or require us to enter into royalty or licensing arrangements. We may not be able to enter into these royalty or licensing arrangements on acceptable terms. To the best of our knowledge, we have never infringed upon the intellectual property rights of another individual or entity.

We could be subject to systems failures that could adversely affect our business.

Our business depends on the efficient and uninterrupted operation of our computer and communications hardware systems and infrastructure. We currently maintain our computer systems in our facilities at our offices in New Jersey and elsewhere. We do not have complete redundancy in our systems and therefore any damage or destruction to our

systems would significantly harm our business. Although we have taken precautions against systems failure, interruptions could result from natural disasters as well as power losses, telecommunications failures and similar events. Our systems are also subject to human error, security breaches, computer viruses, break-ins, "denial of service" attacks, sabotage, intentional acts of vandalism and tampering designed to disrupt our computer systems. We also lease telecommunications lines from local and regional carriers, whose service may be interrupted. Any damage or failure that interrupts or delays network operations could materially and adversely affect our business.

Our business could be adversely affected if we fail to adequately address security issues.

We have taken measures to protect the integrity of our technology infrastructure and the privacy of confidential information. Nonetheless, our technology infrastructure is potentially vulnerable to physical or electronic break-ins, viruses or similar problems. If a person or entity circumvents our security measures, it could jeopardize the security of confidential information stored on our systems, misappropriate proprietary information or cause interruptions in our operations. We may be required to make substantial additional investments and efforts to protect against or remedy security breaches. Security breaches that result in access to confidential information could damage our reputation and expose us to a risk of loss or liability.

Risks Relating To Acquisitions

We face intense competition for acquisition candidates, and we have limited cash available for such acquisitions.

There is a high degree of competition among companies seeking to acquire interests in information technology service companies such as those we may target for acquisition. We plan to be an active participant in the business of seeking business relationships with, and acquisitions of interests in, such companies. A large number of established and well-financed entities, including venture capital firms, are active in acquiring interests in companies that we may find to be desirable acquisition candidates. Many of these investment-oriented entities have significantly greater financial resources, technical expertise and managerial capabilities than we do. Consequently, we may be at a competitive disadvantage in negotiating and executing possible investments in these entities as many competitors generally have easier access to capital, on which entrepreneur-founders of privately-held information technology service companies generally place greater emphasis than obtaining the management skills and networking services that we can provide. Even if we are able to compete with these venture capital entities, this competition may affect the terms and conditions of potential acquisitions and, as a result, we may pay more than expected for targeted acquisitions. If we cannot acquire interests in attractive companies on reasonable terms, our strategy to build our business through acquisitions may be inhibited.

We will encounter difficulties in identifying suitable acquisition candidates and integrating new acquisitions.

An element of our future business strategy is to grow through acquisitions. If we identify suitable candidates, we may not be able to make investments or acquisitions on commercially acceptable terms. Acquisitions may cause a disruption in our ongoing business, distract management, require other resources and make it difficult to maintain our standards, controls and procedures. We may not be able to retain key employees of the acquired companies or maintain good relations with their clients or suppliers. We may be required to incur additional debt and to issue equity securities, which may be dilutive to existing stockholders, to effect and/or fund acquisitions.

We cannot assure you that any acquisitions we make will enhance our business.

We cannot assure you that any completed acquisition will enhance our business. Since we anticipate that acquisitions could be made with both cash and our common stock, if we consummate one or more significant acquisitions, the potential impacts are:

- a substantial portion of our available cash could be used to consummate the acquisitions and/or we could incur or assume significant amounts of indebtedness;
- losses resulting from the on-going operations of these acquisitions could adversely affect our cash flow; and
 - our stockholders could suffer significant dilution of their interest in our common stock.

Also, we are required to account for acquisitions under the purchase method, which would likely result in our recording significant amounts of goodwill. The inability of a subsidiary to sustain profitability may result in an impairment loss in the value of long-lived assets, principally goodwill and other tangible and intangible assets, which would adversely affect our financial statements. Additionally, we could choose to divest any acquisition that is not profitable.

Director and officer liability is limited.

As permitted by Delaware law, our certificate of incorporation limits the liability of our directors for monetary damages for breach of a director's fiduciary duty except for liability in certain instances. As a result of our charter provision and Delaware law, stockholders may have limited rights to recover against directors for breach of fiduciary duty. In addition, our certificate of incorporation provides that we shall indemnify our directors and officers to the fullest extent permitted by law.

Risks Relating To Our Common Stock

Penny stock regulations may impose certain restrictions on marketability of our common stock.

The SEC has adopted regulations which generally define a "penny stock" to be any equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. As a result, our common stock is subject to rules that impose additional requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with net worth in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase.

Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document relating to the penny stock market. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market.

Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the “penny stock” rules may restrict the ability of broker-dealers to sell our common stock and may affect the ability of investors to sell our common stock in the secondary market and the price at which such purchasers can sell any such securities.

Stockholders should be aware that, according to the Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- "Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
 - Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

We do not intend to pay dividends on shares of our common stock in the foreseeable future.

We have never paid cash dividends on our common stock. Our current Board of Directors does not anticipate that we will pay cash dividends in the foreseeable future. Instead, we intend to retain future earnings for reinvestment in our business and/or to fund future acquisitions. In addition, our Loan and Security Agreement with Access Capital requires that we obtain their consent prior to paying any dividends on our common stock.

The limited prior public market and trading market may cause possible volatility in our stock price.

There has only been a limited public market for our securities and there can be no assurance that an active trading market in our securities will be maintained. In addition, the overall market for securities has experienced extreme price and volume downturns that have particularly affected the market prices of many smaller companies. The trading price of our common stock is expected to be subject to significant fluctuations including, but not limited to, the following:

- quarterly variations in operating results and achievement of key business metrics;
- changes in earnings estimates by securities analysts, if any;
- any differences between reported results and securities analysts' published or unpublished expectations;
- announcements of new contracts or service offerings by us or our competitors;
- market reaction to any acquisitions, divestitures, joint ventures or strategic investments announced by us or our competitors;
- demand for our services and products;

- shares being sold pursuant to Rule 144 or upon exercise of warrants; and

- general economic or stock market conditions unrelated to our operating performance.

These fluctuations, as well as general economic and market conditions, may have a material or adverse effect on the market price of our common stock.

Additional shares of our common stock and preferred stock may adversely affect the market.

We are authorized to issue 300,000,000 shares of our common stock. As of March 18, 2011, there were 129,345,353 shares of common stock issued and outstanding. However, the total number of shares of our common stock issued and outstanding does not include shares reserved in anticipation of the conversion of notes or the exercise of options or warrants. As of March 18, 2011, we had 16,666,667 shares of common stock underlying convertible notes. As of March 18, 2011, we had outstanding stock options and warrants to purchase approximately 76,556,081 shares of our common stock, the exercise prices of which range between \$0.001 and \$5.25 per share, and we will have reserved shares of our common stock for issuance in connection with the potential exercise thereof. Of the reserved shares, a total of 10,000,000 shares are currently reserved for issuance in connection with our 2003 Incentive Plan. To the extent such options or warrants are exercised, the holders of our common stock will experience further dilution. In addition, in the event that any future financing should be convertible into or exchangeable for, equity securities, and upon the exercise of options and warrants, investors may experience additional dilution.

The exercise of the outstanding convertible securities will reduce the percentage of common stock held by our stockholders. Further, the terms on which we could obtain additional capital during the life of the convertible securities and warrants may be adversely affected, and it should be expected that the holders of the convertible securities and warrants would exercise them at a time when we would be able to obtain equity capital on terms more favorable than those provided for by such convertible securities. As a result, any issuance of additional shares of common stock may cause our current stockholders to suffer significant dilution which may adversely affect the market.

In addition to the above-referenced shares of common stock which may be issued without stockholder approval, we have 20,000,000 shares of authorized preferred stock, the terms of which may be fixed by our Board of Directors. To date, we have issued 19,000 shares of Series A Convertible Preferred Stock to shareholders represented by TAG Virgin Islands, Inc. (convertible into 3,800,000 shares of common stock) and 20,000 shares of Series B Convertible Preferred Stock (convertible into up to 4,000,000 shares of common stock based upon the lowest contractual conversion price) to an individual investor. We are required to redeem all the outstanding shares of our Series A Preferred Stock with cash or shares of our common stock. We are currently in default with respect to the redemption of all the outstanding shares of our Series A Preferred Stock. We did not have sufficient cash available in order to redeem the Series A Preferred Stock in cash and we also did not have sufficient authorized but unissued shares of our common stock available. In order to redeem the Series A Preferred Stock with shares of our common stock, we would need to issue approximately 145,170,038 shares of common stock, which would require an amendment to our certificate of incorporation to increase the number of authorized shares of common stock.

We presently have no plans to issue any more additional shares of preferred stock. However, our Board of Directors has the authority, without stockholder approval, to create and issue one or more series of such preferred stock and to determine the voting, dividend and other rights of holders of such preferred stock. The issuance of any of such series of preferred stock may have an adverse effect on the holders of common stock.

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities

Act of 1933, as amended, which we refer to herein as the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, after satisfying a six month holding period: (i) affiliated stockholder (or stockholders whose shares are aggregated) may, under certain circumstances, sell within any three month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume of the class during the four calendar weeks prior to such sale and (ii) non-affiliated stockholders may sell without such limitations, provided we are current in our public reporting obligations. Rule 144 also permits the sale of securities by non-affiliates that have satisfied a one year holding period without any limitation or restriction. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's corporate headquarters are located at 100 Eagle Rock Avenue, East Hanover, New Jersey 07936, where it operates under an amended lease agreement expiring December 31, 2015. In addition to minimum rentals, the Company is liable for its proportionate share of real estate taxes and operating expenses, as defined. The CSI DeLeeuw division has an office at Suite 1460, Charlotte Plaza, 201 South College Street, Charlotte, North Carolina 28244. CSI DeLeeuw leases this space which has a stated expiration date of December 31, 2010. This lease was not renewed upon expiration. CSI DeLeeuw obtained office space at 1460 North Tryon Street, Charlotte, NC 28244 with a one year lease expiring December 31, 2011. Effective December 31, 2009, CSI's subsidiary, Deleew Associates, Inc. merged with and into CSI Sub Corp. (DE), a wholly owned subsidiary of the Company. The Deleew Associates, Inc. business is currently operated by CSI Sub Corp (DE) and is doing business as CSI DeLeeuw.

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2010, the Company has a claim pending in the Superior Court of New Jersey Law Division-Civil Part, Morris County, in which the Company sued National Digital Medical Archive, Inc. (hereinafter "Defendant" or "NDMA"), for services rendered to NDMA by the Company in 2009. This case arises out of NDMA's failure to pay the Company approximately \$0.4 million pursuant to a Professional Services Agreement, dated August 13, 2008, between CSI and NDMA (hereinafter the "Agreement"), and the Agreement's two accompanying Statements of Work, dated June 12, 2008 and August 29, 2008, that were time and materials based projects (hereinafter collectively with the Agreement referred to as the "SOWs"). NDMA interposed an answer and asserted multiple affirmative defenses and counterclaimed against the Company for approximately \$4.5 million based on the Company's alleged non-performance under the SOWs and for approximately \$3.8 million for unjust enrichment which is pled in the alternative. Discovery has just started in this case. A mediation is scheduled for late March 2011. A trial in this action will not occur until the fall of 2011. The Company believes it has meritorious claims for non-payment pending against NDMA and the Company will also vigorously defend against NDMA's counterclaims.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information. The following chart sets forth the closing high and low sales prices of our common stock for each quarter from January 1, 2009 through December 31, 2010. All information reflects high and low bid prices on the over-the-counter market.

| | High | Low |
|-------------------------|---------|------|
| 2010 by Quarter | | |
| January 1 - March 31 | \$ 0.07 | 0.03 |
| April 1 - June 30 | \$ 0.07 | 0.02 |
| July 1 - September 30 | \$ 0.04 | 0.01 |
| October 1 - December 31 | \$ 0.03 | 0.01 |
| 2009 by Quarter | | |
| January 1 - March 31 | \$ 0.06 | 0.01 |
| April 1 - June 30 | \$ 0.07 | 0.03 |
| July 1 - September 30 | \$ 0.06 | 0.03 |
| October 1 - December 31 | \$ 0.06 | 0.02 |

On March 17, 2011, the closing price for shares of our common stock, as reported on the over-the-counter market was \$0.01.

No prediction can be made as to the effect, if any, that future sales of shares of our common stock or the availability of our common stock for future sale will have on the market price of our common stock prevailing from time-to-time. The additional registration of our common stock and the sale of substantial amounts of our common stock in the public market could adversely affect the prevailing market price of our common stock.

(b) Record Holders. As of March 17, 2011, there were 504 registered holders of our common stock.

(c) Dividends. We have not paid dividends on our common stock in the past and do not anticipate doing so in the foreseeable future. We currently intend to retain future earnings, if any, to fund the development and growth of our business. In addition, the Loan and Security Agreement with Access Capital requires that we obtain their consent prior to paying any dividends.

(d) Sales of Unregistered Securities

During the period covered by this report we did not issue any other securities that were not registered under the Securities Act of 1933, as amended, except previously disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K.

ITEM 6. SELECTED FINANCIAL DATA

We are a “smaller reporting company” as defined by Regulation S-K and as such, are not providing the information contained in this item pursuant to Regulation S-K.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview of our Business

Management's Discussion and Analysis 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 "Risk Factors" and elsewhere in this report. The Company undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations.

Conversion Services International, Inc. provides professional services to the Global 2000, as well as mid-market clientele relating to strategic consulting, data warehousing, business intelligence and data management and, through strategic partners, the sale of software. The Company's services based clients are primarily in the financial services, pharmaceutical, healthcare and telecommunications industries, although it has clients in other industries as well. The Company's clients are primarily located in the northeastern United States.

The Company began operations in 1990. Its services were originally focused on e-business solutions and data warehousing. In the late 1990s, the Company strategically repositioned itself to capitalize on its data warehousing expertise in the fast growing business intelligence/data warehousing space. The Company became a public company via its merger with a wholly owned subsidiary of LCS Group, Inc., effective January 30, 2004.

The Company's core strategy includes capitalizing on the already established in-house business intelligence/data warehousing ("BI/DW") technical expertise and its strategic consulting division. It is anticipated that this will result in organic growth through the addition of new customers. In addition, this foundation could be leveraged as the Company may pursue targeted strategic acquisitions.

The Company derives a majority of its revenue from professional services engagements. Its revenue depends on the Company's ability to generate new business, in addition to preserving present client engagements. The general domestic economic conditions in the industries the Company serves, the pace of technological change, and the business requirements and practices of its clients and potential clients directly affects its ability to accomplish these goals. When economic conditions decline, companies generally decrease their technology budgets and reduce the amount of spending on the type of information technology (IT) consulting provided by the Company. The Company's revenue is also impacted by the rate per hour it is able to charge for its services and by the size and chargeability, or utilization rate, of its professional workforce. If the Company is unable to maintain its billing rates or sustain appropriate utilization rates for its professionals, its overall profitability may decline. Several large clients have changed their business practices with respect to consulting services. Such clients now require that we contract with their vendor management organizations in order to continue to perform services. These organizations charge fees generally based upon the hourly rates being charged to the end client. Our revenues and gross margins are being negatively affected by this practice.

The Company will continue to focus on a variety of growth initiatives in order to improve its market share and increase revenue. Moreover, as the Company endeavors to achieve top line growth, through entry on new approved vendor lists, penetrating new vertical markets, and expanding its time and material business, the Company will concentrate its efforts on reducing costs, improving margins and driving earnings to the bottom line.

In addition to the conditions described above for growing the Company's current business, the Company may continue to grow through acquisitions. One of the Company's objectives is to make acquisitions of companies offering services complementary to the Company's lines of business. This is expected to accelerate the Company's business plan at lower costs than it would generate internally and also improve its competitive positioning and expand the Company's

offerings in a larger geographic area. The service industry is very fragmented, with a handful of large international firms having data warehousing and/or business intelligence divisions, and hundreds of regional boutiques throughout the United States. These smaller firms do not have the financial wherewithal to scale their businesses or compete with the larger players.

The Company's most significant costs are personnel expenses, which consist of consultant fees, benefits and payroll-related expenses.

Years Ended December 31, 2010 and 2009

The Company's revenues are primarily comprised of billing to clients for consulting hours worked on client projects. Revenues of \$17.7 million for the year ended December 31, 2010 decreased by \$6.5 million, or 26.8%, compared to revenues of \$24.2 million for the year ended December 31, 2009.

Revenues for the Company are categorized by strategic consulting, business intelligence and data warehousing, data management, reimbursable expenses and other. The chart below reflects revenue by line of business for the years ended December 31, 2010 and 2009.

| | For the year ended December 31, | | | | | |
|--|---------------------------------|---------------------|---|--------------|---------------------|---|
| | 2010 | | | 2009 | | |
| | \$ | % of total revenues | | \$ | % of total revenues | |
| Strategic consulting | \$4,512,868 | 25.5 | % | \$9,143,320 | 37.8 | % |
| Business intelligence and data warehousing | 10,736,770 | 60.6 | % | 11,576,737 | 47.8 | % |
| Data management | 1,662,595 | 9.4 | % | 2,095,983 | 8.7 | % |
| Reimbursable expenses | 586,560 | 3.3 | % | 1,184,738 | 4.9 | % |
| Other | 218,609 | 1.2 | % | 193,425 | 0.8 | % |
| | \$17,717,402 | 100.0 | % | \$24,194,203 | 100.0 | % |

Strategic Consulting

The strategic consulting line of business includes work related to planning and assessing both process and technology for clients, performing gap analysis, making recommendations regarding technology and business process improvements to assist clients to realize their business goals and maximize their investments in both people and technology. The Company performs strategic consulting work through its CSI DeLeeuw division.

Strategic consulting revenues of \$4.5 million, or 25.5% of total revenues, for the year ended December 31, 2010, decreased by \$4.6 million, or 12.3% points of total revenue, as compared to revenues of \$9.1 million, or 37.8% of total revenues, for the comparable prior year period. The \$4.6 million decrease is primarily due to a project with PNC Bank that started in April 2009 as a bank integration project and, toward the end of 2009 was expanded to also include a business intelligence project. The integration project was substantially completed in June 2010 and the business intelligence project continued to approximately February 2011. The Company's strategic consulting revenues declined by \$4.7 million due to the completion of the integration project. Additionally, other completed projects accounted for 2010 revenue reductions of \$0.9 million. Partially offsetting these reductions were increases of \$0.8 million relating to increased Bank of America revenue in 2010 and \$0.2 million of other new 2010 revenue. The strategic consulting division reduced average headcount by 41.7%, reduced average hours billed by 37.7%, and decreased its average bill rate by 22.5% as compared to the prior year.

While the Company expects work with PNC to continue in 2011, it is expected that the volume of work will be substantially lower than in the prior year.

Business Intelligence and Data Warehousing

The business intelligence line of business includes work performed with various applications and technologies for gathering, storing, analyzing and providing clients with access to data in order to allow enterprise users to make better and faster business decisions. This type of work is primarily invoiced to clients on a time and materials basis.

The data warehousing line of business includes work performed for client companies to provide a consolidated view of high quality enterprise information. CSI provides services in the data warehouse and data mart design, development and implementation, proof of concept preparation, implementation of data warehouse solutions and integration of enterprise information.

Business intelligence and data warehousing ("BI/DW") revenues of \$10.7 million, or 60.6% of total revenues, for the year ended December 31, 2010, decreased by \$0.9 million, but increased by 12.8% points of total revenues, as compared to BI/DW revenues of \$11.6 million, or 47.8% of total revenues, for the comparable prior year period. The decrease in BI/DW revenues for the year ended December 31, 2010 is primarily due to projects that completed in 2009

totaling \$3.7 million, partially offset by \$1.1 million of new 2010 projects and a \$1.7 million increase in ongoing projects that started in 2009 and continued in 2010. Overall, the Company experienced a 2.3% decrease in billable hours, a 12.6% decrease in average headcount, a 12.3% decrease in average bill rate, partially offset by an 8.8% increase in utilization in this line of business during 2010 as compared to the prior year.

Data Management

The data management line of business includes such activities as Enterprise Information Architecture, Metadata Management, Data Quality/Cleansing/Profiling. The Company performs these activities through its exclusive subcontractor agreement with its related party, Leading Edge Communications (“LEC”).

Data management revenues of \$1.7 million, or 9.4% of total revenues, for the year ended December 31, 2010, decreased by \$0.4 million, or 0.7% points, as compared to data management revenues of \$2.1 million, or 8.7% of total revenues, for the comparable prior year period. This decrease in current year revenue is primarily due to a 9.8% reduction in the number of billable hours in 2010 as compared to the prior year, a 12.2% reduction in the average hourly bill rate, and a 3.8% decrease in the utilization rate as compared to the prior year. The number of consultants working in the data management line of business decreased by 12.5% in the current year as compared to the prior year.

Cost of revenue

Cost of revenue includes payroll and benefit and other direct costs for the Company's consultants. Cost of revenue was \$12.7 million or 71.9% of total revenues for the year ended December 31, 2010, decreasing by \$4.7 million, but increased as a percent of total revenue by 0.2% points as compared to cost of revenue of \$17.4 million, or 71.7% of total revenues, for the comparable prior year period.

Services

Cost of services was \$10.6 million, or 69.7% of services revenue, for the year ended December 31, 2010, which decreased by \$3.6 million, but increased by 1.0% points, as compared to cost of services of \$14.2 million, or 68.7% of services revenue, for the year ended December 31, 2009. This decrease in cost of services is primarily due to a 26.4% decrease in services revenue, which accounts for a \$3.8 million decrease in cost of services, partially offset by a \$0.2 million increase in payroll and payroll related expenses which are largely the result of increased costs related to consultants which were not billing during the current period as compared to the prior year. The average number of consultants on billing decreased 23.5% in the current year as compared to the prior year. The Company's average billable consultant headcount in this services category was 75 and 98 for the years ended December 31, 2010 and 2009, respectively.

Related Party Services

Cost of related party services was \$1.5 million, or 89.7% of related party services revenue, for the year ended December 31, 2010, representing a decrease of \$0.3 million and 1.5% points of related party services revenue, as compared to \$1.8 million, or 88.2%, of related party services revenue for the year ended December 31, 2009. Cost of related party services decreased by \$0.3 million in the current year primarily due to reduced revenues in the current year as compared to the prior period. Overall, the average number of billable consultants utilized by LEC was 14 in the current period as compared to 16 in the prior year.

Gross profit

Gross profit of \$5.0 million or 28.1% of total revenue for the year ended December 31, 2010, decreased by \$1.9 million, or 0.2% points as compared to gross profit of \$6.8 million or 28.3% of total revenues for the comparable prior year period.

Services

Gross profit from services was \$4.6 million, or 30.3% of services revenue, for the year ended December 31, 2010, decreasing by \$1.9 million, or 1.0% points, as compared to \$6.5 million, or 31.3% of services revenue, for the year ended December 31, 2009. These gross profit changes as compared to the prior year have been outlined in the revenue and cost of revenue analysis.

Related Party Services

Gross profit from related party services was \$0.2 million, or 10.3% of related party services revenue, for the year ended December 31, 2010, remaining unchanged, but decreasing by 1.5% points, as compared to gross profit from related party services of \$0.2 million, or 11.8% of related party services revenue, for the year ended December 31, 2009. These gross profit changes as compared to the prior year have been outlined in the revenue and cost of revenue analysis.

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, tradeshow, seminars and other programs. Selling and marketing expenses of \$2.4 million, or 13.4% of revenue for the year ended December 31, 2010, decreased by \$0.6 million, but increased by 0.9% points of total revenue, as compared to \$3.0 million, or 12.5% of total revenue, for the year ended December 31, 2009. The \$0.6 million decrease in selling and marketing expense is primarily due to a \$0.5 million decrease in payroll and payroll related expenses and a \$0.1 million reduction in various expenses including professional fees, travel expense, trade shows and conferences and recruiting database expenses as compared to the prior year.

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 of \$2.7 million or 15.0% of revenue for the year ended December 31, 2010, decreased by \$0.1 million, but increased by 3.6% points of total revenues, as compared to \$2.8 million, or 11.4% of total revenues for the year ended December 31, 2009. The \$0.1 million decrease in general and administrative expense is primarily due to a \$0.2 million reduction in payroll and payroll related expense, partially offset by \$0.1 million of increased expense in various categories including legal and professional fees, rent expense, directors fees, and bad debt expense.

Depreciation and amortization

Depreciation expense is recorded on the Company's property and equipment, which is generally depreciated over a period between three to seven years. Amortization of leasehold improvements was taken over the shorter of the estimated useful life of the asset or the remaining term of the lease. The Company amortizes deferred financing costs utilizing the effective interest method over the term of the related debt instrument. Acquired software is amortized on a straight-line basis over an estimated useful life of three years. Acquired contracts are amortized over a period of time that approximates the estimated life of the contracts, based upon the estimated annual cash flows obtained from those contracts, generally five to six years. Depreciation and amortization expenses were \$0.1 million for the year ended December 31, 2010, remaining unchanged as compared to \$0.1 million for the year ended December 31, 2009.

Other income (expense)

Equity in (losses) earnings from investments was (\$103,298) in 2009. During 2009, the Company performed an impairment review with respect to its investment in Leading Edge Technologies ("LEC") and, as a result, recorded an impairment charge for the recorded value of its investment in LEC. There was no equity in earnings (losses) from investments in 2010.

Interest expense, net of \$0.6 million for the year ended December 31, 2010 decreased by \$0.2 million, or 23.9%, from interest expense, net of \$0.8 million for the year ended December 31, 2009. The \$0.2 million decrease in interest expense is primarily due to a reduction of \$0.2 million due to a reduction in the interest expense to Access Capital, Inc. related to the line of credit borrowings, a reduction of \$0.1 million of reduced discount on debt and warrant accretion and amortization since the charges completed in 2009, and \$0.1 million of reduced interest related to debt instruments. These reductions were partially offset by \$0.2 million of increased expense related to accretion and dividends for the Company's Series A preferred stock.

Income Taxes

The Company evaluates the amount of deferred tax assets that are recorded against expected taxable income over its forecasting cycle which is currently two years. As a result of this evaluation, the Company has recorded a valuation allowance of \$12.8 million and \$12.5 million during the years ended December 31, 2010 and 2009, respectively. This allowance was recorded because, based on the weight of available information, it is more likely than not that all of the deferred tax asset may not be realized.

At December 31, 2010, the Company had net operating loss carryforwards for Federal and State income tax purposes of approximately \$12.4 million, which begin to expire in 2023. The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carryforwards if there has been an ownership change, as defined by the tax law. An ownership change as described in Section 382 of the Internal Revenue Code, may limit the Company's ability to utilize its net operating loss and tax credit carryforwards on a yearly basis. The Company has issued a substantial number of shares of common stock during 2007 and 2008, which may place limitations on the current net loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

Although the Company reported net income for the year ended December 31, 2009, it has incurred net losses for the years ended December 31, 2004 through 2008, and 2010, negative cash flows from operating activities for the years ended December 31, 2004 through 2008, and had an accumulated deficit of \$72.4 million at December 31, 2010. The Company has relied upon cash from its financing activities to fund its ongoing operations as it has not been able to generate sufficient cash from its operating activities in the past, and there is no assurance that it will be able to do so in

the future. Due to this history of losses and operating cash consumption, we cannot predict if we will become profitable or if the Company's business will improve. These factors raise substantial doubt as to our ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

As of December 31, 2010, the Company had a cash balance of approximately \$0.3 million, compared to \$0.1 million at December 31, 2009, and a working capital deficiency of \$2.8 million.

The liquidity issues that have resulted from the Company's history of losses have been addressed in the past through the sale of Company common stock, preferred stock and by entering into various debt instruments.

The Company executed a three-year revolving line of credit agreement in March 2008 with Access Capital, Inc. ("Access Capital" or "Access") which matures on March 30, 2011. As of December 31, 2010, the Company was in default of the Loan and Security Agreement. As a result of the default, Access had increased the interest rate payable on borrowings under the line of credit to 18% per annum during 2009 but then reduced the interest rate to 12% per annum effective January 1, 2010, has notified the Company's clients of their security interest in the amounts due to the Company, and has provided instruction that payments are to be made directly to Access Capital. Refer to footnote 5 of the Notes to Consolidated Financial Statements for further discussion on the Line of Credit.

On June 7, 2004, the Company issued a five-year \$2,000,000 Unsecured Convertible Line of Credit Note. \$950,000 of the original principal balance has previously been converted to Company common stock. This note was replaced in December 2008 with a note reflecting the \$1,050,000 balance outstanding at that time. The maturity date remained June 6, 2009. \$550,000 was repaid in cash during fiscal 2009. The maturity on the remaining \$500,000 balance which is outstanding at December 31, 2009, has been extended to April 30, 2012. The December 2008 note was replaced in March 2010. A \$500,000 Unsecured Convertible Note was issued in March 2010 which bears interest at 7% and matures on April 30, 2012.

In February 2006, the Company issued Series A Preferred Stock, in the amount of \$1,900,000, which matures on February 6, 2011. The Company does not currently have the funds, or sufficient authorized but unissued shares to repay this debt upon maturity. Refer to footnote 9 of the Notes to Consolidated Financial Statements for further discussion on the Preferred Stock issuance.

The Company's working capital deficit of \$2.8 million as of December 31, 2010 increased by \$2.3 million as compared to the Company's working capital deficit of \$0.5 million as of December 31, 2009. The Company's working capital position has deteriorated during the current year primarily due to the reclassification of \$1.9 million of the Company's Series A redeemable convertible preferred stock from the mezzanine section of the balance sheet to current liabilities, a \$0.8 million reduction in accounts receivable, and a \$0.3 million increase in deferred revenue. Partially offsetting these reductions in working capital are a \$0.2 million increase in cash, a \$0.1 million reduction in the line of credit balance, and a \$0.4 million reduction in accounts payable and accrued expenses.

Cash provided by operating activities during the year ended December 31, 2010 was \$0.3 million, a decrease of \$0.3 million from the cash provided by operating activities of \$0.6 million for the year ended December 31, 2009. Cash provided by operating activities during the year ended December 31, 2010 primarily relates to a \$0.4 million "cash-based" loss from operating activities, as determined by adding the non-cash charges incurred of \$0.4 million to the reported net loss of \$0.8 million for the year ended December 31, 2010 and \$0.7 million of cash provided by changes in operating assets and liabilities. The changes in operating assets and liabilities includes a \$0.8 million decrease in accounts receivable and a \$0.3 million increase in deferred revenue, partially offset by a \$0.4 million decrease in accounts payable and accrued expenses as compared to the prior year.

Cash used in investing activities during 2010 of \$2,312 relates to the purchase of computer equipment for the Company's employees. Cash used in investing activities of \$15,466 during 2009 also relates to the purchase of computer equipment for the Company's employees.

Cash used in financing activities was \$0.1 million during the year ended December 31, 2010. During 2010, \$0.1 million of advances from the Company's line of credit were repaid. During 2009, \$1.0 million of short-term debt was repaid. Partially offsetting this use was \$0.2 million of additional advances received under the Company's revolving line of credit.

Financing transactions effectuated in 2009, and through March 30, 2011, are as follows:

TAG Virgin Islands, Inc.

In March 2008, the Company and TAG Virgin Islands, Inc. executed a Note Conversion Agreement whereby certain investors represented by TAG Virgin Islands, Inc. converted \$600,000 of debt due to them under an Unsecured Convertible Line of Credit Note dated June 7, 2004 into Company Common Stock. The Company issued 4,615,385 shares of Common Stock to the investors. The number of shares of common stock acquired was based on the \$0.13 closing price of the Company's stock on the American Stock Exchange on the date of conversion. Warrants to purchase 4,615,385 shares of Company Common Stock were provided to the investors as an inducement to convert.

The warrants are exercisable at a price of \$0.143 per share, and are exercisable for five years.

In December 2008, the Company replaced the June 2004 Unsecured Convertible Line of Credit Note with a \$1,050,000, 7% Convertible Unsecured Note. This note accrues interest at an annual rate of 7%, matured on June 6, 2009, and the conversion price of the shares of common stock issuable under the note is equal to 75% of the average bid price for the prior ten trading days (prior to the date of conversion), subject to adjustment.

During 2009, \$550,000 of the remaining \$1,050,000 balance was repaid in cash, leaving a balance outstanding at December 31, 2009 of \$500,000. The maturity date for repayment of the \$500,000 balance has been extended to April 30, 2012.

In March 2010, the Company replaced the December 2008, 7% Convertible Unsecured Note with a \$500,000, 7% Convertible Unsecured Note. This note accrues interest at an annual rate of 7%, matures on April 30, 2012, and the conversion price of the shares of common stock issuable under the note is equal to \$0.03 per share.

Access Capital, Inc.

On March 31, 2008, the Company executed a revolving line of credit agreement with Access Capital, Inc. The Access Capital line of credit provides for borrowing up to a maximum of \$3,500,000, based upon collateral availability, a 90% advance rate against eligible accounts receivable, has a three year term, and an interest rate of prime (which was 3.25% as of December 31, 2010) plus 2.75%. The Company must comply with a minimum working capital covenant which requires the Company to maintain minimum monthly working capital of \$400,000. Additionally, during the second year of the three year term the Company must maintain an average minimum monthly borrowing of \$2,250,000 which increases to \$2,500,000 in the third year. The Company must also pay an annual facility fee equal to 1% of the maximum available under the facility and a \$1,750 per month collateral management fee. As of December 31, 2009 and 2010 and as of March 30, 2011, the Company was in default of the Loan and Security Agreement. As a result of the default, Access had increased the interest rate payable on borrowings under the line of credit to 18% per annum, had notified the Company's clients of their security interest in the amounts due to the Company, and had provided instruction that payments are to be made directly to Access Capital. In January 2010, Access Capital agreed to reduce the interest rate on the revolving line of credit to 12% per annum. The interest rate remained at 12% as of March 30, 2011. As of March 17, 2011, Access Capital has not exercised any other of its default rights and the Company is in the process of negotiating the terms for extending the Loan and Security Agreement on maturity. The Company expects the interest rate to remain at 12% per annum and other terms of the new Loan and Security Agreement to be similar to the terms of the existing agreement.

As of December 31, 2010, approximately \$2.4 million was outstanding under the revolving line of credit. The interest rate on the revolving line was 12.0% as of December 31, 2010. The remaining availability under the line of credit as of December 31, 2010 was \$0.1 million.

There are currently no material commitments for capital expenditures.

As of December 31, 2010 and 2009, the Company had accounts receivable due from LEC of approximately \$0.2 million and \$0.2 million, respectively. There are no known collections problems with LEC.

For the years ended December 31, 2010 and 2009, we invoiced LEC \$1.7 million and \$2.1 million, respectively, for the services of consultants subcontracted to LEC by us. The majority of LEC's billing is derived from Fortune 100 clients. The collection process is slow, as these clients require separate approval on their own internal systems, which extends the payment cycle.

As of December 31, 2010, Mr. Peipert's outstanding loan balance to the Company was approximately \$0.1 million. The unsecured loan by Mr. Peipert, the Company's former Executive Vice President, Chief Operating Officer, and Director, accrues interest at a simple rate of 8% per annum, and the loan matured on April 30, 2007.

The following is a summary of the debt instruments outstanding as of March 17, 2011:

| Lender | Type of facility | Outstanding as of March 17, 2011 (not including interest) (all numbers approximate) | Remaining Availability (if applicable) |
|----------------------|------------------|---|--|
| Access Capital, Inc. | Line of Credit | \$ 1,648,725 | \$ 74,323 |

| | | | | | |
|------------------------------------|--|----|-----------|----|--------|
| TAG Virgin Islands, Inc. investors | Long-term debt | \$ | 500,000 | \$ | 0 |
| TAG Virgin Islands, Inc. investors | Series A and B Convertible Preferred Stock | \$ | 3,900,000 | \$ | 0 |
| Glenn Peipert | Note payable | \$ | 100,698 | \$ | 0 |
| TOTAL | | \$ | 6,149,423 | \$ | 74,323 |

The Company needs additional capital in order to survive. Additional capital will be needed to fund current working capital requirements, ongoing debt service and to repay the obligations that are maturing over the upcoming 12 month period. Our primary sources of liquidity are cash flows from operations, borrowings under our revolving credit facility, and various short and long term financings. We plan to continue to strive to increase revenues and to control operating expenses in order to reduce, or eliminate, the operating losses. Additionally, we will continue to seek equity and/or debt financing in order to enable us to continue to meet our financial obligations until we achieve profitability. There can be no assurance that any such funding will be available to us on favorable terms, or at all. Failure to obtain sufficient financing would have substantial negative ramifications to the Company.

Off-balance sheet arrangements

The Company does not have any transactions, agreements or other contractual arrangements that constitute off-balance sheet arrangements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Revenue recognition

Our revenue recognition policy is significant because revenues are a key component of our results from operations. In addition, revenue recognition determines the timing of certain expenses, such as incentive compensation. We follow very specific and detailed guidelines in measuring revenue; however, certain judgments and estimates affect the application of the revenue policy. Revenue results are difficult to predict and any shortfall in revenues or delay in recognizing revenues could cause operating results to vary significantly from quarter to quarter and could result in future operating losses or reduced net income.

Services

Revenues are principally derived from consulting and professional services and are recognized as earned when the services are rendered, evidence of an arrangement exists, the fee is fixed or determinable and collection is probable. 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 costs in excess of billings. 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.

Stock-based Compensation

Accounting for stock-based compensation primarily relates to the accounting for transactions in which an entity obtains employee services in share-based payment transactions. The standards require a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Deferred Income Taxes

Determining the consolidated provision for income tax expense, income tax liabilities and deferred tax assets and liabilities involves judgment. We record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. We have considered future taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance. A valuation allowance is maintained by the Company due to the impact of the current years net operating loss (NOL). In the event that we determine that we would not be able to realize all or part of our net deferred tax assets, an adjustment to the deferred tax assets would be charged to net income in the period such determination is made. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, then the previously provided valuation allowance would be reversed. Our current valuation allowance relates predominately to benefits derived from the utilization of our NOL's.

New Accounting Standards

Effective January 1, 2010, the Company adopted FASB Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820): Improving Disclosures about Fair Value Measurements. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than net basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements (“ASC Subtopic 605-25”). This statement is an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminates the use of the residual method for allocating arrangement consideration and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of ASC Subtopic 605-25 on its financial statements; however, management does not believe that it will have a material impact on the Company's consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a “smaller reporting company” as defined by Regulation S-K and as such, are not providing the information contained in this item pursuant to Regulation S-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to pages 48 through 62 comprising a portion of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of controls and procedures

As of the end of the period covered by this Annual Report, the Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer (“the Certifying Officers”), conducted evaluations of the Company’s disclosure controls and procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the term “disclosure controls and procedures” means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including the Certifying Officers, to allow timely decisions regarding required disclosures. Based on this evaluation, the Certifying Officers have concluded that the Company’s disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company’s disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. The Chief Executive Officer’s and Chief Financial Officer’s conclusion regarding the Company’s disclosure controls and procedures is based solely on management’s conclusion that the Company’s internal control over financial reporting continues to be ineffective.

Management’s Report on Internal Controls Over Financial Reporting

Our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Internal control over financial reporting is promulgated under the Exchange Act as a process designed by, or under the supervision of, our CEO and CFO and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition or disposition of our assets that could have a material effect on the financial statements.

Readers are cautioned that internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore, even effective internal control over financial reporting can only provide reasonable assurance with respect to the financial statement preparation and presentation.

Our management, under the supervision and with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures and internal controls over financial reporting as defined in Exchange Act Rules 13a-15(e) and (f) and 15d-15(e) and (f) as of the end of the period covered by this Report based upon the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such evaluation, our management has made an assessment that our internal control over financial reporting is not effective as of December 31, 2010.

There is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters and general controls over information technology security and user access. This constitutes a weakness in financial reporting. Furthermore, the Company’s Chief Financial Officer is the only person with an appropriate level of accounting knowledge, experience and training in the selection, application and implementation of generally accepted accounting principles as it relates to complex transactions and financial reporting requirements. Management will continue to evaluate the segregation of duties issues considering the cost involved to remediate them.

This annual report does not include an attestation report of the company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the company’s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management’s report in this annual report.

Changes in internal control over financial reporting

No significant changes were made in our internal control over financial reporting during the Company’s fourth quarter of 2010 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names and ages of our current directors and executive officers, the principal offices and positions held by each person and the date such person became a director or executive officer. Our Board of Directors elects our executive officers annually. Each year the stockholders elect the members of our Board of Directors. Lori Cohen and Scott Newman are siblings. There are no other family relationships among any directors or executive officers of the Company.

Our directors and executive officers are as follows:

| Name | Year First Elected as Director or Officer | Age | Positions Held |
|----------------|---|-----|--|
| Lori Cohen | 2009 | 53 | Chief Executive Officer and Director |
| Scott Newman | 2004 | 51 | Chief Strategy Officer and Chairman |
| William Hendry | 2006 | 50 | Vice President, Chief Financial Officer, Secretary and Treasurer |

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| | | | |
|----------------------|------|----|--|
| Bryan Carey | 2007 | 53 | Senior Vice President - Strategic Consulting and Managing Director, CSI DeLeeuw division |
| Lawrence K. Reisman* | 2004 | 52 | Director |
| Thomas Pear** | 2006 | 58 | Director |
| Brian Walton*** | 2010 | 55 | Director |

* Chair of the Audit Committee, and member of the Compensation and Stock Option Committee and the Nominating and Corporate Governance Committee.

** Chair of the Compensation and Stock Option Committee, and member of the Audit Committee and the Nominating and Corporate Governance Committee.

*** Chair of the Nominating and Corporate Governance Committee, and member of the Audit Committee and the Compensation and Stock Option Committee.

LORI COHEN, has been our Chief Executive Officer since April 2009. Prior to that, she has been Vice President of Technology at the Company for over 13 years. Ms. Cohen has been a hands-on strategist and project manager with more than 25 years of experience in Architecture, Data Migrations, Data Modeling, Design, QA and Development of a variety of Information and Data warehouse systems. In addition Ms. Cohen has significant industry expertise in financial services and pharmaceutical. Ms. Cohen provided subject matter expertise as well technical expertise to our global 2000 clients and served on the company's technical advisory committee (TAC). Her leadership skills and strengths have positioned her as the lead strategist and engagement manager on many of CSI's high-profile engagements. She has been instrumental in developing the best practices for information management development currently in use at CSI. Cohen holds a bachelor's degree in computer science from S.U.N.Y. Oswego.

SCOTT NEWMAN has been our Chief Strategy Officer since April 2009 and Chairman since January 2004. From January 2004 to April 2009, he served as our President and Chief Executive Officer. Mr. Newman founded the former Conversion Services International, Inc. in 1990 (before its merger with and into LCS Group, Inc. in 2004). He has over twenty years of experience providing technology solutions to major companies internationally. Mr. Newman has direct experience in strategic planning, analysis, design, testing and implementation of complex big-data solutions. He possesses a wide range of software and hardware architecture/discipline experience, including, client/server, data discovery, distributed systems, data warehousing, mainframe, scaleable solutions and e-business. Mr. Newman has been the architect and lead designer of several commercial software products used by Chase, Citibank, Merrill Lynch and Jaguar Cars. Mr. Newman advises and reviews data warehousing and business intelligence strategy on behalf of our Global 2000 clients, including AT&T Capital, Jaguar Cars, Cytex and Chase. Mr. Newman received his B.S. from Brooklyn College in 1980.

WILLIAM HENDRY has been our Vice President, Chief Financial Officer and Treasurer since October 2006. He was appointed Secretary of the Company in August 2007. Mr. Hendry previously served as the Company's Controller from 2004-2006. Prior to joining the Company, Mr. Hendry was controller of Scientific Games Online Entertainment Systems, a developer, installer and operator of online, instant and video lottery systems, from 2002-2004. From 2000-2002, Mr. Hendry was a consultant to Cipolla Sziklay Zak & Co. and Pharmacia. Prior to this, Mr. Hendry served as the corporate controller of AlphaNet Solutions, a publicly-held information technology professional services company, as the corporate controller of Biosource International, a publicly-held international manufacturer of technology products, and as vice president - finance of Quarterdeck, a publicly-held publisher of utility and software applications. Mr. Hendry began his career at KPMG LLP. Mr. Hendry has an M.B.A. in finance and a B.S. in accounting from Fairleigh Dickinson University, is a certified public accountant in New Jersey, and is a member of the American Institute of Certified Public Accountants, the New Jersey Society of Certified Public Accountants, and the Financial Executives Institute.

BRYAN CAREY has been our Senior Vice President - Strategic Consulting, and Managing Director of our CSI DeLeeuw division (formerly CSI's wholly owned subsidiary DeLeeuw Associates, Inc.) since February 2007. Prior to joining DeLeeuw Associates in 2000 as a senior vice president of business development, Carey spent nearly 20 years as an executive in project and change management in the banking industry, including Bank of America. Mr. Carey was promoted to executive vice president of DeLeeuw Associates in 2003, where he was responsible for major account relationships, project oversight and business development. Mr. Carey built DeLeeuw Associates's Lean and Six Sigma practice providing the leadership, consulting, training and discipline to grow the business from a start-up to a successful, thriving business. Most recently, Mr. Carey has led Lean Six Sigma roll-out initiatives at NY Independent System Operators, Bank of New York, Cendant Corporation and JPMorgan Chase. Mr. Carey has spoken at numerous Six Sigma events, as well as authored a number of articles on change and project management utilizing Lean and Six Sigma. Mr. Carey received his B.S in Philosophy from Notre Dame in 1980 and received his M.B.A. in finance from the University of South Carolina in 1983.

LAWRENCE K. REISMAN has been a Director of our company since February 2004, is Chairman of the Board's Audit Committee, and a member of the Compensation and Stock Option Committee and the Nominating and Corporate Governance Committee. Mr. Reisman is a Certified Public Accountant who has been the principal of his own firm, The Accounting Offices of L.K. Reisman, since 1986. Prior to forming his company, Mr. Reisman was a tax manager at Coopers & Lybrand and Peat Marwick Mitchell. He routinely provides accounting services to small and medium-sized companies, which services include auditing, review and compilation of financial statements, corporate, partnership and individual taxation, designing accounting systems and management consulting services. Mr. Reisman received his B.S. and M.B.A. in Finance from St. John's University in 1981 and 1985, respectively.

THOMAS PEAR has been a Director of our company since August 2006, is Chairman of the Board's Compensation and Stock Option Committee, and a member of the Audit Committee and the Nominating and Corporate Governance Committee. Presently he is a principal in Saw Mill Sports Management and a management consultant. From 1993 to 2006, Mr. Pear served as chief financial officer of The Atlantic Club, and also served as its president from 2002 to 2006. Prior to this, Mr. Pear served as vice president and general manager of DM Engineering, vice president and chief financial officer of Tennis Equities, and staff accountant at Malkin, Studley and Ramey CPA, PC. Mr. Pear received his B.S. in Accounting from Nichols College in 1974.

BRIAN WALTON retired in June 2008 after 30 years with the IBM Corporation, having served in numerous marketing product development and technical sales executive roles both in the Americas and globally. Mr. Walton has experience with complex global IT enterprises down to small businesses in both direct client-facing and business partner sales and support models. The Connecticut resident holds a bachelor's degree in mathematics from the University of Nebraska at Omaha. He was elected to the CSI Board in June 2010.

Board Leadership Structure and Role in Risk Oversight

The chairman of the board and chief executive officer positions are filled by Scott Newman and Lori Cohen, respectively. This structure allows Mr. Newman and Ms. Cohen to focus on their respective responsibilities. The board as a whole has responsibility for risk oversight, with reviews of certain areas being conducted by the relevant board committees. These committees then provide reports to the full board, which has responsibility for risk oversight.

Code of Conduct and Ethics

Our Board of Directors has adopted a Code of Conduct and Ethics which is applicable to all of our directors, officers, employees, agents and representatives, including our principal executive officer and principal financial officer, principal accounting officer or controller, or other persons performing similar functions. We have made available on our website copies of our Code of Conduct and Ethics and charters for the committees of our Board and other information that may be of interest to investors.

Director Independence

The Board has reviewed each of the directors' relationships with the Company in conjunction with Section 121(A) of the listing standards of the American Stock Exchange and has affirmatively determined that three of our directors, Lawrence K. Reisman, Thomas Pear and Brian Walton are independent of management and free of any relationship that would interfere with the independent judgment as members of the Board of Directors or any committee thereof.

Committees of the Board of Directors

The Board of Directors has established three standing committees: (1) the Audit Committee, (2) the Compensation and Stock Option Committee and (3) the Nominating and Corporate Governance Committee. Each committee operates under a charter that has been approved by the Board. Copies of the charters of the Audit Committee, the Compensation and Stock Option Committee and the Nominating and Corporate Governance Committee are posted on our website. Mr. Reisman, Mr. Pear and Mr. Walton are members of each of such committees.

Audit Committee

The Audit Committee was formed in April 2005. The Audit Committee met 4 times in fiscal year 2010. A quorum of the members of the Audit Committee was present at each meeting. The Audit Committee is responsible for matters relating to financial reporting, internal controls, risk management and compliance. These responsibilities include appointing, overseeing, evaluating and approving the fees of our independent auditors, reviewing financial information which is included in our Annual Report on Form 10-K, discussions with management and the independent auditors regarding the results of the annual audit and our quarterly financial statements, reviewing with management our system of internal controls and financial reporting process and monitoring our compliance program and system.

The Audit Committee operates pursuant to a written charter, which sets forth the functions and responsibilities of this committee. A copy of the charter can be viewed on our website. All members of this committee are independent directors under the SEC rules. The Board of Directors has determined that Lawrence K. Reisman, the committee's chairman, meets the SEC criteria of an "audit committee financial expert", as defined in Item 401(h) of Regulation S-K.

Compensation and Stock Option Committee

The Compensation Committee and the Stock Option Committee merged in March 2007. The Committee met 3 times in fiscal year 2010 and a quorum of the members of the Compensation and Stock Option Committee was present at

the meetings. The Compensation and Stock Option Committee is responsible for matters relating to the development, attraction and retention of the Company's management and for matters relating to the Company's compensation and benefit programs. As part of its responsibilities, this committee evaluates the performance and determines the compensation of the Company's Chief Executive Officer and approves the compensation of our senior officers, as well as to fix and determine awards to employees of stock options, restricted stock and other types of stock-based awards.

The Compensation and Stock Option Committee operates under a written charter that sets forth the functions and responsibilities of this committee. A copy of the charter can be viewed on our website. Pursuant to its charter, the Compensation and Stock Option Committee must be comprised of at least two (2) Directors who, in the opinion of the Board of Directors, must meet the definition of "independent director" within the rules and regulations of the SEC. The Board of Directors has determined that all members of this committee are independent directors under the SEC rules.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for providing oversight on a broad range of issues regarding our corporate governance practices and policies and the composition and operation of the Board of Directors. These responsibilities include reviewing potential candidates for membership on the Board and recommending to the Board nominees for election as directors of the Company. The Nominating and Corporate Governance Committee was formed in May 2005. The Nominating and Corporate Governance Committee met 1 time during fiscal 2010. A quorum of the members of this Committee was present at the meeting. A complete description of the Nominating and Corporate Governance Committee's responsibilities is set forth in the Nominating and Corporate Governance written charter. A copy of the charter is available to stockholders on the Company's website. All members of the Nominating and Corporate Governance Committee are independent directors as defined by the rules and regulations of the SEC. The Nominating and Corporate Governance Committee will consider director nominees recommended by stockholders. There are no minimum qualifications for consideration for nomination to be a director of the Company. The nominating committee will assess all director nominees using the same criteria. Nominations made by stockholders must be made by written notice received by the Secretary of the Company within 30 days of the date on which notice of a meeting for the election of directors is first given to stockholders. The Nominating and Corporate Governance Committee and the Board of Directors carefully consider nominees regardless of whether they are nominated by stockholders, the Nominating and Corporate Governance Committee or existing Board members.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers, directors and persons who beneficially own more than 10% of a registered class of our equity securities ("ten percent stockholders") to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and ten percent stockholders are charged by the SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of copies of Section 16(a) reports and representations received by us from reporting persons, and without conducting any independent investigation of our own, in fiscal year 2010, all Forms 3, 4 and 5 were timely filed with the SEC by such reporting persons.

ITEM 11. EXECUTIVE COMPENSATION

The following table summarizes compensation information for the last two fiscal years for (i) Ms. Lori Cohen, our Principal Executive Officer and (ii) the two most highly compensated executive officers other than the Principal Executive Officer, who were serving as executive officers at the end of the fiscal year and who we refer to collectively, the Named Executive Officers.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards(s) (\$) | Non-Equity Incentive Plan Compensation (\$) | Non- Qualified Deferred | All Other Compensation (\$) | Total (\$) |
|--------------------------------------|------|----------------|---------------|-------------------------|-----------------------------|--|-------------------------------|-----------------------------------|---------------|
| | | | | | | | Earnings | | |
| Lori Cohen | 2010 | 293,298 | 87,319 | | | | | 29,398 | 410,014 |
| Chief Executive | 2009 | 276,633 | 47,178 | | | | | 13,753 | 337,564 |

Officer

| | | | | | |
|--|------|---------|---------|--------|---------|
| Scott Newman | 2010 | 275,000 | 91,694 | 38,088 | 404,782 |
| Chief Strategy Officer | 2009 | 303,833 | 174,894 | 31,280 | 510,007 |
| Bryan Carey | 2010 | 250,000 | 117,852 | 25,052 | 392,904 |
| Senior Vice President, Managing Director CSI DeLeeuw | 2009 | 250,000 | 86,601 | 13,889 | 350,490 |

Scott Newman served as the Company's President and Chief Executive Officer prior to April 2009, and the Company's Chief Strategy Officer following April 2009.

Lori Cohen served as the Company's Vice President of Technology prior to April 2009, and the Company's Chief Executive Officer following April 2009.

(1) Amounts shown reflect payments related to medical, dental and life insurance, car payments and 401(k) contributions paid by the Company.

The following table shows outstanding equity awards at December 31, 2010:

Outstanding Equity Awards at Fiscal Year-End

| Name | Option Awards | | | | Stock Awards | | | | |
|--------------|---|---|---|----------------------------|------------------------|---|--|---|--|
| | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) |
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| Lori Cohen | 300,000 | - | - | 2.475 | 3/29/2014 | — | — | — | — |
| | 150,000 | - | - | 0.83 | 11/16/2015 | - | - | - | - |
| | 150,000 | - | - | 0.25 | 10/10/2016 | - | - | - | - |
| Scott Newman | - | - | - | - | - | — | — | — | — |
| Bryan Carey | 33,333 | - | - | 3.00 | 5/28/2014 | — | — | — | — |
| | 125,000 | - | - | 0.83 | 11/16/2015 | — | — | — | — |
| | 150,000 | - | - | 0.25 | 10/10/2016 | — | — | — | — |
| | 250,000 | - | - | 0.30 | 5/10/2017 | — | — | — | — |

The following table shows the details of compensation paid to outside directors of the Company during 2010:

Director Compensation for 2010

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---------------------|----------------------------------|-------------------|--------------------|---|--|-----------------------------|------------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
| Lawrence K. Reisman | 7,250 | 7,500 | - | - | — | - | 14,750 |

| | | | | | | | |
|--------------|-------|-------|---|---|---|---|--------|
| Thomas Pear | 7,250 | 7,500 | - | - | - | - | 14,750 |
| Brian Walton | 4,500 | 7,500 | - | - | - | - | 12,000 |

Narrative Disclosure to Summary Compensation

Lori Cohen, our President and Chief Executive Officer, received the following compensation from January through October 2010: (a) an annual salary of \$280,000; (b) bonus as determined by the Board of Directors; (c) 2% of the gross sales of any project that is managed by Ms. Cohen; (d) 7.5% of net income (subject to certain adjustments) of the Company for the period based on the Company's net income exceeding \$200,000; (e) and other benefits including health, life and disability insurance, as well as a monthly car allowance.

Effective November 1, 2010, Ms. Cohen received the following compensation: (a) an annual salary of \$340,000; (b) and other benefits including health, life and disability insurance, as well as a monthly car allowance.

Scott Newman, our Chief Strategy Officer and Chairman receives the following compensation: (a) an annual salary of \$275,000; (b) 20% of his hourly billable rate billed to clients; (c) 2% of the gross billing for clients for whom Mr. Newman serves as the Engagement Manager, excluding Mr. Newman's billable time for that client; (d) and other benefits including health, life and disability insurance, as well as a monthly car allowance.

Bryan Carey, our Senior Vice President and Managing Director of the CSI/DeLeeuw division, received the following compensation : (a) an annual salary of \$250,000; (b) an incentive equal to 5% of the operating income of the CSI/DeLeeuw division, calculated and paid monthly; (c) and other benefits including health, life and disability insurance, as well as a monthly car allowance.

Stock Ownership Requirement for Management

The Company does not have a formal policy requiring stock ownership by management. One of the key objectives of the 2003 Incentive Plan is to promote ownership of the Company's stock by management.

Compensation of Members of the Board of Directors

Directors of the Company who are not employees of the Company or its subsidiaries are entitled to receive an amount of restricted common stock equal in value to \$7,500 plus cash in the amount of \$2,500 as compensation for serving as directors. The directors also receive \$500 per Board meeting attended in person, \$250 per Board meeting attended via teleconference, \$250 per Committee meeting attended, and an annual stock option grant.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of our common stock, our only class of outstanding voting securities as of March 18, 2011, based on 129,345,353 aggregate shares of common stock outstanding as of such date, by: (i) each person who is known by us to own beneficially more than 5% of our outstanding common stock with the address of each such person, (ii) each of our present directors and officers, and (iii) all officers and directors as a group:

| Name and Address of Beneficial Owner(1)(2) | Amount of Common Stock Beneficially Owned | Percentage of Outstanding Common Stock Beneficially Owned | |
|---|---|---|---|
| Lori Cohen (3) | 1,320,452 | 1.0 | % |
| Scott Newman(4) | 19,655,413 | 15.2 | % |
| William Hendry(5) | 210,000 | * | |
| Bryan Carey (6) | 558,333 | * | |
| Lawrence K. Reisman (7) | 804,535 | * | |
| Thomas Pear (8) | 769,535 | * | |
| Brian Walton (9) | 375,000 | * | |
| Glenn Peipert | 10,200,394 | 7.9 | % |
| Matthew J. Szulik (10) | 76,263,329 | 45.9 | % |
| All directors and officers as a group (7 persons) | 23,693,268 | 18.1 | % |

* Represents less than 1% of the issued and outstanding Common Stock.

- (1) Each stockholder, director and executive officer has sole voting power and sole dispositive power with respect to all shares beneficially owned by him, unless otherwise indicated.
- (2) All addresses are c/o Conversion Services International, Inc., 100 Eagle Rock Avenue, East Hanover, New Jersey 07936.
- (3) Ms. Cohen is the Company's Chief Executive Officer and Director. Consists of an option to purchase 300,000 shares of Common Stock granted on March 29, 2004, and expiring on March 29, 2014, at an exercise price of \$2.475 per share. Consists of

an option to purchase 150,000 shares of Common Stock granted on November 16, 2005, and expiring on November 16, 2015, at an exercise price of \$0.83 per share. Consists of an option to purchase 150,000 shares of Common Stock granted on October 10, 2006, and expiring on October 10, 2016, at an exercise price of \$0.25 per share.

- (4) Mr. Newman is the Company's Chief Strategy Officer and Chairman of the Board.

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- (5) Mr. William Hendry is the Company's Vice President, Chief Financial Officer, Secretary and Treasurer. Consists of an option to purchase 30,000 shares of Common Stock granted on May 28, 2004, and expiring on May 28, 2014, at an exercise price of \$3.00 per share. Consists of an option to purchase 30,000 shares of Common Stock granted on November 16, 2005, and expiring on November 16, 2015, at an exercise price of \$0.83 per share. Consists of an option to purchase 150,000 shares of Common Stock granted on October 10, 2006, and expiring on October 10, 2016, at an exercise price of \$0.25 per share.
- (6) Mr. Carey is the Company's Senior Vice President and Managing Director, CSI DeLeeuw. Consists of an option to purchase 33,333 shares of Common Stock granted on May 28, 2004, and expiring on May 28, 2014, at an exercise price of \$3.00 per share. Consists of an option to purchase 125,000 shares of Common Stock granted on November 16, 2005, and expiring on November 16, 2015, at an exercise price of \$0.83 per share. Consists of an option to purchase 150,000 shares of Common Stock granted on October 10, 2006, and expiring on October 10, 2016, at an exercise price of \$0.25 per share. Consists of an option to purchase 250,000 shares of Common Stock granted on May 10, 2007, and expiring on May 10, 2017, at an exercise price of \$0.30 per share.
- (7) Mr. Reisman is a Director. Consists of an option to purchase 30,000 shares of Common Stock granted on May 28, 2004, and expiring on May 28, 2014, at an exercise price of \$3.00 per share. Consists of an option to purchase 20,000 shares of Common Stock granted on November 16, 2005, and expiring on November 16, 2015, at an exercise price of \$0.83 per share. Consists of an option to purchase 25,000 shares of Common Stock granted on October 10, 2006, and expiring on October 10, 2016, at an exercise price of \$0.25 per share. Includes 24,178 shares granted in October 2007, 142,857 shares granted in October 2008, 187,500 shares granted in October 2009 and 375,000 shares granted in October 2010 in connection with the annual director compensation.
- (8) Mr. Pear is a Director. Consists of an option to purchase 25,000 shares of Common Stock granted on October 10, 2006, and expiring on October 10, 2016, at an exercise price of \$0.25. Includes 24,178 shares granted in October 2007, 142,857 shares granted in October 2008, 187,500 shares granted in October 2009 and 375,000 shares granted in October 2010 in connection with the annual director compensation.
- (9) Mr. Walton is a Director. Includes 375,000 shares granted in October 2010 in connection with the annual director compensation.
- (10) The percentage of outstanding stock beneficially owned is calculated based on the conversion feature in the Series A convertible preferred stock. If the Company redeems the Series A convertible preferred stock in shares of its common stock the percentage would be different as the redemption calculation would be based on the Volume Weighted Average Price of the common stock for the fifteen business days immediately prior to the redemption date.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the last fiscal year, we have no material transactions which involved or are planned to involve a direct or indirect interest of a director, or an executive officer or any family of such parties.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth fees billed to us by our independent registered public accounting firms during the fiscal years ended December 31, 2010 and December 31, 2009 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements; (ii) services by our independent registered public accounting firms that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees; (iii) services rendered in connection with tax compliance, tax advice and tax planning; and (iv) all other fees for services rendered.

| | December 31, December 31, | |
|--------------------|---------------------------|------------|
| | 2010 | 2009 |
| Audit fees | \$ 123,990 | \$ 130,063 |
| Audit related fees | 18,850 | 7,475 |
| Tax fees | 14,306 | 31,342 |
| All other fees | - | 15,376 |
| | \$ 157,146 | \$ 184,256 |

Audit Committee Policies

The Board of Directors is solely responsible for the approval in advance of all audit and permitted non-audit services to be provided by the independent auditors (including the fees and other terms thereof), subject to the de minimus exceptions for non-audit services provided by Section 10A(i)(1)(B) of the Exchange Act, which services are subsequently approved by the Board of Directors prior to the completion of the audit. None of the fees listed above are for services rendered pursuant to such de minimus exceptions.

Part IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

2.1 Agreement and Plan of Reorganization, dated August 21, 2003, among Registrant, LCS Acquisition Corp., Conversion Services International, Inc. and certain affiliated stockholders of Conversion Services International, Inc. (filed as Appendix A on Schedule 14A on January 5, 2004).

2.2 First Amendment to Agreement and Plan of Reorganization, dated November 28, 2003, among Registrant, LCS Acquisition Corp., Conversion Services International, Inc. and certain affiliated stockholders of Conversion Services International, Inc. (filed as Appendix A on Schedule 14A on January 5, 2004).

2.3 Certificate of Merger, dated January 30, 2004, relating to the merger of LCS Acquisition Corp. and Conversion Services International, Inc. (filed as Exhibit 2.3 on Form 8-K on February 17, 2004).

2.4 Acquisition Agreement, dated February 27, 2004, among the Company, DeLeeuw Associates, Inc. and Robert C. DeLeeuw (filed as Exhibit 2.1 on Form 8-K on March 16, 2004).

2.5 Plan and Agreement of Merger and Reorganization, dated February 27, 2004, among Registrant, DeLeeuw Associates, Inc. and DeLeeuw Conversion LLC filed as Exhibit 2.1 on Form 8-K on March 16, 2004).

2.6 Asset Purchase Agreement, dated May 26, 2004, among Registrant, Evoke Asset Purchase Corp. and Evoke Software Corporation (filed as Exhibit 2.1 on Form 8-K on July 13, 2004).

2.7 Asset Purchase Agreement dated July 18, 2005 by and among Registrant, Similarity Vector Technologies (Sivtech) Limited (d/b/a Similarity Systems), Similarity Systems Inc. and Evoke Software Corporation (filed as Exhibit 2.1 on Form 8-K on September 27, 2004).

2.8 Agreement and Plan of Merger dated July 22, 2005 among Registrant, McKnight Associates, Inc., McKnight Associates, Inc. and William McKnight (filed as Exhibit 2 on Form 8-K on July 28, 2005).

2.9 Agreement and Plan of Merger dated July 28, 2005 among Registrant, ISI Merger Corp., a Delaware corporation, Integrated Strategies, Inc., a Delaware corporation, ISI Consulting, LLC, a Delaware limited liability company, Adam Hock, and Larry Hock (filed as Exhibit 2 on Form 8-K on August 2, 2005).

3.1 Certificate of Incorporation, as amended (filed as Exhibit 3.1 on Form 10-SB on December 9, 1999).

3.2 Certificate of Amendment to Certificate of incorporation, dated January 27, 2004, amending, among other things, the authorized shares of common and preferred stock (filed as Exhibit 3.1 on Form 8-K on February 17, 2004).

3.3 Certificate of Amendment to Certificate of Incorporation, dated January 30, 2004, changing the name of the Company from LCS Group, Inc. to Conversion Services International, Inc. (filed as Exhibit 3.2 on Form 8-K on February 17, 2004).

3.4 Certificate of Amendment to Certificate of Incorporation, dated September 20, 2005, effecting, among other things, the 1 for 15 reverse stock split (filed as Exhibit D on Schedule 14A on July 26, 2005).

3.5 Certificate of Amendment to Certificate of Incorporation, dated August 8, 2006, increasing the authorized shares of common stock (filed as Exhibit A on Schedule 14A on July 17, 2006).

3.6 Certificate of Designations of Preferences, Rights and Limitations of Series A Convertible Preferred Stock of Registrant dated February 2, 2006 (filed as Exhibit 4.1 on Form 8-K on February 8, 2006).

3.7 Certificate of Designations of Preferences, Rights and Limitations of Series B Convertible Preferred Stock of Registrant (filed as Exhibit 4.1 on Form 8-K on August 16, 2006).

3.8 Amended and Restated Bylaws (filed as Exhibit 3.3 on Form 8-K on February 17, 2004).

3.9 Certificate of Amendment of Certificate of Designations of Preferences, Rights and limitations of Series B Convertible Preferred Stock of Conversion Services International, Inc. (filed as Exhibit 4.1 on Form 8-K on June 28, 2007)

3.10 Amended and Restated By-Laws of Conversion Services International, Inc. (filed as Exhibit 3.1 on Form 8-K on December 27, 2007).

4.1 Common Stock Purchase Warrant dated February 2, 2006, in favor of Taurus Advisory Group, LLC (filed as Exhibit 10.3 on Form 8-K on February 8, 2006).

4.2 Common Stock Purchase Warrant, dated August 11, 2006, in favor of Matthew J. Szulik (filed as Exhibit 10.3 on Form 8-K on August 16, 2006).

4.3 Common Stock Purchase Warrant, dated August 11, 2006, in favor of Feiner Family Trust (filed as Exhibit 10.4 on Form 8-K on August 16, 2006).

4.4 Common Stock Purchase Warrant in favor of certain investors represented by Taurus Advisory Group, LLC, dated December 29, 2006 (filed as Exhibit 10.3 on Form 8-K on January 5, 2007).

4.5 Common Stock Purchase Warrant in favor of investors represented by TAG Virgin Islands, Inc., dated March 1, 2007 (filed as Exhibit 10.3 on Form 8-K on March 7, 2007).

4.6 Common Stock Warrant in favor of Laurus Master Fund, Ltd., dated March 1, 2007 (filed as Exhibit 10.6 on Form 8-K on March 7, 2007).

4.7 10% Convertible Unsecured Note issued to investor represented by TAG Virgin Islands, Inc., dated March 1, 2007 (filed as Exhibit 10.1 on Form 8-K on March 7, 2007).

4.8 Form of Common Stock Purchase Warrant (filed as Exhibit 10.2 on Form 8-K on May 3, 2007)

4.9 10% Convertible Unsecured Note issued to the Investor, dated June 6, 2007 (filed as Exhibit 10.1 on Form 10-Q filed on August 8, 2007).

4.10 Common Stock Purchase Warrant issued to the Investor, dated June 6, 2007 (filed as Exhibit 10.2 on Form 10-Q filed on August 8, 2007).

4.11 10% Convertible Unsecured Note issued to the Investor, dated June 27, 2007 (filed as Exhibit 10.3 on Form 10-Q filed on August 8, 2007).

4.12 Common Stock Purchase Warrant issued to the Investor, dated June 27, 2007 (filed as Exhibit 10.4 on Form 10-Q filed on August 8, 2007).

- 4.13 Form of Common Stock Purchase Warrant issued to Investor, dated August 24, 2007. (filed as Exhibit 4.1 on Form 10-Q filed on November 13, 2007).
- 4.14 Form of Common Stock Purchase Warrant issued to Investor, dated September 4, 2007 (filed as Exhibit 4.2 on Form 10-Q filed on November 13, 2007).
- 4.15 Form of 10% Convertible Unsecured Note issued to Investor, dated as of June 27, 2007 (filed as Exhibit 4.3 on Form 10-Q filed on November 13, 2007).
- 4.16 Form of Common Stock Purchase Warrant issued to Investor, dated as of June 27, 2007 (filed as Exhibit 4.4 on Form 10-Q filed on November 13, 2007).
- 4.17 Form of Common Stock Purchase Warrant issued to Investor, dated October 26, 2007 (filed as Exhibit 4.5 on Form 10-Q filed on November 13, 2007).
- 4.18 Form of Common Stock Purchase Warrant issued to Investor, dated October 19, 2007. (filed as Exhibit 4.6 on Form 10-Q filed on November 13, 2007).
- 4.19 Form of Common Stock Purchase Warrant issued to investors, dated March 26, 2008. (filed as Exhibit 4.29 on Form 10-K filed on March 30, 2008)
- 4.20 Form of Common Stock Purchase Warrant issued to investors, dated March 26, 2008. (filed as Exhibit 4.1 on Form 10-Q filed on August 12, 2008)
- 4.21 Form of Common Stock Purchase Warrant issued to investor, dated June 30, 2008. (filed as Exhibit 4.2 on Form 10-Q filed on August 12, 2008)
- 4.22 Form of Common Stock Purchase Warrant issued to investors, dated July 28, 2008. (filed as Exhibit 4.3 on Form 10-Q filed on August 12, 2008)
- 4.23 Form of 10% Convertible Unsecured Note issued to investors, dated July 28, 2008. (filed as Exhibit 4.4 on Form 10-Q filed on August 12, 2008)
- 4.24 Form of Common Stock Purchase Warrant issued to investor, dated September 2, 2008 (filed as Exhibit 4.1 on Form 10-Q filed on November 12, 2008).
- 4.25 Form of Common Stock Purchase Warrant issued to investor, dated October 2, 2008. (filed as Exhibit 4.2 on Form 10-Q filed on November 12, 2008)
- 10.1 Employment Agreement among Registrant and Lori Cohen (filed as Exhibit 10.1 on Form 8-K on July 7, 2009).
- 10.2 Employment Agreement among Registrant and Glenn Peipert, (filed as Exhibit 10.1 on Form 8-K on July 7, 2009)..
- 10.3 Employment Agreement among Registrant and Scott Newman, (filed as Exhibit 10.1 on Form 8-K on July 7, 2009).
- 10.4 2003 Incentive Plan, as amended (filed as Exhibit 4.1 on Form S-8 POS on October 18, 2006).

10.5 Stock Purchase Agreement dated February 2, 2006 by and between Registrant and Taurus Advisory Group, LLC (filed as Exhibit 10.1 on Form 8-K on February 7, 2006).

10.6 Registration Rights Agreement dated February 2, 2006 by and between Registrant and Taurus Advisory Group, LLC (filed as Exhibit 10.1 on Form 8-K on February 7, 2006).

10.7 Stock Purchase Agreement dated August 11, 2006 by and between Registrant and Matthew J. Szulik (filed as Exhibit 10.1 on Form 8-K on August 16, 2006).

10.8 Registration Rights Agreement dated August 11, 2006 by and between Registrant, Matthew J. Szulik and the Feiner Family Trust (filed as Exhibit 10.2 on Form 8-K on August 16, 2006).

10.9 Stock Purchase Agreement by and between Registrant and certain investors represented by Taurus Advisory Group, LLC, dated December 29, 2006 (filed as Exhibit 10.1 on Form 8-K on January 5, 2007).

10.10 Registration Rights Agreement by and between Registrant and certain investors represented by Taurus Advisory Group, LLC, dated December 29, 2006 (filed as Exhibit 10.2 on Form 8-K on January 5, 2007).

10.11 Registration Rights Agreement by and between Registrant and investor represented by TAG Virgin Islands, Inc., dated March 1, 2007 (filed as Exhibit 10.2 on Form 8-K on March 7, 2007).

10.12 Third Extension Agreement among Registrant and Sands Brothers Venture Capital LLC, Sands Brothers Venture Capital III LLC and Sands Brothers Venture Capital IV LLC, dated March 1, 2007 (filed as Exhibit 10.4 on Form 8-K on March 7, 2007).

10.13 Omnibus Amendment and Waiver No. 2 among Registrant, CSI Sub Corp. (DE), DeLeeuw Associates, Inc. and Laurus Master Fund, Ltd. dated March 1, 2007 (filed as Exhibit 10.5 on Form 8-K on March 7, 2007).

10.14 Assumption, Adoption and Consent Agreement among Registrant, CSI Sub Corp. (DE), DeLeeuw Associates, Inc. and Laurus Master Fund, Ltd. dated March 1, 2007 (filed as Exhibit 10.7 on Form 8-K on March 7, 2007).

10.15 Amended and Restated Registration Rights Agreement among Registrant and Laurus dated March 1, 2007 (filed as Exhibit 10.8 on Form 8-K on March 7, 2007).

10.16 10% Convertible Unsecured Note issued to TAG Virgin Islands, Inc. Due on August 31, 2007 (filed as Exhibit 10.1 on Form 8-K on May 3, 2007)

10.17 Amendment No. 1 to Employment Agreement among Registrant and Glenn Peipert, dated August 6, 2007 (filed as Exhibit 10.5 on Form 10-Q filed on August 8, 2007).

10.18 Amendment No. 1 to Employment Agreement among Registrant and Scott Newman, dated August 6, 2007 (filed as Exhibit 10.6 on Form 10-Q filed on August 8, 2007).

10.36 Stock Purchase Agreement entered into between the Company and Investor, dated August 24, 2007 (filed as Exhibit 10.1 on Form 10-Q filed on November 13, 2007).

10.37 Registration Rights Agreement entered into between the Company and Investor, dated August 24, 2007 (filed as Exhibit 10.2 on Form 10-Q filed on November 13, 2007).

10.19 Stock Purchase Agreement entered into between the Company and Investor, dated September 4, 2007 (filed as Exhibit 10.3 on Form 10-Q filed on November 13, 2007).

10.20 Registration Rights Agreement entered into between the Company and Investor, dated September 4, 2007 (filed as Exhibit 10.4 on Form 10-Q filed on November 13, 2007).

10.21 Amendment 1 to March 1, 2007 Registration Rights Agreement entered into between the Company and Investor, dated as of June 27, 2007 (filed as Exhibit 10.5 on Form 10-Q filed on November 13, 2007).

10.22 Stock Purchase Agreement entered into between the Company and Investor, dated as of October 19, 2007 (filed as Exhibit 10.6 on Form 10-Q filed on November 13, 2007).

10.23 Registration Rights Agreement entered into between the Company and Investor, dated as of October 19, 2007 (filed as Exhibit 10.7 on Form 10-Q filed on November 13, 2007).

10.24 Omnibus Amendment and Waiver No. 3 dated December 11, 2007 to the Security Agreement (filed as Exhibit 10.1 on Form 8-K filed on December 13, 2007).

10.25 Note Conversion Agreement by and between the Company and certain Noteholders, dated as of March 27, 2008. (filed as Exhibit 10.43 on Form 10-K filed on March 31, 2008)

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10.26 Loan and Security Agreement by and between the Company and Access Capital, Inc., dated as of March 31, 2008. (filed as Exhibit 10.44 on Form 10-K filed on March 31, 2008)

10.27 Stock Pledge Agreement by and between the Company and Access Capital, Inc. dated as of March 31, 2008 (filed as Exhibit 10.43 on Form 10-K filed on March 31, 2008)

10.28 Note Conversion Agreement by and between the Registrant and investors represented by TAG Virgin Islands, Inc. dated as of March 26, 2008. (filed as Exhibit 10.1 on Form 10-Q filed on August 12, 2008)

10.29 Stock Purchase Agreement dated June 30, 2008 by and between Registrant and Matthew J. Szulik. (filed as Exhibit 10.2 on Form 10-Q filed on August 12, 2008)

10.30 10% Convertible Unsecured Note by and between the Registrant and investor represented by TAG Virgin Islands, Inc. dated as of September 2, 2008. (filed as Exhibit 10.1 on Form 10-Q filed on November 12, 2008)

10.31 10% Convertible Unsecured Note by and between the Registrant and investor represented by TAG Virgin Islands, Inc. dated as of October 2, 2008. (filed as Exhibit 10.2 on Form 10-Q filed on November 12, 2008)

10.32 7% Convertible Unsecured Note by and between the Registrant and Investors represented by TAG Virgin Islands, Inc. dated as of March 8, 2010.

10.33 Employment Agreement with William Hendry, Chief Financial Officer executed on November 11, 2010 (filed as Exhibit 10.1 on Form 8-K filed on November 12, 2010).

21 Subsidiaries of Registrant (filed as Exhibit 21.1 to the Form 10-K filed March 30, 2007).

23.1* Consent of Friedman LLP, Independent Registered Public Accounting Firm

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

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

32.1* Certification of Registrant's 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 Registrant's 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.

* filed herewith

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Conversion Services International, Inc.

We have audited the accompanying consolidated balance sheets of Conversion Services International, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Conversion Services International, Inc. as of December 31, 2010 and December 31, 2009, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred recurring operating losses, negative cash flows, is not in compliance with a covenant associated with its Line of Credit, maturing on March 31, 2011 and has significant future cash flow commitments. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 2. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Friedman LLP

East Hanover, New Jersey
March 23, 2011

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

| | 2010 | 2009 |
|--|--------------------|--------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$285,762 | \$96,957 |
| Accounts receivable, net of allowance for doubtful accounts of \$82,290 and \$108,001 as of December 31, 2010 and 2009, respectively | 3,108,506 | 3,912,021 |
| Accounts receivable from related parties, net of allowance for doubtful accounts of \$22,541 and \$26,407 as of December 31, 2010 and 2009, respectively | 211,179 | 236,233 |
| Prepaid expenses | 54,628 | 124,764 |
| TOTAL CURRENT ASSETS | 3,660,075 | 4,369,975 |
| PROPERTY AND EQUIPMENT, at cost, net | 6,798 | 36,887 |
| OTHER ASSETS | 86,576 | 110,494 |
| Total Assets | \$3,753,449 | \$4,517,356 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Line of credit | \$2,395,233 | \$2,541,900 |
| Accounts payable and accrued expenses | 1,547,064 | 1,964,513 |
| Short term notes payable | 99,408 | - |
| Series A redeemable convertible preferred stock | 1,868,331 | - |
| Deferred revenue | 514,262 | 240,606 |
| Related party note payable | - | 92,236 |
| TOTAL CURRENT LIABILITIES | 6,424,298 | 4,839,255 |
| Long-term debt, net of current portion | 500,000 | 500,000 |
| Total Liabilities | 6,924,298 | 5,339,255 |
| Convertible preferred stock, \$0.001 par value, \$100 stated value, 20,000,000 shares authorized. | | |
| Series A convertible and redeemable preferred stock, 19,000 shares issued and outstanding at December 31, 2010 and 2009, respectively | - | 1,488,332 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock, \$0.001 par value, 300,000,000 shares authorized; 128,475,087 and 122,295,838 issued and outstanding at December 31, 2010 and 2009, respectively | 128,475 | 122,296 |
| Series B convertible preferred stock, 20,000 shares issued and outstanding at December 31, 2010 and 2009, respectively | 1,352,883 | 1,352,883 |
| Additional paid in capital | 68,165,281 | 68,260,325 |

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| | | |
|--|--------------|--------------|
| Treasury stock, at cost, 1,145,382 shares in treasury as of December 31, 2010 and 2009 | (423,869) | (423,869) |
| Accumulated deficit | (72,393,619) | (71,621,866) |
| Total Stockholders' Deficit | (3,170,849) | (2,310,231) |
| Total Liabilities and Stockholders' Deficit | \$3,753,449 | \$4,517,356 |

See Notes to Consolidated Financial Statements

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

| | 2010 | 2009 |
|---|-----------------------|---------------------|
| REVENUE: | | |
| Services | \$15,249,638 | \$20,720,057 |
| Related party services | 1,662,595 | 2,095,983 |
| Reimbursable expenses | 586,560 | 1,184,738 |
| Other | 218,609 | 193,425 |
| | 17,717,402 | 24,194,203 |
| COST OF REVENUE: | | |
| Services | 10,632,175 | 14,232,615 |
| Related party services | 1,490,944 | 1,847,984 |
| Reimbursable expenses | 623,408 | 1,270,279 |
| | 12,746,527 | 17,350,878 |
| GROSS PROFIT | 4,970,875 | 6,843,325 |
| OPERATING EXPENSES | | |
| Selling and marketing | 2,370,532 | 3,028,003 |
| General and administrative | 2,660,389 | 2,759,233 |
| Depreciation and amortization | 91,318 | 106,033 |
| | 5,122,239 | 5,893,269 |
| INCOME (LOSS) FROM OPERATIONS | (151,364) | 950,056 |
| OTHER INCOME (EXPENSE) | | |
| Equity in earnings (losses) from investments | - | (103,298) |
| Interest expense, net | (620,389) | (814,802) |
| | (620,389) | (918,100) |
| INCOME (LOSS) BEFORE INCOME TAXES | (771,753) | 31,956 |
| INCOME TAXES | - | - |
| NET INCOME (LOSS) | (771,753) | 31,956 |
| Accretion of issuance costs associated with convertible preferred stock | (190,000) | (380,000) |
| Dividends on convertible preferred stock | (132,500) | (180,000) |
| NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$(1,094,253) | \$(528,044) |
| Earnings (loss) per share: | | |
| Basic | \$(0.01) | \$0.00 |
| Diluted | \$(0.01) | \$0.00 |
| Shares used in calculation of earnings (loss) per share: | | |
| Basic | 124,899,149 | 120,123,905 |
| Diluted | 124,899,149 | 120,123,905 |

See Notes to Consolidated Financial Statements

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

| | Common Shares | Capital Stock | Treasury Stock | Series B Preferred Shares | Series B Preferred Stock | Additional Paid-in Capital | Retained Earnings (Deficit) | Accumulated Total Stockholders' Equity (Deficit) |
|---|------------------|------------------|-------------------|------------------------------|-----------------------------|----------------------------------|-----------------------------------|---|
| Balance, December 31, 2008 | 118,449,081 | \$119,594 | \$(423,869) | 20,000 | \$1,352,883 | \$68,575,918 | \$(71,653,822) | \$(2,029,296) |
| Net income | - | - | - | - | - | - | 31,956 | 31,956 |
| Dividends payable on preferred stock | - | - | - | - | - | (180,000) | - | (180,000) |
| Compensation expense for stock and stock option grants | - | - | - | - | - | 52,109 | - | 52,109 |
| Dividends on Series A preferred stock paid in common stock | 2,154,649 | 2,155 | - | - | - | 92,845 | - | 95,000 |
| Dividends on Series B preferred stock paid in common stock | 171,726 | 172 | - | - | - | 84,828 | - | 85,000 |
| Issuance of Common Stock for Director compensation | 375,000 | 375 | - | - | - | 14,625 | - | 15,000 |
| Accretion of issuance costs associated with convertible preferred stock | - | - | - | - | - | (380,000) | - | (380,000) |
| Balance, December 31, 2009 | 121,150,456 | \$122,296 | \$(423,869) | 20,000 | \$1,352,883 | \$68,260,325 | \$(71,621,866) | \$(2,310,231) |

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| | | | | | | | | |
|---|-------------|-----------|-------------|--------|-------------|--------------|----------------|---------------|
| Net income | - | - | - | - | - | - | (771,753) | (771,753) |
| Dividends payable on preferred stock | - | - | - | - | - | (132,500) | - | (132,500) |
| Compensation expense for stock and stock option grants | - | - | - | - | - | 16,135 | - | 16,135 |
| Dividends on Series A preferred stock paid in common stock | 4,169,959 | 4,170 | - | - | - | 90,830 | - | 95,000 |
| Dividends on Series B preferred stock paid in common stock | 170,004 | 170 | - | - | - | 84,830 | - | 85,000 |
| Issuance of Common Stock for Director compensation | 1,125,000 | 1,125 | - | - | - | 21,375 | - | 22,500 |
| Issuance of Common Stock to employee in lieu of cash compensation | 714,286 | 714 | - | - | - | 14,286 | - | 15,000 |
| Accretion of issuance costs associated with convertible preferred stock | - | - | - | - | - | (190,000) | - | (190,000) |
| Balance, December 31, 2010 | 127,329,705 | \$128,475 | \$(423,869) | 20,000 | \$1,352,883 | \$68,165,281 | \$(72,393,619) | \$(3,170,849) |

See Notes to Consolidated Financial Statements

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

| | 2010 | 2009 |
|---|----------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$(771,753) | \$31,956 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation of property and equipment and amortization of leasehold improvements | 32,401 | 47,116 |
| Amortization of debt discounts | - | 69,070 |
| Amortization of relative fair value of warrants issued | - | 115,189 |
| Amortization of deferred financing costs | 58,917 | 58,917 |
| Accretion of convertible preferred stock discount and beneficial conversion feature | 190,000 | - |
| Stock based compensation | 86,134 | 67,109 |
| Increase (decrease) in allowance for doubtful accounts | (29,577) | (132,821) |
| Loss (Income) from equity investments | - | 103,298 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 829,226 | (319,007) |
| Decrease in accounts receivable from related parties | 28,920 | 28,412 |
| Decrease (increase) in prepaid expenses | 35,136 | (19,270) |
| (Decrease) increase in accounts payable and accrued expenses | (395,276) | 469,576 |
| Increase in deferred revenue | 273,656 | 81,428 |
| Net cash provided by (used in) operating activities | 337,784 | 600,973 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (2,312) | (15,466) |
| Net cash used in investing activities | (2,312) | (15,466) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net (repayments) advances under line of credit | (146,667) | 191,980 |
| Principal payments on short-term notes | - | (1,000,000) |
| Principal payments on related party notes | - | (18,770) |
| Net cash (used in) provided by financing activities | (146,667) | (826,790) |
| NET DECREASE IN CASH | 188,805 | (241,283) |
| CASH, beginning of period | 96,957 | 338,240 |
| CASH, end of period | \$285,762 | \$96,957 |

See Notes to Consolidated Financial Statements

CONVERSION SERVICES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

| | 2010 | 2009 |
|--|-----------|-----------|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$375,250 | \$640,824 |
| Cash paid for income taxes | - | - |
| Common stock issued in payment of preferred stock dividends | 180,000 | 180,000 |
| Common stock issued to employee in lieu of cash compensation | 15,000 | - |
| Common stock issued in payment of Director's fees | 22,500 | 15,000 |
| Accretion of Series A preferred stock liability | 380,000 | 380,000 |

See Notes to Consolidated Financial Statements

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

Note 1 - Accounting Policies

Organization and Business

Conversion Services International, Inc. (“CSI”) was incorporated in the State of Delaware and has been conducting business since 1990. CSI and its wholly owned subsidiaries (together the “Company”) are principally engaged in the information technology services industry in the following areas: strategic consulting, business intelligence, data warehousing and data management, on credit, to its customers principally located in the northeastern United States.

On January 30, 2004, the Company became a public company through its merger with a wholly owned subsidiary of LCS Group, Inc. Although LCS Group, Inc. (now known as Conversion Services International, Inc.) was the legal survivor in the merger and remains the Registrant with the Securities and Exchange Commission, the merger was accounted for as a reverse acquisition, whereby the Company was considered the accounting “acquirer” of LCS Group, Inc. for financial reporting purposes.

In August 2008, the Company notified the American Stock Exchange (“AMEX”) of its intent to voluntarily delist trading of its common stock, par value \$0.001 per share, from AMEX. The Company’s last day of trading on AMEX was September 5, 2008. On September 8, 2008, the Company’s common stock began trading on the Over the Counter Bulletin Board under the symbol CVNS.OB.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in the consolidation. Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence (generally 20-50% ownership), are accounted for by the equity method.

Revenue recognition

Revenues are principally derived from consulting and professional services and are recognized as earned when the services are rendered, evidence of an arrangement exists, the fee is fixed or determinable and collection is probable. 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 costs in excess of billings. 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. During 2010 and 2009, \$75,286 and \$89,942 of uncollectible accounts receivable were written off against the allowance for

doubtful accounts, respectively.

Property and equipment

Property and equipment are stated at cost and includes equipment held under capital lease arrangements. Depreciation is computed using the straight-line method and is based on the estimated useful lives of the various assets ranging from three to seven years. Leasehold improvements are amortized over the shorter of the asset life or the remaining lease term on a straight-line basis. 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.

Deferred financing costs

The Company capitalizes costs associated with the issuance of debt instruments. These costs are amortized on a straight-line basis over the term of the related debt instruments.

Stock compensation

Accounting for stock-based compensation focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The standards require a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award.

There were no stock options granted during 2009 or 2010.

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 December 31, 2010, PNC Bank accounted for approximately 33.5% of the Company's accounts receivable balance. Receivables related to services performed for Bank of America accounted for approximately 25.3% of the Company's accounts receivable balance. This is comprised of receivables directly from Bank of America and receivables from a vendor management company, ZeroChaos, that is issued invoices for the Company's work at Bank of America.

Cash balances in banks are secured by the Federal Deposit Insurance Corporation subject to certain limitations.

Advertising

The Company expenses advertising costs as incurred. Advertising costs amounted to approximately \$36,102 and \$58,208 for the years ended December 31, 2010 and 2009, 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.

The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. The Company's current valuation allowance primarily relates to benefits from the Company's Net Operating Losses.

Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, notes payable, accounts payable and accrued liabilities approximate fair value because of the short maturities of those instruments. The carrying value of convertible notes and notes payable also approximate fair value based on borrowing rates currently available to the Company, for loans with similar terms.

We review the terms of convertible debt and equity instruments we issued to determine whether there are embedded derivative instruments, including the embedded conversion option, that are required to be bifurcated and accounted for separately as a derivative financial instrument. In circumstances where the embedded conversion option in a

convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

In connection with the sale of convertible debt and equity instruments, we may also issue freestanding options or warrants. If freestanding options or warrants were issued and will be accounted for as derivative instrument liabilities (rather than as equity), the proceeds are first allocated to the fair value of those instruments. When the embedded derivative instrument is to be bifurcated and accounted for as a liability, the remaining proceeds received are then allocated to the fair value of the bifurcated derivative instrument. The remaining proceeds, if any, are then allocated to the convertible instrument itself, usually resulting in that instrument being recorded at a discount from its face amount. In circumstances where a freestanding derivative instrument is to be accounted for as an equity instrument, the proceeds are allocated between the convertible instrument and the derivative equity instrument, based on their relative fair values.

Derivative financial instruments are initially measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. For option-based derivative financial instruments, we use the Black-Scholes option pricing model to value the derivative instruments.

The discount from the face value of the convertible debt instrument resulting from the allocation of part of the proceeds to embedded derivative instruments and/or freestanding options or warrants is amortized over the life of the instrument through periodic charges to income, using the effective interest 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.

Note 2 - Going Concern

Although the Company reported net income for the year ended December 31, 2009, it has incurred net losses for the years ended December 31, 2004 through 2008, and 2010, negative cash flows from operating activities for the years ended December 31, 2004 through 2008, and had an accumulated deficit of \$72.4 million at December 31, 2010. The Company has relied upon cash from its financing activities to fund its ongoing operations as it has not been able to generate sufficient cash from its operating activities in the past, and there is no assurance that it will be able to do so in the future. Due to this history of losses and operating cash consumption, we cannot predict for how long we will remain profitable or if the Company's business will continue to improve. These factors raise substantial doubt as to our ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

As of December 31, 2010, the Company had a cash balance of approximately \$0.3 million, compared to \$0.1 million at December 31, 2009, and a working capital deficiency of \$2.8 million.

The liquidity issues that have resulted from the Company's history of losses have been addressed in the past through the sale of Company common stock, preferred stock and by entering into various debt instruments.

The Company executed a three-year revolving line of credit agreement in March 2008 with Access Capital, Inc. ("Access Capital" or "Access") which matures on March 30, 2011. As of December 31, 2010, the Company was in default of the Loan and Security Agreement. As a result of the default, Access had increased the interest rate payable on borrowings under the line of credit to 18% per annum during 2009 but then reduced the interest rate to 12% per annum effective January 1, 2010, has notified the Company's clients of their security interest in the amounts due to the Company, and has provided instruction that payments are to be made directly to Access Capital. As of March 17, 2011, Access Capital has not exercised any other of its default rights and the Company is in the process of negotiating the terms for extending the Loan and Security Agreement on maturity. The Company expects the interest rate to remain at 12% per annum and other terms of the new Loan and Security Agreement to be similar to the terms of the existing agreement. Refer to footnote 5 of the Notes to Consolidated Financial Statements for further discussion on the Line of Credit.

On June 7, 2004, the Company issued a five-year \$2,000,000 Unsecured Convertible Line of Credit Note. \$950,000 of the original principal balance has previously been converted to Company common stock. This note was replaced in December 2008 with a note reflected the \$1,050,000 balance outstanding at that time. The maturity date remained June 6, 2009. \$550,000 was repaid in cash during fiscal 2009. The maturity on the remaining \$500,000 balance which is outstanding at December 31, 2009, has been extended to April 30, 2012. The December 2008 note was replaced in March 2010. A \$500,000 Unsecured Convertible Note was issued in March 2010 which bears interest at 7% and matures on April 30, 2012.

In February 2006, the Company issued Series A Preferred Stock, in the amount of \$1,900,000, which matures on February 6, 2011. The Company does not currently have the funds, or sufficient authorized but unissued shares to repay this debt upon maturity. Refer to footnote 9 of the Notes to Consolidated Financial Statements for further

discussion on the Preferred Stock issuance.

The Company needs additional capital in order to survive. Additional capital will be needed to fund current working capital requirements, ongoing debt service and to repay the obligations that are maturing over the upcoming 12 month period. Our primary sources of liquidity are cash flows from operations, borrowings under our revolving credit facility, and various short and long term financings. We plan to continue to strive to increase revenues and to control operating expenses in order to reduce, or eliminate, the operating losses. Additionally, we will continue to seek equity and/or debt financing in order to enable us to continue to meet our financial obligations until we achieve profitability. There can be no assurance that any such funding will be available to us on favorable terms, or at all. Failure to obtain sufficient financing would have substantial negative ramifications to the Company.

Note 3 - New Accounting Standards

Effective January 1, 2010, the Company adopted FASB Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820): Improving Disclosures about Fair Value Measurements. This standard amends the disclosure guidance with respect to fair value measurements for both interim and annual reporting periods. Specifically, this standard requires new disclosures for significant transfers of assets or liabilities between Level 1 and Level 2 in the fair value hierarchy; separate disclosures for purchases, sales, issuance and settlements of Level 3 fair value items on a gross, rather than net basis; and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and Level 3 assets and liabilities. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements (“ASC Subtopic 605-25”). This statement is an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminates the use of the residual method for allocating arrangement consideration and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of ASC Subtopic 605-25 on its financial statements; however, management does not believe that it will have a material impact on the Company's consolidated financial statements.

Note 4 - Property and equipment

Property and equipment consisted of the following:

| | December 31, 2010 | December 31, 2009 |
|--------------------------|----------------------|----------------------|
| Computer equipment | \$ 1,066,555 | \$ 1,064,243 |
| Furniture and fixtures | 161,543 | 161,543 |
| Leasehold improvements | 92,459 | 92,459 |
| | 1,320,557 | 1,318,245 |
| Accumulated depreciation | (1,313,759) | (1,281,358) |
| | \$ 6,798 | \$ 36,887 |

Note 5 - Line of credit

In March 2008, the Company executed a revolving line of credit agreement with Access Capital, Inc. The Access Capital line of credit provides for borrowing up to a maximum of \$3,500,000, based upon collateral availability, a 90% advance rate against eligible accounts receivable, has a three year term, and an interest rate of prime (which was 3.25% as of December 31, 2010) plus 2.75%. The Company must comply with a minimum working capital covenant which requires the Company to maintain minimum monthly working capital of \$400,000. Additionally, the Company must maintain an average minimum monthly borrowing of \$2,250,000 in the second year and \$2,500,000 in the third

year of the agreement. The Company must also pay an annual facility fee equal to 1% of the maximum available under the facility and a \$1,750 per month collateral management fee. Further debt incurred by the Company may need to be subordinated to Access Capital, Inc. Although the Company remained in default of the Access Capital Loan and Security Agreement, effective January 2010, Access Capital agreed to reduce the interest rate to be charged on revolving line of credit borrowings from 18% to 12% per annum.

The Company was in default of the Loan and Security Agreement as of December 31, 2009 and 2010 since its working capital was below the minimum required working capital of \$400,000. In the event of a default under the Loan and Security Agreement, Access Capital's remedies include, but are not limited to, the following:

- upon the occurrence of, and for so long as any event of default exists, the interest rate is increased to one and one-half percent (1.5%) per month;
- At Access Capital's election, following the occurrence of an event of default, they may terminate the Loan and Security Agreement. In the event of early termination after the occurrence of default, the Company would be liable for various early payment fees, penalties and interest;

As a result of this default, to date, Access has increased the interest rate payable on borrowings under the line of credit to 18% per annum through December 31, 2009 and as of January 1, 2010 has reduced the interest rate to 12% per annum, has notified the Company's clients of their security interest in the amounts due to the Company, and has provided instruction that payments are to be made directly to Access Capital. As of March 17, 2011, Access Capital has not exercised any other of its default rights and the Company is in the process of negotiating the terms for extending the Loan and Security Agreement on maturity.

As of December 31, 2010, approximately \$2.4 million was outstanding under the revolving line of credit. Remaining availability under the line of credit at December 31, 2010, based on the year end collateral balance, was approximately \$0.1 million. The interest rate on the revolving line was 12.0% as of December 31, 2010.

Note 6 - Notes Payable

Short term notes payable consisted of the following:

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| Unsecured loan from Glenn Peipert, the Company's former Executive Vice President, Chief Operating Officer and Director, which accrues interest at a simple rate of 8% per annum, had a term expiring on April 30, 2007, and is currently due on demand. This loan is subordinated to the Company's line of credit arrangement with Access Capital, Inc. | \$ 99,408 | \$ - |
| | \$ 99,408 | \$ - |

In June 2004, the Company issued a five-year \$2,000,000 Unsecured Convertible Line of Credit Note. The note accrues interest at an annual rate of 7%, and the conversion price of the shares of common stock issuable under the note is equal to \$1.58 per share. In addition, such investors received a warrant to purchase 277,778 shares of our common stock at an exercise price of \$1.58 per share. This warrant expired in June 2009. The note also contains a beneficial conversion feature and, therefore, the Company recorded a beneficial conversion charge of \$1.5 million and allocated \$0.5 million to the warrant based on its relative fair value. Accordingly, the discount, as enumerated above, was amortized as interest utilizing the effective interest method and was fully amortized as of June 2009. On December 28, 2007, \$350,000 of this note was extinguished in return for Company Common Stock and warrants. The investors received 2,499,997 shares of Company Common Stock and warrants to purchase 2,499,997 shares of Common Stock at a purchase price of \$0.154 per share. Using the Black-Scholes option pricing model, the Company calculated the fair value of the warrants to purchase 2,499,997 shares of Company common stock to be \$325,000. This fair value was charged to the loss on extinguishment during 2007.

During March 2008, the Company and TAG Virgin Islands, Inc. executed a Note Conversion Agreement whereby certain investors represented by TAG Virgin Islands, Inc. converted \$600,000 of the debt due to them under the Unsecured Convertible Line of Credit Note dated June 7, 2004 into Company common stock. The Company issued 4,615,385 shares of common stock to the investors. The number of shares acquired was based on the \$0.13 per share closing price of the Company's common stock on the American Stock Exchange on the date of conversion. Warrants to purchase 4,615,385 shares of Company common stock were provided to the investors as an inducement to convert. The warrants are exercisable at a price of \$0.143 per share, and are exercisable for five years. Using the Black-Scholes option pricing model, the Company calculated the fair value of the warrants to purchase 4,615,385 shares of Company common stock to be approximately \$553,846. This fair value was recorded as a charge to the loss on extinguishment of debt and an addition to additional paid-in capital.

In December 2008, the Company replaced the June 2004 Unsecured Convertible Line of Credit Note with a \$1,050,000, 7% Convertible Unsecured Note. This note accrues interest at an annual rate of 7%, matured on June 6, 2009, and the conversion price of the shares of common stock issuable under the note is equal to 75% of the average bid price for the prior ten trading days (prior to the date of conversion), subject to adjustment.

During 2009, \$550,000 of the remaining \$1,050,000 balance was repaid in cash, leaving a balance outstanding at December 31, 2009 of \$500,000. The maturity date for repayment of the \$500,000 balance has been extended to April 30, 2012.

In March 2010, the Company replaced the December 2008, 7% Convertible Unsecured Note with a \$500,000, 7% Convertible Unsecured Note. This note accrues interest at an annual rate of 7%, matures on April 30, 2012, and the conversion price of the shares of common stock issuable under the note is equal to \$0.03 per share.

Long-term debt consisted of the following:

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| Convertible line of credit note with a maturity date of April 30, 2012 unless converted into common stock at the note holder's option. Interest accrues at 7% per annum. | \$ 500,000 | \$ 500,000 |
| | \$ 500,000 | \$ 500,000 |

Note 7 - Income Taxes

The Company provides for federal and state income taxes in accordance with current rates applied to accounting income before taxes. The provision for income taxes is as follows:

| | Years ended December 31, | |
|----------|--------------------------|------|
| | 2010 | 2009 |
| Current | \$ - | \$ - |
| Deferred | - | - |
| | \$ - | \$ - |

The Company has \$12.4 million of net operating loss carry-forwards for both federal and state purposes expiring between 2023 and 2030. The following summarizes the Company's deferred tax assets and liabilities:

| | December 31, | |
|--------------------------|---------------|---------------|
| | 2010 | 2009 |
| Net operating losses | \$ 12,360,000 | \$ 12,077,000 |
| Accounts receivable | 42,000 | 46,000 |
| Property and equipment | 25,000 | 50,000 |
| Deferred Compensation | - | (27,000) |
| Stock based compensation | 339,000 | 339,000 |
| | 12,766,000 | 12,485,000 |
| Valuation allowance | (12,766,000) | (12,485,000) |
| | \$ - | \$ - |

The Company evaluates the amount of deferred tax assets that are recorded against expected taxable income over its forecasting cycle which is currently two years. As a result of this evaluation, the Company has recorded a valuation allowance of \$12,766,000 and \$12,485,000 for the years ended December 31, 2010 and 2009, respectively, representing a current year change in the valuation allowance of \$281,000. This allowance was recorded because, based on the weight of available evidence, it is more likely than not that some, or all, of the deferred tax asset may not be realized.

At December 31, 2010, the Company had net operating loss carryforwards for Federal and State income tax purposes of approximately \$12.4 million, which begin to expire in 2023. The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carryforwards if there has been an ownership change, as defined by the tax law. An ownership change as described in Section 382 of the Internal Revenue Code, may limit the Company's ability to utilize its net operating loss and tax credit carryforwards on a yearly basis. The Company has issued a substantial number of shares of common stock during 2007 and 2008, which may place limitations on the

current net loss carryforwards.

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Income taxes computed at the federal statutory rate differ from the amounts provided as follows:

| | For the year ended December 31, | |
|--|---------------------------------|-----------|
| | 2010 | 2009 |
| Income (loss) before income taxes | \$ (771,753) | \$ 31,956 |
| Provision for Federal taxes at statutory rate (34%) | (262,396) | 10,865 |
| State taxes, net of Federal benefit | (42,558) | 11,457 |
| Permanent difference due to non-deductible items | 15,748 | 31,241 |
| Stock based compensation | 5,486 | 22,817 |
| Valuation allowance applied against income tax benefit (expense) | 283,720 | (76,380) |
| Income tax provision | \$ - | \$ - |

Note 8 - Preferred Stocks

In February 2006, we entered into a Securities Purchase Agreement with investors represented by TAG Virgin Islands, Inc. (“TAG”), pursuant to which we issued 19,000 shares of our newly created Series A Convertible Preferred Stock, \$.001 par value (the “Series A Preferred”). Each share of Series A Preferred has a stated value of \$100.00. We received proceeds of \$1,900,000. The Series A Preferred has a cumulative annual dividend equal to five percent (5%), which is payable semi-annually in cash or common stock, at our election, and is convertible into shares of the Company’s common stock at any time at a price equal to \$0.50 per share (subject to adjustment). In addition, the Series A Preferred has no voting rights, but has liquidation preferences and certain other privileges. All shares of Series A Preferred not previously converted shall be redeemed by the Company, in cash or common stock, at the election of the Company, on February 1, 2011. Pursuant to the Securities Purchase Agreement, the TAG investors were also granted a warrant to purchase 1,900,000 shares of our common stock exercisable at a price of \$0.60 per share (subject to adjustment), exercisable for a period of five years.

Using the Black-Scholes option pricing model, the Company calculated the relative fair value of the warrant to purchase 1,900,000 shares of Company common stock to be approximately \$1,128,000. This relative fair value has been recorded as a reduction of the \$1,900,000 balance for the preferred stock and an addition to additional paid-in capital. Amortization of the \$1,128,000 was recorded as a component of stockholders equity from February 2006 until June 2010. Approximately \$1.0 million was recorded to stockholders equity. From June 2010 to December 2010, approximately \$0.1 million of amortization was recorded to interest expense. Additionally, the Company calculated a beneficial conversion feature charge related to the conversion price for the preferred stock to common stock of approximately \$772,000. Refer to footnote 17 of the Notes to Consolidated Financial Statements for further discussion of the Series A Convertible Preferred Stock.

In August 2006, we entered into a Stock Purchase Agreement with an investor represented by TAG, pursuant to which we issued 20,000 shares of our newly created Series B Convertible Preferred Stock, \$.001 par value (the “Series B Preferred”). Each share of Series B Preferred has a stated value of \$100.00. We received proceeds of \$2,000,000. The Series B Preferred has a cumulative annual dividend equal to the Prime Rate plus one percent (1%), which is payable monthly in cash or common stock, at our election, and is convertible into shares of our common stock at any time at a price equal to the lower of (1) \$0.85 or (2) the average daily volume weighted market price for the five consecutive trading days immediately prior to the date for which such price is determined, with a minimum price of \$0.50. In addition, the Series B Preferred has no voting rights, but has liquidation preferences and certain other privileges. Pursuant to the Stock Purchase Agreement, warrants to purchase 1,276,471 shares of our common stock were issued,

exercisable at a price of \$0.94 per share (subject to adjustment), and exercisable for a period of five years.

Using the Black-Scholes option pricing model, the Company calculated the relative fair value of the warrants to purchase 1,276,471 shares of Company common stock to be approximately \$593,000. This relative fair value had been recorded as a reduction of the \$2,000,000 for the preferred stock and an addition to additional paid-in capital.

Note 9 - Treasury Stock

In February 2006, the Company repurchased 3,892,355 shares of its common stock from the Company's largest non-affiliated stockholder, WHRT I Corp. for \$1,848,868.80, and such shares were placed back into the Company's treasury. An additional 253,027 shares of our common stock relating to the escrowed shares were also placed back into treasury. The Company utilized the proceeds from its issuance of its Series A Convertible Preferred Stock in order to finance this common stock repurchase.

In December 2006, the Company sold 3,000,000 shares of its common stock to an investor for \$750,000. Treasury shares were re-issued during this transaction and a charge to retained earnings was recorded for the difference between the \$0.475 per share acquisition cost and the \$0.25 per share price at which the shares were re-issued.

Note 10 - Common Stock Warrants

Warrants outstanding consisted of the following:

| Expiration date | Exercise price | December 31, 2010 | December 31, 2009 |
|-----------------|-----------------|----------------------|----------------------|
| - | \$ 0.01 | 17,857 | 17,857 |
| 2013 | \$0.055-\$0.088 | 8,500,000 | 8,500,000 |
| 2012-2013 | \$0.143-\$0.20 | 33,346,159 | 33,346,159 |
| 2010-2012 | \$0.22-\$0.33 | 22,231,664 | 22,509,531 |
| 2010 | \$0.34-\$0.50 | - | 804,891 |
| 2011 | \$ 0.60 | 1,900,000 | 1,900,000 |
| 2011 | \$0.94-\$1.30 | 1,276,471 | 1,276,471 |
| 2011 | \$4.35-\$5.25 | 800,000 | 800,000 |
| | | 68,072,151 | 69,154,909 |

Note 11 - Stock Based Compensation

The 2003 Incentive Plan ("2003 Plan") originally authorized the issuance of up to 20,000,000 shares of common stock for issuance upon exercise of options. It also authorizes the issuance of stock appreciation rights. The options granted may be a combination of both incentive and nonstatutory options, generally vest over a three year period from the date of grant, and expire ten years from the date of grant. In March 2008, the Company's Board of Directors approved a 10,000,000 share reduction in the number of shares reserved under the 2003 Incentive Plan, resulting in up to 10,000,000 shares of common stock currently authorized for issuance upon the exercise of stock options.

To the extent that CSI derives a tax benefit from options exercised by employees, such benefit will be credited to additional paid-in capital when realized on the Company's income tax return. There were no tax benefits realized by the Company during 2010 or 2009.

The following summarizes the stock option transactions under the 2003 Plan during 2010:

| | Shares | Weighted average exercise price |
|--|------------|---------------------------------------|
| Options outstanding at December 31, 2009 | 4,771,999 | \$ 0.76 |
| Options canceled | (774,000) | 0.58 |
| Options outstanding at December 31, 2010 | 3,997,999 | \$ 0.80 |

The following table summarizes information concerning outstanding and exercisable Company common stock options at December 31, 2010:

| Range of exercise prices | Options outstanding | Weighted average exercise price | Weighted average contractual life | Options exercisable | Weighted average exercise price |
|--------------------------|---------------------|---------------------------------|-----------------------------------|---------------------|---------------------------------|
| \$0.25-\$0.30 | 1,535,000 | \$ 0.258 | 5.8 | 1,535,000 | \$ 0.258 |

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| | | | | | |
|--------------|-----------|----------|-----|-----------|----------|
| \$0.46-0.60 | 1,005,000 | \$ 0.461 | 5.0 | 1,005,000 | \$ 0.461 |
| \$0.70-0.830 | 870,000 | 0.830 | 4.9 | 870,000 | 0.830 |
| \$2.475-3.45 | 587,999 | 2.735 | 3.3 | 587,999 | 2.735 |
| | 3,997,999 | | | 3,997,999 | |

Note 12 - Loss Per Share

Basic loss per share is computed on the basis of the weighted average number of common shares outstanding. Diluted loss 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.

Basic and diluted loss per share was determined as follows:

| | For the years ended December 31, | |
|--|----------------------------------|---------------|
| | 2010 | 2009 |
| Net loss attributable to common stockholders | \$ (1,094,253) | \$ (528,044) |
| Weighted average common shares used to compute net loss per common share attributable to common stockholders | 124,899,149 | 120,123,905 |
| Basic and diluted loss per common share attributable to common stockholders | \$ (0.01) | \$ (0.00) |

For the years ended December 31, 2010 and 2009, 3,997,999 shares and 4,771,999 shares, respectively, attributable to outstanding stock options were excluded from the calculation of diluted loss per share because the effect was antidilutive. Additionally, the effect of 68,072,151 warrants and 36,596 options which were issued prior to December 31, 2009, and outstanding as of December 31, 2010, were excluded from the calculation of diluted loss per share for the years ended December 31, 2010 and 2009, as appropriate, because the effect was antidilutive. Also excluded from the calculation of loss per share because their effect was antidilutive were 16,666,667 shares of common stock underlying the \$500,000 convertible line of credit note to TAG Virgin Islands, Inc. as of December 31, 2010 and 2009, 7,800,000 shares underlying the Series A and Series B convertible preferred stock, and an option to purchase 36,596 shares of common stock which was issued to Laurus in 2006.

Note 13 - Major Customers

During 2010, the Company had sales to two major customers, PNC Bank (31.6%) and Bank of America (14.4%), which totaled approximately \$8,151,355.

During 2009, the Company had sales to two major customers, PNC Bank (28.6%) and Bank of America (10.2%), which totaled approximately \$9,378,475.

Note 14 - Employee Benefit Plan

The Company has a defined contribution profit sharing plan under Section 401(k) of the Internal Revenue Code that covers substantially all employees. Eligible employees may contribute on a tax deferred basis a percentage of compensation up to the maximum allowable amount. Although the plan does not require a matching contribution by the Company, the Company may make a contribution. The Company's contributions to the plan for the years ended December 31, 2010 and 2009 were approximately \$56,556 and \$68,477, respectively.

Note 15 - Commitments and Contingencies

Legal Proceedings

As of December 31, 2010, the Company has a claim pending in the Superior Court of New Jersey Law Division-Civil Part, Morris County, in which the Company sued National Digital Medical Archive, Inc. (hereinafter "Defendant" or "NDMA"), for services rendered to NDMA by the Company in 2009. This case arises out of NDMA's failure to pay the Company approximately \$0.4 million pursuant to a Professional Services Agreement, dated August 13, 2008, between CSI and NDMA (hereinafter the "Agreement"), and the Agreement's two accompanying Statements of Work, dated June 12, 2008 and August 29, 2008, that were time and materials based projects (hereinafter collectively with the

Agreement referred to as the “SOWs”). NDMA interposed an answer and asserted multiple affirmative defenses and counterclaimed against the Company for approximately \$4.5 million based on the Company’s alleged non-performance under the SOWs and for approximately \$3.8 million for unjust enrichment which is pled in the alternative. Discovery has just started in this case. A mediation is scheduled for late March 2011. A trial in this action will not occur until the fall of 2011. The Company believes it has meritorious claims for non-payment pending against NDMA and the Company will also vigorously defend against NDMA’s counterclaims.

Employment Agreements

On November 11, 2010, Conversion Services International, Inc. (the “Company”) entered into an employment agreement (the “Agreement”) with William Hendry, the Company’s Vice President and Chief Financial Officer. The Agreement is effective as of October 16, 2010, and has a term of two years. Either the Company or Mr. Hendry may terminate the Agreement provided that the terminating party provides 30-day written notice. Under the terms the Agreement, Mr. Hendry will receive a base salary of \$225,000 per year and an annual bonus, to be determined by the Company’s Board of Directors. Mr. Hendry will also be entitled to participate in any bonus plan, incentive compensation program or incentive stock option plan or other employee benefits of the Company and which are available to the five highest paid executives of the Company, on the same terms and at the same level of participation as the five highest paid executives of the Company. In the event the Company terminates Mr. Hendry without Good Cause (as defined therein), for Good Cause or following a Change of Control (as defined therein), Mr. Hendry may be entitled to certain severance payments and benefits of up to twelve months of base salary.

Lease Commitments

The Company's corporate headquarters are located at 100 Eagle Rock Avenue, East Hanover, New Jersey 07936, where it operates under an amended lease agreement expiring December 31, 2015. This amendment requires the Company to surrender approximately 7,467 square feet of its office space to the landlord effective July 1, 2010, leaving the Company with approximately 9,137 square feet of office space in this facility. Monthly rent with respect to our East Hanover, New Jersey facility is \$16,581.50 until December 31, 2010. Monthly rent for the period beginning January 1, 2011 and ending December 31, 2015 will be \$11,822.75. In addition to minimum rentals, the Company is liable for its proportionate share of real estate taxes and operating expenses, as defined. The Company also rents office space from HQ Global Workplaces, LLC at 401 North Tryon Street, Charlotte, North Carolina 28202, where it operates under a one year lease agreement expiring December 31, 2011. The monthly rent for this space is approximately \$625.

Rent expense, including automobile rentals, totaled approximately \$199,200 and \$173,986 in 2010 and 2009, respectively.

Future minimum lease payments due under all operating lease agreements as of December 31, 2010 are as follows:

| Years Ending December 31 | Office |
|--------------------------|------------|
| 2011 | \$ 146,873 |
| 2012 | 141,873 |
| 2013 | 141,873 |
| 2014 | 141,873 |
| 2015 | 141,873 |
| Thereafter | - |
| | \$ 714,365 |

Note 16 – Related Party Transactions

In November 2003, the Company executed an Independent Contractor Agreement with LEC, whereby the Company agreed to be a subcontractor for LEC, and to provide consultants as required to LEC. In return for these services, the Company receives a fee from LEC based on the hourly rates established for consultants subcontracted to LEC. In May 2004, the Company acquired 49% of all issued and outstanding shares of common stock of LEC. For the years ended December 31, 2010 and 2009, the Company invoiced LEC \$1,662,595 and \$2,095,983, respectively, for the services of consultants subcontracted to LEC by the Company. As of December 31, 2010 and 2009, the Company had accounts receivable due from LEC of approximately \$211,179 and \$236,233, respectively. There are no known collection problems with respect to LEC. The majority of their billing is derived from Fortune 1000 clients. The collection process is slow as these clients require separate approval on their own internal systems, which extends the payment cycle.

Note 17 - Subsequent Events

In February 2006, we entered into a Securities Purchase Agreement with investors represented by TAG Virgin Islands, Inc. ("TAG"), pursuant to which we issued 19,000 shares of our newly created Series A Convertible Preferred Stock, \$.001 par value (the "Series A Preferred"). We received proceeds of \$1,900,000. All shares of Series A Preferred not previously converted were to be redeemed by the Company, in cash or common stock, at the election of the Company, on February 1, 2011. The Company did not have sufficient cash or available shares to redeem the Series A Preferred and, as a result, is in default with respect to the redemption of this security as of the date of this filing. The

Company notified the investors and, as of the date of this filing, has not received any default notification. The Company expects to, at its next annual meeting of shareholders, propose to the Company's stockholders an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock in an amount as to allow the Company to pay the redemption price in shares of Common Stock. If and when such a proposal is approved by the Company's shareholders, the Company expects to redeem the Series A Preferred with shares of Common Stock. The number of shares to be issued upon redemption is based on the Volume Weighted Average Price of the Company's common stock for the fifteen business days prior to the redemption date. Until the Company pays the redemption price of the Series A Preferred, holders of the Series A Preferred will continue to receive dividends in the amount of 5% per annum as set forth in the Certificate of Designations.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: March 23, 2011

/s/ Lori Cohen
Lori Cohen
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|--|----------------|
| /s/ Lori Cohen Lori Cohen | President, Chief Executive Officer and Director | March 23, 2011 |
| /s/ William Hendry William Hendry | Vice President, Chief Financial Officer, Secretary and Treasurer | March 23, 2011 |
| /s/ Scott Newman Scott Newman | Chief Strategy Officer, Director | March 23, 2011 |
| /s/ Brian Walton Brian Walton | Director | March 23, 2011 |
| /s/ Thomas Pear Thomas Pear | Director | March 23, 2011 |
| /s/ Lawrence K. Reisman Lawrence K. Reisman | Director | March 23, 2011 |