CONVERSION SERVICES INTERNATIONAL INC
Form 8-K/A
October 11, 2005

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

FORM 8-K/A

AMENDMENT NO. 1

TO

CURRENT REPORT
Pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 2, 2005 (July 29, 2005)

Conversion Services International, Inc.
(Exact name of registrant as specified in its charter)

Delaware	0-30420	20-1010495
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

100 Eagle Rock Avenue, East Hanover, New Jersey	07936
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (973) 560-9400

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation to the registrant under any of the following provisions:

|_| Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

|_| Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

|_| Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

|_| Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

PORTIONS AMENDED:

The Registrant hereby amends Item 9.01 contained in the Registrant's Current Report on Form 8-K filed August 3, 2005 to provide the requisite financial information required, including pro forma consolidated financial information. Except as set forth in Item 9.01 below, no other changes are made to the Registrant's Current Report on Form 8-K filed August 3, 2005.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of businesses acquired. Audited Combined Financial Statements for Integrated Strategies, Inc. and Affiliates for the year ended December 31, 2004 and reviewed combined financial statements for the year ended December 31, 2003.

(b) Pro forma financial information. Unaudited Financial Statements of Conversion Services International, Inc. for the year ended December 31, 2004 and the six month period ended June 30, 2005.

(d) Exhibits.

2 Agreement and Plan of Merger dated July 29, 2005 by and among Conversion Services International Inc., a Delaware corporation, 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 2.1 on Form 8-K on August 3, 2005).

3.1 Certificate of Merger of Integrated Strategies, Inc. and ISI Consulting, LLC with and into ISI Merger Corp. filed with the Secretary of State of the State of Delaware on July 29, 2005 (filed as Exhibit 3.1 on Form 8-K on August 3, 2005).

10.1 Promissory Note by ISI Merger Corp. dated July 29, 2005 in the amount of $177,937 issued in favor of Adam Hock and Larry Hock (filed as Exhibit 10.1 on Form 8-K on August 3, 2005).

10.2 Subordinated Promissory Note by Conversion Services International Inc. dated July 29, 2005 in the amount of $165,000 issued in favor of Adam Hock and Larry Hock (filed as Exhibit 10.2 on Form 8-K on August 3, 2005).

99.1 Press Release of Conversion Services International Inc., dated August 1, 2005 (filed as Exhibit 99.1 on Form 8-K on August 3, 2005).

99.2 Audited Combined Financial Statements for Integrated Strategies, Inc. and Affiliates for the year ended December 31, 2004 and reviewed combined financial statements for the year ended December 31, 2003.*

99.3 Unaudited Financial Statements of Conversion Services International, Inc. for the year ended December 31, 2004 and the six month period ended June 30, 2005.

* Filed herewith.

This Current Report on Form 8-K may contain, among other things, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, (i) statements with respect to the Company's plans, objectives, expectations and intentions; and (ii) other statements identified by words such as "may", "could", "would", "should", "believes", "expects", "anticipates", "estimates", "intends", "plans" or similar expressions. These statements are based upon the current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These forward-looking statements involve certain risks and uncertainties that are subject to change based on various factors (many of which are beyond the Company's control).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

October 11, 2005 CONVERSION SERVICES INTERNATIONAL, INC.

By: /s/ Scott Newman

Name: Scott Newman
Title: President and Chief Executive Officer

INTEGRATED STRATEGIES, INC. AND AFFILIATES

COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2004 AND 2003

INTEGRATED STRATEGIES, INC. AND AFFILIATES

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Members
Integrated Strategies, Inc. and Affiliates

We have audited the accompanying combined balance sheet of Integrated Strategies Inc. (an S corporation) and Affiliates (ISI Consulting, LLC and Integrated Realty, Inc.) as of December 31, 2004, and the related combined statements of operations, of equity and of cash flows for the year then ended. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integrated Strategies, Inc. and Affiliates as of December 31, 2004, and the results of their operation and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2003 financial statements were reviewed by us, and our report thereon, dated June 17, 2004, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

/s/ Tanton and Company LLP
Certified Public Accountants

March 22, 2005
New York, NY

INTEGRATED STRATEGIES, INC. AND AFFILIATES
COMBINED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003 (UNAUDITED)

ASSETS

	2004	(Unaudited) 2003
CURRENT ASSETS		
Cash and cash equivalents	$ 208,687	$ --
Accounts receivable	1,274,007	1,405,837
Loans receivable - officer	405,000	224,312
Prepaid expenses	8,241	--

Deferred income taxes asset	--	82,658
TOTAL CURRENT ASSETS	1,895,935	1,712,807
PROPERTY, PLANT AND EQUIPMENT, NET	16,423	37,186
OTHER ASSETS		
Deposits	12,987	12,987
TOTAL OTHER ASSETS	12,987	12,987
TOTAL ASSETS	$1,925,345	$1,762,980

The accompanying notes are an integral part of these financial statements

2

INTEGRATED STRATEGIES, INC. AND AFFILIATES
COMBINED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003 (UNAUDITED)

LIABILITIES AND COMBINED EQUITY

	2004	(Unaudited) 2003
CURRENT LIABILITIES		
Cash overdraft	$ --	$ 3,080
Note payable - line of credit	985,217	1,300,000
Accounts payable and accrued expenses	33,687	25,604
Accrued payroll and payroll taxes	36,665	126,955
Loans payable - officers	583,827	--
Income taxes payable	6,098	139,447
Deferred income taxes	47,000	--
TOTAL LIABILITIES	1,692,494	1,595,086
COMMITMENT AND CONTINGENCIES		
COMBINED EQUITY		
Common stock, no par value; 100 shares authorized issued and outstanding, Integrated Strategies, Inc.	21	21
Common stock, no par value; 100 shares authorized issued and outstanding, Integrated Realty, Inc.	2,100	2,100
Members' distributions, ISI Consulting, LLC	(1,200,000)	(1,200,000)
Retained earnings	1,430,730	1,365,773
TOTAL COMBINED EQUITY	232,851	167,894
TOTAL LIABILITIES AND COMBINED EQUITY	$ 1,925,345	$ 1,762,980

The accompanying notes are an integral part of these financial statements

INTEGRATED STRATEGIES, INC. AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (UNAUDITED)

	2004	(Unaudited) 2003
REVENUE	$ 5,203,123	$ 5,473,825
DIRECT COSTS AND EXPENSES	3,513,919	3,284,622
GROSS PROFIT	1,689,204	2,189,203
OPERATING EXPENSES		
General and administrative expenses	1,544,703	2,268,283
Depreciation expense	13,517	18,202
TOTAL OPERATING EXPENSES	1,558,220	2,286,485
OPERATING INCOME (LOSS)	130,984	(97,282)
OTHER INCOME (EXPENSES)		
Dividend income	29	1,159
Interest expense	(69,247)	(62,030)
TOTAL OTHER EXPENSES	(69,218)	(60,871)
INCOME (LOSS) BEFORE TAX EXPENSE	61,766	(158,153)
TAXES BENEFIT	3,191	149,564
NET INCOME (LOSS)	$ 64,957	$ (8,589)

The accompanying notes are an integral part of these financial statements

INTEGRATED STRATEGIES, INC. AND AFFILIATES

COMBINED STATEMENTS OF EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (UNAUDITED)

Common Stock and Members' Distributions

	Integrated Strategies, Inc.	Integrated Realty, Inc.	ISI Consulting, LLC	Retained Earnings	T
Balance, January 1, 2003	$ 21	$ --	$(1,200,000)	$ 1,374,362	$
Capital contributions	--	2,100	--	--	
Net loss	--	--	--	(8,589)	
Balance, December 31, 2003	21	2,100	(1,200,000)	1,365,773	
Net income	--	--	--	64,957	
Balance, December 31, 2004	$ 21	$ 2,100	$(1,200,000)	$ 1,430,730	$

The accompanying notes are an integral part of these financial statements

5

INTEGRATED STRATEGIES, INC. AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (UNAUDITED)

	2004	(Unaudited) 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 64,957	$ (8,589)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	13,517	18,202
Changes in operating assets and liabilities:		
Accounts receivable	131,830	663,142
Income taxes prepaid and payable	(133,349)	155,094
Prepaid expenses	(8,241)	3,016
Security deposit receivable	--	26,505
Accounts payable and accrued expenses	8,084	(209,191)
Accrued payroll and payroll taxes	(90,290)	(108,267)
Deferred income taxes asset and liability	129,658	(304,658)
NET CASH PROVIDED BY OPERATING ACTIVITIES	116,166	235,254
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(3,898)	--
Disposal of property and equipment	11,143	--
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,245	--
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable - line of credit	(1,300,000)	(3,573,160)
Proceeds from line of credit	985,217	3,116,160

Payments on note payable - vehicle	--	(23,820)
Loans from/to officers	403,139	(21,206)
Decrease in cash overdraft	(3,080)	3,080
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	85,276	(498,946)
NET INCREASE (DECREASE) IN CASH	208,687	(263,692)
CASH AND CASH EQUIVALENTS, BEGINNING	--	263,692
CASH AND CASH EQUIVALENTS, ENDING	$ 208,687	$ --
Supplemental disclosure of cash flows information:		
Interest paid	$ 68,648	$ 57,388

The accompanying notes are an integral part of these financial statements

6

INTEGRATED STRATEGIES, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (UNAUDITED)

NOTE 1 - Organization and Summary of Significant Accounting Policies

Organization

The accompanying combined financial statements include the accounts of Integrated Strategies, Inc. (an S Corporation) and its affiliates, ISI Consulting, LLC and Integrated Realty, Inc. These companies are related through common ownership and are collectively referred to herein as the "Company." All significant inter-company balances and transactions have been eliminated in combination. Integrated Strategies, Inc. ("Strategies") was formed in 1999 to provide management consultants to financial service organizations. ISI Consulting, LLC ("Consulting") was formed in 2001 to provide payroll administration services. Integrated Realty, Inc. ("Realty") was formed in 2002 to provide rental of office space.

Income Recognition

The Company recognizes revenue when services are provided.

Property and Equipment

Property and Equipment are recorded at cost. Depreciation is provided using accelerated methods over the estimated useful lives of the assets (5 to 7 years), starting from the date the equipment is placed in service.

Long-lived Assets

When indicators of impairment are present, the Company evaluates the carrying value of long-lived assets in relation to expected future undiscounted cash flows and will reduce the net book value to the fair value of the related assets, if appropriate. Impairment losses on long-lived assets are recognized when expected future cash flows are less than the asset's carrying value. There was no impairment as of December 31, 2004 and 2003.

Income Taxes

Integrated Strategies, Inc. has elected to be treated as a Subchapter S of the Internal Revenue Service whereby net income is taxed to the stockholders. New York also approved Strategies' election to be treated as a Subchapter S effective January 1, 2003. Strategies remains liable for local corporation tax. Integrated Consulting, LLC is a limited liability corporation. Consulting's federal and state taxable income is reported by its members. Consulting is liable for local corporation tax. Integrated Realty, Inc. is liable for federal, state and local corporation taxes.

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to different methods of accounting for income tax and financial statement reporting purposes. The Company uses the cash method for income tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

INTEGRATED STRATEGIES, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (UNAUDITED)

Cash and Cash Equivalents

The Company considers all highly-liquid instruments with original maturities when purchased of less than three months to be cash equivalents.

Advertising

The Company expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2004 and 2003 was $2,283, and $26,376, respectively.

Financial Statement Reclassification

Certain reclassifications were made to the financial statements for the year ended December 31, 2003 in order for them to be in conformity with year 2004 financial statements presentation. These reclassifications had no effect on the Company's net income or net worth for the year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 - Comprehensive Income/Loss

Statement of Financial Accounting Standards No. 130 ("SFAS No. 130") establishes the standards for reporting and display of comprehensive income (loss) and its components in the financial statements. Comprehensive income is defined to include all changes in combined equity except those resulting from investments from stockholders and members and distributions to stockholders and members. For the years ended December 31, 2004 and 2003, there was no material other comprehensive income/loss. Accordingly, comprehensive income/loss approximates the net income/loss.

NOTE 3 - Fair Value of Financial Instruments

The carrying value of the cash and cash equivalents, loans receivable/payable -officers, and note payable - line of credit approximates fair value because of the short maturity of those instruments.

NOTE 4 - Loans Receivable - Officers and Loans Payable - Officers

Loans receivable - officers are non-interest bearing and payable on demand. Loans payable - officers are non-interest bearing and receivable on demand.

NOTE 5 - Property and Equipment

Property and equipment at December 31, 2004 and 2003 consist of the following:

	2004	2003
Office equipment	$33,149	$71,234
Furniture and fixtures	--	20,534
	33,149	91,768
Less: accumulated depreciation	16,726	54,582
Property and equipment, net	$16,423	$37,186

NOTE 6 - Income Taxes

Deferred income taxes asset and (liability), net for the years ended December 31, 2004 and 2003 consist of the following:

	2004	2003
Federal	$ --	$ 97,433
State and local	(47,000)	(14,775)
Total	$(47,000)	$ 82,658

Provision for taxes benefit (expense) for the years ended December 31, 2004 and 2003 consists of the following:

INTEGRATED STRATEGIES, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (UNAUDITED)

	2004	2003
Federal: current	$ 97,433	$ --
State and local:		
Current	35,416	(436)
Deferred	(129,658)	150,000
Total	$ 3,191	$ 149,564

NOTE 7 - Notes Payable - Line of Credit

On August 31, 2004, the Company entered into a line of credit agreement with Commerce Bank which will mature on September 5, 2005, with a maximum credit line of $1,000,000 with an interest rate of prime plus 1%. The credit line is subject to several affirmative and negative covenants requirement as defined in the agreement. Commerce Bank has a contractual possessory security interest in all of the Company's deposits in Commerce Bank in accordance with the agreement. In addition, the credit line is guaranteed by an officer of the Company and the Company's affiliates. This line of credit paid off the Company's prior line of credit with First Union Bank which beared interest at the bank's prime rate. As of December 31, 2004 and 2003, the Company had outstanding balance of $985,217 and $1,300,000, respectively.

NOTE 8 - Concentration Risks

Credit Risks

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and trade accounts receivable.The Company maintains its cash in accounts, which exceed federally insured limits. The Company limits its credit risk by selecting financial institutions considered to be highly credit worthy. Accounts receivable are due from financial institutions. The Company does not require collateral; however, management performs ongoing credit evaluations of customer accounts.

NOTE 9 - Related Party Transactions

Officer's Loan

During the years ended December 31, 2004 and 2003, the Company had several loan transactions with two of the Company's officers. Loans receivable from officer was non-interesting bearing and had no set repayment terms. Loans payable to officers had no set repayment terms, but is subject to the covenants requirement defined in the line of credit agreement with Commerce Bank (See Note 7) which subordinates the loans payable to officers to the line of credit payable.

10

INTEGRATED STRATEGIES, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (UNAUDITED)

Professional Fees

During the years ended December 31, 2004 and 2003, the Company paid professional fees to two companies owned by Strategies' officers, which amounted to $160,098 and $413,907, respectively.

NOTE 10 - Customers

The Company's customer base consists of major financial institutions. Approximately 95% and 92% of the Company's sales for the years ended December 31, 2004 and 2003, respectively, were to a single customer.

NOTE 11 - Leasing Arrangements

The company has entered into an operating lease for an office facility which will expire on October 31, 2005. Rent expense under such lease approximated $29,408 and $28,202 for the years ended December 31, 2004 and 2003, respectively. Future annual minimum lease payments for the year ended December 31, 2005 was $23,302.

11

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our report on our audit of the basic combined financial statements of Integrated Strategies, Inc and Affiliates as of and for the year ended December 31, 2004 appears on page 1. The audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information contained in the schedules of direct costs and expenses and general and administrative expenses for the year ended December 31, 2004 is presented only for additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying supplementary information contained in the schedules of direct costs and expenses and general and administrative expenses for the year ended December 31, 2003 was reviewed by us, and is presented only for analysis purposes and has been subject to the inquiry and analytical procedures applied in the review of the basic financial statements. All information included in these schedules is the representation of the management of Integrated Strategies, Inc. and Affiliates. We did not become aware of any material modifications that should be made to this supplementary information.

/s/ Tanton and Company LLP

Certified Public Accountants

March 22, 2005
New York, NY

INTEGRATED STRATEGIES, INC. AND AFFILIATES

SCHEDULES OF DIRECT COSTS AND EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003 (UNAUDITED)

	2004	(Unaudited) 2003
DIRECT COSTS AND EXPENSES		
Salaries	$2,125,969	$2,420,948
Payroll taxes	141,400	150,032
Consulting fee	1,202,578	713,642
Commission	43,972	--
TOTAL DIRECT COSTS AND EXPENSES	$3,513,919	$3,284,622
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries	$ 743,195	$ 782,847
Payroll taxes	57,368	84,251
Rent	137,672	208,051
Professional fees	227,809	554,313
Advertising	2,283	26,376
Promotion	--	1,133
Office expenses	59,413	65,665
Postage and delivery	7,417	7,631
Telephone	14,612	29,861
Travel and entertainment	218,048	417,844
Officer life insurance	33,398	34,635
Insurance	28,587	44,378
Dues and subscriptions	2,494	2,837
Equipment rental	1,164	8,461
Contributions	11,243	--
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	$1,544,703	$2,268,283

See auditors' report on supplementary information

CONVERSION SERVICES INTERNATIONAL, INC.
Notes to Pro Forma Condensed Financial Statements

PRO FORMA FINANCIAL INFORMATION

The following Pro Forma Financial Statements are based on the historical financial statements of Conversion Services International, Inc. (the "Company"), McKnight Associates, Inc. ("McKnight"), and Integrated Strategies, Inc. and Affiliates ("ISI"), adjusted to give effect to the acquisitions of both McKnight and ISI by the Company. The Balance Sheet assumes the acquisitions occurred as of June 30, 2005. The Pro Forma Income Statements, for the year ended December 31, 2004 and the six months ended June 30, 2005, assume the acquisitions occurred as of the first day of the applicable period.

The pro forma financial information does not reflect certain anticipated cost savings resulting from the operation of McKnight and ISI by the Company. There can be no assurance that the Company will be able to realize any anticipated cost savings. The pro forma statements should be read in conjunction with the audited consolidated financial statements of the Company and the related notes thereto which are included in the Company's Form 10-KSB/A which was filed with the Securities and Exchange Commission on July 26, 2005.

CONVERSION SERVICES INTERNATIONAL, INC.
PRO FORMA CONDENSED BALANCE SHEET
JUNE 30, 2005
(IN THOUSANDS)
(Unaudited)

	Conversion Services Int'l	McKnight Associates	Integ Strateg and
ASSETS			
CURRENT ASSETS			
Cash	$ 646	$ 118	
Accounts receivable	4,306	386	
Accounts receivable from related parties	1,060	--	
Prepaid expenses	377	--	
TOTAL CURRENT ASSETS	6,389	504	
PROPERTY AND EQUIPMENT, at cost, net	540	3	
OTHER ASSETS			
Restricted cash	4,327	--	
Goodwill	4,691	--	
Deferred financing costs	575	--	
Intangible assets, net of accumulated amortization	2,996	--	
Discount on debt	5,681	--	
Due from affiliates	--	--	
Equity investments	192	--	
CSI investment in McKnight	--	--	
CSI investment in ISI	--	--	
Other assets	115	--	
	18,577	--	

	$ 25,506	$ 507	
LIABILITIES AND STOCKHOLDER'S EQUITY			
CURRENT LIABILITIES			
Line of credit	$ 3,414	$ --	
Current portion of long-term debt	134	--	
Deferred revenue	1,759	--	
Note payable	864	--	
Related party note payable	1,632	--	
Deferred taxes	--	--	
Accounts payable and accrued expenses	3,189	130	
TOTAL CURRENT LIABILITIES	10,992	130	
LONG-TERM DEBT, net of current portion	5,225	30	
Total Liabilities	16,217	160	
MINORITY INTEREST	80	--	
COMMITMENTS AND CONTINGENCIES	--	--	
STOCKHOLDER'S EQUITY			
Common stock, $.001 par value, 1,000,000 shares authorized, issued and outstanding	788	1	
CSI investment in McKnight	--	--	
CSI investment in ISI	--	--	
Additional paid in capital	47,911	21	
Accumulated other comprehensive income	4	--	
Retained earnings / Accumulated deficit	(39,494)	325	
	9,209	347	
	$ 25,506	$ 507	

	Pro forma Adjustments McKnight Associates	Pro forma Adjustments Integrated Strategies		El
ASSETS				
CURRENT ASSETS				
Cash	$ --	$ --		
Accounts receivable	--	--		
Accounts receivable from related parties	--	--		
Prepaid expenses	--	1	(2)	

TOTAL CURRENT ASSETS	--		1	
PROPERTY AND EQUIPMENT, at cost, net	(3)	(2)	--	
OTHER ASSETS				
Restricted cash	--		--	
Goodwill	1,163	(2)	1,764	(2)
Deferred financing costs	--		--	
Intangible assets, net of accumulated amortization	908	(2)	--	
Discount on debt	--		--	
Due from affiliates	--		(405)	(2)
Equity investments	--		--	
CSI investment in McKnight	--		--	
CSI investment in ISI	--		--	
Other assets	--		--	
	2,071		1,359	
	$ 2,068		$ 1,360	
LIABILITIES AND STOCKHOLDER'S EQUITY				
CURRENT LIABILITIES				
Line of credit	$ --		$ (580)	(2)
Current portion of long-term debt	--		--	
Deferred revenue	--		--	
Note payable	--		178	(2)
Related party note payable	--		--	
Deferred taxes	--		(34)	(2)
Accounts payable and accrued expenses	--		(3)	(2)
TOTAL CURRENT LIABILITIES	--		(439)	
LONG-TERM DEBT, net of current portion	(30)	(2)	(421)	(2)
Total Liabilities	(30)		(860)	
MINORITY INTEREST	--		--	
COMMITMENTS AND CONTINGENCIES	--		--	
STOCKHOLDER'S EQUITY				
Common stock, $.001 par value, 1,000,000 shares authorized, issued and outstanding	(1)	(2)	--	
CSI investment in McKnight	2,445	(2)	--	
CSI investment in ISI	--		2,113	(2)
Additional paid in capital	(21)	(2)	--	
Accumulated other comprehensive income	--		--	
Retained earnings / Accumulated deficit	(325)	(2)	107	(2)
	2,098		2,220	

	$ 2,068	$ 1,360

See Accompanying Notes to Pro Forma Financial Statements

CONVERSION SERVICES INTERNATIONAL, INC.
PRO FORMA STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2005
(IN THOUSANDS, except per share data)
(Unaudited)

	Conversion Services Int'l (Consolidated)	McKnight Associates	Integrated Strategies, Inc. and Subs (combined)	Pro forma Adjustments McKnight Associates	
REVENUE	$ 14,279	$ 1,403	$ 2,986		
COST OF REVENUE	9,447	880	2,086	--	
GROSS PROFIT	4,832	523	900	--	
OPERATING EXPENSES:					
Selling and Marketing	3,094	3	--	--	
General and administrative	3,563	224	1,192	--	
Research and development	476	--	--	--	
Depreciation & amortization	935	--	--	216	(3
OPERATING EXPENSES	8,068	227	1,192	216	
INCOME FROM OPERATIONS	(3,236)	296	(292)	(216)	
OTHER INCOME (EXPENSE), net	(3,221)	(1)	(37)	--	
INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST	(6,457)	295	(329)	(216)	
INCOME TAXES (BENEFIT)	--	--	8	31	(4
INCOME TAXES VALUATION ALLOWANCE	--	--	--	(31)	(4
INCOME (LOSS) BEFORE MINORITY INTEREST	$ (6,457)	$ 295	$ (337)	$ (216)	
MINORITY INTEREST	52	--	--	--	
PRO FORMA NET LOSS	$ (6,405)	$ 295	$ (337)	$ (216)	

PRO FORMA NET LOSS PER SHARE	$ (0.12)	$ 0.32	$ --	$ --
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN THE PRO FORMA NET LOSS PER SHARE CALCULATION	51,937,351(6)	909,091(6)	--	--

See Accompanying Notes to Pro Forma Financial Statements

CONVERSION SERVICES INTERNATIONAL, INC.
PRO FORMA STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004
(IN THOUSANDS, except per share data)
(Unaudited)

	Conversion Services Int'l (Consolidated)	McKnight Associates	Integrated Strategies, Inc. and Subs (combined)	Pro forma Adjustments McKnight Associates
REVENUE	$ 25,167	$ 2,987	$ 5,203	--
COST OF REVENUE	19,014	1,794	3,514	--
GROSS PROFIT	6,153	1,193	1,689	--
OPERATING EXPENSES:				
Selling and Marketing	4,088	16	--	--
General and administrative	6,819	991	1,544	--
Research and development	516	--	--	--
Goodwill and intangibles impairment	23,299	--	--	--
Depreciation & amortization	1,117	--	14	382 (3
OPERATING EXPENSES	35,839	1,007	1,558	382
INCOME FROM OPERATIONS	(29,686)	186	131	(382)
OTHER INCOME (EXPENSE), net	(3,052)	(3)	(69)	--
INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST	(32,738)	183	62	(382)
INCOME TAXES (BENEFIT)	191		(3)	(80)(4

INCOME TAXES VALUATION ALLOWANCE	--	--	--	80 (4
NET INCOME (LOSS) BEFORE MINORITY INTEREST	$ (32,929)	$ 183	$ 65	$ (382)
MINORITY INTEREST	68	--	--	--
PRO FORMA NET INCOME (LOSS)	$ (32,861)	$ 183	$ 65	$ (382)
PRO FORMA NET INCOME (LOSS) PER SHARE	$ (0.71)	$ 0.20	$ --	$ --
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN THE PRO FORMA NET INCOME (LOSS) PER SHARE CALCULATION	46,548,065(6)	909,091(6)	--	--

See Accompanying Notes to Pro Forma Financial Statements

The Company has determined that McKnight Associates, which was acquired by the Company on July 22, 2005, is not a significant subsidiary, and, as a result, has not filed the financial statements of the subsidiary in a separate Form 8-K filing.

1) The pro forma balance sheet reflects the assets and liabilities of McKnight and ISI as of June 30, 2005, adjusted to record acquired Goodwill and Intangible assets.

The following assets and liabilities were acquired by the Company as the result of the McKnight acquisition (in thousands):

Components of consideration:	
Common stock of the Company	$1,773
Cash	672
Total consideration	$2,445
Assets and liabilities acquired:	
Cash	$ 118
Accounts receivable	386
Intangible asset - customer relationship (2.5 year life)	685
Intangible asset - order backlog (5 month life)	50
Intangible asset - proprietary presentation format (3 year life)	173
Accounts payable and accrued expenses	(130)
Goodwill	1,163

The following assets and liabilities were acquired by the Company as the result of the ISI acquisition (in thousands):

Components of consideration:	
Cash paid at closing	$ 2,113
Subordinated promissory note	165
Promissory note	178
Total consideration	$ 2,456
Assets and liabilities acquired:	
Cash	$ 79
Accounts receivable	755
Prepaid expenses	4
Property and equipment, net	2
Security deposits	13
Accounts payable and accrued expenses	(161)
Goodwill	1,764

2) The pro forma balance sheet reflects adjustments to reflect the fair value of the assets and liabilities acquired from McKnight and ISI.

3) Adjustment to reflect the impact of pro forma amortization of acquired intangible assets.

4) Record pro forma income taxes at the Company's pro forma income tax rate of 40%. A valuation allowance was then applied against the pro forma income taxes for both 2004 and 2005 in accordance with the Company's practice during those periods.

5) Adjustment to pro forma general and administrative expenses of ISI in 2004 and 2005 to exclude the impact of the former owners/officers compensation expense. These individuals were not employed by the Company subsequent to the acquisition.

6) Issued and outstanding shares reflected on a post reverse-split basis. The Company effected a 1:15 reverse stock split in August 2005.

7) Pro forma adjustment to reflect consideration given up by Conversion Services International in order to acquire McKnight and ISI.