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CONVERSION SERVICES INTERNATIONAL INC

Form SB-2

May 03, 2005

As filed with the Securities and Exchange Commission on May 3, 2005
Registration No. 333-_____

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

FORM SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CONVERSION SERVICES INTERNATIONAL, INC.

(Name of small business issuer in its charter)

Delaware	7379	20-1010495
----- (State or jurisdiction of incorporation or organization)	----- (Primary Standard Industrial Classification Code Number)	----- (I.R.S. Employer Identification No.)

100 Eagle Rock Avenue
East Hanover, New Jersey 07936
Phone: (973) 560-9400
Fax: (973) 560-9500

(Address and telephone number of principal executive office)

Scott Newman
President and Chief Executive Officer
Conversion Services International, Inc.
100 Eagle Rock Avenue
East Hanover, New Jersey 07936
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(Name, address and telephone number of agent for service)

Copies to:

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Approximate date of proposed sale to the public: As soon as practicable after
the effective date of this Registration Statement.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	AMOUNT REGISTERED
shares of common stock, par value \$0.001 per share	96,048,182	\$0.25 (2)	\$2,401,204.70
shares of common stock, par value \$0.001 per share, underlying convertible notes	89,249,999	\$0.25 (3)	\$22,312,499.75
shares of common stock, par value \$0.001 per share, underlying warrants	6,000,000	\$0.29 (4)	\$1,740,000.00
shares of common stock, par value \$0.001 per share, underlying warrants	3,000,000	\$0.31 (4)	\$930,000.00
shares of common stock, par value \$0.001 per share, underlying warrants	3,000,000	\$0.35 (4)	\$1,050,000.00
shares of common stock, par value \$0.001 per share, underlying warrants	4,166,666	\$0.25 (4)	\$1,041,666.50
shares of common stock, par value \$0.001 per share, underlying warrants	6,000,000	\$0.25 (4)	\$1,500,000.00
TOTAL	207,484,847		\$6,595,370.95

(1) Also registered hereby are such additional and indeterminable number of shares as may be issuable due to adjustments for changes resulting from stock dividends, stock splits and similar changes, as well as anti-dilution provisions applicable to the convertible notes and warrants.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933.

(3) Represents the higher of: (i) the conversion prices of the notes and (ii)

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the offering price of securities of the same class as the common stock underlying the notes calculated in accordance with Rule 457(c) under the Securities Act, for the purpose of calculating the registration fee pursuant to Rule 457(g) under the Securities Act.

(4) Represents the higher of: (i) the conversion prices of the warrants and (ii) the offering price of securities of the same class as the common stock underlying the warrants calculated in accordance with Rule 457(c) under the Securities Act, for the purpose of calculating the registration fee pursuant to Rule 457(g) under the Securities Act.

The securities registered hereby will be made on a continuous or delayed basis in the future in accordance with Rule 415 under the Securities Act.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Subject to Completion
Preliminary Prospectus dated May 3, 2005

207,464,847 SHARES OF COMMON STOCK

OF

CONVERSION SERVICES INTERNATIONAL, INC.

This prospectus relates to the offering for resale of shares of our common stock by certain selling stockholders who received shares in Conversion Services International, Inc. (hereinafter referred to as CSI) in private financing transactions and acquisitions. These shares include 96,048,182 shares of outstanding common stock, up to 89,249,999 shares of common stock issuable upon the conversion of notes and up to 22,166,666 shares of common stock issuable upon the exercise of warrants.

We will bear all expenses, other than selling commissions and fees of the selling stockholders, in connection with the registration and sale of the shares being offered by this prospectus.

Our common stock is traded on the Over The Counter Bulletin Board under the symbol "CSII." The closing price of our common stock on April 28, 2005, was \$0.25.

In this prospectus, the terms "CSI," "we," or "us" each refer to Conversion Services International, Inc., which was formerly known as LCS Group, Inc. In January 2004, we merged with and into a wholly owned subsidiary of LCS. In connection with this transaction, among other things, LCS changed its name to "Conversion Services International, Inc."

The selling stockholders who wish to sell their shares of our common stock may offer and sell such shares on a continuous or delayed basis in the future.

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These sales may be conducted in the open market or in privately negotiated transactions and at market prices, fixed prices or negotiated prices. We will not receive any of the proceeds from the sale of the shares of common stock owned by the selling stockholders. However, we will receive proceeds, to be used for working capital purposes, upon the exercise of certain warrants held by certain selling stockholders.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. YOU SHOULD REVIEW CAREFULLY AND CONSIDER THE INFORMATION DESCRIBED UNDER THE HEADING "RISK FACTORS" BEGINNING ON PAGE 4.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Subject to Completion, dated ____ __, 2005

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

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Any prospective investor should not rely on any information not contained in this document. We have not authorized anyone to provide any other information to the contrary. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate as of and on the date of this document.

PROSPECTUS SUMMARY

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The following summary contains basic information about us and this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our common stock. For a more complete understanding of our company, our business and a possible investment in our common stock, you should read the entire prospectus carefully, including the Risk Factors starting on page 4.

OVERVIEW OF OUR BUSINESS

Conversion Services International, Inc. is a technology 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 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 through either fixed price or time and material engagements. We are committed to being a leader in data warehousing and business intelligence consulting, allowing us to be a valuable asset and trusted advisor to our customers.

OUR SERVICES

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

STRATEGIC CONSULTING

- o Project Management (PMO)
- o Data Warehousing and Business Intelligence Strategic Planning
- o Business Technology Alignment
- o Tool Analysis and Recommendation
- o Integration Management, Mergers and Acquisitions
- o Regulatory Compliance (The Health Insurance Portability and Accountability Act of 1996, Basel II, Sarbanes-Oxley)
- o Process Improvement (Lean, Six Sigma)
- o Organizational Analysis and Assessment (mergers and acquisitions)
- o Acquisition Readiness
- o Information, Process and Infrastructure (IPI) Diagrams
- o Request For Proposal creation and responses
- o Training and Education
- o Change Management Consulting

BUSINESS INTELLIGENCE

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- o Architecture and Implementation
- o Ad-Hoc Query and Analysis
- o Enterprise Reporting Solutions
- o Online Analytical Processing
- o Analytics and Dashboards

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- o Business Performance Management
- o Business Intelligence Competency Center
- o Proof of Concepts and Prototypes
- o Business Intelligence Strategy
- o Data Mining

DATA WAREHOUSING

- o Data Warehousing Design, Development and Implementation
- o Departmental Data Warehousing
- o Federated Data Warehousing
- o Conforming Facts/Dimensions
- o Proof of Concepts and Prototypes
- o Data Mart Delivery
- o Outsourcing
- o Extract, Transformation and Loading
- o Data Warehouse Framework

DATA MANAGEMENT

- o Data Quality Center of Excellence
- o Data Profiling
- o Data Quality / Cleansing
- o Data Transformation
- o Data Migrations and Conversions
- o Metadata Management
- o Enterprise Information Integration (EII)
- o Integration Management

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- o Enterprise Information Architecture
- o Quality Assurance Testing (Verification, Validation, Certification)
- o Infrastructure Management and Support
- o Application Development

See Business on page 17 for a detailed description of these offerings.

During the year ended December 31, 2004, two of our clients, Leading Edge Communications Corporation, a related party (15.2%), and Bank of America (15.9%), accounted collectively for approximately 31% of total revenues. For the year ended December 31, 2003, two of our clients, Morgan Stanley (11.2%) and Verizon Wireless (29.2%), accounted collectively for approximately 41% of our total revenues. Further, the majority of our current assets consist of accounts receivable, and as of December 31, 2004, two customers, Morgan Stanley and Verizon Wireless, accounted for 19% and 15% of our accounts receivable balance, respectively. With the recent acquisition of new businesses and our objective of acquiring more over the next year, we believe that our reliance on these clients will continue to decline this year and in the future. Nevertheless, the loss of any of our largest clients could have a material adverse effect on our business.

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PURPOSE OF THIS PROSPECTUS

This prospectus relates to the resale of shares of our common stock owned, or issuable upon conversion of notes or exercise of warrants, by certain selling stockholders who will use this prospectus to resell their shares of common stock. We will not receive any proceeds from sales by the selling stockholders. However, we will receive proceeds to be used for working capital purposes, upon the exercise of warrants held by certain selling stockholders. For further information about the selling stockholders, see "Selling Stockholders."

OUR CORPORATE INFORMATION

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

Our Corporate Information

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

THE OFFERING

COMMON STOCK OFFERED:

The selling stockholders are offering up to 207,464,847 shares of our common stock. The selling stockholders will determine when they will sell their shares. These shares include 96,048,182 shares of outstanding common stock, up to 89,249,999 shares of common stock issuable upon the conversion of notes and up to 22,166,666 shares of common

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stock issuable upon the exercise of warrants.

COMMON STOCK OUTSTANDING: We have 781,331,181 shares of common stock issued and outstanding as of April 28, 2005.

USE OF PROCEEDS: We will not receive any of the proceeds from the sale of shares of common stock offered by the selling stockholders. However, we will receive proceeds to be used for working capital purposes, upon the exercise of warrants held by certain selling stockholders.

TRADING MARKET: Our common stock is currently listed on the OTC Bulletin Board under the trading symbol "CSII."

RISK FACTORS: Investment in our common stock involves a high degree of risk. You should carefully consider the information set forth in the "Risk Factors" section of this prospectus as well as other information set forth in this prospectus, including our financial statements and related notes.

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RISK FACTORS

An investment in our securities is extremely risky. You should carefully consider the following risks, in addition to the other information presented in this prospectus, before deciding to buy our securities. If any of the following risks actually materialize, our business and prospects could be seriously harmed, the price and value of our securities could decline and you could lose all or part of your investment. The risks and uncertainties described below are intended to be the material risks that are specific to us and to our industry.

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, 2004, two of our clients, Leading Edge

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Communications Corporation (LEC), a related party (15.2%), and Bank of America (15.9%), accounted collectively for approximately 31% of total revenues. For the year ended December 31, 2003, two of our clients, Morgan Stanley (11.2%) and Verizon Wireless (29.2%), accounted collectively for approximately 41% of our total revenues. Further, the majority of our current assets consist of accounts receivable, and as of December 31, 2004, one customer, LEC, accounted for 15.6% of our accounts receivable balance. With the recent acquisition of new businesses and our objective of acquiring more over the next year, we believe that our reliance on these clients will continue to decline in the future. 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:

- o obtain additional contracts for projects similar in scope to those previously obtained from our clients;
- o be able to retain existing clients or attract new clients;
- o provide services in a manner acceptable to clients;
- o offer pricing for services which is acceptable to clients; or
- o 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.

OUR INTERNAL CONTROLS AND PROCEDURES HAVE BEEN MATERIALLY DEFICIENT, AND WE ARE IN THE PROCESS OF CORRECTING INTERNAL CONTROL DEFICIENCIES.

In the first quarter of 2005, resulting from comments related to the Company's Registration Statement on Form SB-2/A, the Company and its independent registered public accounting firm recognized that our internal controls had material weaknesses. We have restated our results of operations for the Company's quarterly results for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004. For further information concerning our internal controls, see Management's Discussion and Analysis or Plan of Operation.

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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 currently focused on remedying internal control deficiencies, 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 timing of the completion of these efforts. We cannot be certain that the 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.

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THE COMPANY MAY HAVE LIABILITY IN CONNECTION WITH ITS RECENT SECURITIES OFFERINGS.

We have completed various financings of which approximately \$11,259,000 is outstanding through the issuance of our common stock, as well as the issuance of notes and warrants convertible into our common stock, while another Registration Statement on Form SB-2 was on file with the SEC but had not yet been declared effective (those transactions were with certain investors of Taurus Advisory Group, LLC, Laurus Master Fund, Ltd. and three entities affiliated with Sands Brothers International Limited). We also issued our common stock in connection with the acquisition of Evoke Software Corporation during this time. Even though all stockholders, noteholders and warrant holders have been advised of their rights to rescind those financing transactions and they each have waived their rights to rescind those transactions, there is a remote possibility that each of those transactions could be reversed and the consideration received by us may have to be repaid. In such an event, our business could be adversely affected and we may have an obligation to fund such rescissions.

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 fiscal years ended December 31, 2004 and December 31, 2003, we sustained operating losses and cannot be sure that we will operate profitably in the future. During the fiscal year ended December 31, 2004, we sustained a net loss in the approximate amount of (\$32.9 million). \$23.3 million of the loss resulted from impairment of goodwill and intangibles for the year ended December 31, 2004 as a result of our annual impairment review for the DeLeeuw Associates and Evoke acquisitions (and goodwill recorded for other assets) (see Management's Discussion and Analysis or Plan of Operation - Goodwill Impairment). During the fiscal year ended December 31, 2003, we sustained a net loss in the approximate amount of (\$307,000). If we do not become profitable, we could have difficulty obtaining funds to continue our operations. We have incurred net losses since our merger with LCS Group, Inc. We may continue to generate losses from the ongoing business prior to returning the Company to profitability..

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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 April 28, 2005 is \$11,259,000, as described below in Management's Discussion and Analysis or Plan of Operation - Liquidity and Capital Resources. The degree to which we are leveraged could have important consequences to us, including the following:

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- o 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;
- o Our indebtedness increases our vulnerability to changes in general economic and industry conditions;
- o Our ability to obtain additional financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired;
- o 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
- o 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 Laurus Master Fund, Ltd. on many corporate actions including, but not limited to, mergers and acquisitions--which is part of our ongoing business strategy.

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 most 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 MAINTAIN OUR PRICING, UTILIZATION OF PERSONNEL AND CONTROL OUR COSTS. 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:

- o our clients' perceptions of our ability to add value through our services;
- o pricing policies of our competitors;

- o our ability to accurately estimate, attain and sustain engagement revenues, margins and cash flows over increasingly longer contract periods;

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- o the use of globally sourced, lower-cost service delivery capabilities by our competitors and our clients; and
- o 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.

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 continue to 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 contract 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

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liability from others may be impaired.

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FAILURE TO ACHIEVE AND MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT 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.

Commencing July 15, 2006, we will be 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 and a report by our independent registered public accounting firm addressing these assessments. During the course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act 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.

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 of 2002, new SEC regulations and exchange rules (although not, as of the date of this Registration Statement, 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 of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our independent registered public accounting firm's audit of that assessment will require the commitment of significant financial and managerial resources. We expect these efforts to require the continued commitment of significant 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

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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.

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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:

- o engage in more extensive research and development;
- o undertake more extensive marketing campaigns;
- o adopt more aggressive pricing policies; and
- o 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 near future, which could result in decreased pricing and other competition.

IF WE FAIL TO ADAPT TO THE RAPID TECHNOLOGICAL CHANGE CONSTANTLY OCCURRING IN THE AREAS IN WHICH WE PROVIDE SERVICES, INCLUDING DATA WAREHOUSING, OUR BUSINESS COULD BE ADVERSELY AFFECTED.

The market for information technology consulting services and data

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warehousing is rapidly evolving. Significant technological changes could render our existing services obsolete. We must adapt to this rapidly changing market by continually improving the responsiveness, functionality and features of our services to meet clients' needs. If we are unable to respond to technological advances and conform to emerging industry standards in a cost-effective and timely manner, our business could be materially and adversely affected.

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WE DEPEND ON OUR MANAGEMENT. 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, could adversely affect our business. We also depend upon the performance of our executive officers and key employees in particular, Messrs. Scott Newman, Glenn Peipert and Robert C. DeLeeuw. Although we have entered into employment agreements with Messrs. Newman, Peipert and DeLeeuw, the loss of any of these individuals could have a material adverse effect upon us. In addition, we have not obtained "key man" life insurance on the lives of Messrs. Newman, Peipert or DeLeeuw.

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:

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

We may 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

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raise additional capital through public or private equity or debt financings, collaborative relationships, bank facilities or other arrangements. We cannot assure you that such additional capital will be available on terms acceptable to us, if at all. Further, if we raise capital through an equity or debt financing at reduced exercise or conversion price, it could trigger certain anti-dilution provisions with other investors. 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.

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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.

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 other than distributions resulting from our past tax status as a Subchapter S corporation. 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, the security agreement with Laurus Master Fund, Ltd. requires that we obtain their consent prior to paying any dividends.

OUR MANAGEMENT GROUP OWNS OR CONTROLS A SIGNIFICANT NUMBER OF THE OUTSTANDING SHARES OF OUR COMMON STOCK AND WILL CONTINUE TO HAVE SIGNIFICANT OWNERSHIP OF OUR VOTING SECURITIES FOR THE FORESEEABLE FUTURE.

Scott Newman and Glenn Peipert, our principal stockholders and our executive officers and two of our directors, beneficially own approximately 37.7% and 19.2%, respectively, of our outstanding common stock. Robert C. DeLeeuw, our Senior Vice President and President of our wholly owned subsidiary, DeLeeuw Associates, LLC, owns approximately 10.2% of our outstanding common stock. As a result, these persons will have the ability, acting as a group, to effectively control our affairs and business, including the election of directors and subject to certain limitations, approval or preclusion of

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fundamental corporate transactions. This concentration of ownership of our common stock may:

- o delay or prevent a change in the control;
- o impede a merger, consolidation, takeover or other transaction involving us; or
- o discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

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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 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.

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

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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 its security measures, they 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.

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RISKS RELATING TO ACQUISITIONS

WE FACE INTENSE COMPETITION FOR ACQUISITION CANDIDATES, AND WE MAY 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 are expected to continue 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. Pursuant to a secured convertible term note dated August 16, 2004 with Laurus Master Fund, Ltd., as of April 28, 2005, the Company has approximately \$4.3 million in restricted cash available that may be used for acquisition targets only upon the approval of Laurus. As a result, our ability to fund acquisitions may be hindered further.

WE WILL ENCOUNTER DIFFICULTIES IN IDENTIFYING SUITABLE ACQUISITION CANDIDATES AND INTEGRATING NEW ACQUISITIONS.

A key element of our expansion 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

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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:

- o 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;
- o losses resulting from the on-going operations of these acquisitions could adversely affect our cash flow; and
- o 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.

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RISKS RELATING TO OUR COMMON STOCK

OUR RELATIONSHIP WITH OUR MAJORITY STOCKHOLDERS PRESENTS POTENTIAL CONFLICTS OF INTEREST, WHICH MAY RESULT IN DECISIONS THAT FAVOR THEM OVER OUR OTHER STOCKHOLDERS.

Our principal beneficial owners, Scott Newman, Glenn Peipert and Robert C. DeLeeuw, provide management and financial assistance to us. When their personal investment interests diverge from our interests, they and their affiliates may exercise their influence in their own best interests. Some decisions concerning our operations or finances may present conflicts of interest between us and these stockholders and their affiliated entities.

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. The OTCBB is an unorganized, inter-dealer, over-the-counter market which provides significantly less liquidity than NASDAQ and the national securities exchange, and quotes for securities quoted on the OTCBB are not listed in the financial sections of newspapers as are those for NASDAQ and the national securities exchange. In addition, the overall market for securities in recent years has experienced extreme price and volume fluctuations 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:

- o quarterly variations in operating results and achievement of key

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- business metrics;
- o changes in earnings estimates by securities analysts, if any;
- o any differences between reported results and securities analysts' published or unpublished expectations;
- o announcements of new contracts or service offerings by us or our competitors;
- o market reaction to any acquisitions, divestitures, joint ventures or strategic investments announced by us or our competitors;
- o demand for our services and products;
- o shares being sold pursuant to Rule 144 or upon exercise of warrants; and
- o 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.

THERE ARE LIMITATIONS IN CONNECTION WITH THE AVAILABILITY OF QUOTES AND ORDER INFORMATION ON THE OTCBB.

Trades and quotations on the OTCBB involve a manual process and the market information for such securities cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmation may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

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THERE ARE DELAYS IN ORDER COMMUNICATION ON THE OTCBB.

Electronic processing of orders is not available for securities traded on the OTCBB and high order volume and communication risks may prevent or delay the execution of one's OTCBB trading orders. This lack of automated order processing may affect the timeliness of order execution reporting and the availability of firm quotes for shares of our common stock. Heavy market volume may lead to a delay in the processing of OTCBB security orders for shares of our common stock, due to the manual nature of the market. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

PENNY STOCK REGULATIONS MAY IMPOSE CERTAIN RESTRICTIONS ON MARKETABILITY OF OUR SECURITIES.

The SEC has adopted regulations which generally define a "penny stock" to be any equity security that has a market price (as defined) 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 shares of common stock are subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established clients and "accredited investors". For transactions covered by these rules, the broker-dealer must make a special

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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 mandated by the SEC 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 shares of common stock and may affect the ability of investors to sell such shares of common stock in the secondary market and the price at which such investors can sell any of such shares.

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

- o control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- o manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- o "boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
- o excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and

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- o 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.

Our management is aware of the abuses that have occurred historically in the penny stock market.

THERE IS A RISK OF MARKET FRAUD.

OTCBB securities are frequent targets of fraud or market manipulation. Not only because of their generally low price, but also because the OTCBB reporting requirements for these securities are less stringent than for listed or NASDAQ traded securities, and no exchange requirements are imposed. Dealers may dominate the market and set prices that are not based on competitive forces. Individuals or groups may create fraudulent markets and control the sudden, sharp increase of price and trading volume and the equally sudden collapse of the market price for shares of our common stock.

THERE IS LIMITED LIQUIDITY ON THE OTCBB.

When fewer shares of a security are being traded on the OTCBB, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Due to lower trading volumes in shares of our common stock, there may be a lower likelihood of one's orders for shares of our common

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stock being executed, and current prices may differ significantly from the price one was quoted by the OTCBB at the time of one's order entry.

THERE IS A LIMITATION IN CONNECTION WITH THE EDITING AND CANCELING OF ORDERS ON THE OTCBB.

Orders for OTCBB securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTCBB. Due to the manual order processing involved in handling OTCBB trades, order processing and reporting may be delayed, and one may not be able to cancel or edit one's order. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

INCREASED DEALER COMPENSATION COULD ADVERSELY AFFECT THE STOCK PRICE.

The dealer's spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of shares of our common stock on the OTCBB if the stock must be sold immediately. Further, purchasers of shares of our common stock may incur an immediate "paper" loss due to the price spread. Moreover, dealers trading on the OTCBB may not have a bid price for shares of our common stock on the OTCBB. Due to the foregoing, demand for shares of our common stock on the OTCBB may be decreased or eliminated.

ADDITIONAL AUTHORIZED SHARES OF OUR COMMON STOCK AND PREFERRED STOCK AVAILABLE FOR ISSUANCE MAY ADVERSELY AFFECT THE MARKET.

We are authorized to issue 1 billion shares of our common stock. As of April 28, 2005, there were 781,331,181 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 April 28, 2005, we had 108,297,618 shares of common stock underlying convertible notes, and we have reserved shares of our common stock for issuance in connection with the potential conversion thereof. As of April 28, 2005, we had outstanding stock options and warrants to purchase approximately 63,432,647 shares of our common stock, the exercise price of which range between \$0.055 and \$0.35 per share, and we have reserved shares of our common stock for issuance in connection with the potential exercise thereof. Of the reserved shares, a total of 50 million shares are currently reserved for issuance in connection with our 2003 Incentive Plan, of which options to purchase an aggregate of 41,265,981 shares have been issued under the plan. A significant number of such options and warrants contain provisions for broker-assisted exercise. 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 in the form of, 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 may be adversely affected, and it should be expected that the holders of the convertible securities 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

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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 million shares of authorized preferred stock, the terms of which may be fixed by our Board of Directors. We presently have no issued and outstanding shares of preferred stock and while we have no present plans to issue any shares of preferred stock, 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 (Securities Act), subject to certain limitations. In general, pursuant to Rule 144, a stockholder (or stockholders whose shares are aggregated) who has satisfied a one-year holding period 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. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitation, by our stockholders that are non-affiliates that have satisfied a two-year holding period. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have material adverse effect on the market price of our securities.

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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis or Plan of Operation," and "Description of Business" in this prospectus are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements. Such factors include, among other things, those listed under "Risk Factors" and elsewhere in this prospectus.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or

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the negative of these terms or 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. Before you invest in our securities, you should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this prospectus 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 and you could lose all or part of your investment. 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. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

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BUSINESS

Conversion Services International, Inc. is a technology 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 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 unique combination of business acumen, technical proficiency, experience and a proven set of "best practices" methodologies to deliver cost effective services through either fixed price or time and material engagements. We are committed to being a leader in data warehousing and business intelligence consulting, allowing us to be a valuable asset and trusted advisor to our customers.

We believe that our primary strengths that distinguish us from our competitors are our:

- o understanding of data management solutions;
- o ability to provide solutions that integrate people, improve process and integrate technologies;
- o extensive service offerings as it relates to data warehousing, business intelligence, strategy and data quality;
- o our perspective regarding the accuracy of data and our data purification process,
- o best practices methodology, process and procedures;
- o experience in architecting, recommending and implementing large and complex data warehousing and business intelligence solutions; and
- o ability to establish centers of excellence within client organizations to address data quality and business intelligence.

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

- o enhance our brand and mindshare;
- o continue growth both organically and via acquisition;
- o increase our geographic coverage;
- o expand our client relationships;
- o introduce new and creative service offerings; and
- o 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.

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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 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." The acquisition was accounted for as a reverse acquisition. Please see Note 1 Accounting Policies of the Notes to Consolidated Financial Statements for further discussion on this transaction.

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 process improvements to help our clients realize their business goals and maximize their investments in people and technology.

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- 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.
- 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.
- Business Technology Alignment - A strategic offering that consists of a series of interviews including both the business and technology constituents. The purpose is to collect information regarding user satisfaction, user requirements and expectations, as well as the technology groups understanding of needs and current and future deliverables. The result is a document that outlines recommendations that will better align the user and technology groups and deliver more perceived value.
- Tool Analysis and Recommendation - Gather business and technical requirements and measure those requirements against the capabilities of available tools in the current marketplace. Tools evaluated and recommended include reporting, ad-hoc query, analytics, extract, transform and load processes (ETL), data profiling, database and data modeling.
- 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.
- Regulatory Compliance (The Health Insurance Portability and Accountability Act of 1996, Basel II, Sarbanes-Oxley) - Work with clients to analyze, design and implement operational control and procedures that will align the organization to meet new regulatory requirements.

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- 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.
- Organizational Analysis and Assessment (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

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gapping and implementing a strategic roadmap to integrate multiple companies.

- o Information, Process and Infrastructure (IPI) Diagrams - A blueprinting process and service that facilitates and accelerates the strategic planning process.
- o 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.
- o 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.
- o 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.

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.

- o Architecture and Implementation - Develop architecture plans and install all tools required to implement a business intelligence solution. Develop the business intelligence solution in tools such as Cognos, Business Objects, MicroStrategy, Crystal Reports and Spotfire.
- o Ad-Hoc Query and Analysis - Identify and document ad-hoc query requirements, architect a supporting database structure to support the identified hierarchies, implement an ad-hoc query tools, provide training and education.
- o Enterprise Reporting Solutions - Identify and document reporting requirements, architect a supporting database structure to support the identified hierarchies, implement an enterprise reporting tool, provide training and education.
- o Online Analytical Processing - Identify and document analytic requirements, architect a supporting database structure to support the identified hierarchies, drill-downs and slice and dice requirements, implement analytical tools, provide training and education.
- o 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.
- o 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.

- o 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.

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- o 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.
- o Business Intelligence Strategy - Helping clients develop a roadmap to leverage a business intelligence platform throughout the enterprise aligning the client with best practices.
- o 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 to humans. 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.

DATA WAREHOUSING: A consolidated view of enterprise data, making it simpler and more efficient to run queries over data that originally came from different sources.

- o Data Warehousing Design, Development and Implementation - Design, development and implementation of custom data warehouse solutions. These solutions are based on our methodology and best practices.
- o Departmental Data Warehousing - Design, development and implementation of custom data mart solutions. Data mart solutions typically encompass a subject area or department. These solutions are based on our methodology and best practices.
- o Federated Data Warehousing - When implementing a federated data warehouse environment, multiple data warehouses will be implemented to support multiple functions within an organization. Functional analysis will then be performed over multiple data warehouse environments.
- o Conforming Facts/Dimensions - Conformed dimensions can be used to analyze facts from two or more data marts. In a multi-data mart environment, all data marts require a "customer" dimension and a "time" dimension. If they are the same dimension, then you have conforming dimensions, allowing you to extract and manipulate facts relating to a particular customer from multiple marts. Conforming a fact is standardizing the definitions of terms across individual data marts. Often, different divisions or departments use the same

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term in different ways. This process leads a client to "the single version of the truth".

- o 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.
- o Data Mart Delivery - Design, development and implementation of custom data mart solutions. Data mart solutions typically encompass a subject area or department. These solutions are based on our methodology and best practices.
- o Outsourcing - Implementing and supporting a client data warehouse solution at a CSI location.
- o Extract, Transformation and Loading - We have expertise and best practices integrating ETL tools with other data warehouse tools, as well as leveraging ETL tools for each specific engagement.
- o Data Warehouse Framework - A concept that is applied to a data warehouse engagement whereby we will create an architecture document and best practices surrounding the integration of all tools utilized in a data warehouse implementation.

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DATA MANAGEMENT: Innovative solutions for moving data (information) throughout an enterprise (services include data conversions, system migrations and data warehousing).

- o 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.
- o Data Profiling - An automated data analysis process that significantly accelerates the data analysis process.
- o Data Quality/Cleansing - Leveraging our best practices to identify data quality concerns and provide rules to cleanse and purify the information.
- o Data Transformation - CSI has expertise and best practices performing data transformations. The tools typically include data profiling, ETL and data cleansing tools.
- o Data Migrations and Conversions - Design, development and implementation of custom data migrations. These solutions are based on our methodology and best practices.
- o Metadata Management - Based on our Data Warehouse Framework, we will build a metadata repository that is integrated with all tools used in a data warehouse implementation and will be leveraged by the business intelligence environment.

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- o Enterprise Information Integration (EII) - Enterprise Information Integration tools are used to integrate information by providing a logical view of data without moving any data. This is particularly useful when bridging a business intelligence tool to multiple data marts or data warehouses.
- o Integration Management - Creating a roadmap to integrate information across the enterprise, applications or business functions and implementing the roadmap.
- o Enterprise Information Architecture - Leveraging our Information, Process and Infrastructure (IPI) Diagrams to create a "snapshot" of the current information flow and desired implementation flow throughout the enterprise. The result is a strategic roadmap with recommendations and statements of work.
- o Quality Assurance Testing (Verification, Validation, Certification) - We have developed a quality assurance process referred to as Verification, Validation, Certification (VVC) of information. This is a repeatable process that will insure that all data has been validated to be accurate, consistent and trustworthy.
- o 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.
- o 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.

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The following illustrates the percentage of revenues provided by each category of services as a percentage of overall revenues:

Category of Services	Percentage of Revenues for the year ended December 31,	
	2004 ----	2003 ----
Strategic Consulting	34.1%	17.3%
Business Intelligence	21.6%	22.2%
Data Warehousing	15.9%	14.8%
Data Management	22.7%	45.7%
Software	5.4%	0.0%
Other	0.3%	0.0%

RECENT ACQUISITIONS

We will also continue to pursue strategic acquisitions that strengthen our ability to compete and extend our ability to provide clients with a core comprehensive services offering.

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In November 2003, the Company executed an Independent Contractor Agreement with Leading Edge Communications Corporation (LEC), whereby CSI agreed to be a subcontractor for LEC, and to provide consultants as required to LEC. In return for these services, CSI receives a fee from LEC based on the hourly rates established for consultants subcontracted to LEC.

In March 2004, through our subsidiary DeLeeuw Conversion LLC ("DeLeeuw Sub"), we acquired DeLeeuw Associates, Inc. ("DeLeeuw Associates"), a management consulting firm in the information technology sector with core competency in delivering Change Management Consulting, including both Six Sigma and Lean domain expertise to enhance service delivery, with proven process methodologies resulting in time to market improvements within the financial services and banking industries. The acquisition (the "DeLeeuw Acquisition") was completed pursuant to an Acquisition Agreement by and between CSI, DeLeeuw Associates and Robert C. DeLeeuw (the "Acquisition Agreement"). In connection with the DeLeeuw Acquisition, we: (i) paid Mr. DeLeeuw, as the sole stockholder of DeLeeuw Associates, \$1.9 million; and (ii) issued 80,000,000 shares of our common stock to Mr. DeLeeuw. DeLeeuw Sub changed its name to "DeLeeuw Associates, LLC." Please see Notes 1 and 3 of our Notes To Consolidated Financial Statements for further discussion on this transaction.

Integration of DeLeeuw's Change Management Consulting practices with CSI's Data Warehousing and Business Intelligence core competency "The Center for Data Warehousing" was completed in 2004. The Change Management, Six Sigma and Lean methodology have been introduced to our clients along with our innovative Information, Process and Infrastructure (IPI) Diagrams, which provide detailed blueprints of our client's information, business processes and infrastructure on a single highly detailed diagram. These diagrams can be utilized for risk management, compliance, validation, planning and budgeting requirements. The IPI diagram offering, launched in the first quarter of 2004, continues to receive favorable reaction from our clients. In addition, we expanded our Data Warehouse Assessment, Business Technology Alignment (BTA) and Quality Management Offering (QMO) related offerings in 2004, which will be the focus of our marketing and communications programs for 2005. A QMO offering is a combination of methodologies, best practices and automated techniques leveraged to establish and enforce standards and procedures as it relates to elevating the quality of executive information in an efficient and effective manner. We believe that these offerings will drive greater understanding and demand for both data warehousing and business intelligence implementations by delivering best practices methodologies, tools and techniques to reduce risk, time to market and total cost of ownership of these engagements. One component of our business strategy is to continue to enhance and expand our offerings which include best practices, process improvement, methodologies, advisory services and implementation expertise.

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In May 2004, CSI acquired 49% of all issued and outstanding shares of common stock of LEC. The acquisition was completed through a Stock Purchase Agreement between CSI and the sole stockholder of LEC. In connection with the acquisition, CSI (i) repaid a bank loan on behalf of the seller in the amount of \$35,000; (ii) repaid an LEC bank loan in the amount of \$38,000; and (iii) satisfied an LEC obligation for \$10,000 of prior compensation to an employee.

In June 2004, through our subsidiary Evoke Asset Purchase Corp. ("Acquisition Sub"), we acquired substantially all of the assets and assumed substantially all of the liabilities of Evoke Software Corporation, a privately-held California corporation ("Evoke") which designs, develops, markets and supports software programs for data analysis, data profiling and database migration applications and provides related support and consulting services. The

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acquisition (the "Evoke Acquisition") was completed pursuant to an Asset Purchase Agreement (the "Asset Purchase Agreement") by and between CSI, Acquisition Sub and Evoke. In connection with the Evoke Acquisition, we: (i) issued 72,543,956 shares of our common stock to Evoke, 7,150,000 of which have been deposited into an escrow account for a period of one year and may be reduced based upon claims for indemnification that may be made pursuant to the Asset Purchase Agreement; (ii) issued 5% of the outstanding shares of Acquisition Sub to Evoke; (iii) issued 3,919,093 shares of our common stock to certain executives of Evoke as a severance payment and to certain employees as retention shares; (iv) agreed to pay approximately \$0.5 million in deferred compensation (approximately \$0.2 million to be paid over a seven month period and the remainder to be paid over a twelve month period) to certain employees of Evoke; and (v) assumed substantially all of Evoke's liabilities. Acquisition Sub changed its name to "Evoke Software Corporation" and Evoke changed its name to WHRT I Corp. Before the merger, certain investors of Evoke invested \$0.55 million in Evoke, which investment was converted into approximately 5,500,000 shares of our common stock upon effectuation of the merger. Those approximately 5,500,000 shares issued to WHRT I Corp. are subject to a lock-up period after a Registration Statement on Form SB-2 is declared effective by the Securities and Exchange Commission, in which such shares shall be released and freely tradable one month following the effective date of our Registration Statement. The remainder of the shares issued to WHRT I Corp. are subject to a lock-up period after the Registration Statement is effective as follows (the following assumes the Registration Statement has been declared effective by the SEC): (i) 60% shall be released and freely tradable when a Registration Statement is declared effective (such Registration Statement is presently pending); (ii) 20% shall be released and freely tradable on July 1, 2005; and (iii) 20% shall be released and freely tradable on October 1, 2005. Please see Note 3 of our Notes to Consolidated Financial Statements for further discussion on this transaction.

Evoke is managed and operated as a majority-owned subsidiary company, but its integration is limited to infrastructure and back office operations. CSI has a license to use Evoke software products and has a multi-year record of leveraging the Evoke suite of products, which will continue under a Value Added Reseller and Systems Integration partnership. The data analysis and profiling technology developed and marketed by Evoke is receiving economic and development assistance from CSI to enhance and extend the current technology platform. As a result, Evoke released a new version of Axio in September 2004. The major emphasis will be on automating many of the project related tasks associated with data proofing, as well as the introduction of a workflow driving user interface to reduce the learning curve and increase time to proficiency. Evoke is planning to include data cleansing and operational data quality monitoring, as well as quality scorecard modules, to the existing data quality platform. The combined expertise and synergy between CSI and Evoke has also resulted in the introduction of value based services offerings. These offerings include: Best Practices Methodology, Quality Improvement Programs (QIP) and Quick Start Services Programs to accelerate Return on Investment and knowledge transfer.

We believe that as new opportunities are created, Global 2000 companies will continue the trend of expanding the utilization of external consulting expertise to support corporate initiatives focused on maximizing Return On Investment (ROI), leveraging existing technology infrastructure through optimizations and best practices and will continue to leverage and derive value from corporate information assets such as data warehousing, business intelligence and analytics. We believe that we are positioned to expand our client base by delivering business value resulting from our 15 years of domain expertise, proven best practices, methodologies, processes and automation within data warehousing architecture and implementation. Our ability to apply Six Sigma

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and Lean core competency to client processes and implementation strategies further strengthens our competitive standing. CSI, with the assistance of Evoke Axio, is well positioned to support the increasing industry emphasis on data quality and the use of automation to reduce the costs associated with data warehouse and business intelligence projects, data migrations and conversions, as well as packaged application implementations such as Enterprise Resource Planning (ERP), Customer Relationship Management (CRM) and Supply Chain Management (SCM) by leveraging the automation and validation gained by the use of data profiling technology.

RECENT FINANCINGS

In May 2004, pursuant to the complete conversion of a \$2.0 million unsecured convertible line of credit note issued in October 2003 at \$0.12 per share, Taurus Advisory Group, LLC ("Taurus") received 16,666,666 shares of our common stock, plus interest paid in cash. Because we failed to perform a private investment in public equity transaction by September 1, 2004, the conversion price on the October 2003 note was adjusted to a fixed conversion price of \$0.105 per share, and 2,380,953 additional shares of common stock were issued to Taurus. No additional proceeds were received by us. In addition, Taurus received a warrant to purchase 4,166,666 shares of our common stock, which has an exercise price of \$0.105 per share. This warrant expires in June 2009. Further in May 2004, we raised an additional \$2.0 million pursuant to a new five-year unsecured promissory note with Taurus. In June 2004, we replaced the May 2004 note by issuing a five-year \$2.0 million unsecured convertible line of credit note with Taurus. 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 \$0.105 per share.

In August 2004, we replaced our \$3.0 million line of credit with North Fork Bank with a revolving line of credit with Laurus Master Fund, Ltd. ("Laurus"), whereby we have access to borrow up to \$6.0 million based upon eligible accounts receivable. A portion of Laurus's revolving line of credit was used to pay off all outstanding borrowings from North Fork Bank. This revolving line, effectuated through a \$2.0 million convertible minimum borrowing note and a \$4.0 million revolving note, provides for advances at an advance rate of 90% against eligible accounts receivable, with an annual interest rate of prime rate (as reported in the Wall Street Journal) plus 1%, and matures in three years. We have no obligation to meet financial covenants under the \$2.0 million convertible minimum borrowing note or the \$4.0 million revolving note. The interest rate on these notes will be decreased by 1.0% for every 25% increase in our stock price above the fixed conversion price prior to an effective registration statement and 2.0% thereafter up to a minimum of 0.0%. This line of credit is secured by substantially all the corporate assets. Both the \$2.0 million convertible minimum borrowing note and the \$4.0 million revolving note provide for conversion at the option of the holder of the amounts outstanding into our common stock at a fixed conversion price of \$0.14 per share. In the event that we issue common stock or derivatives convertible into our common stock for a price less than the aforementioned fixed conversion price, then the fixed conversion price is reset using a weighted average dilution calculation.

Additionally, in exchange for a secured convertible term note bearing interest at prime rate (as reported in the Wall Street Journal) plus 1%, Laurus has made available to us an additional \$5.0 million to be used for acquisitions. We have no obligation to meet financial covenants under the \$5.0 million secured convertible term note. This note is convertible into our common stock at a fixed conversion price of \$0.14 per share. In the event that we issue common stock or derivatives convertible into our common stock for a price less than the fixed

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conversion price, then the fixed conversion price is reset to the lower price on a full-ratchet basis. This note matures in three years. The proceeds of this loan are restricted for use for approved acquisition targets identified by us that are approved by Laurus. We issued Laurus a common stock purchase warrant that provides Laurus with the right to purchase 12.0 million shares of our common stock. The exercise price for the first 6.0 million shares acquired under the warrant is \$0.29 per share, the exercise price for the next 3.0 million shares acquired under the warrant is \$0.31 per share, and the exercise price for the final 3.0 million shares acquired under the warrant is \$0.35 per share. The common stock purchase warrant expires on August 15, 2011. We paid \$0.75 million in brokerage and transaction closing related costs. These costs were deducted from the \$5.0 million restricted cash balance being provided to us by Laurus. As a result of the beneficial conversion feature, a discount on debt issued of \$5.6 million was recorded and is being amortized to interest expense over the three year life of the debt agreement. An early termination fee is due to Laurus in an amount equal to five percent (5%) of the total investment amount if such termination occurs prior to the first anniversary of the closing, four percent (4%) if such termination occurs after the first anniversary but prior to the second anniversary, and three percent (3%) if after the second anniversary.

The fair value of the 12.0 million warrants was determined to be \$2.0 million using the Black-Scholes option pricing model. The assumptions used in the fair value calculation were as follows: stock prices of \$0.21, exercise prices of \$0.29, \$0.31 and \$0.35 (as applicable), term of seven years, volatility (annual) of 150.65%, annual rate of quarterly dividends of 0%, a risk free rate of 1.33%, and the fair value per share of the warrants was accordingly calculated to be \$0.20. The Company will amortize this relative fair value of the warrants to interest expense over the three-year life of the debt agreement.

Under the Laurus agreement, the Company was obligated to ensure that the shares provided for issuance under the agreement were properly registered by December 19, 2004. As a result of the Company's Registration Statement not being declared effective prior to this date, the Company is incurring liquidated damages to Laurus in an amount equal to 1% for each thirty day period (prorated for partial periods) on a daily basis of the sum of (x) the original aggregate principal amount of the term note plus (y) the original principal amount of each applicable minimum borrowing note. While such event continues, such liquidated damages shall be paid not less often than each thirty days. Any unpaid liquidated damages as of the date when an event has been cured by the Company shall be paid within three days following the date on which such event has been cured by the Company. As a result, the Company has recorded a charge in December 2004 for approximately \$44,000.

In September 2004, we issued to Sands Brothers Venture Capital LLC, Sands Brothers Venture Capital III LLC and Sands Brothers Venture Capital IV LLC (collectively, "Sands") three subordinated secured convertible promissory notes equaling \$1.0 million (the "Notes"), each with an annual interest rate of 8% expiring September 22, 2005. The Notes are secured by substantially all corporate assets, subordinate to Laurus. The Notes are convertible into shares of our common stock at the election of Sands at any time following the consummation of a convertible debt or equity financing with gross proceeds of \$5.0 million or greater (a "Qualified Financing"). The conversion price of the shares of our common stock issuable upon conversion of the Notes shall be equal to a price per share of common stock equal to forty percent (40%) of the price of the securities issued pursuant to a Qualified Financing. If no Qualified Offering has been consummated by September 8, 2005, then Sands may elect to convert the Notes at a fixed conversion price of \$0.14 per share. In the event that we issue stock or derivatives convertible into our stock for a price less than the aforementioned fixed conversion price, then the fixed conversion price is reset using a weighted average dilution calculation. We also issued Sands three common stock purchase warrants (the "Warrants") providing Sands with the right to purchase 6.0 million shares of our common stock. The exercise price of

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the shares of our common stock issuable upon exercise of the Warrants shall be equal to a price per share of common stock equal to forty percent (40%) of the price of the securities issued pursuant to a Qualified Financing. If no Qualified Offering has been consummated by September 8, 2005, then Sands may elect to exercise the Warrants at a fixed conversion price of \$0.14 per share. The latest that the Warrants may expire is September 8, 2008. Finally, we engaged Sands Brothers International Limited as our non-exclusive financial advisor at \$6,000 per month for a period of one year.

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On November 8, 2004, we entered into a Stock Purchase Agreement (the "Agreement") with a private investor, CMKX-treme, Inc. Pursuant to the Agreement, CMKX-treme, Inc. agreed to purchase 12.5 million shares of common stock for a purchase price of \$1.75 million. Under the terms of the Agreement, CMKX-treme, Inc. initially purchased 3,571,428 shares of common stock for \$0.5 million, and it was required to purchase the remaining 8,928,572 shares of Common Stock for \$1.25 million by December 31, 2004. As of March 17, 2005, CMKX-treme, Inc. remitted final payment for the remaining 8,928,572 shares.

CLIENTS

For 15 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, 2004, two of our clients, Leading Edge Communications Corporation, a related party, (15.2%) and Bank of America (15.9%), accounted collectively for approximately 31% of total revenues. For the year ended December 31, 2003, two of our clients, Morgan Stanley (11.2%) and Verizon Wireless (29.2%), accounted collectively for approximately 41% of our total revenues. As we continue to pursue and consummate acquisitions, our dependence on these customers should be less significant. We do not have long-term contracts with any of these customers. 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 director of marketing and corporate communications, public relations firm, and our sales force comprised of 10 employees, and we also receive new business through client referrals. We are using the public relations firm in order to expand our brand awareness, and are further engaging, or expect to engage, in the following sales related programs and activities:

- o Web Site Promotion: Our website (www.csiwhq.com) has recently been reformatted to reflect our vision and business plan. We are currently promoting our website through various internet search engines.
- o Trade Show Participation: We expect that exposure in trade shows should further solidify our position in our industry. In the proper setting, the trade show can be viewed as a mobile mini-showroom concept to demonstrate our services. There are a number of significant trade show events within our target industry that provide significant exposure to prospective customers in major metropolitan markets, media and press exposure and collaborative networking with technology partners. As with most trade show events,

the higher level of sponsorship, the greater exposure and benefits received, such as the location of our booth, banner and advertising space. We participated as a Gold Level Sponsor for the Digital Consulting Institute (DCI) Customer Relationship Management Conference and Technology Showcase in New York in May 2004, and we participated as Gold Level Sponsor for DCI's Business Intelligence and Data Warehouse Conference in Boston in September 2004.

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- o Seminars with Vendors: We expect that joint seminars with leading software vendors should also stimulate new business lead generations. We also expect to enhance our perception as experts in individual product areas.
- o Vendor Relations: We are continually identifying key vendor relationships. With the ability to leverage our 15 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 currently maintain relationships with the following:

DATABASE VENDORS:

IBM- We are an Indirect Passport Advantage Reseller Partner which enables us to resell IBM software products. We also employ consulting staff trained and certified in IBM technology.

ORACLE- We are part of the Oracle Partner Program (OPP) as a Certified Solution Provider (CSP). We also employ certified Oracle professionals and our partnership allows us to utilize Oracle support channels for technical advisement.

MICROSOFT- We are a Microsoft Certified Solution Provider. We maintain the required number of Microsoft certified professionals to hold this designation.

SYBASE- We have a Systems Integration Agreement and employ professionals trained in the vendor's technology.

BUSINESS INTELLIGENCE VENDORS:

BUSINESS

OBJECTS- We are a Systems Integration and Reseller Partner. We employ and maintain a staff of professionals that are certified in the vendor's technology. In addition, we are a Certified Onsite Education Partner, which allows us to directly market and provide a certified training partner, which enables us to provide onsite training classes in the respective vendor technology.

COGNOS- We are a Systems Integration and Reseller Partner. We employ and maintain a staff of professionals that are

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certified in the vendor's technology.

MICROSTRATEGY- We are a Systems Integration and Reseller Partner. We employ and maintain a staff of professionals that are certified in the vendor's technology.

SPOTFIRE- We are a Systems Integration and Reseller Partner. We employ and maintain a staff of professionals that are certified in the vendor's technology.

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DATA WAREHOUSING VENDORS:

INFORMATICA- We are a Systems Integration and Reseller Partner. We employ and maintain a staff of professionals that are certified in the vendor's technology.

ASCENTIAL
SOFTWARE- We are a Systems Integration and R