Computer Software Innovations, Inc.
Form SC 14D9
October 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14D-9

Solicitation/Recommendation Statement

under Section 14(d)(4) of the

Securities Exchange Act of 1934

COMPUTER SOFTWARE INNOVATIONS, INC.

(Name of Subject Company)

COMPUTER SOFTWARE INNOVATIONS, INC.

(Names of Persons Filing Statement)

Common Stock, Par Value $0.001 per share

(Title of Class of Securities)

205395106

(CUSIP Number of Class of Securities)

David B. Dechant

Chief Financial Officer

900 East Main Street, Suite T, Easley, South Carolina 29640

(864) 855-3900

(Name, address and telephone number of person authorized to receive

notices and communications on behalf of the persons filing statement)

With copies to:

William L. Pitman, Esq.

Smith Moore Leatherwood LLP

300 E. McBee Avenue, Suite 500

Greenville, South Carolina 29601

¨ Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

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Item 1. Subject Company Information.

Name and Address

The name of the subject company is Computer Software Innovations, Inc., a Delaware corporation (CSI or the Company). Unless the context indicates otherwise, we use the terms us, we, and our to refer to the Company. The address of the Company s principal executive office is 900 East Main Street, Suite T, Easley, South Carolina 29640. The telephone number of the Company s principal executive office is (864) 855-3900.

Classes of Securities

The titles of the classes of equity securities to which this Solicitation/Recommendation Statement on Schedule 14D-9 (this Schedule 14D-9) relates are the Company s shares of Common Stock, par value $0.001 per share (the Company Common Stock) and the Company s shares of Series A Convertible Preferred Stock, par value $0.001 per share (the Company Preferred Stock and together with the Company Common Stock, the Shares or Company Capital Stock). As of October 1, 2012, there were 6,733,191 shares of Company Common Stock outstanding and 6,590,736 shares of Company Preferred Stock outstanding.

Item 2. Identity and Background of Filing Person.

Name and Address of Person Filing this Statement

The Company is the subject company and the person filing this Schedule 14D-9. The Company s name, address and business telephone number are set forth in Item 1 under the heading Name and Address. The Company s website address is http:// www.csioutfitters.com. The Company s website and the information on or connected to the Company s website are not a part of this Schedule 14D-9, are not incorporated by reference herein and should not be considered a part of this Schedule 14D-9.

Tender Offer

This Schedule 14D-9 relates to the tender offer by NHCC Merger Corp., a Delaware corporation (Merger Sub), which is a wholly-owned subsidiary of N. Harris Computer Corporation, a company organized under the Business Corporations Act (Ontario) (Parent or Harris), to purchase all outstanding shares of the Company Capital Stock, at a price per share of $1.10 cash, without interest (the Offer Price) and less any applicable withholding taxes, upon the terms and subject to the conditions set forth in the offer to purchase, dated October 10, 2012 (as it may be amended or supplemented from time to time, the Offer to Purchase), and the related letter of transmittal (as it may be amended or supplemented from time to time, the Letter of Transmittal and, together with the Offer to Purchase, the Offer). The Offer is described in a Tender Offer Statement on Schedule TO (as amended or supplemented from time to time, the Schedule TO), filed by Parent and Merger Sub with the U.S. Securities and Exchange Commission (the SEC) on October 10, 2012. The Offer to Purchase and the Letter of Transmittal are filed as Exhibits (a)(1)(A) and (a)(1)(B) to this Schedule 14D-9, respectively, and are incorporated by reference herein.

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The Offer is being made pursuant to the Agreement and Plan of Merger, dated as of October 2, 2012, by and among Parent, Merger Sub, the Company, and, solely for the purposes of Section 9.14 thereof, Constellation Software Inc., a company organized under the Business Corporations Act (Ontario) (Guarantor or Constellation) (as such agreement may be amended or supplemented from time to time in accordance with its terms, the Merger Agreement). The Merger Agreement provides, among other things, that as soon as practicable following the completion of the Offer and satisfaction or waiver of the remaining applicable conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company (the Merger). As a result of the Merger, the separate corporate existence of the Merger Sub will cease and the Company will continue its corporate existence under the General Corporation Law of the State of Delaware (the DGCL) as the surviving corporation in the Merger (the Surviving Corporation). In the Merger, each outstanding share of Company Capital Stock, other than shares of Company Capital Stock owned by Parent or Merger Sub, by the Company as treasury stock or by stockholders who have validly exercised their appraisal rights under the DGCL, will be cancelled and converted into the right to receive cash in an amount equal to the Offer Price. In addition, the Company is required to provide, prior to the effective time of the Merger (the Effective Time), for the cancellation of all options, whether vested or unvested, to purchase Company Capital Stock. Accordingly, the Company intends to enter into agreements with all option holders whereby, upon the consummation of the Merger, all such options will be canceled and converted into the right to receive cash in the amount of the excess, if any, of the Offer Price over the exercise price. All out of the money stock options would be canceled for a nominal sum.

The initial expiration date of the Offer is at the end of Tuesday, November 6, 2012, subject to extension in certain circumstances as required or permitted by the Merger Agreement, the SEC or applicable law.

The foregoing summary of the Offer is qualified in its entirety by the more detailed description and explanation contained in the Offer to Purchase and the Letter of Transmittal.

Harris has formed Merger Sub solely for the purpose of engaging in the transaction contemplated by the Merger Agreement, including the Offer and the Merger. To date, Merger Sub has not carried on any activities other than those related to its formation, the Merger Agreement, the Offer, the Top-Up Option (as defined in Item 8 under the heading Additional Information-Top-Up Option), the Merger and the other transactions contemplated by the Merger Agreement. The Offer to Purchase states that the principal executive office and phone number of Harris and Merger Sub is 20 Adelaide Street East, Suite 1200, Toronto, Ontario, Canada, M5C 2T6 and (416) 861-2279.

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Item 3. Past Contacts, Transactions, Negotiations and Agreements.

Arrangements Between the Company, Harris and Merger Sub

Merger Agreement

On October 2, 2012, the Company, Harris, Merger Sub, and solely for the purposes of Section 9.14 thereof, Constellation entered into the Merger Agreement. The summary of the Merger Agreement and the description of the terms and conditions to the Offer and related procedures and withdrawal rights contained in the Offer to Purchase are incorporated by reference herein. Such summary and description do not purport to be complete and are qualified in their entirety by reference to the Merger Agreement, which is filed as Exhibit (e)(1) to this Schedule 14D-9 and is incorporated by reference herein.

The Merger Agreement has been provided solely to inform investors of its terms. Factual disclosures about Harris, Merger Sub, Constellation or the Company or any of their respective affiliates contained in this Schedule 14D-9, in their respective filings with the SEC and otherwise, as applicable, may supplement, update or modify the factual disclosures about Harris, Merger Sub, Constellation and the Company or any of their respective affiliates contained in the Merger Agreement. The representations, warranties, covenants and conditions made and agreed to in the Merger Agreement by Harris, Merger Sub, Constellation and the Company were qualified and subject to important limitations agreed to by Harris, Merger Sub, Constellation and the Company in connection with negotiating the terms of the Merger Agreement. In particular, the representations and warranties and certain closing conditions contained in the Merger Agreement and incorporated by reference into this Schedule 14D-9 were negotiated with the principal purposes of establishing the circumstances in which a party to the Merger Agreement may have the right not to complete the Offer or consummate the Merger if the representations and warranties or conditions of the other party prove to be untrue due to a change in circumstance or otherwise, and allocating risk between the parties to the Merger Agreement, rather than establishing matters of fact. The representations and warranties set forth in the Merger Agreement may also be subject to a contractual standard of materiality different from that generally applicable to stockholders and reports and documents filed with the SEC and in some cases were qualified by disclosures that were made by each party to the other, which disclosures were not reflected in the Merger Agreement. Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this Schedule 14D-9, may have changed since the date of the Merger Agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this Schedule 14D-9.

The Company s stockholders and other investors are not third-party beneficiaries under the Merger Agreement and should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or conditions of the Company, Harris, Merger Sub or any of their respective subsidiaries or affiliates on any date.

Representation on the Board

Upon the purchase of Company Capital Stock pursuant to the Offer, the Merger Agreement provides that Parent will, subject to the qualifications for directors set forth in the Company s

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Amended and Restated Bylaws and the Merger Agreement, be entitled to designate the number of directors, rounded up to the next whole number, on the Company Board that equals the product of (i) the total number of directors on the Company Board (giving effect to the election of any additional directors designated by the Parent) and (ii) the percentage that the number of shares of Company Capital Stock beneficially owned by Parent and/or Merger Sub (including shares accepted for payment) bears to the total number of shares of Company Capital Stock outstanding. The Company has agreed that, at the request of Parent, the Company will cause Parent s designees to be elected or appointed to the Company Board, including by increasing the number of directors and seeking and accepting resignations of incumbent directors. In addition, the Company has agreed to cause individuals designated by Parent to constitute the number of members, rounded up to the next whole number, on each committee of the Company Board that represents the same percentage as such individuals represent on the Company Board.

Following the election or appointment of Parent s designees and until the Effective Time, the approval of a majority of the directors of the Company then in office who were not designated by Parent shall be required to authorize:

- any termination of the Merger Agreement by the Company;
- any amendment of the Merger Agreement requiring action by the Company s Board;
- any extension of time of performance of any obligation or action under the Merger Agreement by Parent or Merger Sub; and
- any waiver of compliance with any of the agreements or conditions contained in the Merger Agreement for the benefit of the Company.

Confidentiality Agreement

The Company and Constellation entered into a confidentiality agreement dated May 10, 2012 (the Confidentiality Agreement) in connection with a potential negotiated transaction between the parties. Pursuant to the Confidentiality Agreement, Constellation agreed to, among other things and subject to certain exceptions, keep confidential information furnished to it and its representatives by or on behalf of the Company, and to use such information solely for the purpose of evaluating a possible transaction with the Company.

Pursuant to the Confidentiality Agreement, Constellation also agreed that until the earlier of (1) August 9, 2012 or (2) such shorter period as may be agreed to by the Company with any third party, unless expressly authorized by the Company or the Board in writing, Constellation shall not (and shall cause its affiliates not to and shall cause its and their respective representatives acting at its and their respective behalf not to):
(a) acquire or make any proposal to acquire beneficial ownership of any securities of the Company or rights thereto, any right to vote or to direct the voting of any securities of the Company or any assets of the Company; (b) make any solicitation of proxies or consents to vote, or seek to advise or influence any person with respect to the voting of, any voting securities of the Company; (c) form, join or in any way participate in a group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) with respect to any voting securities of the Company; (d) otherwise act to

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seek to control, advise, change or influence the management, board of directors, governing instruments, policies or affairs of the Company; (e) make any public disclosure, or take any action that could require the Company to make any public disclosure, with respect to any of the matters set forth in the Confidentiality Agreement; (f) disclose any intention, plan or arrangement inconsistent with the foregoing; or (g) have any discussions or enter into any arrangements with, or advise, assist or encourage any other persons in connection with any of the foregoing.

On August 6, 2012, CSWI and Constellation entered into an amendment to the Confidentiality Agreement (the Confidentiality Agreement Amendment) pursuant to which the foregoing standstill provision was extended to September 30, 2012 and the Company granted Constellation exclusivity until September 30, 2012.

This summary does not purport to be complete and is qualified in its entirety by reference to the Confidentiality Agreement and the Confidentiality Agreement Amendment, which are filed as Exhibit (e)(7) and Exhibit (e)(8), respectively, to this Schedule 14D-9 and incorporated by reference herein.

Arrangements Between the Company and its Current Executive Officers, Directors and Affiliates

Overview

Certain of the Company s executive officers and directors have financial interests in the transactions contemplated by the Merger Agreement, including the Offer and the Merger, that are different from, or in addition to, the interests of the Company s stockholders generally. The Board was aware of these potentially differing interests and considered them, among other matters, in evaluating and negotiating the Merger Agreement and in reaching its decision to approve the Merger Agreement and the transactions contemplated by the Merger Agreement.

For further information with respect to the arrangements between the Company and its named executive officers, see the information included in Item 8 under the heading Additional Information Golden Parachute Compensation, which is incorporated by reference herein.

Effect of the Offer and the Merger Agreement on Stock Options

Under the Merger Agreement, the Company is required to provide, prior to the Effective Time of the Merger, for the cancellation of all options, whether vested or unvested, to purchase Company Capital Stock. Accordingly, the Company intends to enter into agreements with all option holders, including executive officers, whereby upon the consummation of the Merger, all such options will be canceled and converted into the right to receive cash in the amount of the excess, if any, of the Offer Price over the exercise price. Payment for the cancellation of in the money stock options will be made by the Surviving Corporation as promptly as reasonably practicable after the Effective Time in cash. Pursuant to the option and cancellation agreements, out of the money options will simply be canceled at the Effective Time. Holders of out of the money Company Stock Options will receive a nominal sum at time of the execution of the option cancellation agreements as consideration for entering into such agreements.

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The table below sets forth a number of outstanding vested and unvested Company Stock Options held by the Company s executive officers as of October 1, 2012, and the estimated consideration that each of them would receive after the Effective Time in connection with the cancellation of, and payment for, such Company Stock Options pursuant to the Merger Agreement and the option cancellation agreements as described above. As of such date, none of the Company s non-employee directors held any Company Stock Options. The table below assumes continued service through the Effective Time.

		Vested Options		Unvested Options		
Named Executive Officer	**Expiration Date**	**Number of Shares**	**Exercise Price Per Share**	**Number of Shares**	**Exercise Price Per Share**	**Total Consideration**
Nancy K. Hedrick	04/17/2019	50,000	$ 0.70			$ 20,000.00
Thomas P. Clinton	06/01/2021	8,334	$ 0.70			$ 3,333.60
	06/01/2021			16,666	$ 0.700	$ 6,666.40
	06/01/2022			100,000	$ 0.735	$ 36,500.00
William J. Buchanan	06/01/2021	8,334	$ 0.70			$ 3,333.60
	06/01/2021			16,666	$ 0.700	$ 6,666.40
	06/01/2022			75,000	$ 0.735	$ 27,375.00
Beverly N. Hawkins	06/01/2022			75,000	$ 0.735	$ 27,375.00
David B. Dechant	11/09/2017	25,000	$ 1.42			
	06/01/2020	20,000	$ 0.70			$ 8,000.00
	06/01/2021	6,668	$ 0.70			$ 2,667.20
	06/01/2020			10,000	$ 0.700	$ 4,000.00
	06/01/2021			13,332	$ 0.700	$ 5,332.80
	06/01/2022			50,000	$ 0.735	$ 18,250.00
All Executive Officers as a Group (5 persons)		118,336		356,664		$ 169,500.00

Employment Agreements and Severance Agreements

Named Executive Officers

On March 1, 2009, the Company entered into new employment agreements with its four named executive officers. These persons include: Nancy K. Hedrick, President and Chief Executive Officer; Thomas P. Clinton, Senior Vice President of Strategic Relationships; William J. Buchanan, Senior Vice President of Technology Solutions & Cloud Services; and Beverly N. Hawkins, Senior Vice President of Financial Software Solutions.

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The term of these employment agreements is three (3) years. After the initial three year term, the agreements renew for additional successive one (1) year terms unless sooner terminated by one of the parties, including for Convenience. These employment agreements can be terminated: (i) upon the executive s death or disability; (ii) by the executive for Good Reason; (iii) for the Company for Cause; (iv) by either the executive or the Company unilaterally for Convenience; or (v) by either of the Company or the executive giving notice of non-renewal at the end of the initial three year term or any subsequent one year term. In addition, Ms. Hedrick s contract provides an option for termination by the Company in connection with a Change in Control. This is a double-trigger change in control provision, requiring both a merger or other significant corporate event (such as the Merger) and Ms. Hedrick s subsequent termination of employment.

These employment agreements set forth certain amounts to be paid to the executives upon their termination of employment. In the event of termination because of death or disability, or for Cause, or by the executive for Convenience, the executive would generally receive only accrued salary and benefits. Upon termination by the executive for Good Reason or by the Company for Convenience, or in the event of the non-renewal of the agreement by the Company, in addition to accrued salary and benefits the executive would receive 175% of his or her Base Salary (as defined in the agreements) paid in twelve monthly installments. In the event of non-renewal of these employment agreements by the executive, such executive would receive accrued salary and benefits and 75% of the executive s Base Salary paid in twelve monthly installments. Finally, under Ms. Hedrick s contract only (prior to the amendment discussed below), in the event of termination in connection with the Change in Control, Ms. Hedrick would receive 275% of her Base Salary, paid in equal monthly installments over twelve months. The provisions described above are mutually exclusive: an executive would receive only one set of the described benefits.

Employment Agreement of David B. Dechant

On May 6, 2005, the Company entered into an employment agreement with David B. Dechant, the Company s Chief Financial Officer. Under this agreement, Mr. Dechant may be terminated (each as defined in the agreement) for Cause, without Cause (which would include, but not be limited to a termination resulting from the Company materially modifying his duties and responsibilities without employee s written consent or the transfer of the principal location of the Company more than thirty (30) miles from the initial location without his written consent), at the discretion of Mr. Dechant, and in the event of disability or death. Upon Mr. Dechant s termination by the Company without Cause, the agreement provides for a severance benefit equal to six (6) months base salary (as originally set forth in the agreement), plus one month of such base salary for each year of service with the Company, but not to exceed eighteen months. Such severance is to be paid by the Company in a lump sum following termination.

Releases

On October 2, 2012, the Company entered into Termination and Release Agreements (the Releases) with each of Nancy K. Hedrick, Thomas P. Clinton, Beverly N. Hawkins, William J.

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Buchanan and David B. Dechant. The Releases relate to severance payments payable under the employment agreement of each dated March 1, 2009, or in the case of Mr. Dechant, May 6, 2005 (collectively, the Employment Agreements) upon each executive s termination of employment. The Releases provide generally that the employment of all the executives will be terminated effective upon the consummation of the Merger. In the case of all executives other than Ms. Hedrick, the executive will then receive full severance benefits pursuant to his or her respective Employment Agreement. Mr. Dechant s Employment Agreement, as discussed above, requires payment of severance benefits upon termination. The Employment Agreements of Messrs. Clinton and Buchanan and Ms. Hawkins require payment over twelve months following the time of termination. In the case of Ms. Hedrick, whose Employment Agreement provided for a severance benefit of 275% of Base Salary (as defined in Ms. Hedrick s Release) payable over the twelve months following the termination following a Change in Control (as defined in Ms. Hedrick s Release), the Release provides that Ms. Hedrick will instead receive severance equal to 200% of Base Salary, in exchange for payment of severance benefits within five (5) business days following the Effective Time.

In addition to setting the termination of employment of the executives upon the consummation of the Merger, the Releases also provide for the release by each executive of certain claims by each executive with respect to the Company, Merger Sub and Parent. Harris, although not a party to the Releases, executed the Releases to acknowledge and agree to them.

Disclosure of the severance and other amounts to be paid to each executive upon the consummation of the Merger is set forth under Item 8 Golden Parachute Compensation.

Cash Consideration Payable for Company Common Stock Tendered Pursuant to the Offer

If the executive officers and directors of the Company who own Company Common Stock validly tender their Company Common Stock into the Offer, they will receive the same cash consideration on the same terms and conditions as the other stockholders of the Company who validly tender their Shares into the Offer. As of October 1, 2012, the Company s executive officers and directors beneficially owned, in the aggregate 2,448,615 shares of Company Common Stock. If the executive officers and directors were to tender all of their Shares into the Offer, and those Shares were accepted for purchase and purchased by Merger Sub, the executive officers and directors would receive an aggregate amount of $2,693,477 in cash, without interest and less any applicable withholding taxes.

Employee Matters Following Closing

The Merger Agreement provides that any employee of the Company continuing following the consummation of the Merger will have all service with the Company recognized for vesting and eligibility purposes in any benefit plan of Parent in which any such former Company employee would be eligible to participate after the Effective Time. Excluded is participation in any retiree health care plans or programs maintained by Parent or any of its subsidiaries and any equity compensation arrangements maintained by Parent or any of its subsidiaries. Service by former Company employees will also be excluded for purposes of early retirement subsidies under any benefit plan of Parent that is a defined benefit pension plan, and also for benefit accrual purposes, except for vacation if applicable.

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Directors and Officers Indemnification, Exculpation and Insurance

The Merger Agreement provides that, for a period of six years after the Effective Time, Parent and the Surviving Corporation will indemnify and hold harmless (and advance expenses to), to the fullest extent permitted under applicable law, each present and former director and officer of the Company and its subsidiaries (the Indemnified Parties) against all losses, claims, damages, liabilities, fees, expenses, judgments and fines arising in whole or in part out of actions or omissions in their capacity as such occurring at or prior to the Effective Time, including the transactions contemplated by the Merger Agreement.

The Surviving Corporation shall, and Parent shall cause the Surviving Corporation to, obtain as of the Effective Time tail insurance policies with a claims period of six years from the Effective Time with at least the same coverage and amounts and containing terms and conditions that are no less advantageous to the directors and officers of the Company than the current policies of directors and officers liability insurance maintained by the Company immediately prior to the Effective Time, in each case with respect to claims arising out of or relating to events which occurred before or at the Effective Time (including in connection with the transactions contemplated by the Merger Agreement). However, in no event will the Surviving Corporation be required to expend premiums for such coverage that in the aggregate are in excess of 300% of the last annual premium paid by the Company for such insurance prior to the date of the Merger Agreement. If the Surviving Corporation fails to obtain such tail insurance policies as of the Effective Time, the Surviving Corporation shall, and the Parent shall cause the Surviving Corporation to, continue to maintain in effect for a period of at least six years from and after the Effective Time the current policies of directors and officers liability insurance maintained by the Company immediately prior to the Effective Time, provided that the Surviving Corporation may substitute other policies, of at least the same coverage and amounts containing terms and conditions that are no less advantageous to the directors and officers of the Company when compared to the insurance maintained by the Company as of the date of the Merger Agreement, and provided further that in no event will the Surviving Corporation be required to expend an annual premium for such annual coverage in excess of 200% of the last annual premium paid by the Company for such insurance prior to the date of the Agreement. In the event that such annual insurance cannot be obtained at an annual premium equal to or less than the maximum described above of 200% of the last annual premium paid by the Company, the Surviving Corporation will obtain, and Parent will cause the Surviving Corporation to obtain, that amount of directors and officers insurance obtainable for an annual premium equal to such maximum premium.

If the Surviving Corporation or any of its respective successors or assigns consolidates with or merges with or into any other person and will not be the continuing or surviving entity of such consolidation or merger or transfers or conveys all or substantially all of its assets to any person, then, and in each such case, proper provision will be made so that the successors and assigns of the Surviving Corporation assume the Surviving Corporation s obligations discussed in the paragraphs above. These indemnifications and insurance provisions are binding on all

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successors and assigns of the Company, Parent and the Surviving Corporation and are intended to be for the benefit of, and to grant third party beneficiary rights, to each present and former director and officer of the Company and any of its subsidiaries.

Item 4. The Solicitation or Recommendation.

Recommendation of the Board

After careful consideration by the Board, including a review of the terms and conditions of the Merger Agreement, in consultation with the Company s financial and legal advisors, at a meeting of the Board held on October 1, 2012, the Board unanimously: (i) determined that the Merger Agreement, the Offer, the Merger and the other transactions contemplated by the Merger Agreement are in the best interests of the Company and the Company s stockholders, (ii) adopted the Merger Agreement, (iii) approved the Offer, the Merger and the other transactions contemplated by the Merger Agreement, (iv) authorized and approved the Top-Up Option and the issuance of newly issued Company Common Stock pursuant to the exercise thereof in accordance with the terms of the Merger Agreement and (v) resolved to recommend that the Company s stockholders accept the Offer and tender their Company Capital Stock to Merger Sub pursuant to the Offer and, if required, approve the Merger Agreement.

The Board hereby unanimously recommends that the Company s stockholders accept the Offer and tender their shares of Company Common Stock to Merger Sub pursuant to the Offer and, if required, approve the Merger Agreement.

On October 2, 2012, each of the Company and Parent issued a press release announcing that it had entered into the Merger Agreement. A copy of the joint press release is filed as Exhibit (a)(1)(D) to this Schedule 14D-9 and is incorporated by reference herein.

Background of the Offer; Reasons for the Board s Recommendation

Background of the Offer

The following is a description of the background of the Offer, particularly contacts between Constellation, Harris and Merger Sub and CSI that culminated in the execution of the Merger Agreement. The information set forth below regarding Constellation, Harris and Merger Sub was provided by Constellation, Harris and Merger Sub, and none of the Company or any of its affiliates takes any responsibility for the accuracy or completeness of any information regarding meetings or discussions in which the Company, its affiliates or its representatives did not participate.

Since going public in a reverse merger in 2005, the Company has been managed with the goal of improving long-term value for its stockholders. Generally, management and the Board believed that the opportunities for creating value have been better driven by reinvesting our capital in new products, acquisitions and organic growth. Accordingly, our strategy has generally been to remain independent and not be acquired or merged. Our strategy provided that we take advantage of acquisition opportunities that arise which help us achieve greater geographic presence and economies of scale. We have examined potential acquisitions of companies and

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businesses within our industry. In determining a suitable acquisition target, we have sought to carefully analyze a target s potential to, among other things, add to and complement our product mix, expand our existing revenue base, improve our margins, expand our geographic coverage, strengthen our management team and, above all, improve stockholder returns. This strategy led to our acquisition of McAleer Computer Associates, Inc. in 2007, of ICS Systems, Inc. in 2008 and Version3, Inc in 2008.

This strategy to grow through acquisitions has been periodically reevaluated by management and the Board, particularly in response to inquiries from potential acquirors, primarily competitors, and investors and investment firms who were interested in exploring making an investment, acquiring the Company or entering into a combination. The Board considered such preliminary proposals and inquiries, and other strategic alternatives, in light of their potential for return on stockholder value. Considerations as to stockholder value included the business, industry, economic and investment climates; the capability and experience of management; the potential success of the Company s sales and operations efforts; the potential of new initiatives, expanded geographic reach or potential restructuring; the costs associated with creating interest in and increasing liquidity for the Company s stock; the Company s current and projected financial condition and liquidity; the desires of Company stockholders to achieve value through increased profitability; and the potential benefits to the Company of being part of a larger entity.

Constellation is engaged in, among other things, acquiring, managing and building vertical market software businesses. In the ordinary course of its business, Constellation reviews potential tuck-in and platform acquisition opportunities. Constellation identified the Company as a potential acquisition target for its Harris operating group in the first quarter of 2010.

In September 2009, representatives of Constellation contacted Barron Partners LP, a Delaware limited partnership and the sole owner of the Company Preferred Stock (Barron), for more information regarding Barron s ownership interest in the Company. Representatives of Constellation also contacted Nancy Hedrick regarding a potential financing arrangement between Constellation and the Company. Throughout the fourth quarter of 2009, Jerry Canada, at the time General Manager of Spectrum and Schools at Harris, and Bryce Cooper, Executive Vice President of Business Development at Harris, engaged in periodic discussions with Ms. Hedrick, and in the first quarter of 2012, Messrs. Canada and Cooper advised Ms. Hedrick of Constellation s potential interest in pursuing a strategic transaction with the Company.

On March 22, 2010, Messrs. Canada and Cooper met Ms. Hedrick and other executive officers of the Company at the Company s headquarters. On March 23, 2010, Constellation and the Company executed a mutual confidentiality agreement to permit Constellation to conduct due diligence concerning the Company s business.

In April 2010, Mr. Canada, Mr. Cooper, Ms. Hedrick and David Dechant, the Company s Chief Financial Officer, engaged in various discussions concerning the additional information Constellation would need to evaluate the Company. On May 19, 2010, Mr. Dechant provided certain 2009 sales and employee information to Mr. Canada.

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In the third quarter of 2010, Messrs. Cooper and Canada began discussions with Barron to acquire Barron s interest in the Company. In a non-binding letter dated August 24, 2010 sent from Mr. Cooper to Andrew Barron Worden, Managing Partner of Barron, Harris proposed a transaction in which Barron would convert all but one share of Preferred Stock and sell the resulting Common Stock to Harris at $1.00 per share, subject to certain conditions, including approval of the Board.

Following further discussions, Mr. Cooper sent a revised non-binding letter setting forth substantially similar terms as the August 24, 2010 letter but offering a purchase price of $1.07 per share.

Through late 2010 and early 2011, Barron and several holders of Common Stock recommended to management that the Company explore strategic options to improve stockholder liquidity and returns, including a potential sale of the Company.

In a non-binding letter sent to Anthony Sobel, Chairman of the Board, by Mr. Cooper on May 9, 2011, Harris proposed acquiring the Company for $1.00 per share of Common Stock and Preferred Stock, subject to customary due diligence and other conditions.

In May 2011, in response to the concerns of Barron and other stockholders with respect to liquidity, the Board engaged Hyde Park Capital Advisors, LLC (Hyde Park Capital) to assist the Company in evaluating potential strategic alternatives.

During the first half of 2012, Barron continued to speak with the Company concerning its desire for liquidity. Given the tone of these communications and Barron s substantial stake on an as-converted basis, the Board was concerned that Barron would effectuate the sale of a controlling interest in the Company, without benefiting all stockholders. In an effort to promote fair and equal treatment of all the Company s stockholders and discourage coercive takeovers of the Company, on August 11, 2011, the Board gave preliminary approval to, but did not implement, a stockholder rights plan. The proposed plan was put on the shelf to be utilized upon short notice in the future if warranted by the Board.

Also at its August 11, 2011 meeting, the Board authorized Hyde Park Capital to contact potential investors to purchase Company Preferred Stock from Barron, subject to Barron entering into an acceptable non-disclosure agreement which would contain, among other things, a standstill provision. On September 7, 2011, the Company and Barron entered into a cooperation agreement which contained customary non-disclosure provisions addressing any non-public information the Company may provide to Barron in connection with the sales process and a standstill provision limiting Barron s ability to sell the Company Preferred Stock until March 7, 2012 without the approval of the Board. The primary purpose of the cooperation agreement was to give the Company and Hyde Park Capital a period of time to solicit potential investors to purchase all or a portion of Barron s investment in the Company.

In October 2011, the Company completed drafts of a confidential information memorandum and confidential investment opportunity overview and directed Hyde Park Capital to contact potential financial buyers concerning a potential purchase of Company Preferred Stock from Barron.

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On November 28, 2011, Hyde Park Capital held a conference call with Bidder A, a financial buyer, which made a verbal proposal to acquire all of the Company Common Stock and Company Preferred Stock at a discount to the then current Company Common Stock price of $0.38 per share, which the CSI determined to be an inadequate price.

On December 13, 2011, Constellation contacted Hyde Park Capital to express renewed interest in acquiring the Company, but Hyde Park Capital informed Constellation that the process was not open to strategic buyers at that time. Additionally, Constellation indicated that it would not execute a non-disclosure with a standstill provision and would not participate in the Hyde Park Capital sales process.

On December 20, 2011, management held a conference call with Bidder B, a financial buyer, who subsequently submitted a proposal on February 17, 2012, to acquire all of the Company Common Stock and Company Preferred Stock at $0.66 per share, which the Board determined to be an inadequate price.

On December 21, 2011 and again on January 11, 2012, the Company and Hyde Park Capital participated in conference calls with Bidder C, a financial buyer.

In early 2012, Mr. Worden indicated that Barron intended to sell the Company Preferred Stock to Constellation following the expiration of the standstill on March 7, 2012 if the Company did not redeem a portion of his Company Preferred Stock or find an alternative purchaser by such time. Mr. Worden suggested that the Company utilize bank loans or other debt to facilitate such a purchase. Mr. Worden also encouraged the Company to seek out strategic buyers in addition to financial buyers.

In a meeting on January 19, 2012, the Board discussed alternatives for purchasing the Company Preferred Stock or otherwise providing liquidity to Barron, including a leveraged recapitalization and an employee stock purchase plan. The Board was concerned that the use of significant debt to fund a full or partial redemption of Barron s preferred shares could, among other things, strain the financial resources of the Company, particularly with respect to working capital and funds needed for software development and other capital expenditures and expenses. The Board was also concerned as to the fairness to other stockholders of a buyout of Barron at a premium to market. The Board directed Hyde Park Capital to expand the sales process to strategic buyers and authorized management to explore an equity offering to fund a purchase of the Company Preferred Stock.

On January 25, 2012, Hyde Park Capital contacted Mr. Cooper to indicate the sales process had been expanded to strategic buyers, and that Constellation could participate in the sales process once it had executed a non-disclosure agreement with a standstill provision.

On February 1, 2012, management held a meeting with Bidder C at the Company s headquarters. Bidder C submitted a letter of intent on February 10, 2012 offering $0.83 per share for the Company Preferred Stock, $0.30 per share for the Company Common Stock and repayment of the Company s subordinated debt. The Company determined that the proposed purchase price was inadequate.

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On February 10, 2012, Constellation once again indicated that it would not execute a non-disclosure agreement with a standstill provision and would not participate in the Hyde Park Capital sales process.

On February 22, 2012, the Board held a meeting to consider its options in light of the upcoming expiration of Barron s standstill agreement on March 6, 2012. The Board reviewed recent events, including: (i) continued pressure in conversations with Barron for the Company to buy out some or all of its shares; (ii) Harris declining to participate in the Company s process of evaluating potential investors; (iii) the upcoming expiration of the standstill with Barron on September 7, 2012; and (iv) evidence of discussions having taken place between Barron and Harris. From these events, it was the consensus of the Board that a realistic threat existed of Barron seeking to facilitate a coercive takeover attempt by a strategic buyer, which could result in detrimental treatment of the Company s other stockholders and the realization of less than optimal value for the Company. With the assistance of Hyde Park Capital and Smith Moore Leatherwood LLP (Smith Moore Leatherwood), the Company s outside legal counsel, the Board reviewed the adoption of a rights agreement to discourage Barron from selling control of the Company without Board approval and adequate consideration being paid to the holders of Company Common Stock. The Board also considered alternatives to redeeming the Company Preferred Stock. Action on implementing a rights agreement was deferred until a later meeting, so as to give the Board full knowledge of any intervening events which might occur prior to the expiration of Barron s standstill.

The Board next met on March 1, 2012. The directors were briefed on the absence of any progress in coming to a resolution with Barron. Management reported its belief that Barron remained committed to either the Company redeeming its shares or Barron initiating a sale of the Company otherwise. After discussion of the alternatives available to the Company with assistance from Hyde Park Capital and Smith Moore Leatherwood, the Board authorized and directed the issuance, and declared a dividend of one common share purchase right for each outstanding share of Common Stock outstanding as of the close of business on March 6, 2012, pursuant to a rights agreement, to be dated as of March 5, 2012 (the Rights Agreement), between the Company and Continental Stock Transfer & Trust Company, the transfer agent for the Company Common Stock. In approving the plan, the Board was concerned that Barron could effectuate a sale of the Company that would not result in fair and equal treatment of all stockholders, or realize the highest per share value for the Company.

In March 2012, Constellation again expressed its interest in acquiring the Company, and on March 30, 2012, Constellation submitted a letter to the Board expressing its desire to acquire all of the Company Common Stock and Company Preferred Stock for $1.00 per share, subject to satisfactory completion of due diligence, the redemption or termination of the Rights Agreement and execution of a definitive agreement. Constellation publicly disclosed the letter in a press release dated March 30, 2012 and filed the press release with the SEC by means of a Schedule TO.

On April 3, 2012, the Company issued a press release announcing that the Board would review Constellation s offer and respond in due course and filed a Form 8-K and Schedule 14D-9 disclosing the press release.

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Representatives of Bidder D and Bidder E, both strategic buyers, contacted management on April 3 and April 4, 2012, respectively, expressing interest in pursuing strategic transactions with the Company. On April 4, 2012, subsequent to an earlier conference call, Bidder F, a financial buyer, submitted a proposal offering $0.72 per share.

The Board met on April 4, 2012 to consider its response to Constellation s offer. Smith Moore Leatherwood and Dewey & LeBoeuf LLP (Dewey), outside legal counsel to the Company, advised the Board of its duties under Delaware law and certain potential responses to Constellation s offer. The Board resolved to enter into the due diligence process with Constellation upon execution of a non-disclosure agreement with a standstill provision. The Board also instructed Hyde Park Capital to prepare a valuation of the Company.

On April 5, 2012, the Company issued a press release indicating that it would request additional information from Constellation about its proposal and would review Constellation s proposal in more detail once that information had been received. The press release also disclosed that the Board had not reached a conclusion as to whether it should pursue or reject the proposal. The Company filed the press release with a Form 8-K and a Schedule 14D-9.

Also on April 5, 2012, lawyers from Smith Moore Leatherwood and Dewey contacted Hogan Lovells US LLP (Hogan Lovells), Constellation s outside legal counsel. Smith Moore Leatherwood and Dewey communicated, among other things: (i) that the Company had issued a press release, (ii) the Board, as disclosed in its press release, wanted to obtain more information on Constellation s offer, (iii) the Board had made no decision on selling the Company, and was still studying its strategic options, and (iv) that the Board wished to know if Constellation s due diligence review could lead to an increase in the offer price. They discussed the process going forward, including the anticipated scope of Constellation s due diligence and the Company s desire for Constellation to execute a non-disclosure agreement with a standstill provision.

On April 6, 2012, Hogan Lovells informed Smith Moore Leatherwood and Dewey that Constellation would provide a due diligence request list but would not agree to a standstill provision. Hogan Lovells also stated that Constellation would consider a price increase based on results of its due diligence.

On April 9, 2012, Barron issued a press release in support of the Constellation offer, and in the following week, several holders of Company Common Stock similarly contacted the Company to express support for the offer.

On April 12, 2012, Smith Moore Leatherwood and Dewey contacted Hogan Lovells to further discuss the non-disclosure agreement and proposed standstill provision.

Also on April 12, 2012, management and Hyde Park Capital held a conference call with Bidder D to discuss a potential strategic transaction between the two companies. Hyde Park Capital also notified management that Bidder G, a strategic buyer, was interested in exploring an acquisition of the Company, and an introductory conference call with Bidder G and management was held on April 16, 2012.

On April 17, 2012, Hyde Park Capital and Bidder D held a conference call to discuss a potential merger of equals between the Company and Bidder D. Bidder D suggested that Barron could sell stock post-closing due to higher flow, increased trading volume and a higher stock price which would occur as a result of such a combination.

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Also on April 17, 2012, Constellation sent a letter to the Company indicating that Constellation would agree to a standstill period of approximately two weeks and giving the Company until April 20, 2012 to respond. Constellation indicated that failure to accept by April 20, 2012 would result in public withdrawal of the offer.

The Board met on April 19, 2012 to consider a response to Constellation s April 17 letter and review the Hyde Park Capital sales process. The Board s consensus was that a meaningful standstill was a condition to Constellation proceeding with due diligence. It was decided that management would respond directly to senior management of Constellation, rather than through attorneys.

Also on April 19, 2012, Bidder H, a strategic buyer, contacted the Company to express an interest in its cloud segment.

On April 20, 2012, Ms. Hedrick sent a letter to Mark Leonard, Constellation s President, indicating the Company s interest in Constellation s offer and setting forth conditions to proceeding, including an appropriate standstill.

On April 24, 2012, Bidder G submitted a proposal to purchase the Company for $1.05 per share and requested exclusivity. Hyde Park Capital indicated that exclusivity would not be feasible at that time.

On April 26, 2012, Bidder H made an onsite visit to the Company to discuss purchasing the cloud segment.

At the Board meeting held on April 27, 2012, management and Hyde Park Capital updated the Board on the sales process. The primary purpose of such meeting, however, was consideration of a reorganization of the cloud segment recommended by management. The reorganization entailed the sunsetting of the cloud email product, with a resulting write-down of $1.5 million in the second quarter. The reorganization approved by the Board also entailed a write-down of the Version3 logo in the amount of $650,000.

On April 27, 2012, Ms. Hedrick and Mr. Leonard had a conference call and agreed to a 90-day standstill provision. The Company sent a draft non-disclosure agreement to Constellation the following day.

Also on April 27, 2012, management held a conference call with Bidder E in which Bidder E indicated it may bid above $1.00 per share. The Company granted Bidder E access to an online data room after Bidder E executed a non-disclosure agreement.

On May 1, 2012, Bidder I, a strategic buyer, contacted Ms. Hedrick to express an interest in the Company s cloud email solution.

The Board met on May 7 and May 8, 2012, in conjunction with the Company s annual stockholders meeting and a regular quarterly board meeting. The Board reviewed strategic options available to the Company that did not involve a sale of the Company.

Also on May 7, 2012, Smith Moore Leatherwood, Dewey, Hogan Lovells and Mark Dennison, General Counsel of Constellation, held a conference call and discussed the draft non-disclosure agreement.

On May 8, 2012, management met with representatives of Bidder H to discuss technical issues surrounding the Company s hosted voice solution. No formal offer was ever submitted by Bidder H.

On May 9, 2012, management met with representatives of Bidder G at the Company s headquarters to introduce both organizations and the transaction process.

On May 10, 2012, Constellation executed a confidentiality agreement (the Confidentiality Agreement) that included a 90-day standstill provision.

On May 17, 2012, management made an onsite visit to Bidder G to demonstrate the SmartFusion software product as well as to discuss Bidder G s desire for exclusivity before proceeding with due diligence.

On May 21 and May 22, 2012, management met with representatives of Bidder E at the Company s headquarters to introduce both organizations and to