COMPUTER SERVICES, INC.

QUARTERLY REPORT

FOR THE FISCAL QUARTER ENDED

MAY 31, 2016

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED MAY 31, 2016

All information contained in this Quarterly Report has been compiled to fulfill the disclosure requirements of OTC Markets Group, Inc. and Rule 15c2-11 under the Securities Exchange Act of 1934. The captions contained herein correspond to the sequential format as set forth in the applicable disclosure guidelines of OTC Markets Group, Inc. All dollar amounts are presented in thousands, except dividend and other per share data. Quantitative share data, among other non-dollar figures, are not presented in thousands. Computer Services, Inc. and its subsidiaries are referred to as “CSI” or the “Company”.

Forward-Looking Statements

This Quarterly Report contains "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. All statements except historical statements contained herein constitute “forward-looking statements.” Forward-looking statements are inherently uncertain and are based only on current expectations and assumptions that are subject to future developments that may cause results to differ materially. Readers should carefully consider: (i) economic, competitive, technological and governmental factors affecting CSI’s operations, customers, markets, services, products and prices; (ii) risk factors affecting the financial services information technology industry generally including, but not limited to, cybersecurity risks that may result in increased costs to CSI to protect against the risks, as well as liability or reputational damage to CSI in the event of a breach of our security; and (iii) other factors discussed in CSI's Annual Reports, Quarterly Reports, Information and Disclosure Statements and other documents posted from time to time on the OTCQX website (available either at www.otcmarkets.com or www.otcqx.com), including without limitation, the description of the nature of CSI's business and its management discussion and analysis of financial condition and results of operations for reported periods. Except as required by law or OTC Markets Group, Inc., CSI undertakes no obligation to update, and is not responsible for updating, the information contained or incorporated by reference in this document beyond the publication date, whether as a result of new information or future events, or to conform this document to actual results or changes in CSI's expectations, or for changes made to this document by wire services or Internet services or otherwise.

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Item 1: Exact name of issuer and address of its principal executive offices.

Name of Issuer:	Computer Services, Inc. (“CSI”, the “Company”, “We”, “Us”, or “Our”)
Principal Executive Offices:	3901 Technology Drive Paducah, Kentucky 42001-5201
	Telephone: 270.442.7361 Facsimile: 270.442.9905 Website: www.csiweb.com
Investor Relations Officer:	David L. Simon, Treasurer & CFO
	3901 Technology Drive Paducah, Kentucky 42001-5201
	Telephone: 270.442.7361 x10126 Facsimile: 270.575.6716 Email: dsimon@csiweb.com

Item 2: Shares outstanding.

The following table sets forth information concerning each authorized class of equity securities of Computer Services, Inc. as of May 31, 2016:

SECURITIES AUTHORIZED AND OUTSTANDING

Class	As of	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (public float)	Total Number of Beneficial Shareholders (1)	Total Number of Shareholders of Record
Common	05/31/2016	60,000,000	14,025,093	13,035,312	4,639	290
Preferred	05/31/2016	5,000,000	-	-	-	-

(1) Estimate of individual participants represented by security position listings. Based on such estimate, more than 100 beneficial shareholders each own at least 100 shares of common stock.

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Item 3: Interim Financial Statements.

COMPUTER SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)
(in thousands, except share and per share data)

	Three Months Ended May 31,	
	2016	**2015**
Processing revenues	$ 35,649	$ 37,363
Other revenues	20,474	19,785
Total revenues	56,123	57,148
Operating expenses	45,198	44,620
Operating income	10,925	12,528
Interest income (expense)	19	11
Income before income taxes	10,944	12,539
Provision for income taxes	4,186	4,953
Net income	$ 6,758	$ 7,586
Earnings per share	$ 0.48	$ 0.54
Shares used in computing earnings per common and common equivalent share	13,995,221	14,120,405

**See accompanying notes to consolidated financial statements.*

COMPUTER SERVICES, INC.
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FOR THE FISCAL QUARTER ENDED MAY 31, 2016

COMPUTER SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	05/31/2016 *(Unaudited)*	02/29/2016 *(Audited)*	05/31/2015 *(Unaudited)*
ASSETS			
Current assets			
Cash and cash equivalents	$ 27,675	$ 17,397	$ 10,236
Accounts receivable	25,858	28,045	23,451
Income tax receivable	-	78	-
Prepaid expenses and other current assets	11,006	11,978	11,864
Total current assets	64,539	57,498	45,551
Property and equipment, net of accumulated depreciation	34,150	34,655	35,944
Software and software licenses, net of accumulated amortization	22,253	21,683	24,461
Goodwill	60,115	60,115	60,115
Intangible assets	6,608	6,390	6,889
Other assets	21,940	22,874	20,355
Total assets	$ 209,605	$ 203,215	$ 193,315
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued expenses	$ 22,081	$ 18,709	$ 20,430
Deferred revenue	8,427	8,402	7,931
Income tax payable	2,431	-	1,390
Total current liabilities	32,939	27,111	29,751
Long-term liabilities			
Deferred income taxes	18,964	18,964	15,547
Other long-term liabilities	1,454	1,166	959
Total long-term liabilities	20,418	20,130	16,506
Total liabilities	53,357	47,241	46,257
Shareholders' equity			
Preferred stock; shares authorized, 5,000,000; none issued	-	-	-
Common stock, no par; shares authorized, 60,000,000 in fiscal 2017 and 20,000,000 in fiscal 2016; shares issued and outstanding, 14,025,093 at May 31, 2016, 13,992,981 at February 29, 2016 and 14,141,939 at May 31, 2015	24,278	23,118	22,958
Retained earnings	131,970	132,856	124,100
Total shareholders' equity	156,248	155,974	147,058
Total liabilities and shareholders' equity	$ 209,605	$ 203,215	$ 193,315

**See accompanying notes to consolidated financial statements.*

COMPUTER SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Equity
(Unaudited)
(in thousands, except share and per share data)

	Three Months Ended May 31, 2016			
	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance at February 29, 2016	13,992,981	$ 23,118	$ 132,856	$ 155,974
Net income	-	-	6,758	6,758
Cash dividends paid ($.25 per share)	-	-	(3,497)	(3,497)
Cash dividends payable ($.25 per share)	-	-	(3,505)	(3,505)
Issuance of common stock	2,319	86	-	86
Issuance of restricted stock	43,542	-	-	-
Restricted stock vested and tax benefit	-	1,100	(167)	933
Purchase of common stock	(8,626)	(16)	(294)	(310)
Tax withholding related to share-based compensation	(5,123)	(10)	(181)	(191)
Balance at May 31, 2016	**14,025,093**	**$ 24,278**	**$ 131,970**	**$ 156,248**

**See accompanying notes to consolidated financial statements.*

COMPUTER SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Three Months Ended May 31, 2016	Three Months Ended May 31, 2015
Cash flows from operating activities		
Net income	$ 6,758	$ 7,586
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	1,773	1,791
Amortization	1,995	1,841
Restricted stock expense	1,100	1,360
Stock-based compensation expense	86	62
Loss on disposal of assets	1	-
Tax benefit of restricted stock vested	(167)	147
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	2,233	2,262
Prepaid expenses and other current assets	1,050	(1,675)
Other assets	1,019	355
Accounts payable and accrued expenses	(367)	(1,471)
Deferred revenue	31	(1,670)
Income tax payable	2,509	4,383
Other liabilities	281	20
Net cash from operating activities	18,302	14,991
Cash flows from investing activities		
Proceeds from sale of property and equipment	-	1
Purchase of property and equipment	(1,243)	(4,659)
Purchase of software and software licenses	(2,396)	(8,544)
Purchase of intangibles	(387)	-
Net cash from investing activities	(4,026)	(13,202)
Cash flows from financing activities		
Payments of dividends	(3,497)	(3,104)
Purchase of common stock	(310)	-
Tax withholding related to share-based compensation	(191)	(298)
Net cash from financing activities	(3,998)	(3,402)
Net change in cash and cash equivalents	10,278	(1,613)
Cash and cash equivalents, beginning of period	17,397	11,849
Cash and cash equivalents, end of period	$ 27,675	$ 10,236

**See accompanying notes to consolidated financial statements.*

Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1. NATURE OF BUSINESS

Computer Services, Inc., including its subsidiaries, ("CSI" or the "Company") delivers core processing, managed services, mobile and Internet solutions, payments processing, print and electronic distribution, and regulatory compliance solutions to financial institutions and corporate entities across the nation. Technology planning, personal account management and exceptional customer service are what CSI believes have established its reputation as one of the nation's premier providers of technology solutions for the financial services industry. In addition to core processing, the Company's integrated banking solutions include check imaging; cash management; branch and merchant capture; mobile and Internet banking; print and mail, and online document delivery services; corporate intranets; secure Web hosting; e-messaging; teller and platform services; ATM and debit card service and support; payments solutions; cybersecurity risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security, anti-money laundering, and fraud prevention.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements include the accounts of CSI and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include deferred income taxes and the carrying value of goodwill.

Cash Equivalents: Cash equivalents consist of highly liquid investments with original maturities of 90 days or less.

Accounts Receivable: Accounts receivable consist primarily of amounts due from bank customers for data processing services. Interest is not charged on receivables. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. As of May 31, 2016 and 2015, an allowance for doubtful accounts of $176 and $75, respectively, had been recorded.

Property and Equipment: As of May 31, 2016 and 2015, property and equipment consisted of:

	2016	2015
Land	**$ 1,716**	$ 1,716
Buildings and improvements	**27,713**	27,333
Equipment	**62,201**	59,783
Construction-in-progress	**223**	74
	91,853	88,906
Less accumulated depreciation	**57,703**	52,962
Balance, end of period	**$ 34,150**	$ 35,944

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives for buildings are 40 years, and useful lives for equipment range from three to ten years.

Software and Software Licenses and Related Amortization: Software and software licenses include the capitalization of certain costs incurred to develop new software or to enhance existing software that is primarily utilized by the Company to process customer transactions; software acquired in business acquisitions; and licenses that are purchased from third parties. Software and software licenses are amortized using the straight-line method over three to ten years or the life of the licenses. Total amortization expense for the three months ended May 31, 2016 and 2015 was $1,826 and $1,666, respectively.

Long-Term Assets: Property and equipment, intangible assets subject to amortization and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized during the periods presented by these quarterly financial statements. Property and equipment, software and other assets acquired through accounts payable and accrued expenses during the fiscal quarters ended May 31, 2016 and 2015 were $31 and $40, respectively.

Deferred Commissions: Deferred commissions are the incremental costs that are directly associated with definitive term contracts with customers and consist of sales commissions paid to the Company's sales force. The commissions are deferred and amortized over the terms of the related customer contracts, which are typically 36 to 120 months, and recorded in other assets on the accompanying consolidated balance sheets. The Company believes this is the preferable method of accounting as the commission charges are so closely related to the revenue from the definitive term customer contracts that they should be recorded as an asset and charged to expense over the same period that the revenue is recognized. Amortization of deferred commissions is included in operating expense in the accompanying consolidated statements of income.

Goodwill and Other Intangible Assets: The Company records as goodwill the excess of the purchase price over the fair value of identifiable net assets acquired. Goodwill acquired in a purchase business combination is not amortized, but instead reviewed for impairment at least annually, as well as when an event-triggering impairment may have occurred. The impairment determination for goodwill is made using a two-step process by comparing the carrying value of the reporting unit to its fair value. The first step tests for impairment, while the second step, if necessary, measures the impairment. An impairment loss is recognized to the extent that the carrying amount exceeds its implied value.

No impairment was determined and, accordingly no change in the carrying amount of goodwill was recorded during the three months ended May 31, 2016.

Intangible assets not subject to amortization primarily consist of governmental licenses to operate a telecommunications competitive local exchange carrier. Intangible assets not subject to amortization totaled $190 at both May 31, 2016 and 2015.

Other intangible assets primarily consist of customer relationships, non-compete agreements, patents, trade names and developed technology arising from acquisitions. The intangibles are amortized on a straight-line method over three to 16 years.

The carrying amounts of intangibles subject to amortization as of May 31, 2016 and 2015 are as follows:

	2016	2015
Customer relationships	**$ 11,593**	$ 11,206
Non-compete agreements	**1,700**	1,700
Patents	**427**	427
Trade name	**530**	530
Developed technology	**370**	370
Other	**216**	216
	$ 14,836	$ 14,449
Less accumulated amortization	**8,418**	7,750
Balance, end of period	**$ 6,418**	$ 6,699

Total amortization expense for the three months ended May 31, 2016 and 2015 was $169 and $175, respectively.

Earnings Per Common Share: Basic earnings per common share is based on net income available to common shareholders divided by the weighted average number of common shares considered to be outstanding during the period. The weighted average number of common shares outstanding was 13,995,221 and 14,120,405 for the fiscal quarters ended May 31, 2016 and 2015, respectively. There were no dilutive shares for the three months ended May 31, 2016 and 2015.

Income Taxes: Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences, and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, some portion or all of the deferred tax assets will, more likely than not, not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates on the date of enactment.

When tax returns are filed, some positions taken are highly likely to be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be sustained ultimately. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes the position will, more likely than not, be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before fiscal 2011.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes on the accompanying consolidated statements of income.

Revenue Recognition and Deferred Revenue: The Company generates revenue through the sale of data processing services, equipment and supplies, maintenance contracts, software, *e*Business services, and other service products. The Company enters into contracts with its customers varying from one to ten years in length. Revenues are recognized as services are provided on these contracts. Each standard contract contains an early contract termination clause that allows the Company to collect a percentage of the anticipated revenues that would have been earned during the remaining contract term as liquidated damages if the customer terminates the Company’s services prior to the end of the contract term.

Revenues from early contract termination fees are recognized in the period received. Total early contract termination fees recorded as a component of processing revenues in the accompanying consolidated financial statements for the three months ended May 31, 2016 and 2015 were $12 and $2,260, respectively. Total early contract termination fees recorded as a component of other revenues in the accompanying consolidated financial statements for the three months ended May 31, 2016 and 2015 were $73 and $171, respectively. The Company recognizes product revenue, such as software license sales, which represent less than 5% of total revenue, ratably over the term of the associated post-contract customer support or 36 months, whichever is longer as vendor specific objective evidence of fair value for post-contract customer support has not been established.

Deferred revenue consists primarily of payments received from customers for annual software licenses and software maintenance agreements. These revenues are recognized on a straight-line method on a 12 to 60 month rolling basis as the revenue is earned.

The Company records revenue under certain contracts for postage and telecommunications net of the related expenses. The Company provides these services as a convenience to customers at the Company's cost. The total pass-through revenues for these services for the three months ended May 31, 2016 and 2015 were $11,034 and $11,847, respectively.

Fair Value of Financial Instruments: The fair value approximates the carrying value for all financial instruments.

Concentration of Credit Risk: The Company maintains cash balances at several financial institutions in excess of the insurance limits provided by the Federal Deposit Insurance Corporation. The Company has not experienced any losses and does not believe it is exposed to any significant credit risk with respect to these cash deposits.

Recent Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, which is the principle in current guidance. The Company will need to apply the new guidance to determine whether revenue should be recognized over time or at a point in time. This standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017, using either of two methods: *(a)* retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or *(b)* retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the issuance of ASU 2014-09 and the Company's election of a reporting method on its consolidated financial statements beginning with the Company's 2018 fiscal year.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This ASU simplifies the presentation of deferred income taxes by eliminating the requirement to separate deferred tax liabilities and assets into current and noncurrent amounts in classified balance sheets. Instead, it requires deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016. Early adoption is permitted, and this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company has elected to early adopt this standard and has elected to apply retrospectively to all deferred tax liabilities and assets. As a result of early adoption, all net deferred income tax liabilities as of May 31, 2016, February 29, 2016 and May 31, 2015 in the financial statements have been presented as noncurrent.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize the following for all leases other than short-term leases, initially measured at the present value of the lease payments, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use the underlying asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. In the financial statements in which an entity first applies ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. The Company is currently evaluating the effect that this standard will have on its financial statements when adopted, but expects to recognize right-of-use assets and lease liabilities for leases where it is the lessee, other than short-term leases, currently accounted for as operating leases and expand its financial statements disclosures applicable to such leases.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation*, which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for fiscal years beginning after December 15, 2016. The Company is in the process of evaluating the impacts of the adoption of this ASU.

Interim Financial Statements: The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim consolidated financial statements and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes thereto, which are included in its 2016 Annual Report filed separately through the OTC Disclosure and News Service, available at either www.otcmarkets.com or at www.otxqx.com.

In the opinion of management of the Company, the accompanying consolidated financial statements reflect all adjustments necessary to present fairly the financial position of the Company as of May 31, 2016 and 2015, and the results of its operations, its changes in equity and its cash flows for the three-month periods ended May 31, 2016 and 2015.

The interim consolidated financial statements have not been audited or reviewed by independent auditors. Accordingly, our independent auditors are not expressing an opinion on them, or expressing any form of assurance on them.

NOTE 3. LAND AVAILABLE FOR RESALE

The cost of land available for resale of $1,347 at both May 31, 2016 and 2015, primarily represents costs associated with the development of an office park in Paducah, Kentucky. These costs are allocated to each lot based upon each lot's proportionate share of salable acreage. The project is substantially complete and any future associated costs will not be material. At May 31, 2016 and 2015, land available for resale was included in other assets on the accompanying consolidated balance sheets.

NOTE 4. INCOME TAXES

The effective tax rates were 38.25% and 39.50% for the three months ended May 31, 2016 and 2015, respectively. These effective tax rates differed from the statutory federal tax rate of 35% due primarily to state income taxes and adjustments to various deferred tax assets and liabilities. Cash paid for income taxes during the three months ended May 31, 2016 and 2015 was $1,844 and $423, respectively.

NOTE 5. NOTES PAYABLE

The Company has a $15,000 commercial revolving line of credit. Interest is payable monthly at one-month LIBOR plus 0.90% (1.37% and 1.28% at May 31, 2016 and 2015, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of May 31, 2016 and 2015. The line of credit was renewed in January 2016 and expires in January 2019.

The Company also has a $5,000 commercial revolving line of credit. Interest is payable monthly at prime minus 1.30% (2.20% and 1.95% at May 31, 2016 and 2015, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of May 31, 2016 and 2015. The line of credit was renewed in August 2015 and expires in August 2016.

The Company is required to comply with certain obligations under the terms of its borrowing agreements. These provisions require the submission of certain certifications, prohibit certain transactions and require the Company to meet certain financial covenants.

Total interest expense for the three months ended May 31, 2016 and 2015 was $0 and $1, respectively. Cash paid for interest expense during the three months ended May 31, 2016 and 2015 was $0 and $1, respectively.

NOTE 6. STOCK RIGHTS AND OTHER EQUITY PROGRAMS

Shareholders' Rights Plan

The Company has a shareholders' rights plan that granted to shareholders one preferred stock purchase right ("Right") for each outstanding share of the Company's common stock. Each Right entitles the purchase of one one-hundredth of a share of Series A preferred stock at a price determined by, and under the conditions set forth in, the Amended and Restated Rights Agreement. Because the issuance of Rights may substantially dilute the stock ownership of a person or group attempting to take over the Company without the approval of the Company's Board of Directors, the Company's rights plan could make an acquisition of the Company (or a significant percentage of its outstanding capital stock) by a third party without first negotiating with the Board more difficult. The Rights expire on January 28, 2022, unless extended or reissued by the Board.

Share Repurchase Program

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash or borrowings under its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At May 31, 2015, the Company had the authority to repurchase additional shares for up to $5,657. The Company's Board of Directors authorized the repurchase of an additional $5,000 of the Company's common stock in December 2015. At May 31, 2016, the Company had the authority to repurchase additional shares for up to $4,312.

Stock-Based Compensation

Beginning in June 2013, the Company has authorized the issuance of common stock to members of the Company's Board of Directors for services performed. Compensation expense recognized for common stock issued for services provided by members of the Board of Directors was $86 and $62 for the three months ended May 31, 2016 and 2015, respectively.

Beginning in June 2004, the Company has authorized, from time-to-time, the issuance of restricted stock to certain key employees under the Computer Services, Inc. Restricted Stock Plan. The shares vest ratably in four equal installments beginning one year from the date of the grant. During the vesting period, the participants have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. Additionally, granted but unvested shares are forfeited upon termination of employment, unless certain criteria are met.

The fair value of the restricted shares on the date of the grant is amortized ratably over the vesting period. Unearned compensation initially recorded based on the market value of the shares on the date of grant is being amortized over four years. The unamortized balance of unearned compensation on restricted stock is included as a separate component of shareholders' equity on the accompanying consolidated balance sheets.

The following is a summary of unearned compensation on restricted stock as of May 31, 2016, as well as activity for the three months then ended:

Balance, February 29, 2016	$ 2,900
Grant of restricted stock	
May 9, 2016	1,622
Restricted stock vested	(1,100)
Restricted stock forfeited	-
Balance, May 31, 2016	$ 3,422

The following is a summary of unvested shares of restricted stock as of May 31, 2016, as well as activity for the three months then ended:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance, February 29, 2016	78,392	$ 37.00
Granted	43,542	37.25
Vested	(30,919)	35.58
Forfeited	-	-
Unvested balance, May 31, 2016	91,015	$ 37.60

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was $1,100 and $1,360 for the three months ended May 31, 2016 and 2015, respectively.

NOTE 7. CONTINGENCIES

The Company may, from time to time, be the defendant in litigation arising in the ordinary course of business. In the opinion of management and outside legal counsel, any currently pending or threatened litigation involving the Company is adequately covered by insurance or the ultimate outcome will not have a material impact on the financial position or results of operations of the Company.

NOTE 8. SUBSEQUENT EVENTS

All of the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date and before the financial statements are available to be issued. In some cases, unrecognized subsequent events are disclosed to keep the financial statements from being misleading. The Company has evaluated events through July 13, 2016, the date the financial statements were available to be issued.

On March 30, 2016, the Board of Directors authorized a cash dividend of 25 cents per share, or $3,497 in the aggregate, that was paid subsequent to the quarter end on June 27, 2016 to shareholders of record as of the close of business on June 1, 2016.

On June 30, 2016, the Board of Directors authorized a cash dividend of 28 cents per share, or approximately $3,928 in the aggregate, payable on September 26, 2016 to shareholders of record as of the close of business on September 1, 2016.

Item 4: Management's Discussion and Analysis.

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to the accompanying unaudited consolidated financial statements to help provide an understanding of our results of operations, our financial condition and the changes in our financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report.

OVERVIEW

Our Business. We provide service and information technology solutions to meet the business needs of financial institutions and corporate entities, predominantly, in both service bureau and in-house environments. Our customer mix includes community banks, regional banks and multi-bank holding companies, and a variety of other business enterprises, each with a unique set of information, technology and service requirements.

We derive our revenues from processing services, maintenance, and support fees; software licensing and installation fees; professional services; and equipment and supply sales. In addition to core processing, our integrated banking solutions include check imaging; cash management; branch and merchant capture; mobile and Internet banking; print and mail, and online document delivery services; corporate intranets; secure web hosting; e-messaging; teller and platform services; ATM and debit card service and support; payments solutions; risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security, anti-money laundering, and fraud prevention.

Market Conditions. We believe that financial institutions are increasingly focused on technology solutions that can help them win and retain customers, generate incremental revenue, enhance their operating efficiencies and comply with increasing regulatory burdens.

CSI has not suffered a significant impact to revenues or results of operations from regulatory actions with respect to troubled financial institutions. The number of such actions has declined in recent years after reaching a peak in 2010.

Legislation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as well as changes in the financial industry, has and will continue to result in numerous new regulations impacting the financial industry. We cannot predict the ultimate effect of such legislation, regulations and industry changes on our customers and on us.

Merger and acquisition activity among community banks varies from time to time, resulting in both increased fees as our customers acquire other banks and higher early contract termination fees as customers are acquired by non-CSI customer banks. However, the early termination fees do not fully offset the future stream of lost revenues from the terminating banks.

Acquisitions. Our business strategy includes the acquisition from time to time of complementary businesses financed by a combination of internally generated funds, debt and common stock. Our consolidated financial statements and results of operations reflect acquired business after the completion of the acquisition and are not restated. We account for acquired businesses using the acquisition method of accounting that requires the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

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RESULTS OF OPERATIONS

The following table presents the percentage of revenues represented by each item in our unaudited consolidated statements of income and the percentage change in those items for the periods indicated:

COMPUTER SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)
(in thousands, except share and per share data)

			Change		Percentage of Revenues	
Three months ended May 31,	**2016**	**2015**	**Amount**	**Percentage**	**2016**	**2015**
Processing revenues	$ 35,649	$ 37,363	$ (1,714)	(4.6%)	63.5%	65.4%
Other revenues	20,474	19,785	689	3.5%	36.5%	34.6%
Total revenues	56,123	57,148	(1,025)	(1.8%)	100.0%	100.0%
Operating expenses	45,198	44,620	578	1.3%	80.5%	78.1%
Operating income	10,925	12,528	(1,603)	(12.8%)	19.5%	21.9%
Interest income (expense)	19	11	8	nmf*	0.0%	0.0%
Income before income taxes	10,944	12,539	(1,595)	(12.7%)	19.5%	21.9%
Provision for income taxes	4,186	4,953	(767)	(15.5%)	7.5%	8.7%
Net income	$ 6,758	$ 7,586	$ (828)	(10.9%)	12.0%	13.3%
Earnings per share	$ 0.48	$ 0.54	$ (0.06)	(11.1%)		
Shares used in computing earnings per common and common equivalent share	13,995,221	14,120,405	(125,184)	(0.9%)		

* not meaningful

Revenues

Total revenues decreased $1,025, or 1.8%, for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016.

Processing revenues decreased $1,714, or 4.6%, for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. The decrease in processing revenues was due to approximately $12 in one-time early contract termination fees received in the first quarter of fiscal 2017 compared to $2,260 received in the first quarter of fiscal 2016. First quarter fiscal 2017 processing revenues increased approximately 1.5% compared to the first quarter of fiscal 2016 before recognizing the effect of early contract termination fees.

Other revenues increased $689, or 3.5%, for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. Other revenues were higher primarily due to higher sales of Internet and mobile banking services, growth in homeland security and fraud prevention services and increased demand for the Company’s document services. Other revenues included one-time early contract termination fees of $73 for the first quarter of fiscal 2017 compared to $171 for the first quarter of fiscal 2016. First quarter fiscal 2017 other revenues increased approximately 4.0% compared to the first quarter of fiscal 2016 before recognizing the effect of early contract termination fees.

Early contract termination fees can be generated when an existing customer is acquired by another financial institution that is not a CSI customer and can vary significantly from period to period based on the number and size of customers that are acquired and how early in the contract term a customer is acquired.

Operating Expenses

Operating expenses increased $578, or 1.3%, for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016.

The year-over-year increase in operating expenses for the first quarter of fiscal 2017 was primarily due to:

- higher cost of goods sold primarily due to higher Internet and mobile banking services revenue and higher plastic card fulfillment in payment services;
- higher software amortization expense due to new capital investments placed into service during the trailing 12-month period;
- higher data communications expenses due to recent communication infrastructure enhancements; and
- higher travel expense;

partially offset by:

- lower net employee-related expenses primarily attributable to a lower profit sharing provision partially offset by annual compensation adjustments.

Operating Income

Operating income decreased $1,603, or 12.8%, for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. Operating margins decreased to 19.5% for the first quarter of fiscal 2017 compared to 21.9% for the first quarter of fiscal 2016. The decreases in operating income and margin were due to the effects of higher one-time early contract termination fees received in the first quarter of fiscal 2016 and not repeated in the first quarter of fiscal 2017.

Interest Income and Expense

Consolidated net interest income was $19 for the first quarter of fiscal 2017 compared to $11 for the first quarter of fiscal 2016 due to higher average invested cash balances.

Provision for Income Taxes

The provision for income taxes decreased to $4,186 for the first quarter of fiscal 2017 compared to $4,953 for the first quarter of fiscal 2016. The first quarter decrease of fiscal 2017 was due to lower taxable income partially offset by a lower effective tax rate. The estimated consolidated effective income tax rate was 38.25% and 39.50% for the first quarter of fiscal 2017 and 2016, respectively. The decrease was due primarily to state income taxes and adjustments to various deferred tax assets and liabilities.

Net Income

Net income decreased 10.9% for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. Net income for the first quarter of fiscal 2017 was $6,758 or $0.48 per share on 14.0 million weighted average shares outstanding compared to $7,586 or $0.54 per share on 14.1 million weighted average shares outstanding for the first quarter of fiscal 2016.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. The following table summarizes net cash from operating activities in the accompanying consolidated statements of cash flows for the first quarters of fiscal 2017 and 2016, respectively:

	Three Months Ended May 31,	
	2016	**2015**
Net income	$ 6,758	$ 7,586
Non-cash expenses	4,788	5,201
Change in receivables	2,233	2,262
Change in deferred revenue	31	(1,670)
Change in other assets and liabilities	4,492	1,612
Net cash from operating activities	$ 18,302	$ 14,991

Net cash provided by operating activities increased 22.1% for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. Cash from operations is primarily used to fund capital expenditures; repay debt, if any; pay dividends; and repurchase stock.

Investing Activities. Net cash used by investing activities for the first quarter of fiscal 2017 was $4,026. The largest uses of cash included $3,639 for equipment and software. Net cash used by investing activities for the first quarter of fiscal 2016 was $13,202 primarily for equipment and software.

Financing Activities. Net cash used by financing activities for the first quarter of fiscal 2017 was $3,998 for dividends paid to shareholders of $3,497, the purchase of common stock of $310 and $191 related to stock-based compensation. Net cash used by financing activities for the first quarter of fiscal 2016 was $3,402 for dividends paid to shareholders of $3,104 and stock-based compensation of $298.

Credit Lines

We renewed an unsecured bank credit line on January 19, 2016 that provides for funding up to $15,000 and bears interest at a floating rate equal to one-month LIBOR plus 0.90% (1.37% and 1.28% at May 31, 2016 and 2015, respectively). The unsecured revolving credit agreement expires on January 31, 2019. At May 31, 2016, no amount was outstanding under the credit line.

We renewed an unsecured bank credit line on August 7, 2015 that provides for funding of up to $5,000 and bears interest at a floating rate equal to the prime rate minus 1.30% (2.20% and 1.95% at May 31, 2016 and 2015, respectively). The credit line matures on August 5, 2016. At May 31, 2016, no amount was outstanding under the credit line.

The credit agreements contain customary restrictive and financial covenants as well as customary events of default. The terms of the credit agreements also include standard provisions related to conditions of borrowing, including customary material adverse effect clauses which could limit our ability to borrow funds. We have not experienced a material adverse effect, and we know of no circumstances or events that would be reasonably likely to result in a material adverse effect. At this time, we do not believe the material adverse effect clauses pose a material funding risk to us.

Off Balance Sheet Arrangements

As of May 31, 2016, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Liquidity Requirements

We believe our cash balances, operating cash flows, access to debt financing and borrowing capacity, taken together, provide adequate resources to fund our ongoing liquidity requirements; to fund future expansion opportunities, capital expenditures and share repurchases; and to refinance debt, if any, as it matures.

Item 5: Legal proceedings.

The information required by this item is hereby incorporated by reference to Item 8.A(11) of the Company’s Annual Information and Disclosure Statement for the fiscal year ended February 29, 2016 as published by the OTC Markets Group, Inc. on the OTC Disclosure and News Service available on the OTCQX website (www.otcmarkets.com or www.otcqx.com). No change in the status thereof has occurred through the time period covered by this Quarterly Report.

Item 6: Defaults upon senior securities.

None.

Item 7: Other information.

A. Sale and Purchase of Equity Securities:

The following table sets forth information concerning the equity securities of CSI issued from March 1, 2016 through the filing date of this Quarterly Report.

COMMON STOCK ISSUED

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Amount Paid to Issuer $	Trading Status of Shares	Certificates Issued with Restrictive Legends(1)
05/09/2016	Restricted Stock Grants	Executive Officers & Other Key Employees (48 in Total)	43,542	-	Restricted	Yes
05/23/2016	Stock Grants	Non-Employee Directors (8 in Total)	2,319	-	Restricted	Yes

(1) The certificates evidencing the shares contain a legend stating that the shares have not been registered under the Securities Act of 1933, as amended, or any state securities laws and setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act of 1933 and/or a CSI Share Subscription and Restriction Agreement.

No equity securities of CSI were sold for cash and 8,626 equity securities of CSI were purchased during the three months ended May 31, 2016. As reflected in the Condensed Consolidated Statement of Changes in Equity in Item 3, above, CSI redeemed 5,123 shares of common stock related to tax withholding payments as a part of stock-based compensation during the three months ended May 31, 2016.

Item 8: Exhibits.

A. Material Contracts:

None.

B. Articles of incorporation and bylaws

The Articles of Incorporation and Bylaws of the Company were not amended in the period covered by this Quarterly Report.

Item 9: Certifications.

Please see Exhibits 9 (A) and 9 (B) at the end of this Quarterly Report.

EXHIBIT 9 (A)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Steven A. Powless, principal executive officer of Computer Services, Inc. (the "Company"), certify that:

1. I have reviewed this Quarterly Report of the Company for the period ended May 31, 2016;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report.

Date: July 13, 2016

/s/ Steven A. Powless
Steven A. Powless
Chief Executive Officer

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EXHIBIT 9 (B)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David L. Simon, principal financial officer of Computer Services, Inc. (the "Company"), certify that:

1. I have reviewed this Quarterly Report of the Company for the period ended May 31, 2016;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report.

Date: July 13, 2016

/s/ David L. Simon
David L. Simon
Chief Financial Officer