COMPUTER SERVICES, INC.

QUARTERLY REPORT

FOR THE FISCAL QUARTER ENDED

AUGUST 31, 2016

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 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 August 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	08/31/2016	60,000,000	14,027,304	12,998,054	3,107	284
Preferred	08/31/2016	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 August 31,		Six Months Ended August 31,	
	2016	**2015**	**2016**	**2015**
Processing revenues	$ 37,177	$ 36,042	$ 72,826	$ 73,405
Other revenues	20,752	20,123	41,226	39,908
Total revenues	57,929	56,165	114,052	113,313
Operating expenses	44,691	43,710	89,889	88,330
Operating income	13,238	12,455	24,163	24,983
Interest income	20	9	39	20
Income before income taxes	13,258	12,464	24,202	25,003
Provision for income taxes	5,071	4,923	9,257	9,876
Net income	$ 8,187	$ 7,541	$ 14,945	$ 15,127
Earnings per share	$ 0.59	$ 0.53	$ 1.07	$ 1.07
Shares used in computing earnings per common share	14,025,285	14,144,707	14,010,253	14,132,556

**See accompanying notes to consolidated financial statements.*

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

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

	08/31/2016 *(Unaudited)*	02/29/2016 *(Audited)*	08/31/2015 *(Unaudited)*
ASSETS			
Current assets			
Cash and cash equivalents	$ 34,327	$ 17,397	$ 16,832
Accounts receivable	23,151	28,045	22,254
Income tax receivable	-	78	-
Prepaid expenses and other current assets	11,610	11,978	12,194
Total current assets	69,088	57,498	51,280
Property and equipment, net of accumulated depreciation	35,049	34,655	36,045
Software and software licenses, net of accumulated amortization	21,437	21,683	23,963
Goodwill	60,115	60,115	60,115
Intangible assets	6,433	6,390	6,715
Other assets	21,561	22,874	21,091
Total assets	$ 213,683	$ 203,215	$ 199,209
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued expenses	$ 24,071	$ 18,709	$ 24,014
Deferred revenue	7,585	8,402	7,332
Income tax payable	901	-	374
Total current liabilities	32,557	27,111	31,720
Long-term liabilities			
Deferred income taxes	18,964	18,964	15,547
Other long-term liabilities	1,544	1,166	954
Total long-term liabilities	20,508	20,130	16,501
Total liabilities	53,065	47,241	48,221
Shareholders' equity			
Preferred stock; shares authorized, 5,000,000; none issued	-	-	-
Common stock, no par; shares authorized, 60,000,000 in fiscal 2017 and 2016; shares issued and outstanding, 14,027,304 at August 31, 2016, 13,992,981 at February 29, 2016 and 14,142,972 at August 31, 2015	24,401	23,118	23,082
Retained earnings	136,217	132,856	127,906
Total shareholders' equity	160,618	155,974	150,988
Total liabilities and shareholders' equity	$ 213,683	$ 203,215	$ 199,209

**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)

	Six Months Ended August 31, 2016			
	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance at February 29, 2016	13,992,981	$ 23,118	$132,856	155,974
Net income	-	-	14,945	14,945
Cash dividends paid ($.50 per share)	-	-	(7,003)	(7,003)
Cash dividends payable ($.28 per share)	-	-	(3,928)	(3,928)
Issuance of common stock	4,530	168	-	168
Issuance of restricted stock	43,542	-	-	-
Restricted stock vested and tax benefit	-	1,141	(178)	963
Purchase of common stock	(8,626)	(16)	(294)	(310)
Tax withholding related to share-based compensation	(5,123)	(10)	(181)	(191)
Balance at August 31, 2016	**14,027,304**	**$ 24,401**	**$136,217**	**$160,618**

**See accompanying notes to consolidated financial statements.*

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

	Six Months Ended August 31,	
	2016	**2015**
Cash flows from operating activities		
Net income	$ 14,945	$ 15,127
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	3,554	3,624
Amortization	4,046	3,773
Restricted stock expense	1,141	1,413
Stock-based compensation expense	168	143
(Gain)/Loss on disposal of assets	(7)	4
Tax benefit of restricted stock vested	(178)	151
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	4,961	3,432
Prepaid expenses and other current assets	731	(1,457)
Other assets	1,754	530
Accounts payable and accrued expenses	569	454
Deferred revenue	(728)	(2,294)
Income taxes	978	3,367
Other liabilities	289	40
Net cash from operating activities	32,223	28,307
Cash flows from investing activities		
Proceeds from sale of property and equipment	-	3
Proceeds from disposal of software and software licenses	42	-
Purchase of property and equipment	(3,955)	(6,599)
Purchase of intangible assets	(387)	-
Purchase of software and software licenses	(3,489)	(10,002)
Net cash from investing activities	(7,789)	(16,598)
Cash flows from financing activities		
Payments of dividends	(7,003)	(6,216)
Purchase of common stock	(310)	(213)
Tax withholding related to share-based compensation	(191)	(297)
Net cash from financing activities	(7,504)	(6,726)
Net change in cash and cash equivalents	16,930	4,983
Cash and cash equivalents, beginning of period	17,397	11,849
Cash and cash equivalents, end of period	$ 34,327	$ 16,832

**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; and payments solutions. For both financial institutions and corporate customers generally, the Company offers 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 accompanying consolidated financial statements include the accounts of CSI including 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 August 31, 2016 and 2015, an allowance for doubtful accounts of $28 and $86, respectively, had been recorded.

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

	2016	2015
Land	**$ 1,716**	$ 1,716
Buildings and improvements	**27,713**	27,374
Equipment	**64,203**	60,893
Construction-in-progress	**3**	18
	93,635	90,001
Less accumulated depreciation	**58,586**	53,956
Balance, end of period	**$ 35,049**	$ 36,045

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 August 31, 2016 and 2015 was $1,876 and $1,758, 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 consolidated financial statements. Property and equipment, software and other assets acquired through accounts payable and accrued expenses as of August 31, 2016 and August 31, 2015 were $0 and $61, 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.

There was no change in the carrying amount of goodwill during the three months ended August 31, 2016.

Intangible assets not subject to amortization primarily consist of governmental licenses to operate a competitive local exchange carrier. Intangible assets not subject to amortization totaled $190 at both August 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 August 31, 2016 and 2015 were 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	**8,593**	7,924
Balance, end of period	**$ 6,243**	$ 6,525

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

Earnings Per Common Share: 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 14,025,285 and 14,144,707 for the quarters ended August 31, 2016 and 2015, respectively.

Income Taxes: The provision for deferred income taxes is established 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 consolidated 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 in 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, if the customer terminates the Company's services prior to the end of the contract term, to collect as liquidated damages a percentage of the anticipated revenues that would have been earned during the remaining contract term. Revenues from early contract termination fees are recognized as operating income in the period

received. Total early core contract termination fees recorded as a component of processing revenues in the accompanying consolidated financial statements for the three months ended August 31, 2016 and 2015 were $932 and $1,794, respectively. Total early non-core contract termination fees recorded as a component of other revenues in the accompanying consolidated financial statements for the three months ended August 31, 2016 and 2015 were $2 and $48, 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 an 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 August 31, 2016 and 2015 were $11,073 and $11,423, 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. In addition, the Company has entered into a deposit placement program that distributes a substantial portion of the Company's funds among different select FDIC-insured financial institutions to avoid the effect of the insurance limits at any single institution.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 also 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 2019 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 adopt this standard early and has elected to apply it retrospectively to all deferred tax liabilities and assets. As a result of early adoption, all net deferred income tax liabilities as of August

31, 2016, February 29, 2016 and August 31, 2015 in the accompanying consolidated 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. 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 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 accompanying 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 August 31, 2016 and 2015, and the results of its operations for the three- and six-month periods ended August 31, 2016 and 2015, and changes in its equity and its cash flows for the six-month periods ended August 31, 2016 and 2015.

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

NOTE 3. LAND AVAILABLE FOR RESALE

The cost of land available for resale of $1,347 at both August 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 and are included in other assets on the balance sheet. The project is substantially complete and any future associated costs will not be material. At August 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 August 31, 2016 and 2015, respectively. These effective tax rates differed from the statutory federal tax rate of 35.00% due primarily to state income taxes and adjustments to various deferred tax assets and liabilities. Cash paid for income taxes during the quarters ended August 31, 2016 and 2015 was $6,613 and $5,935, 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 1.00% (1.52% and 1.20% at August 31, 2016 and 2015, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of August 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 August 31, 2016 and 2015, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of August 31, 2016 and 2015. The line of credit was renewed in August 2016 and expires in August 2017.

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 August 31, 2016 and 2015 was $0 and $0, respectively. Cash paid for interest expense during the three months ended August 31, 2016 and 2015 was $0 and $0, 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 August 31, 2015, the Company had the authority to repurchase additional shares for up to $5,442. The Company's Board of Directors authorized the repurchase of an additional $5,000 of the Company's common stock in December 2015. At August 31, 2016, the Company had the authority to repurchase additional shares for up to $4,312.

NOTE 7. STOCK-BASED COMPENSATION

Beginning in June 2013, the Company has authorized the issuance of common stock to the 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 $168 and $143 for the six-month periods ended August 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 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 August 31, 2016, as well as activity for the six months then ended:

Balance, February 29, 2016	$ 2,900
Grant of restricted stock	
May 9, 2016	1,622
Restricted stock vested	(1,141)
Restricted stock forfeited	-
Balance, August 31, 2016	$ 3,381

The following is a summary of unvested shares of restricted stock as of August 31, 2016, as well as activity for the six 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	(32,129)	35.50
Forfeited	-	-
Unvested balance, August 31, 2016	89,805	$ 37.65

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was $1,141 and $1,413 for the six months ended August 31, 2016 and 2015, respectively.

NOTE 8. 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 9. 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 consolidated financial statements, are recognized in the accompanying consolidated 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 consolidated financial statements are available to be issued. In some cases, unrecognized subsequent events are disclosed to keep the consolidated financial statements from being misleading. The Company has evaluated events through October 11, 2016, the date the consolidated financial statements were available to be issued.

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

On September 28, 2016, the Board of Directors authorized a cash dividend of 28 cents per share, or approximately $3,930 in the aggregate, that will be paid December 27, 2016 to shareholders of record as of the close of business on December 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; cybersecurity risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security 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 efficiency 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.

We are seeing increased rates of merger and acquisition activity among community banks due to improved bank earnings and market factors. We expect our bank customers to be active in this market in the coming year, 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 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 which requires that 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.

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:

			Change		Percentage of Revenues	
Three months ended August 31,	**2016**	**2015**	**Amount**	**Percentage**	**2016**	**2015**
Processing revenues	$ 37,177	$ 36,042	$ 1,135	3.1%	64.2%	64.2%
Other revenues	20,752	20,123	629	3.1%	35.8%	35.8%
Total revenues	57,929	56,165	1,764	3.1%	100.0%	100.0%
Operating expenses	44,691	43,710	981	2.2%	77.1%	77.8%
Operating income	13,238	12,455	783	6.3%	22.9%	22.2%
Interest income (expense)	20	9	11	122.2%	0.0%	0.0%
Income before income taxes	13,258	12,464	794	6.4%	22.9%	22.2%
Provision for income taxes	5,071	4,923	148	3.0%	8.8%	8.8%
Net income	$ 8,187	$ 7,541	$ 646	8.6%	14.1%	13.4%
Earnings per share	$ 0.59	$ 0.53	$ 0.06	11.3%		
Shares used in computing earnings per common share	14,025,285	14,144,707	(119,422)	(0.8%)		

			Change		Percentage of Revenues	
Six months ended August 31,	**2016**	**2015**	**Amount**	**Percentage**	**2016**	**2015**
Processing revenues	$ 72,826	$ 73,405	$ (579)	(0.8%)	63.9%	64.8%
Other revenues	41,226	39,908	1,318	3.3%	36.1%	35.2%
Total revenues	114,052	113,313	739	0.7%	100.0%	100.0%
Operating expenses	89,889	88,330	1,559	1.8%	78.8%	78.0%
Operating income	24,163	24,983	(820)	(3.3%)	21.2%	22.0%
Interest income (expense)	39	20	19	95.0%	0.0%	0.0%
Income before income taxes	24,202	25,003	(801)	(3.2%)	21.2%	22.1%
Provision for income taxes	9,257	9,876	(619)	(6.3%)	8.1%	8.7%
Net income	$ 14,945	$ 15,127	$ (182)	(1.2%)	13.1%	13.3%
Earnings per share	$ 1.07	$ 1.07	$ -	0.0%		
Shares used in computing earnings per common share	14,010,253	14,132,556	(122,303)	(0.9%)		

Revenues

Total revenues increased $1,764, or 3.1%, for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 and increased $739, or 0.7%, for the first six months of fiscal 2017 compared to the first six months of fiscal 2016.

Processing revenues increased $1,135, or 3.1%, for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 and decreased $579, or 0.8%, for the first six months of fiscal 2017 compared to the first six months of fiscal 2016. The second quarter growth was primarily driven by the addition of new customers, cross-sales to existing customers and increases in transaction volumes from existing customers, partially offset by the effect of lost business and a decrease in early core contract termination fees. The decrease for the first six months was primarily driven by a decrease in early core contract termination fees and the effect of lost business, partially offset by the addition of new customers, cross-sales to existing customers and increases in transaction volumes from existing customers. Processing revenues included early core contract termination fees of $932 for the second quarter and $944 for the first six months of fiscal 2017 compared to $1,794 for the second quarter and $4,054 for the first six months of fiscal 2016. Substantially all of the former customers were acquired by non-customer financial institutions. These fees can be generated when an existing customer is acquired by another financial institution 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.

Other revenues increased $629, or 3.1%, for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 and increased $1,318, or 3.3%, for the first six months of fiscal 2017 compared to the first six months of fiscal 2016. The increases were primarily due to growth in mobile and Internet banking services, growth in homeland security and fraud prevention services, and growth in infrastructure network and security management services, partially offset by lower transaction item capture revenue and lower non-recurring revenues from third-party equipment, software, and maintenance agreement resale arrangements. Other revenues included early non-core contract termination fees of $2 for the second quarter and $75 for the first six months of fiscal 2017 compared to $48 for the second quarter and $219 for the first six months of fiscal 2016.

Operating Expenses

Operating expenses increased $981, or 2.2%, for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 and increased $1,559, or 1.8%, for the first six months of fiscal 2017 compared to the first six months of fiscal 2016.

For both periods, the year-over-year increase in operating expenses in fiscal 2017 compared to fiscal 2016 was primarily due to an increase in cost of goods sold on growth in mobile banking services revenue and higher debit card reissuance activity, higher employee-related expenses attributable to an increase in recognized commission expense and normal compensation adjustments partially offset by a lower profit sharing provision, an increase in equipment and software expenses related to new capital investments, and higher data communication expenses; partially offset by lower employee travel expenses and lower occupancy expenses.

Operating Income

Operating income increased $783, or 6.3%, for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 and decreased $820, or 3.3%, for the first six months of fiscal 2017 compared to the first six months of fiscal 2016. Operating margins were 22.9% and 21.2% for the three- and six-month periods ended August 31, 2016, respectively, compared to 22.2% and 22.0% for the three- and six-month periods ended August 31, 2015, respectively.

Interest Income and Expense

Consolidated net interest income was $20 and $39 for the three- and six-month periods ended August 31, 2016, respectively, compared to $9 and $20 for the three- and six-month periods ended August 31, 2015, respectively, primarily due to higher average investible cash balances.

Provision for Income Taxes

The provision for income taxes increased to $5,071 for the second quarter of fiscal 2017 compared to $4,923 for the second quarter of fiscal 2016 due to higher taxable income, partially offset by a lower effective tax rate. The provision for income taxes decreased to $9,257 for the first six months of fiscal 2017 compared to $9,876 for the first six months of fiscal 2016 due to lower taxable income and a lower effective tax rate. The estimated consolidated effective income tax rate was 38.25% for the three- and six-month periods ended August 31, 2016 compared to 39.50% for the three- and six-month periods ended August 31, 2015. The decrease was due primarily to the effect of anticipated research and development tax credits and adjustments to various deferred tax assets and liabilities.

Net Income

Net income increased 8.6% for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. Net income for the second quarter of fiscal 2016 was $8,187, or $0.59 per share, compared to $7,541, or $0.53 per share, for the second quarter of fiscal 2016. For the first six months of fiscal 2017, net income decreased 1.2% to $14,945, or $1.07 per share, compared to $15,127, or $1.07 per share, for the first six months of fiscal 2016, primarily as a function of the impact of non-recurring early contract termination fees on operating income in fiscal 2016.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows
(Unaudited)

	Six Months Ended August 31,	
	2016	**2015**
Cash provided by or (used in):		
Operating activities	$ 32,223	$ 28,307
Investing activities	(7,789)	(16,598)
Financing activities	(7,504)	(6,726)
Net change in cash & cash equivalents	$ 16,930	$ 4,983

Net cash provided by operating activities increased 13.8% to $32,223 for the first six months of fiscal 2017 compared to $28,307 for the first six months of fiscal 2016. Net 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 six months of fiscal 2017 was $7,789. The largest uses of cash included $7,444 for equipment and software related to miscellaneous new and replacement capital investments. Net cash used by investing activities for the first six months of fiscal 2016 was $16,598, primarily for equipment and software, including the replacements of a mainframe and disk arrays.

Financing Activities. Net cash used by financing activities for the first six months of fiscal 2017 was $7,504, primarily for dividends paid to shareholders of $7,003, the purchase of common

stock of $310, and $191 related to stock-based compensation. Net cash used by financing activities for the first six months of fiscal 2016 was $6,726, primarily for dividends paid to shareholders of $6,216, the purchase of common stock of $213, and $298 related to stock-based compensation.

Credit Lines

We renewed an unsecured bank credit line in January 2016 that provides for funding up to $15,000 and bears interest at a floating rate equal to one-month LIBOR plus 1.00% (1.52% and 1.20% at August 31, 2016 and 2015, respectively). The unsecured revolving credit agreement expires on January 31, 2019. At August 31, 2016, no amount was outstanding under the credit line.

We renewed an unsecured bank credit line in August 2016 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% on August 31, 2016 and 2015, respectively). The credit line expires on August 4, 2017. At August 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 August 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 and acquisition opportunities, capital expenditures and share repurchases; and to refinance debt 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 June 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)]
08/24/2016	Stock Grants	Non-Employee Directors (8 in Total)	2,211	-	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 or purchased for cash during the three months ended August 31, 2016.

Item 8: Exhibits.

A. Material Contracts:

None.

B. Articles of incorporation and bylaws

The Articles of Incorporation and By-Laws of the Company were not amended during 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.

COMPUTER SERVICES, INC.
QUARTERLY REPORT
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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 August 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 consolidated 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: October 11, 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 August 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 consolidated 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: October 11, 2016

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