COMPUTER SERVICES, INC.

QUARTERLY REPORT

FOR THE FISCAL QUARTER ENDED

NOVEMBER 30, 2014

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2014

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 November 30, 2014:

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	11/30/2014	20,000,000	14,121,432	13,200,884	4,228	296
Preferred	11/30/2014	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)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2014	2013	2014	2013
Processing revenues	$ 35,525	$ 33,050	$ 105,119	$ 100,677
Other revenues	20,423	20,000	61,006	58,123
Total revenues	55,948	53,050	166,125	158,800
Operating expenses	44,016	41,973	131,066	127,013
Operating income	11,932	11,077	35,059	31,787
Interest income (expense), net	4	(7)	9	(30)
Income before income taxes	11,936	11,070	35,068	31,757
Provision for income taxes	4,745	4,373	13,940	12,544
Net income	$ 7,191	$ 6,697	$ 21,128	$ 19,213
Earnings per share	$ 0.51	$ 0.47	$ 1.49	$ 1.33
Shares used in computing earnings per common and common equivalent share	14,123,737	14,365,593	14,174,986	14,498,017

**See accompanying notes to consolidated financial statements.*

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2014

COMPUTER SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	11/30/2014 *(Unaudited)*	02/28/2014 *(Audited)*	11/30/2013 *(Unaudited)*
ASSETS			
Current assets			
Cash and cash equivalents	$ 9,012	$ 1,078	$ 3,830
Accounts receivable	24,822	25,962	23,035
Income tax receivable	755	538	236
Prepaid expenses and other current assets	11,238	9,628	7,812
Total current assets	45,827	37,206	34,913
Property and equipment, net	34,340	35,252	35,256
Software and software licenses, net	18,676	17,963	17,270
Goodwill	60,115	60,115	60,115
Intangible assets	7,309	8,264	8,592
Other assets	18,000	16,120	10,792
Total assets	$ 184,267	$ 174,920	$ 166,938
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued expenses	$ 23,222	$ 18,536	$ 17,527
Deferred revenue	7,445	9,430	8,259
Notes payable	-	7	16
Total current liabilities	30,667	27,973	25,802
Long-term liabilities			
Deferred income taxes	14,418	14,418	13,193
Other long-term liabilities	1,158	1,198	1,145
Total long-term liabilities	15,576	15,616	14,338
Total liabilities	46,243	43,589	40,140
Shareholders' equity			
Preferred stock; shares authorized, 5,000,000; none issued	-	-	-
Common stock, no par; shares authorized, 20,000,000 in fiscal 2015 and 2014; shares issued and outstanding, 14,121,432 at November 30, 2014, 14,227,951 at February 28, 2014, and 14,314,731 at November 30, 2013	21,415	20,316	20,389
Retained earnings	116,609	111,015	106,409
Total shareholders' equity	138,024	131,331	126,798
Total liabilities and shareholders' equity	$ 184,267	$ 174,920	$ 166,938

**See accompanying notes to consolidated financial statements.*

COMPUTER SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Equity
(Unaudited)

	Nine Months Ended November 30, 2014			
	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance at February 28, 2014	14,227,951	$ 20,316	$ 111,015	$ 131,331
Net income	-	-	21,128	21,128
Cash dividends paid ($.54 per share)	-	-	(7,662)	(7,662)
Cash dividends payable ($.22 per share)	-	-	(3,097)	(3,097)
Issuance of common stock	5,196	191	-	191
Issuance of restricted stock	36,670	-	-	-
Restricted stock vested and tax benefit	-	1,157	91	1,248
Restricted stock forfeited and tax benefit	(2,180)	-	3	3
Purchase of common stock	(136,968)	(233)	(4,566)	(4,799)
Redemption of common stock	(9,237)	(16)	(303)	(319)
Balance at November 30, 2014	**14,121,432**	**$ 21,415**	**$ 116,609**	**$ 138,024**

**See accompanying notes to consolidated financial statements.*

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

	Nine Months Ended November 30,	
	2014	**2013**
Cash flows from operating activities		
Net income	$ 21,128	$ 19,213
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	5,572	5,601
Amortization	5,612	5,997
Restricted stock expense	1,157	1,303
Stock-based compensation expense	191	121
Loss on sale of property and equipment	52	2
Tax benefit of restricted stock vested	91	175
Tax benefit of restricted stock forfeited	3	-
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	1,151	(1,082)
Prepaid expenses and other current assets	(827)	(789)
Other assets	(1,101)	165
Accounts payable and accrued expenses	177	(483)
Deferred revenue	(2,084)	(1,064)
Income taxes	(218)	560
Other liabilities	60	23
Net cash from operating activities	30,964	29,742
Cash flows from investing activities		
Proceeds from sale of property and equipment	379	7
Purchase of property and equipment	(5,274)	(5,988)
Purchase of software and software licenses	(5,348)	(3,290)
Net cash from investing activities	(10,243)	(9,271)
Cash flows from financing activities		
Proceeds from the issuance of long-term debt	9,000	23,500
Payments on long-term debt	(9,007)	(23,551)
Payments of dividends	(7,662)	(6,394)
Purchase of common stock	(4,799)	(10,255)
Redemption of common stock	(319)	(440)
Net cash from financing activities	(12,787)	(17,140)
Net change in cash and cash equivalents	7,934	3,331
Cash and cash equivalents, beginning of period	1,078	499
Cash and cash equivalents, end of period	$ 9,012	$ 3,830

**See accompanying notes to consolidated financial statements.*

Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1. NATURE OF BUSINESS

Computer Services, Inc., including its subsidiaries, 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; risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security and fraud prevention.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The 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 November 30, 2014 and 2013, an allowance for doubtful accounts of $117 and $180, respectively, had been recorded.

Property and Equipment: As of November 30, 2014 and 2013, property and equipment consisted of:

	2014	2013
Land	**$ 1,716**	$ 1,716
Buildings and improvements	**27,233**	25,831
Equipment	**57,029**	56,893
Construction-in-progress	**149**	752
	86,127	85,192
Less accumulated depreciation	**51,787**	49,936
Balance, end of period	**$ 34,340**	$ 35,256

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.

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. Software and other assets acquired through accounts payable and accrued expenses for the three months ended November 30, 2014 and November 30, 2013 were $75 and $0, respectively.

Deferred Commissions: Deferred commissions are the incremental costs that are directly associated with non-cancelable 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 60 to 120 months. The Company believes this is the preferable method of accounting as the commission charges are so closely related to the revenue from the non-cancelable 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 November 30, 2014.

Intangible assets not subject to amortization primarily consist of a license to operate a competitive local exchange carrier. Intangible assets not subject to amortization totaled $370 as of both November 30, 2014 and 2013.

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 November 30, 2014 and 2013 are as follows:

	2014	2013
Customer relationships	**$ 11,206**	$ 11,206
Non-compete agreements	**1,700**	1,700
Patents	**427**	427
Trade name	**530**	530
Developed technology	**370**	370
Other	**216**	216
	$ 14,449	$ 14,449
Less accumulated amortization	**7,510**	6,227
Balance, end of period	**$ 6,939**	$ 8,222

Total amortization expense for the three months ended November 30, 2014 and 2013 was $299 and $326, 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 14,123,737 and 14,365,593 for the quarters ended November 30, 2014 and 2013, respectively. The Company no longer has an active stock option plan for employees and no dilutive options remain exercisable.

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 2010.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement 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 in lengths of one to ten years. 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 for the three months ended November 30, 2014 and November 30, 2013 were $602 and $1,004, respectively. Total early contract termination fees recorded as a component of processing revenues in the accompanying financial statements for the three months ended November 30, 2014 and 2013 were $525 and $957, respectively. Total early contract termination fees recorded as a component of other revenues in the accompanying financial statements for the three months ended November 30, 2014 and 2013 were $77 and $47, respectively. The Company recognizes product revenue, such as software license sales, which represent less than 5% of total revenue, when written contracts are signed, delivery of the product has occurred, the fee is fixed or determinable, and collection is reasonably assured.

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 and provides these services at the Company's cost. The total pass-through revenues for these services for the three months ended November 30, 2014 and 2013 were $12,014 and $10,577, 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 July 2012, the Financial Accounting Standards Board ("FASB") issued guidance to amend and simplify the rules related to testing indefinite-lived intangible assets for impairment. The revised guidance permits an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is more likely than not that the indefinite-lived intangible asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with current guidance. These amendments were effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In May 2014, the 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 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, 2016, with no early adoption permitted, 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 in 2017.

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 2014 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 November 30, 2014 and 2013, and the results of operations for the three- and nine-month periods ended November 30, 2014 and 2013, and its cash flows for the nine-month periods ended November 30, 2014 and 2013.

The 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 HELD FOR RESALE

The cost of land held for resale of $1,540 at November 30, 2014 and 2013, 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. Land held for resale is included in other assets on the balance sheet.

NOTE 4. INCOME TAXES

The effective tax rates were 39.75% and 39.50% for the three months ended November 30, 2014 and 2013, 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 November 30, 2014 and 2013 was $4,986 and $4,157, respectively.

NOTE 5. NOTES PAYABLE

Notes payable consisted of the following at November 30, 2014 and 2013:

	2014	2013
Various installment notes; interest from 8.00% to 10.00%; collateralized by certain equipment with due dates ranging from April 2014 to May 2014.	**$ -**	$ 16
	-	16
Less: current maturities	**-**	16
Long-term maturities	**$ -**	$ -

In addition, the Company has a $25,000 commercial revolving line of credit. Interest is payable monthly at one-month LIBOR plus 1.00% (1.15% at November 30, 2014). The line of credit is unsecured and there were no outstanding borrowings on the line as of November 30, 2014 and 2013. The line of credit was renewed in January 2014 and expires in January 2017.

The Company also has a $5,000 commercial revolving line of credit. Interest is payable monthly at prime minus 1.30% (1.95% at November 30, 2014). The line of credit is unsecured and there were no outstanding borrowings on the line as of November 30, 2014 and 2013. The line of credit was renewed in August 2014 and expires in August 2015.

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 November 30, 2014 and 2013 was $2 and $15, respectively. Cash paid for interest expense during the three months ended November 30, 2014 and 2013 was $2 and $15, 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. The Company's Board of Directors authorized the repurchase of an additional $5,000 of the Company's common stock in both June 2013 and September 2013, respectively. At November 30, 2013, the Company had the authority to repurchase up to $3,921 in additional shares. The Company's Board of Directors authorized the repurchase of an additional $5,000 of the Company's common stock in both April 2014 and July 2014, respectively. At November 30, 2014, the Company had the authority to repurchase up to $6,135 in additional shares.

NOTE 7. STOCK-BASED COMPENSATION

In June 2013, the Company authorized the issuance from time-to-time 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 $191 and $121 for the nine months ended November 30, 2014 and 2013, respectively.

In June 2004, the Company authorized the issuance, from time-to-time, 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.

The following is a summary of unearned compensation on restricted stock as of November 30, 2014, as well as activity for the nine months then ended:

Balance, February 28, 2014	$ 2,775
Grant of restricted stock	
May 12, 2014	1,256
Restricted stock vested	(1,157)
Restricted stock forfeited	(72)
Balance, November 30, 2014	$ 2,802

The following is a summary of unvested shares of restricted stock as of November 30, 2014, as well as activity for the nine months then ended:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance, February 28, 2014	95,472	$ 29.07
Granted	36,670	34.25
Vested	(42,209)	27.44
Forfeited	(2,180)	33.21
Unvested balance, November 30, 2014	87,753	$ 32.46

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was $1,157 and $1,303 for the nine months ended November 30, 2014 and 2013, respectively.

NOTE 8. CONTINGENCIES

The Company may, from time to time, be the defendant in certain 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 financial statements, are recognized in the financial statements. The Company does not recognize in the financial statements subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose between that date and the date the financial statements are available to be issued. In September 2014, the Board of Directors authorized a cash dividend of $0.22 per share, or $3,097 in the aggregate, that was paid subsequent to the quarter end on December 26, 2014 to shareholders of record as of the close of business on December 1, 2014.

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 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 this complex legislation and implementing regulations on our customers and on us.

We are beginning to see increased rates of merger and acquisition activity among community banks due to improved bank earnings. 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 purchase 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)

			Change		Percentage of Revenues	
Three months ended November 30,	**2014**	**2013**	**Amount**	**Percentage**	**2014**	**2013**
Processing revenues	$ 35,525	$ 33,050	$ 2,475	7.5%	63.5%	62.3%
Other revenues	20,423	20,000	423	2.1%	36.5%	37.7%
Total revenues	55,948	53,050	2,898	5.5%	100.0%	100.0%
Operating expenses	44,016	41,973	2,043	4.9%	78.7%	79.1%
Operating income	11,932	11,077	855	7.7%	21.3%	20.9%
Interest income (expense), net	4	(7)	11	nmf	0.0%	0.0%
Income before income taxes	11,936	11,070	866	7.8%	21.3%	20.9%
Provision for income taxes	4,745	4,373	372	8.5%	8.5%	8.2%
Net income	$ 7,191	$ 6,697	$ 494	7.4%	12.9%	12.6%
Earnings per share	$ 0.51	$ 0.47	$ 0.04	8.5%		
Shares used in computing earnings per common and common equivalent share	14,123,737	14,365,593	(241,856)	(1.7%)		

			Change		Percentage of Revenues	
Nine months ended November 30,	**2014**	**2013**	**Amount**	**Percentage**	**2014**	**2013**
Processing revenues	$ 105,119	$ 100,677	$ 4,442	4.4%	63.3%	63.4%
Other revenues	61,006	58,123	2,883	5.0%	36.7%	36.6%
Total revenues	166,125	158,800	7,325	4.6%	100.0%	100.0%
Operating expenses	131,066	127,013	4,053	3.2%	78.9%	80.0%
Operating income	35,059	31,787	3,272	10.3%	21.1%	20.0%
Interest income (expense), net	9	(30)	39	nmf	0.0%	0.0%
Income before income taxes	35,068	31,757	3,311	10.4%	21.1%	20.0%
Provision for income taxes	13,940	12,544	1,396	11.1%	8.4%	7.9%
Net income	$ 21,128	$ 19,213	$ 1,915	10.0%	12.7%	12.1%
Earnings per share	$ 1.49	$ 1.33	$ 0.16	12.0%		
Shares used in computing earnings per common and common equivalent share	14,174,986	14,498,017	(323,031)	(2.2%)		

Revenues

Total revenues increased $2,898, or 5.5%, for the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014 and increased $7,325, or 4.6%, for the first nine months of fiscal 2015 compared to the first nine months of fiscal 2014.

Processing revenues increased $2,475, or 7.5%, for the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014 and increased $4,442, or 4.4%, for the first nine months of fiscal 2015 compared to the first nine months of fiscal 2014. The 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. Processing revenues included early contract termination fees of $525 for the third quarter and $2,182 for the first nine months of fiscal 2015 compared to $957 for the third quarter and $2,657 for the first nine months of fiscal 2014. These 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.

Other revenues increased $423, or 2.1%, for the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014 and increased $2,883, or 5.0%, for the first nine months of fiscal 2015 compared to the first nine months of fiscal 2014. The increase was primarily due to growth in mobile and Internet banking services, growth in homeland security and fraud prevention services; higher eBusiness group revenues; and higher forms and envelope revenue. Other revenues included early contract termination fees of $77 for the third quarter and $143 for the first nine months of fiscal 2015 compared to $47 for the third quarter and $56 for the first nine months of fiscal 2014.

Operating Expenses

Operating expenses increased $2,043, or 4.9%, for the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014 and increased $4,053, or 3.2%, in the first nine months of fiscal 2015 compared to the first nine months of fiscal 2014.

The year-over-year increase in operating expenses in the third quarter and for the first nine months of fiscal 2015 was primarily due to:

- higher group medical plan expenses due to adverse claims experience;
- higher cost of goods sold related to higher software, hardware and maintenance revenue; and
- higher travel expense;

partially offset by:

- lower employee-related expenses attributable to a change in the way we account for commissions to the deferral method in the fourth quarter of fiscal 2014; and
- savings realized from data center consolidations completed during the third quarter of fiscal 2014 and first quarter of fiscal 2015.

Operating Income

Operating income increased $855, or 7.7%, in the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014 and increased $3,272, or 10.3%, in the first nine months of fiscal 2015 compared to the first nine months of fiscal 2014. Operating margins were 21.3% and 21.1% for the three- and nine-month periods ended November 30, 2014, respectively, compared to 20.9% and 20.0% for the three- and nine-month periods ended November 30, 2013, respectively.

Interest Income and Expense

Consolidated net interest income was $4 for the third quarter of fiscal 2015 compared to net interest expense of $7 for the third quarter of fiscal 2014 primarily due to lower average debt balances and higher average investible cash balances. Consolidated net interest income was $9 for the first nine months of fiscal 2015 compared to net interest expense of $30 for the first nine months of fiscal 2014 primarily due to lower average debt balances and higher average investable cash balances.

Provision for Income Taxes

The provision for income taxes increased to $4,745 for the third quarter of fiscal 2015 compared to $4,373 for the third quarter of fiscal 2014 and increased to $13,940 for the first nine months of fiscal 2015 compared to $12,544 for the first nine months of fiscal 2014. The increases for the third quarter and first nine months of fiscal 2015 were due to higher taxable income and a higher effective tax rate. The estimated consolidated effective income tax rate was 39.75% for the three- and nine-month periods ended November 30, 2014 compared to 39.50% for the three- and nine-month periods ended November 30, 2013. The increase is due primarily to state income taxes and adjustments to various deferred tax assets and liabilities.

Net Income

Net income increased 7.4% for the third quarter of fiscal 2015 compared to the third quarter of fiscal 2014. Net income for the third quarter of fiscal 2015 was $7,191 or $0.51 per share compared to $6,697 or $0.47 per share for the third quarter of fiscal 2014. For the first nine months of fiscal 2015, net income increased 10.0% to $21,128 or $1.49 per share compared to $19,213 or $1.33 per share for the first nine months of fiscal 2014.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows
(Unaudited)

	Nine Months Ended November 30,			
		2014		2013
Cash provided by or (used in):				
Operating activities	$	30,964	$	29,742
Investing activities		(10,243)		(9,271)
Financing activities		(12,787)		(17,140)
Net change in cash & cash equivalents	$	7,934	$	3,331

Operating Activities. Our net cash provided by operating activities was $30,964 for the first nine months of fiscal 2015 compared to $29,742 for the first nine months of fiscal 2014. The increase in net cash provided by operating activities was primarily attributable to:

- the timing of receipts and payments in the ordinary course of business;
- higher current period net income, net of non-cash items; and
- lower average accounts receivable balances;

partially offset by:

- lower average balances of accounts payable and accrued expenses; and
- higher average balances of prepaid expense.

Investing Activities. Our net cash used by investing activities was $10,243 for the first nine months of fiscal 2015 compared to $9,271 for the same period in fiscal 2014. The increase in net cash used by investing activities was primarily attributable to higher purchases of equipment and software.

Financing Activities. Our net cash used by financing activities was $12,787 for the first nine months of fiscal 2015 compared to $17,140 for the same period in fiscal 2014. The decrease in net cash used by financing activities was primarily attributable to:

- a $14,544 decrease in repayments of long-term debt; and
- a $5,577 decrease in common stock purchased and redeemed;

partially offset by:

- a $1,268 increase in dividends paid; and
- a $14,500 decrease in proceeds from the issuance of long-term debt compared to the first nine months of fiscal 2014 represented by advances from a long-term line of credit (the advances were taken and repaid in full during the first nine months of fiscal 2015).

Credit Lines

We renewed a revolving credit facility on January 15, 2014 that provides for funding up to $25,000. The unsecured revolving credit agreement expires on January 31, 2017 and bears interest at a floating rate equal to one-month LIBOR plus 1.00% (1.15% at November 30, 2014). At November 30, 2014, no amount was outstanding under the credit line.

In addition, we renewed an unsecured bank credit line on August 11, 2014 that provides for funding of up to $5,000 and bears interest at a floating rate equal to the prime rate minus 1.30% (1.95% at November 30, 2014). The credit line matures on August 10, 2015. At November 30, 2014, 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 November 30, 2014, 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 28, 2014 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 Computer Services, Inc. issued from September 1, 2014 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)
11/20/2014	Stock Grants	Non-Employee Directors (8 in Total)	1,678	-	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.

The following table sets forth information concerning the equity securities of Computer Services, Inc. purchased during the three months ended November 30, 2014:

COMMON STOCK PURCHASED
(in thousands except share and per share data)

`	Total Number of Shares Purchased	Average Price Paid per Share	Total Cost of Common Stock Purchased as Part of Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet be Purchased under the Plans or Programs
September 1-30, 2014	7,817	$ 36.29	$ 284	$ 6,367
October 1-31, 2014	5,916	39.22	232	6,135
November 1-30, 2014	-	-	-	6,135
Total	**13,733**	**$ 37.55**	**$ 516**	

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.

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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 November 30, 2014;

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: January 7, 2015

/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 November 30, 2014;

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: January 7, 2015

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