COMPUTER SERVICES, INC.

QUARTERLY REPORT

FOR THE FISCAL QUARTER ENDED

AUGUST 31, 2015

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2015

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, 2015:

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	08/31/2015	60,000,000	14,142,972	13,168,578	4,472	289
Preferred	08/31/2015	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,	
	2015	2014	2015	2014
Processing revenues	$ 36,042	$ 35,431	$ 73,405	$ 69,594
Other revenues	20,123	20,176	39,908	40,583
Total revenues	56,165	55,607	113,313	110,177
Operating expenses	43,710	42,975	88,330	87,050
Operating income	12,455	12,632	24,983	23,127
Interest income	9	5	20	5
Income before income taxes	12,464	12,637	25,003	23,132
Provision for income taxes	4,923	5,023	9,876	9,195
Net income	$ 7,541	$ 7,614	$ 15,127	$ 13,937
Earnings per share	$ 0.53	$ 0.54	$ 1.07	$ 0.98
Shares used in computing earnings per common and common equivalent share	14,144,707	14,177,750	14,132,556	14,200,333

**See accompanying notes to consolidated financial statements.*

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2015

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

	08/31/2015 *(Unaudited)*	02/28/2015 *(Audited)*	08/31/2014 *(Unaudited)*
ASSETS			
Current assets			
Cash and cash equivalents	$ 16,832	$ 11,849	$ 7,558
Accounts receivable	22,254	25,723	22,568
Income tax receivable	-	2,993	510
Prepaid expenses and other current assets	12,194	10,776	10,451
Total current assets	51,280	51,341	41,087
Property and equipment, net of accumulated depreciation	36,045	33,079	34,752
Software and software licenses, net of accumulated amortization	23,963	17,773	19,460
Goodwill	60,115	60,115	60,115
Intangible assets	6,715	7,064	7,608
Other assets	21,091	19,842	17,355
Total assets	$ 199,209	$ 189,214	$ 180,377
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued expenses	$ 24,014	$ 18,710	$ 21,986
Deferred revenue	7,332	9,515	8,427
Income tax payable	374	-	-
Deferred income taxes	193	193	-
Total current liabilities	31,913	28,418	30,413
Long-term liabilities			
Deferred income taxes	15,354	15,354	14,418
Other long-term liabilities	954	1,025	1,171
Total long-term liabilities	16,308	16,379	15,589
Total liabilities	48,221	44,797	46,002
Shareholders' equity			
Preferred stock; shares authorized, 5,000,000; none issued	-	-	-
Common stock, no par; shares authorized, 60,000,000 in fiscal 2016 and 20,000,000 in fiscal 2015; shares issued and outstanding, 14,142,972 at August 31, 2015, 14,110,849 at February 28, 2015 and 14,135,667 at August 31, 2014	23,082	21,536	21,372
Retained earnings	127,906	122,881	113,003
Total shareholders' equity	150,988	144,417	134,375
Total liabilities and shareholders' equity	$ 199,209	$ 189,214	$ 180,377

**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, 2015			
	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance at February 28, 2015	14,110,849	$ 21,536	$ 122,881	144,417
Net income	-	-	15,127	15,127
Cash dividends paid ($.44 per share)	-	-	(6,216)	(6,216)
Cash dividends payable ($.25 per share)	-	-	(3,537)	(3,537)
Issuance of common stock	3,511	143	-	143
Issuance of restricted stock	40,931	-	-	-
Restricted stock vested and tax benefit	-	1,413	151	1,564
Purchase of common stock	(5,342)	(10)	(203)	(213)
Tax withholding related to share-based compensation	(6,977)	-	(297)	(297)
Balance at August 31, 2015	**14,142,972**	**$ 23,082**	**$ 127,906**	**$ 150,988**

**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, 2015	Six Months Ended August 31, 2014
Cash flows from operating activities		
Net income	$ 15,127	$ 13,937
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	3,624	3,751
Amortization	3,773	3,833
Restricted stock expense	1,413	1,157
Stock-based compensation expense	143	124
Loss on disposal of assets	4	114
Tax benefit of restricted stock vested	151	91
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	3,432	3,400
Prepaid expenses and other current assets	(1,457)	237
Other assets	530	(766)
Accounts payable and accrued expenses	454	(1,364)
Deferred revenue	(2,294)	(1,069)
Income taxes	3,367	27
Other liabilities	40	40
Net cash from operating activities	28,307	23,512
Cash flows from investing activities		
Proceeds from sale of property and equipment	3	-
Purchase of property and equipment	(6,599)	(3,515)
Purchase of software and software licenses	(10,002)	(4,355)
Net cash from investing activities	(16,598)	(7,870)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	9,000
Payments on long-term debt	-	(9,007)
Payments of dividends	(6,216)	(4,553)
Purchase of common stock	(213)	(4,283)
Tax withholding related to share-based compensation	(297)	(319)
Net cash from financing activities	(6,726)	(9,162)
Net change in cash and cash equivalents	4,983	6,480
Cash and cash equivalents, beginning of period	11,849	1,078
Cash and cash equivalents, end of period	$ 16,832	$ 7,558

**See accompanying notes to consolidated financial statements.*

Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1. NATURE OF BUSINESS

Computer Services, Inc., including its subsidiaries, ("CSI" or the "Company") delivers core processing, managed services, mobile and Internet solutions, payments processing, print and electronic distribution, and regulatory compliance solutions to financial institutions and corporate entities across the nation. Technology planning, personal account management and exceptional customer service are what CSI believes have established its reputation as one of the nation's premier providers of technology solutions for the financial services industry. In addition to core processing, the Company's integrated banking solutions include check imaging; cash management; branch and merchant capture; mobile and Internet banking; print and mail, and online document delivery services; corporate intranets; secure Web hosting; e-messaging; teller and platform services; ATM and debit card service and support; payments solutions; cybersecurity risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security 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 August 31, 2015 and 2014, an allowance for doubtful accounts of $86 and $111, respectively, had been recorded.

Property and Equipment: As of August 31, 2015 and 2014, property and equipment consisted of:

	2015	2014
Land	**$ 1,716**	$ 1,716
Buildings and improvements	**27,374**	27,073
Equipment	**60,893**	56,552
Construction-in-progress	**18**	251
	90,001	85,592
Less accumulated depreciation	**53,956**	50,840
Balance, end of period	**$ 36,045**	$ 34,752

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, 2015 and 2014 was $1,758 and $1,478, respectively

Long-Term Assets: Property and equipment, intangible assets subject to amortization and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized during the periods presented by these quarterly financial statements. Property and equipment, software and other assets acquired through accounts payable and accrued expenses as of August 31, 2015 and August 31, 2014 were $61 and $407, 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 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 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 August 31, 2015.

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 and $370 at August 31, 2015 and 2014, respectively.

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, 2015 and 2014 are as follows:

	2015	2014
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	7,924	7,211
Balance, end of period	$ 6,525	$ 7,238

Total amortization expense for the three months ended August 31, 2015 and 2014 was $175 and $328, 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 14,144,247 and 14,177,750 for the quarters ended August 31, 2015 and 2014, respectively. There were no dilutive shares for the three months ended August 31, 2015 and 2014.

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 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 August 31, 2015 and August 31, 2014 were $1,842 and $1,144, respectively. Total early contract termination fees recorded as a component of processing revenues in the accompanying consolidated financial statements for the three months ended August 31, 2015 and 2014 were $1,794 and $1,136, respectively. Total early contract termination fees recorded as a component of other revenues in the accompanying consolidated financial statements for the three months ended August 31, 2015 and 2014 were $48 and $8, 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 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, 2015 and 2014 were $11,423 and $11,839, respectively.

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

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

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board 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, 2017, with early adoption permitted as of annual reporting periods beginning after December 15, 2016, including interim period reporting within that reporting period, 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.

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 2015 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, 2015 and 2014, and the results of its operations for the three- and six-month periods ended August 31, 2015 and 2014, and its changes in equity and its cash flows for the six-month periods ended August 31, 2015 and 2014.

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

NOTE 3. LAND AVAILABLE FOR RESALE

The cost of land available for resale of $1,347 and $1,540 at August 31, 2015 and 2014, respectively, 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. The Company recorded impairment during the year ended February 28, 2015 to reduce the carrying amount of land available for resale to its estimated fair value less estimated selling costs. Management determined the fair value for land available for resale with the assistance of an independent appraiser. At August 31, 2015 and 2014, land available for resale was included in other assets on the accompanying consolidated balance sheets.

NOTE 4. INCOME TAXES

The effective tax rates were 39.50% and 39.75% for the three months ended August 31, 2015 and 2014, 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 quarters ended August 31, 2015 and 2014 was $5,935 and $8,284, respectively.

NOTE 5. NOTES PAYABLE

The Company has a $25,000 commercial revolving line of credit. Interest is payable monthly at one-month LIBOR plus 1.00% (1.20% and 1.15% at August 31, 2015 and 2014, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of August 31, 2015 and 2014. The line of credit expires 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 August 31, 2015 and 2014, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of August 31, 2015 and 2014. The line of credit was renewed in August 2015 and expires in August 2016.

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

Total interest expense for the three months ended August 31, 2015 and 2014 was $0 and $2, respectively. Cash paid for interest expense during the three months ended August 31, 2015 and 2014 was $0 and $2, 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 each of April 2014 and July 2014, respectively. The Company had the authority to repurchase additional shares for up to $5,442 and $6,651 at August 31, 2015 and 2014, respectively.

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 $143 for the six-month period ended August 31, 2015.

Beginning in June 2004, the Company has 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 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, 2015, as well as activity for the six months then ended:

Balance, February 28, 2015	$ 2,725
Grant of restricted stock	
May 5, 2015	1,562
June 30, 2015	191
Restricted stock vested	(1,413)
Restricted stock forfeited	-
Balance, August 31, 2015	$ 3,065

The following is a summary of unvested shares of restricted stock as of August 31, 2015, as well as activity for the six months then ended:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance, February 28, 2015	85,373	$ 31.92
Granted	40,931	42.82
Vested	(44,056)	32.07
Forfeited	-	-
Unvested balance, August 31, 2015	82,248	$ 37.27

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was $1,413 and $1,157 for the six months ended August 31, 2015 and 2014, 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 in the accompanying consolidated 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 consolidated financial statements are available to be issued.

In June 2015, the Board of Directors authorized a cash dividend of 25 cents per share, or $3,537 in the aggregate, that was paid on September 25, 2015 to shareholders of record as of the close of business on September 1, 2015.

In September 2015, the Board of Directors authorized a cash dividend of 25 cents per share, or approximately $3,526 in the aggregate, that will be paid on December 28, 2015 to shareholders of record as of the close of business on December 1, 2015.

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.

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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:

			Change		Percentage of Revenues	
Three months ended August 31,	**2015**	**2014**	**Amount**	**Percentage**	**2015**	**2014**
Processing revenues	$ 36,042	$ 35,431	$ 611	1.7%	64.2%	63.7%
Other revenues	20,123	20,176	(53)	(0.3%)	35.8%	36.3%
Total revenues	56,165	55,607	558	1.0%	100.0%	100.0%
Operating expenses	43,710	42,975	735	1.7%	77.8%	77.3%
Operating income	12,455	12,632	(177)	(1.4%)	22.2%	22.7%
Interest income (expense)	9	5	4	80.0%	0.0%	0.0%
Income before income taxes	12,464	12,637	(173)	(1.4%)	22.2%	22.7%
Provision for income taxes	4,923	5,023	(100)	(2.0%)	8.8%	9.0%
Net income	$ 7,541	$ 7,614	$ (73)	(1.0%)	13.4%	13.7%
Earnings per share	$ 0.53	$ 0.54	$ (0.01)	(1.9%)		
Shares used in computing earnings per common and common equivalent share	14,144,707	14,177,750	(33,043)	(0.2%)		

			Change		Percentage of Revenues	
Six months ended August 31,	**2015**	**2014**	**Amount**	**Percentage**	**2015**	**2014**
Processing revenues	$ 73,405	$ 69,594	$ 3,811	5.5%	64.8%	63.2%
Other revenues	39,908	40,583	(675)	(1.7%)	35.2%	36.8%
Total revenues	113,313	110,177	3,136	2.8%	100.0%	100.0%
Operating expenses	88,330	87,050	1,280	1.5%	78.0%	79.0%
Operating income	24,983	23,127	1,856	8.0%	22.0%	21.0%
Interest income (expense)	20	5	15	300.0%	0.0%	0.0%
Income before income taxes	25,003	23,132	1,871	8.1%	22.1%	21.0%
Provision for income taxes	9,876	9,195	681	7.4%	8.7%	8.3%
Net income	$ 15,127	$ 13,937	$ 1,190	8.5%	13.3%	12.6%
Earnings per share	$ 1.07	$ 0.98	$ 0.09	9.2%		
Shares used in computing earnings per common and common equivalent share	14,132,556	14,200,333	(67,777)	(0.5%)		

Revenues

Total revenues increased $558, or 1.0%, for the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 and increased $3,136, or 2.8%, for the first six months of fiscal 2016 compared to the first six months of fiscal 2015.

Processing revenues increased $611, or 1.7%, for the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 and increased $3,811, or 5.5%, for the first six months of fiscal 2016 compared to the first six months of fiscal 2015. The growth was primarily driven by an increase in early contract termination fees, 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 $1,794 for the second quarter and $4,054 for the first six months of fiscal 2016 compared to $1,136 for the second quarter and $1,657 for the first six months of fiscal 2015. 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 decreased $53, or 0.3%, for the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 and decreased $675, or 1.7%, for the first six months of fiscal 2016 compared to the first six months of fiscal 2015. The decrease was primarily due to lower non-recurring revenues from third-party equipment, software and maintenance agreement resale arrangements and the effect of lost business; partially offset by 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 $48 for the second quarter and $219 for the first six months of fiscal 2016 compared to $8 for the second quarter and $78 for the first six months of fiscal 2015.

Operating Expenses

Operating expenses increased $735, or 1.7%, for the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 and increased $1,280, or 1.5%, in the first six months of fiscal 2016 compared to the first six months of fiscal 2015.

The year-over-year increase in operating expenses in the second quarter of fiscal 2016 was primarily due to higher employee-related expenses attributable to an increase in recognized commission expense and normal compensation adjustments, and an increase in equipment expense related to new capital investments and a mainframe replacement; partially offset by lower cost of goods sold on lower third-party equipment, software and maintenance agreement resale revenue.

The year-over-year increase in operating expenses for the first six months of fiscal 2016 was primarily due to higher employer-related expenses attributable to higher recognized commission expense, normal compensation adjustments and the temporary effect of a prior fiscal year change in payroll accounting methodology that produced a timing difference in salary and wage expense recognition; partially offset by a decrease in cost of goods sold on lower third-party equipment, software and maintenance agreement resale revenue, and lower data communication and travel expenses.

Operating Income

Operating income decreased $177, or 1.4%, in the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015 and increased $1,856, or 8.0%, in the first six months of fiscal 2016 compared to the first six months of fiscal 2015. Operating margins were 22.2% and 22.0% for the three- and six-month periods, respectively, ended August 31, 2015, compared to 22.7% and 21.0% for the three- and six-month periods, respectively, ended August 31, 2014.

Interest Income and Expense

Consolidated net interest income was $9 and $20 for the three- and six-month periods, respectively, ended August 31, 2015, compared to $5 for both the three- and six-month periods, respectively, ended August 31, 2014, primarily due to lower average debt balances and higher average investible cash balances.

Provision for Income Taxes

The provision for income taxes decreased to $4,923 for the second quarter of fiscal 2016 compared to $5,023 for the second quarter of fiscal 2015 due primarily to slightly lower taxable income and a lower effective tax rate. The provision for income taxes increased to $9,876 for the first six months of fiscal 2016 compared to $9,195 for the first six months of fiscal 2015 due primarily to higher taxable income partially offset by a lower effective tax rate. The estimated consolidated effective income tax rate was 39.50% for the and six-month periods ended August 31, 2015 compared to 39.75% for the six-month periods ended August 31, 2014. The decrease is due primarily to state income taxes and adjustments to various deferred tax assets and liabilities.

Net Income

Net income decreased 1.0% for the second quarter of fiscal 2016 compared to the second quarter of fiscal 2015. Net income for the second quarter of fiscal 2016 was $7,541 or $0.53 per share compared to $7,614 or $0.54 per share for the second quarter of fiscal 2015. For the first six months of fiscal 2016, net income increased 8.5% to $15,127 or $1.07 per share compared to $13,937 or $0.98 per share for the first six months of fiscal 2015.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows
(Unaudited)

	Six Months Ended August 31, 2015	Six Months Ended August 31, 2014
Cash provided by or (used in):		
Operating activities	$ 28,307	$ 23,512
Investing activities	(16,598)	(7,870)
Financing activities	(6,726)	(9,162)
Net change in cash & cash equivalents	$ 4,983	$ 6,480

Net cash provided by operating activities increased 20.4% for the first six months of fiscal 2016 compared to the first six months of fiscal 2015. 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 2016 was $16,598. The largest uses of cash included $9,636 for hardware and software related to the upgrade replacement of one of our mainframe computers and disk arrays. Net cash used by investing activities for the first six months of fiscal 2015 was $7,870 primarily for equipment and software.

Financing Activities. Net cash used by financing activities for the first six months of fiscal 2016 was $6,726 mainly for dividends paid to shareholders of $6,216, the purchase of common stock of $213, and $298 related to stock-based compensation. Net cash used by financing activities for the first six months of fiscal 2015 was $9,162. Cash used was mainly dividends paid to shareholders of $4,553, the purchase of common stock of $4,283, and $319 related to stock-based compensation.

Credit Lines

We renewed an unsecured bank credit line on January 15, 2014 that provides for funding up to $25,000 and bears interest at a floating rate equal to one-month LIBOR plus 1.00% (1.20% and 1.15% at August 31, 2015 and 2014, respectively). The unsecured revolving credit agreement expires on January 31, 2017. At August 31, 2015, no amount was outstanding under the credit line.

We renewed an unsecured bank credit line on August 7, 2015 that provides for funding of up to $5,000 and bears interest at a floating rate equal to the prime rate minus 1.30% (1.95% at both August 31, 2015 and 2014, respectively). The credit line matures on August 5, 2016. At August 31, 2015, 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, 2015, 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 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, 2015 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, 2015 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]
06/30/2015	Restricted Stock Grants	Officers (2 in Total)	4,318	-	Restricted	Yes
08/24/2015	Stock Grants	Non-Employee Directors (8 in Total)	2,057	-	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 .

The following table sets forth information concerning the equity securities of CSI purchased during the three months ended August 31, 2015:

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

Period	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
June 1-30, 2015	-	$ -	$ -	$ 5,655
July 1-31, 2015	-	-	-	5,655
August 1-31, 2015	5,342	39.84	213	5,442
Total	**5,342**	**$ 39.84**	**$ 213**	

Item 8: Exhibits.

A. Material Contracts:

None.

B. Articles of incorporation and bylaws

On June 30, 2015, the shareholders of the Company approved an Amendment to the Articles of Incorporation to increase the number of authorized shares of Common Stock from 20,000,000 to 60,000,000. The shares may be used in the future, upon the authorization of the Company's Board of Directors, for general corporate purposes including, among other purposes, in stock splits and stock dividends, in raising additional capital, in acquisitions and for employee incentive and other benefit plans. A copy of the Amendment was included as Exhibit 8.B at the end of Quarterly Report for the fiscal period ended May 31, 2015**.** The 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.

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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, 2015;

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 14, 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 August 31, 2015;

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 14, 2015

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