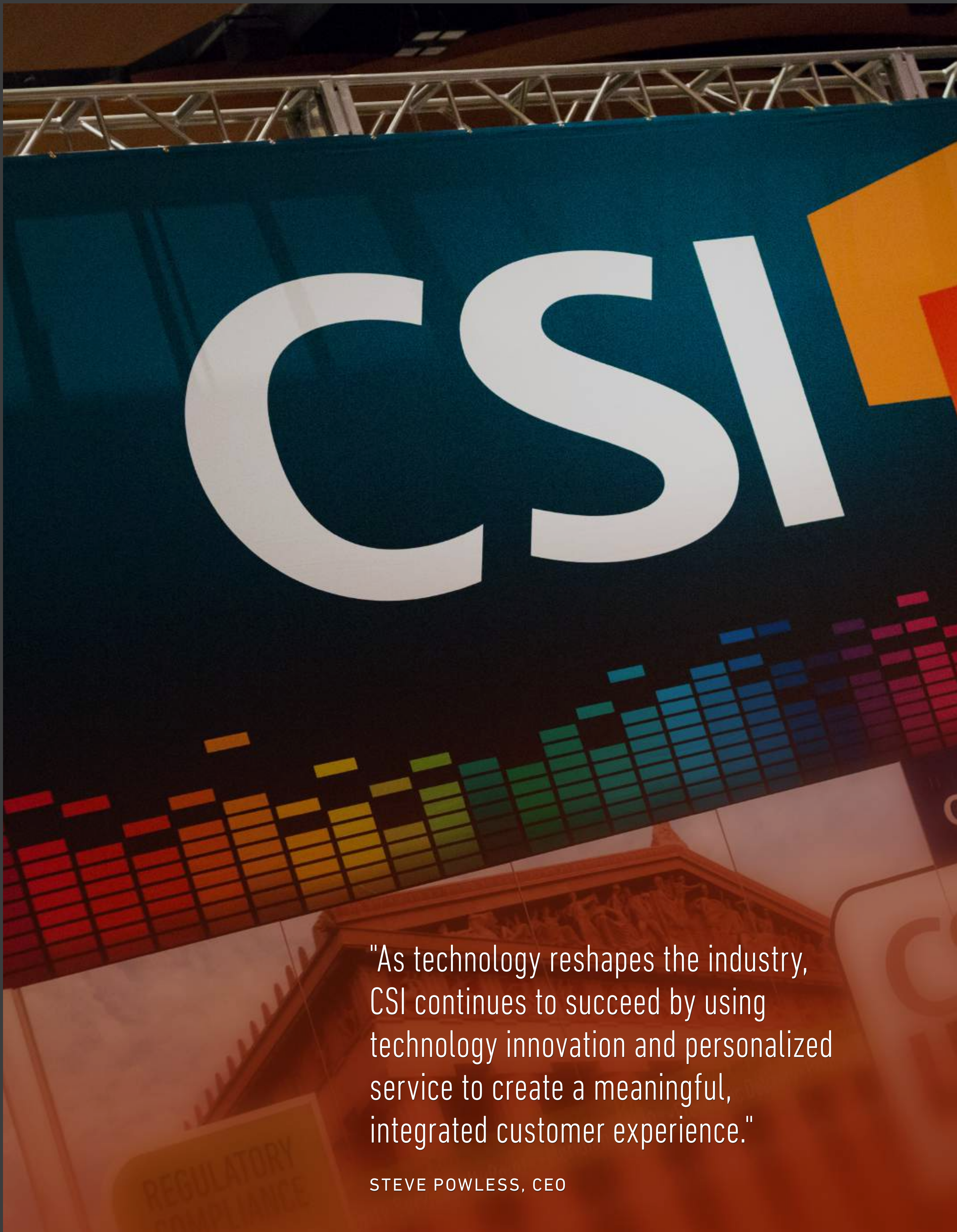
# 2016 EXPERIENCE

ANNUAL REPORT

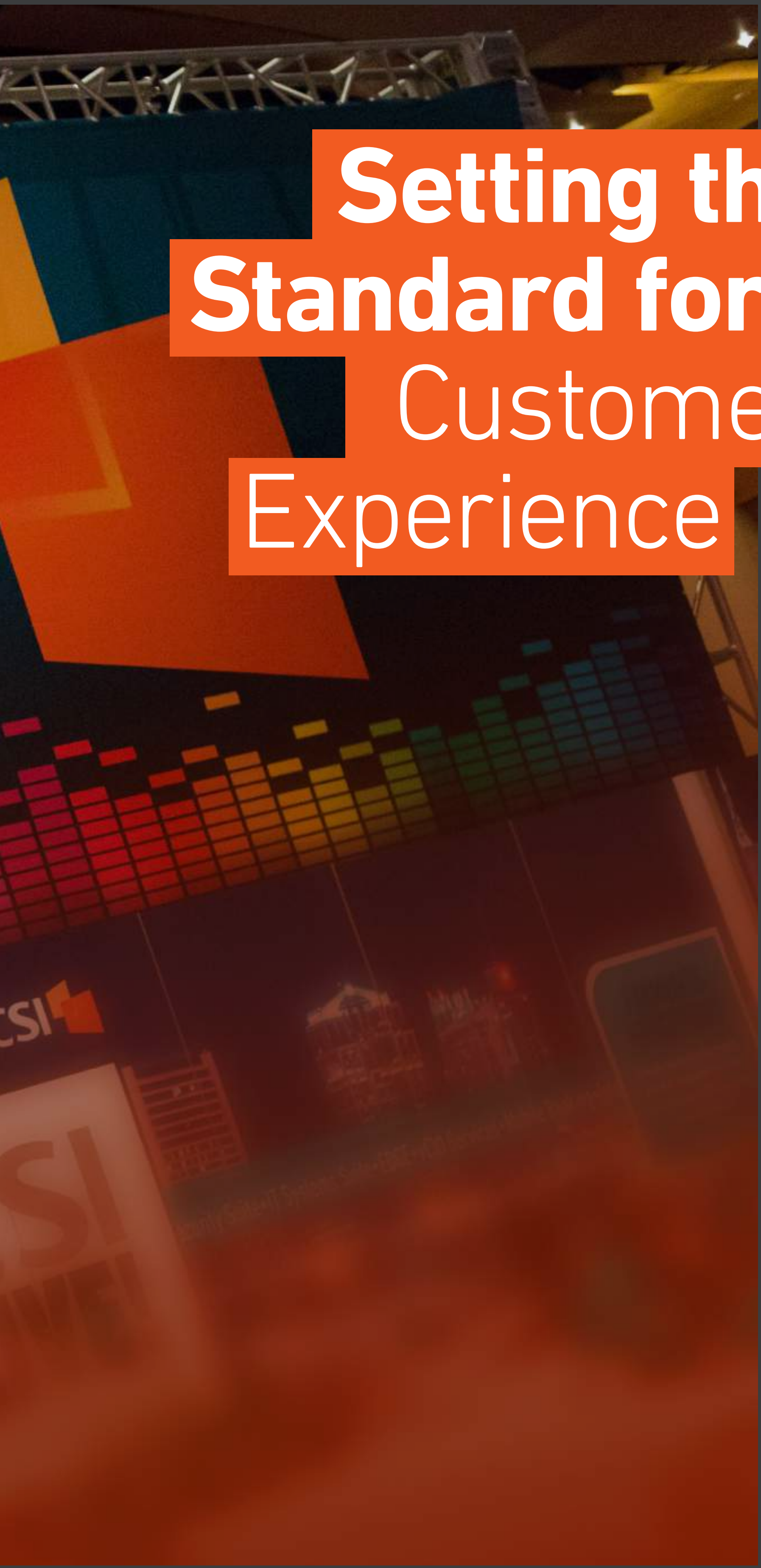
CSI




"As technology reshapes the industry, CSI continues to succeed by using technology innovation and personalized service to create a meaningful, integrated customer experience."

STEVE POWLESS, CEO

# Setting the Standard for Customer Experience



Expectations for service have changed. Businesses must create “an experience,” not simply facilitate a transaction. Customers believe that their relationships with providers should be unique, personal; that providers not be providers at all, but rather they act as partners that understand their business strategy and help them achieve their goals.

These new expectations may be challenging for some—but not for CSI. For more than 50 years, we’ve led the financial technology industry in service excellence. Our customers believe in our ability to support their long-term goals, as evidenced by our 100 percent retention rate among core customers last year*. We also signed new customers in all regions, solidifying our national presence as a premier technology provider. And in addition to businesses choosing to work with us, the industry recognized our efforts with such awards as BAI + American Banker FinTech Forward, IDC Financial Insights FinTech Rankings, The Channel Company’s CRN Managed Service Provider 500 and Best Places to Work in Kentucky.

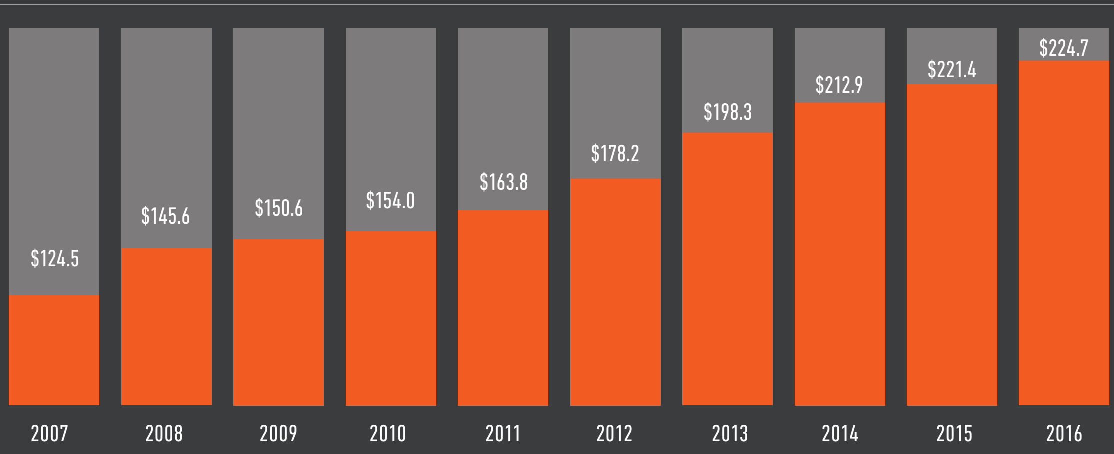
Our success comes from our tradition of putting customers first. And we remain committed to leading the way in service excellence, as we continue setting the standard for customer experience in the financial industry.

*Excludes customers who have been acquired.

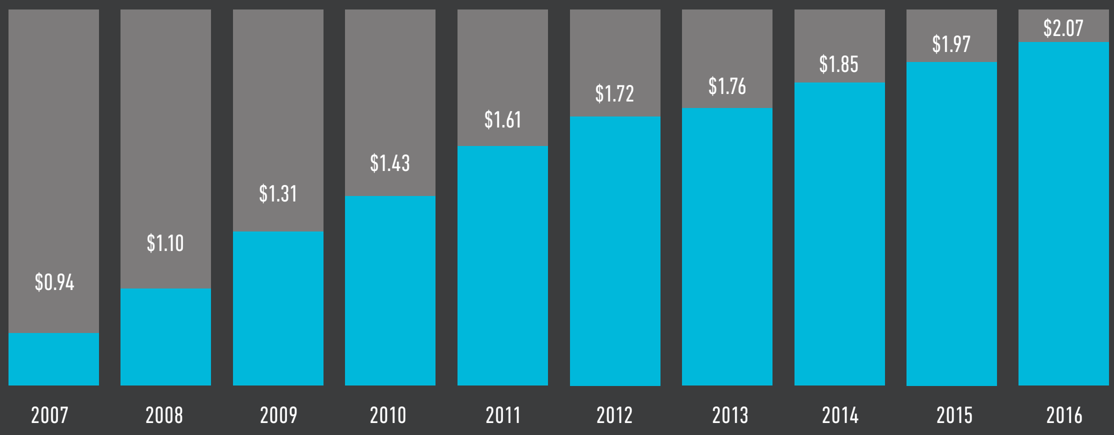
# 2016 Annual Report:
## Financial Highlights

*(in thousands, except share, per share and employee data)*

### Revenue (in Millions) | CAGR* – 7.9%




### Diluted Earnings Per Share | CAGR* – 9.3%




*Compound Annual Growth Rate

## Years Ended February 29 and 28,

| | 2016 | 2015 | 2014 | Percentage change 2016 | Percentage change 2015 |
|---|---|---|---|---|---|
| Revenues | $ **224,725** | $ 221,385 | $ 212,914 | **1.5 %** | 4.0 % |
| Net income | **29,140** | 27,839 | 26,656 | **4.7** | 4.4 |
| Earnings per common share | **2.07** | 1.97 | 1.85 | **5.1** | 6.5 |

| | 2016 | 2015 | 2014 | Percentage change 2016 | Percentage change 2015 |
|---|---|---|---|---|---|
| Net cash provided by operating activities | $ **45,064** | $ 38,550 | $ 36,625 | **16.9 %** | 5.3 % |
| Capital expenditures, net | **19,914** | 11,407 | 13,421 | **74.6** | (14.9) |
| Share repurchases | **6,034** | 5,277 | 13,242 | **14.3** | (60.1) |
| Cash dividends paid on common stock | **13,271** | 10,769 | 8,685 | **23.2** | 24.0 |
| Per share of common stock | **0.94** | 0.76 | 0.60 | **23.7** | 26.7 |
| Return on average shareholders' equity | **19.4** % | 20.2 % | 20.8 % | | |

## At February 29 and 28,

| | 2016 | 2015 | 2014 | 2016 | 2015 |
|---|---|---|---|---|---|
| Total debt | $ **-** | $ - | $ 7 | **- %** | (100.0) **%** |
| Debt to total capitalization | **-** % | - % | - % | | |
| Common shares outstanding | **13,992,981** | 14,110,849 | 14,227,951 | **(0.8) %** | (0.8) **%** |
| Stock price per common share | $ **35.96** | $ 40.55 | $ 33.25 | **(11.3)** | 22.0 |
| Market capitalization | $ **503,188** | $ 572,195 | $ 473,079 | **(12.1)** | 21.0 |
| Employees | **1,109** | 1,094 | 1,104 | **1.4** | (0.9) |

# Dear Shareholder:

2016

# Shareholder Letter

## Steve Powless, CSI's CEO

**Record Fiscal 2016**

Total revenues rose 1.5% to a record $224.7 million, and net income was up 4.7% to $29.1 million, or $2.07 per diluted share in fiscal 2016. Our growth benefited from the solid progress we've made in signing new customers, building cross-sales and retaining existing customers, but it was offset largely by the trailing effect of accounts lost through bank acquisitions over the past few years.

"Our customers and shareholders continue to experience second-to-none service and earnings growth, respectively. CSI reported record revenues and net income for fiscal 2016, our 16th consecutive year of revenue growth and 19th consecutive year of net income growth. Our excellent results benefited from our core recurring revenue base, high contract renewals and newly signed customers."

The lost accounts were due to a spike in bank merger and acquisition activity that resulted in certain CSI customers being acquired by non-CSI customers. The initial effect boosted one-time revenue from early contract termination fees as we lost accounts, but revenue was adversely affected longer term by the loss in the recurring revenue from these accounts.

We believe the merger and acquisition activity for banks has slowed, but we expect to report lower revenues through the first half of fiscal 2017 due to the trailing effect of past transactions. Last year, we reported $5.5 million in early contract termination fees in the first half of 2016, which provided a boost to revenue that we do not expect to repeat in 2017. Despite these headwinds early in the year, we expect to report another year of modest growth in 2017.

CSI's core financial engine remains very strong. We have strong cash flow from operations and no long-term debt. We continue to invest in our business to support future growth. CSI's Board of Directors has increased our cash dividend every year since 1972; that's 44 consecutive annual increases in the cash dividend paid to CSI shareholders. It's a record that very few public companies can match and highlights our board's long-term commitment to building shareholder value. Last year, we returned $19.6 million to shareholders in cash dividends and stock repurchases.

"We continue to invest in our products and services, and are funding these investments from our strong cash flow."

# Outstanding Results

**Strategy for the Future**

We believe CSI's future is very positive based on the strong fundamentals of our business.

First, our customer retention rate has been outstanding over the past three and a half years. For fiscal 2016, we had a 100% customer retention rate on core processing contracts up for renewal. We did not lose a single account to a competitor, excluding bank acquisitions, and our new business activity clearly demonstrates that we are taking accounts from all of our competitors.

We believe our customers are very pleased with our service and support based on the long-term contracts they are renewing. The average contract renewal length for our core NuPoint® customers is approximately eight years. We believe the long-term contracts highlight our customers' high satisfaction rate and their confidence in our ability to deliver services in the future.

Second, we continue to invest in our products and services, and we are funding these investments from our strong cash flow. We had a big year for new product introductions, including a new customer relationship management (CRM) solution and significant enhancements to our mobile banking platform, which is one of the best in the industry. During fiscal 2016, we invested $19.9 million in new equipment and software, including a major investment in our mainframe computers and disk arrays. It's important to note that our lower revenue growth in fiscal 2016 did not hamper our continued investments. We've maintained our investments to enhance current products and develop new solutions, while providing CSI with increased capacity and efficiency to handle our growth in the future.

# Customer
## Retention Rate in 2016

# 100%*

*Core customer retention rate excludes customers who have been acquired.

**"We've transformed CSI from a regional core bank processor to a national technology company."**

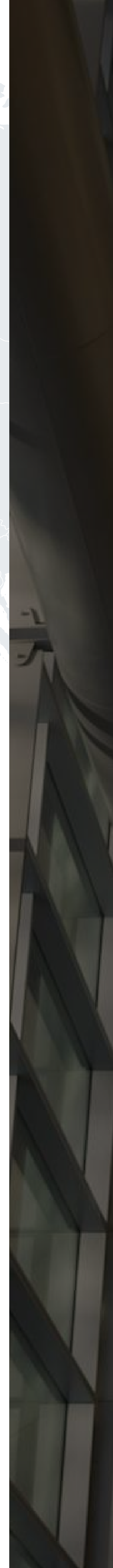
Third, our sales and marketing teams are making solid progress in expanding our geographic reach, building our pipeline for new business and expanding cross-sales to existing customers. CSI's historical geographic service area was centered in the Midwestern part of the country. We've transformed CSI from a regional core bank processor to a national technology company that provides a full suite of innovative solutions, including managed services, mobile and Internet banking, payments processing, regulatory compliance, and electronic and print distribution products and services. We now serve customers nationwide and have added regulatory compliance customers in over 20 countries.

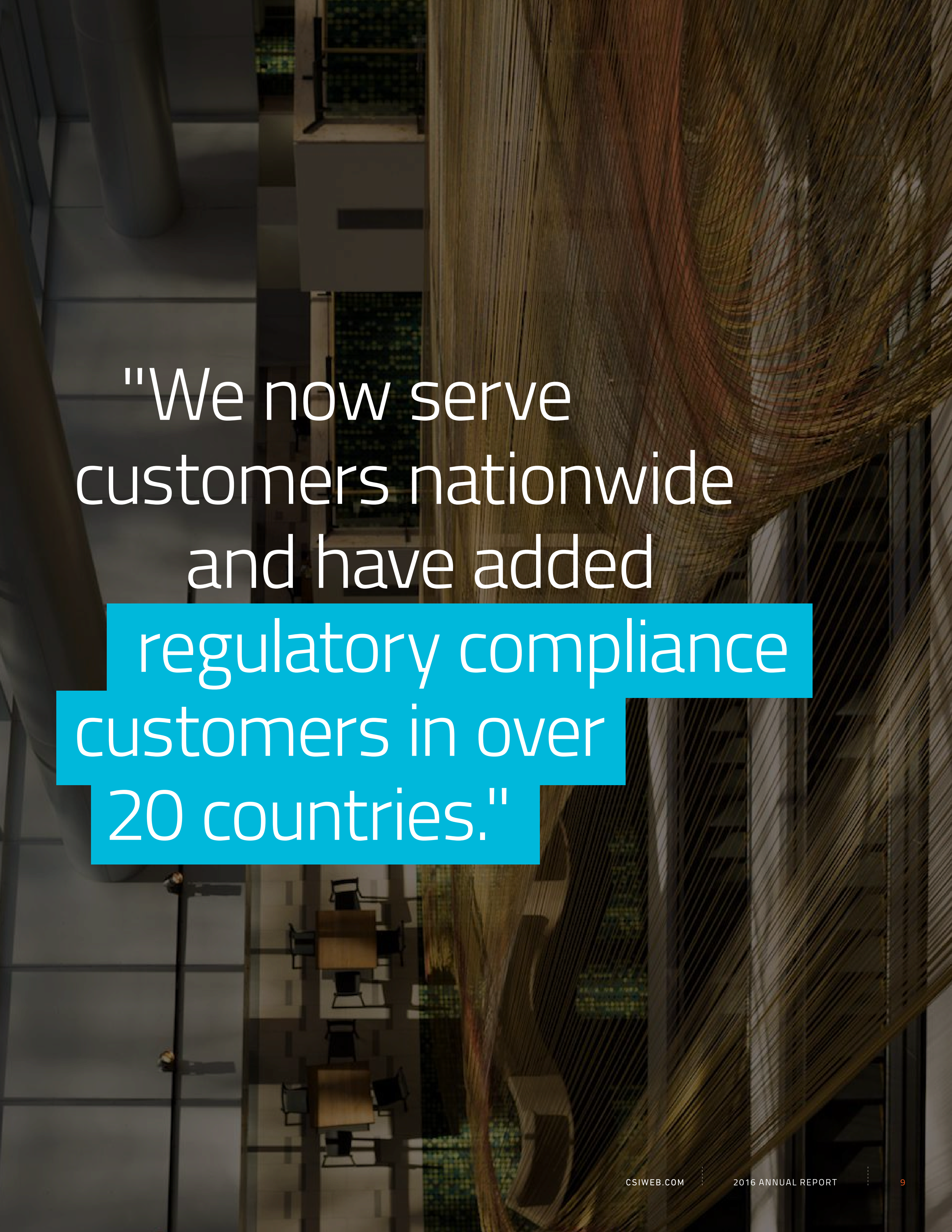
And fourth, we continue to execute a multi-year strategic plan that focuses on aligning our organization into business groups that enhance our sales opportunities and customer service. As part of our strategic plan, we also expanded our "best practices" across the organization, including customer service and support, cross-sales and customer retention.

I am very positive about CSI's future. Although we have had challenges to our revenue growth from recent merger and acquisition activity, we maintained both our service levels and our investments in technology. We believe these investments, combined with the dedication of our entire CSI team, will continue to produce high customer satisfaction ratings, yield high contract renewal rates and build long-term shareholder value.

**We value your investment in CSI and look forward to reporting on our progress in fiscal 2017.**

Steve Powless,
CEO





"We now serve customers nationwide and have added regulatory compliance customers in over 20 countries."

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# Management's Discussion and Analysis
## of Financial Condition and Results of Operations

The following discussion and analysis provides information that management believes is relevant to an understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this annual report.

**FORWARD-LOOKING STATEMENTS**

All statements except historical statements contained herein constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. This annual report, quarterly reports and other written and oral statements that we make from time to time contain such forward-looking statements that may anticipate results based on management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and words and terms of similar substance in connection with any discussion of future operating or financial performance. Nonetheless, 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 the Company's annual reports, quarterly reports, Information and Disclosure Statements and other documents posted from time to time on the OTCQX website (available at either 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 herein 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.

## 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 electronic document delivery services; corporate intranets; secure web hosting; e-messaging; teller and platform services; ATM and debit card service and support; payments solutions; risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security, anti-money laundering, and fraud prevention.

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

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

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

Merger and acquisition activity among community banks varies from time to time. Our bank customers are active in this market, 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.

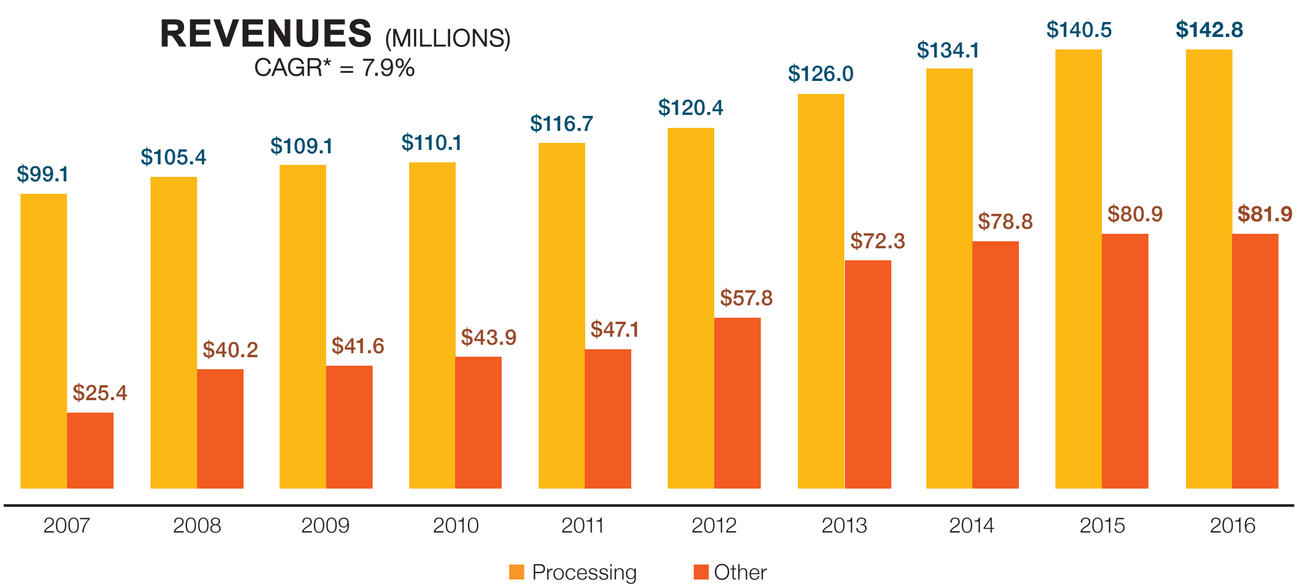
***Acquisitions.*** Our business strategy includes the acquisition of complementary businesses financed by a combination of internally generated funds, debt and common stock. Our consolidated financial statements and results of operations reflect the acquired business after the completion of the acquisition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

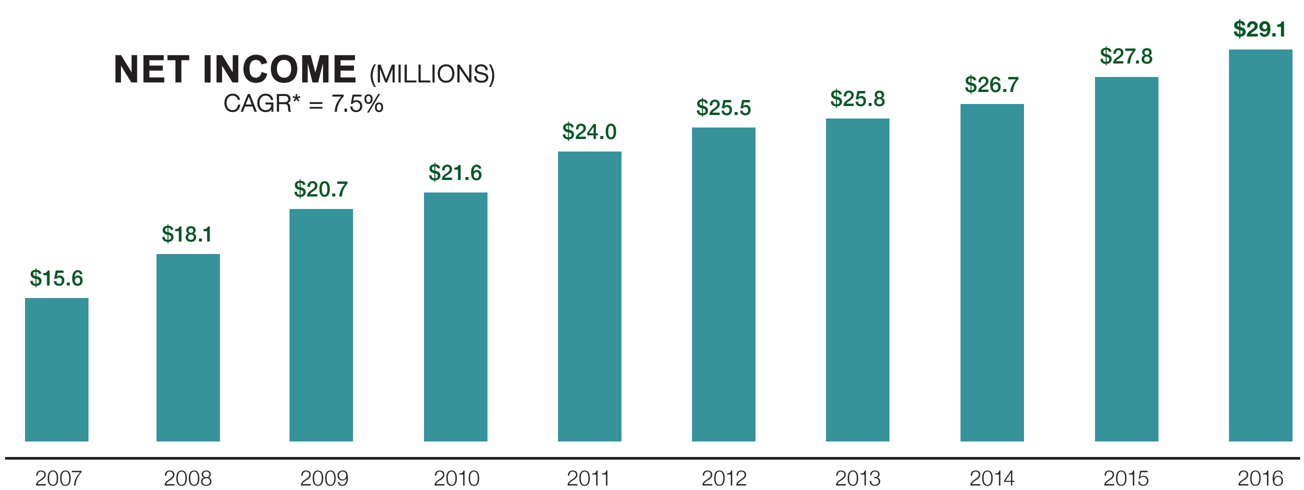
## RESULTS OF OPERATIONS

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

| | Percentage of Revenues | | | Percentage Change | |
|---|---|---|---|---|---|
| YEARS ENDED FEBRUARY 29 AND 28, | **2016** | 2015 | 2014 | **2016** | 2015 |
| Revenues | | | | | |
| Processing services | **63.5 %** | 63.5 % | 63.0 % | **1.6 %** | 4.7 % |
| Other | **36.5** | 36.5 | 37.0 | **1.3** | 2.7 |
| Total | **100.0** | 100.0 | 100.0 | **1.5** | 4.0 |
| Operating expenses | **78.6** | 79.3 | 79.3 | **0.6** | 4.0 |
| Operating income | **21.4** | 20.7 | 20.7 | **5.0** | 3.9 |
| Interest expense | **0.0** | 0.0 | (0.0) | **nmf*** | nmf* |
| Income before income taxes | **21.4** | 20.7 | 20.7 | **5.1** | 4.0 |
| Provision for income taxes | **8.5** | 8.1 | 8.2 | **5.8** | 3.4 |
| Net income | **13.0 %** | 12.6 % | 12.5 % | **4.7 %** | 4.4 % |

* not meaningful




**Compound Annual Growth Rate*

### Fiscal 2016 Compared to Fiscal 2015

***Revenues.*** Total revenues increased $3,340, or 1.5%, to $224,725 in fiscal 2016 from $221,385 in fiscal 2015.

Processing revenues increased 1.6% to $142,784 in fiscal 2016 compared to $140,479 in fiscal 2015. The growth in processing revenues 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 during fiscal 2016 and 2015. Processing revenues included early contract termination fees of $5,375 in fiscal 2016 compared to $3,046 in fiscal 2015. These fees are 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 1.3% to $81,941 in fiscal 2016 compared to $80,906 in fiscal 2015. Growth in other revenues was primarily due to growth in homeland security and fraud prevention services; print and mail, and electronic delivery services; mobile and Internet banking; and cloud-based managed services. Other revenues included early contract termination fees of $578 in fiscal 2016 compared to $162 in fiscal 2015.

***Operating Expenses.*** Operating expenses increased $1,040, or 0.6%, in fiscal 2016 compared to fiscal 2015. The increase in operating expenses was primarily due to:

- higher depreciation, amortization and maintenance expenses on equipment, software and software licenses; and
- slightly higher employee-related expenses in fiscal 2016 compared to fiscal 2015 on slightly higher average staffing and typical annual wage adjustments;

partially offset by:

- lower cost of goods sold on lower related software, hardware, and maintenance revenue; and
- savings realized from expense management initiatives which reduced data communication, travel, and general expenses compared to fiscal 2015.

***Operating Income.*** Operating income increased $2,300, or 5.0%, in fiscal 2016 compared to fiscal 2015. Operating margins expanded to 21.4% in fiscal 2016 compared to 20.7% in fiscal 2015.

***Interest Income and Expense.*** Consolidated net interest income was $48 in fiscal 2016 compared to $9 in fiscal 2015, primarily due to higher average cash balances.

***Provision for Income Taxes.*** The provision for income taxes increased to $19,025 in fiscal 2016 compared to $17,987 in fiscal 2015 due to higher taxable income and a higher effective tax rate. The consolidated effective income tax rate was 39.50% and 39.25% in fiscal 2016 and 2015, respectively.

***Net Income.*** Net income increased 4.7% to $29,140 in fiscal 2016 from $27,839 in fiscal 2015. Earnings per fully diluted share increased 5.1% to $2.07 in fiscal 2016 from $1.97 in fiscal 2015. The growth rate in diluted earnings per share exceeded the growth rate in net income due to 0.4% net fewer weighted average diluted shares outstanding for fiscal 2016, primarily as a result of shares purchased during the year under our share repurchase program.

### Fiscal 2015 Compared to Fiscal 2014

***Revenues.*** Total revenues increased $8,471, or 4.0%, to $221,385 in fiscal 2015 from $212,914 in fiscal 2014.

Processing revenues increased 4.7% to $140,479 in fiscal 2015 compared to $134,133 in fiscal 2014. The growth in processing revenues 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 during fiscal 2015 and 2014. Processing revenues included early contract termination fees of $3,046 in fiscal 2015 compared to $3,174 in fiscal 2014. These fees are 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 2.7% to $80,906 in fiscal 2015 compared to $78,781 in fiscal 2014. Growth in other revenues was primarily due to growth in homeland security and fraud prevention services; print and mail, and electronic delivery services; mobile and Internet banking; and cloud-based managed services. Other revenues included early contract termination fees of $162 in fiscal 2015 compared to $62 in fiscal 2014.

***Operating Expenses.*** Operating expenses increased $6,747, or 4.0%, in fiscal 2015 compared to fiscal 2014. The increase in operating expenses was primarily due to:

- higher cost of goods sold related to higher software, hardware and maintenance revenue;
- higher group medical plan expenses due to adverse claims experience in fiscal 2015 compared to fiscal 2014; and
- higher employee-related expenses in fiscal 2015 compared to fiscal 2014 partially attributable to a change in the way we account for commissions to the deferral method in fiscal 2014;

partially offset by:

- lower depreciation, amortization and maintenance expenses on equipment, software and software licenses; 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 $1,724, or 3.9%, in fiscal 2015 compared to fiscal 2014. Operating margins were 20.7% in both fiscal 2015 and 2014.

***Interest Income and Expense.*** Consolidated net interest income was $9 in fiscal 2015 compared to consolidated net interest expense of $34 in fiscal 2014, primarily due to higher average cash balances.

***Provision for Income Taxes.*** The provision for income taxes increased to $17,987 in fiscal 2015 compared to $17,403 in fiscal 2014 due to higher taxable income partially offset by a lower effective tax rate. The consolidated effective income tax rate was 39.25% and 39.50% in fiscal 2015 and 2014, respectively.

***Net Income.*** Net income increased 4.4% to $27,839 in fiscal 2015 from $26,656 in fiscal 2014. Earnings per fully diluted share increased 6.5% to $1.97 in fiscal 2015 from $1.85 in fiscal 2014. The growth rate in diluted earnings per share exceeded the growth rate in net income due to 1.9% net fewer weighted average diluted shares outstanding for fiscal 2015, primarily as a result of shares purchased during the year under our share repurchase program.

## LIQUIDITY AND CAPITAL RESOURCES

### FINANCIAL ASSET POSITION

| Years ended February 29 and 28, | 2016 | 2015 | 2014 |
|---|---|---|---|
| Financial assets * | **$ 17,397** | $ 11,849 | $ 1,085 |
| Short- and long-term debt | **-** | - | 7 |
| Net financial assets | **$ 17,397** | $ 11,849 | $ 1,078 |

* *Consists of cash and cash equivalents, short-term loans and investments, and long-term loans and investments.*

***Financial Position.*** At February 29, 2016, we had cash and cash equivalents of $17,397, working capital of $30,387 and a current ratio (current assets to current liabilities) of 2.1:1. At February 28, 2015, we had cash and cash equivalents of $11,849, working capital of $23,116 and a current ratio of 1.8:1. At February 28, 2014, we had cash and cash equivalents of $1,078, working capital of $9,233 and a current ratio of 1.3:1.

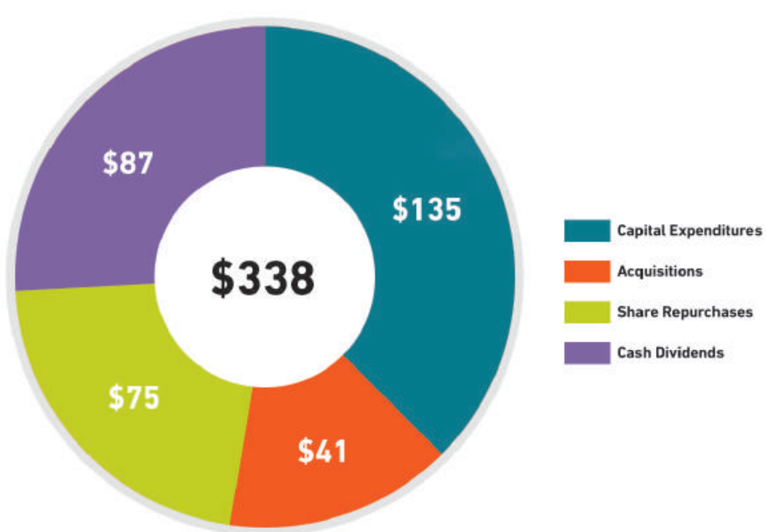
***Cash Equivalents.*** Cash equivalents consist primarily of highly liquid investments with maturities of 90 days or less. Whenever possible, cash management is centralized and intercompany financing is used to provide working capital to our operations.

***Debt Capacity.*** We have available lines of credit and revolving-credit agreements with a group of banks. As of February 29, 2016, we had access to $20,000 in lines of credit of which $5,000 expire within one year. Under these lines of credit, our lenders have committed to loan us up to $20,000 at our request, subject to our continued compliance with the terms and conditions of the agreements. No amounts were outstanding under these lines of credit as of February 29, 2016.

### SUMMARY OF CASH FLOWS

| Years ended February 29 and 28, | 2016 | 2015 | 2014 |
|---|---|---|---|
| Cash flows from: | | | |
| Operating activities | **$ 45,064** | $ 38,550 | $ 36,625 |
| Investing activities | **(19,914)** | (11,407) | (13,619) |
| Financing activities | **(19,602)** | (16,372) | (22,427) |
| Net change in cash & cash equivalents | **$ 5,548** | $ 10,771 | $ 579 |

**Primary Uses of Cash Since the Beginning of Fiscal 2007**
*(in millions)*



***Operating Activities.*** Net cash from operating activities was $45,064 for fiscal 2016, compared to $38,550 for fiscal 2015. 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; and
- higher current period net income, net of non-cash items such as depreciation and amortization;

partially offset by:

- a larger fiscal 2016 increase in accounts receivable balances compared to that of fiscal 2015;
- a fiscal 2016 reduction in accounts payable and accrued expenses compared to an increase during fiscal 2015; and
- a fiscal 2016 increase in prepaid expenses compared to a reduction during fiscal 2015.

***Investing Activities.*** Net cash used by investing activities was $19,914 for fiscal 2016, compared to $11,407 for fiscal 2015. The increase in net cash used by investing activities was primarily attributable to purchases of equipment and software.

***Financing Activities.*** Net cash used by financing activities was $19,602 for fiscal 2016, compared to $16,372 for fiscal 2015. The increase in net cash used by financing activities was primarily attributable to a $2,502 increase in dividends paid to shareholders in fiscal 2016 compared to fiscal 2015 and an increase in common stock purchased and redeemed in fiscal 2016, which totaled $6,331 compared to $5,596 in fiscal 2015.

## CREDIT LINES

We renewed an unsecured bank credit line in January 2016 that provides for funding of up to $15,000 and bears interest at a floating rate based on one-month LIBOR plus 0.90% (1.34% and 1.17% at February 29, 2016 and February 28, 2015, respectively). The credit line expires in January 2019. At February 29, 2016, no amount was outstanding under the credit line.

We renewed an unsecured bank credit line in August 2015 that provides for funding of up to $5,000 and bears interest at a floating rate based on the prime rate minus 1.30% (2.20% and 1.95% at February 29, 2016 and February 28, 2015, respectively). The credit line expires in August 2016. At February 29, 2016, no amount was outstanding under the credit line.

The credit agreements contain customary restrictive and financial covenants as well as customary events of default. The terms of the credit agreements also include standard provisions related to conditions of borrowing, including a customary material adverse effect clause 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 clause poses a material funding risk to us.

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.

## REPURCHASE OF COMMON STOCK

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 reserves 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 program is conducted on a continuous basis with rolling fund authorizations but, for completeness of presentation, the following descriptions of program activity track discrete fund authorizations.

In October 2012, the Board of Directors authorized a $5,000 increase in the share repurchase program that we completed in the second quarter of fiscal 2014. In total, under the October 2012 authorization, we purchased 166,442 shares at an average price of $30.04 per share.

In June 2013, the Board of Directors authorized a $5,000 increase in the share repurchase program that we completed in the third quarter of fiscal 2014. In total, under the June 2013 authorization, we purchased 160,528 shares at an average price of $31.15 per share.

In September 2013, the Board of Directors authorized a $5,000 increase in the share repurchase program that we completed in the first quarter of fiscal 2015. In total, under the September 2013 authorization, we purchased 149,642 shares at an average price of $33.41 per share.

In April 2014, the Board of Directors authorized a $5,000 increase in the share repurchase program that we completed in the third quarter of fiscal 2016. In total, under the April 2014 authorization, we purchased 138,618 shares at an average price of $36.07 per share.

In July 2014, the Board of Directors authorized a $5,000 increase in the share repurchase program that we completed in the fourth quarter of fiscal 2016. In total, under the July 2014 authorization, we purchased 132,382 shares at an average price of $37.77 per share.

In December 2015, the Board of Directors authorized a $5,000 increase in the share repurchase program. During fiscal 2016 we purchased 10,778 shares under the December 2015 authorization at an average price of $35.12 per share.

At February 29, 2016, $4,623 remained available pursuant to the December 2015 authorization for share repurchases.

A summary of common stock purchases under our share repurchase program follows:

| | Shares of Common Stock Purchased | Average Per-Share Price Paid | Total Cost of Common Stock Purchased |
|---|---|---|---|
| **2016:** | | | |
| **December 2015 program** | **10,778** | **$ 35.12** | **$ 377** |
| **July 2014 program** | **132,382** | **37.77** | **5,000** |
| **April 2014 program** | **16,414** | **39.90** | **657** |
| **Total** | **159,574** | | **$ 6,034** |
| 2015: | | | |
| April 2014 program | 122,204 | $ 35.56 | $ 4,343 |
| September 2013 program | 26,988 | 34.58 | 934 |
| Total | 149,192 | | $ 5,277 |
| 2014: | | | |
| September 2013 program | 122,654 | $ 33.16 | $ 4,066 |
| June 2013 program | 160,528 | 31.15 | 5,000 |
| October 2012 program | 138,769 | 30.09 | 4,176 |
| Total | 421,951 | | $ 13,242 |

## DIVIDENDS ON COMMON STOCK

We declared and paid dividends of $13,271 in fiscal 2016 and $10,769 in fiscal 2015. The regular cash dividend of 94 cents per share in fiscal 2016 reflected an increase of 23.7% over the 76 cents per share paid in fiscal 2015. Our dividend payout ratio (dividends as a percentage of net income) was 45.5% in fiscal 2016 and 38.7% in fiscal 2015. The fiscal 2016 cash dividend rate marks the 44th consecutive year with an increase in the regular dividend rate.

We believe our current dividend rate provides a return to shareholders while maintaining sufficient capital to invest in growing our businesses. To the extent we have additional capital in excess of investment opportunities, we typically offer a return to our shareholders through payment of dividends, the stock repurchase program and redemption transactions. The Board of Directors has indicated that it plans to continue paying dividends as long as our financial performance remains favorable.

## AUDIT AND NON-AUDIT FEES

Aggregate fees for professional services rendered for the Company by (i) RSM US LLP("RSM"); (ii) Crowe Horwath LLP ("Crowe") and (iii) BKD, LLP ("BKD") for fiscal 2016 and fiscal 2015 were:

| | **2016** | 2015 |
|---|---|---|
| RSM US LLP | | |
| Audit fees | **$ 94** | $ 91 |
| Audit related services | **-** | 27 |
| Tax preparation and planning services | **9** | 9 |
| Other non-auditing services | **-** | - |
| Total | **$ 103** | $ 127 |
| Crowe Horwath LLP | | |
| Audit fees | **$ -** | $ - |
| Audit related services | **470** | 446 |
| Tax preparation and planning services | **-** | - |
| Other non-auditing services | **40** | 54 |
| Total | **$ 510** | $ 500 |
| BKD, LLP | | |
| Audit fees | **$ -** | $ - |
| Audit related services | **10** | 10 |
| Tax preparation and planning services | **-** | - |
| Other non-auditing services | **-** | - |
| Total | **$ 10** | $ 10 |

***Audit Fees.*** Aggregate fees billed for professional services rendered for the audit of the Company's consolidated financial statements for fiscal 2016 and fiscal 2015.

***Audit Related Services.*** Aggregate fees billed for employee benefit plan audits, service auditor reviews of our data processing controls and procedures as a third party provider of these services to our customers, and merger and acquisition audit services.

***Tax Preparation and Planning Services.*** Aggregate fees billed for the preparation or review of the Company's federal and state income tax returns and tax consultations related to tax compliance and planning.

***Other Non-Auditing Services.*** Aggregate fees billed for third party administration of our qualified defined contribution plan, and accounting consultations and assistance provided with respect to special issues and other transactions. We do not use RSM, Crowe or BKD for financial information systems design and implementation. These services, which include designing or implementing a system that aggregates source data underlying the financial statements or generates information that is significant to our financial statements, are provided internally or by other service providers. We have a full-time internal audit department and do not engage RSM, Crowe or BKD to provide compliance outsourcing services.

The Audit Committee of the Company's Board has responsibility for appointing, setting compensation for and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

The Audit Committee has considered the non-audit services provided by RSM and Crowe and determined that the provision of such services had no effect on RSM's and Crowe's independence from the Company.

## MARKET RISK

Market risk refers to the risk that a change in the level of one or more market prices, interest rates, indices, volatilities, correlations or other market factors such as liquidity, will result in losses for a certain financial instrument or group of financial instruments. We are exposed to credit risk on credit extended to customers, and interest rate risk and market price risk on investments and borrowings. We actively monitor these risks through a variety of control procedures involving senior management. We do not currently use any derivative financial instruments. We invest and borrow primarily on a short-term or variable rate basis. Based on the controls in place, credit worthiness of our customer base and the relative size of these financial instruments, we believe the market risk associated with these instruments will not have a material adverse effect on our consolidated financial position or results of operations.

## OFF-BALANCE SHEET ARRANGEMENTS

As of February 29, 2016, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

## LEGAL PROCEEDINGS AND CONTINGENCIES

We and certain of our subsidiaries are involved from time to time in various commercial, tax and other legal disputes and proceedings that arise in the ordinary course of our business.

We record accruals for such contingencies to the extent that we conclude their occurrence is probable and any related damages are estimable. If a range of liability is probable and estimable and some amount within the range appears to be a better estimate than any other amount within the range, we accrue that amount. If a range of liability is probable and estimable and no amount appears to be a better estimate than any other amount within the range, we accrue the minimum of such probable range. These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions (see Notes to Consolidated Financial Statements, Note 2 - Significant Accounting Policies:  Use of Estimates in the Preparation of Financial Statements). Our assessments are based on estimates and assumptions that have been deemed reasonable by management.

While we do not believe any of our current legal disputes or proceedings will have a material adverse effect on our financial position or results of operations, litigation is inherently unpredictable, and excessive verdicts do occur. Although we may believe we have substantial defenses in these matters, we could in the future incur judgments or enter into settlements that could have a material adverse effect on our consolidated financial position or results of operations in any particular period.

**SUBSEQUENT EVENTS**

On March 2, 2016, the Company's Board of Directors declared a cash dividend of 25 cents per share payable to shareholders of record as of the close of business on March 15, 2016. This dividend was paid on March 31, 2016 in the aggregate amount of $3,497.

On March 30, 2016, the Company's Board of Directors declared a cash dividend of 25 cents per share, or approximately $3,506 in the aggregate, payable on June 25, 2016 to shareholders of record as of the close of business on June 1, 2016.

## SELECTED FINANCIAL DATA

(in thousands, except share, per share and employee data)

| YEARS ENDED FEBRUARY 29 AND 28, | **2016** | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Income Summary** | | | | |
| Revenues | **$ 224,725** | $ 221,385 | $ 212,914 | $ 198,256 |
| Operating expenses | **176,608** | 175,568 | 168,821 | 156,395 |
| Operating income | **48,117** | 45,817 | 44,093 | 41,861 |
| Interest income (expense) | **48** | 9 | (34) | (16) |
| Income before income taxes | **48,165** | 45,826 | 44,059 | 41,845 |
| Provision for income taxes | **19,025** | 17,987 | 17,403 | 16,006 |
| Net income | **29,140** | 27,839 | 26,656 | 25,839 |
| Net loss attributable to the noncontrolling interest | **-** | - | - | - |
| Net income attributable to Computer Services, Inc. | **$ 29,140** | $ 27,839 | $ 26,656 | $ 25,839 |
| **Financial Position** | | | | |
| Working capital | **$ 30,387** | $ 23,116 | $ 9,233 | $ 7,498 |
| Current ratio | **2.1** | 1.8 | 1.3 | 1.3 |
| Net tangible assets | **$ 89,469** | $ 77,238 | $ 62,952 | $ 55,878 |
| Property and equipment, net | **$ 34,655** | $ 33,079 | $ 35,252 | $ 34,996 |
| Capital expenditures, net | **$ 19,914** | $ 11,407 | $ 13,421 | $ 21,025 |
| Depreciation and amortization | **$ 15,024** | $ 14,576 | $ 15,524 | $ 14,932 |
| Total debt | **$ -** | $ - | $ 7 | $ 67 |
| Total debt to total capitalization | **- %** | - % | - % | 0.1 % |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | **$ 63,141** | $ 60,393 | $ 59,617 | $ 56,793 |
| Net cash provided by operating activities | **$ 45,064** | $ 38,550 | $ 36,625 | $ 41,102 |
| Free cash flow | **$ 25,150** | $ 27,143 | $ 23,204 | $ 20,077 |
| Return on average shareholders' equity | **19.4 %** | 20.2 % | 20.8 % | 20.6 % |
| **Per Common Share** | | | | |
| Net income, basic | **$ 2.07** | $ 1.97 | $ 1.85 | $ 1.76 |
| Weighted average common and common equivalent shares outstanding, basic | **14,106,805** | 14,160,707 | 14,440,668 | 14,695,122 |
| Net income, diluted | **$ 2.07** | $ 1.97 | $ 1.85 | $ 1.76 |
| Weighted average common and common equivalent shares outstanding, diluted | **14,106,805** | 14,160,707 | 14,440,668 | 14,721,622 |
| Cash dividends paid, regular | **$ 0.94** | $ 0.76 | $ 0.60 | $ 0.53 |
| Cash dividends paid, special | **$ -** | $ - | $ - | $ 1.00 |
| Book value at year-end | **$ 11.15** | $ 10.23 | $ 9.23 | $ 8.57 |
| Market value at year-end | **$ 35.96** | $ 40.55 | $ 33.25 | $ 29.69 |
| Price-earnings ratio at year-end, diluted | **17.4** | 20.6 | 18.0 | 16.9 |
| Dividend yield, regular | **2.6 %** | 1.9 % | 1.8 % | 1.8 % |
| Dividend yield, including special dividend | | | | 5.2 % |
| Dividend payout ratio, regular | **45.5 %** | 38.7 % | 32.6 % | 30.2 % |
| Dividend payout ratio, including special dividend | | | | 87.1 % |
| **Margins** | | | | |
| EBITDA as a percent of total revenue | **28.1 %** | 27.3 % | 28.0 % | 28.6 % |
| Operating income as a percent of total revenue | **21.4 %** | 20.7 % | 20.7 % | 21.1 % |
| Income before taxes as a percent of total revenue | **21.4 %** | 20.7 % | 20.7 % | 21.1 % |
| Net income as a percent of total revenue | **13.0 %** | 12.6 % | 12.5 % | 13.0 % |
| Effective tax rate | **39.5 %** | 39.3 % | 39.5 % | 38.3 % |
| **Growth Rates** | | | | |
| Revenue | **1.5 %** | 4.0 % | 7.4 % | 11.2 % |
| Net income | **4.7 %** | 4.4 % | 3.2 % | 1.3 % |
| Earnings per common share, diluted | **5.1 %** | 6.5 % | 5.1 % | 2.3 % |
| Cash dividends per common share, regular | **23.7 %** | 26.7 % | 13.2 % | 12.8 % |
| **Other** | | | | |
| Employees at year-end | **1,109** | 1,094 | 1,104 | 1,099 |

| 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| $ 178,224 | $ 163,776 | $ 153,985 | $ 150,649 | $ 145,618 | $ 124,501 | $ 104,980 |
| 137,839 | 123,898 | 118,253 | 116,441 | 116,752 | 99,308 | 81,342 |
| 40,385 | 39,878 | 35,732 | 34,208 | 28,866 | 25,193 | 23,638 |
| (60) | (182) | (264) | (271) | (684) | (372) | 146 |
| 40,325 | 39,696 | 35,468 | 33,937 | 28,182 | 24,821 | 23,784 |
| 14,819 | 15,680 | 13,833 | 13,235 | 10,516 | 9,513 | 9,680 |
| 25,506 | 24,016 | 21,635 | 20,702 | 17,666 | 15,308 | 14,104 |
| - | - | - | 12 | 427 | 284 | - |
| $ 25,506 | $ 24,016 | $ 21,635 | $ 20,714 | $ 18,093 | $ 15,592 | $ 14,104 |
| $ 13,097 | $ 9,483 | $ 7,742 | $ 9,161 | $ 9,450 | $ 8,181 | $ 9,818 |
| 1.5 | 1.5 | 1.4 | 1.6 | 1.7 | 1.6 | 2.1 |
| $ 55,088 | $ 56,442 | $ 44,510 | $ 46,231 | $ 47,553 | $ 40,371 | $ 41,443 |
| $ 32,341 | $ 30,008 | $ 30,857 | $ 28,357 | $ 30,005 | $ 31,376 | $ 26,510 |
| $ 10,382 | $ 16,729 | $ 10,640 | $ 8,600 | $ 13,400 | $ 9,278 | $ 11,655 |
| $ 13,529 | $ 14,224 | $ 13,537 | $ 12,674 | $ 12,917 | $ 11,405 | $ 9,530 |
| $ 222 | $ 3,290 | $ 8,478 | $ 5,041 | $ 10,117 | $ 13,406 | $ 10,233 |
| 0.2 % | 3.0 % | 8.3 % | 5.6 % | 11.1 % | 15.3 % | 14.1 % |
| $ 53,914 | $ 54,102 | $ 49,269 | $ 46,882 | $ 41,783 | $ 36,598 | $ 33,168 |
| $ 45,783 | $ 38,533 | $ 35,586 | $ 34,766 | $ 26,558 | $ 27,552 | $ 23,990 |
| $ 35,401 | $ 21,803 | $ 24,946 | $ 26,166 | $ 13,158 | $ 18,273 | $ 12,335 |
| 21.9 % | 24.0 % | 24.4 % | 25.0 % | 23.3 % | 22.8 % | 24.1 % |
| $ 1.74 | $ 1.64 | $ 1.48 | $ 1.36 | $ 1.15 | $ 0.99 | $ 0.90 |
| 14,649,630 | 14,609,566 | 14,627,012 | 15,281,120 | 15,715,388 | 15,747,910 | 15,746,714 |
| $ 1.72 | $ 1.61 | $ 1.43 | $ 1.31 | $ 1.10 | $ 0.94 | $ 0.85 |
| 14,792,213 | 14,875,352 | 15,077,878 | 15,810,934 | 16,433,286 | 16,514,986 | 16,631,388 |
| $ 0.47 | $ 0.41 | $ 0.36 | $ 0.33 | $ 0.29 | $ 0.25 | $ 0.21 |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| $ 8.56 | $ 7.32 | $ 6.38 | $ 5.69 | $ 5.21 | $ 4.68 | $ 3.97 |
| $ 32.80 | $ 26.75 | $ 18.05 | $ 13.00 | $ 16.10 | $ 14.65 | $ 14.83 |
| 19.1 | 16.6 | 12.6 | 9.9 | 14.6 | 15.6 | 17.4 |
| 1.4 % | 1.5 % | 2.0 % | 2.6 % | 1.8 % | 1.7 % | 1.4 % |
| 27.0 % | 25.0 % | 24.4 % | 24.5 % | 25.2 % | 25.2 % | 23.5 % |
| 30.3 % | 33.0 % | 32.0 % | 31.1 % | 28.7 % | 29.4 % | 31.6 % |
| 22.6 % | 24.3 % | 23.2 % | 22.7 % | 19.8 % | 20.2 % | 22.5 % |
| 22.6 % | 24.2 % | 23.0 % | 22.5 % | 19.4 % | 19.9 % | 22.7 % |
| 14.3 % | 14.7 % | 14.1 % | 13.7 % | 12.4 % | 12.5 % | 13.4 % |
| 36.7 % | 39.5 % | 39.0 % | 39.0 % | 37.3 % | 38.3 % | 40.7 % |
| 8.8 % | 6.4 % | 2.2 % | 3.5 % | 17.0 % | 18.6 % | 11.5 % |
| 6.2 % | 11.0 % | 4.4 % | 14.5 % | 16.0 % | 10.6 % | 16.4 % |
| 6.8 % | 12.6 % | 9.2 % | 19.1 % | 17.0 % | 10.6 % | 18.1 % |
| 14.6 % | 13.6 % | 8.6 % | 14.4 % | 16.4 % | 18.9 % | 31.1 % |
| 1,053 | 917 | 909 | 902 | 933 | 907 | 832 |

# Management's Statement of Responsibility

Management of Computer Services, Inc. is responsible for the integrity and objectivity of the information contained in this annual report.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments of management. Other financial information in this annual report is consistent with these financial statements.

The Company maintains a system of internal controls designed to provide reasonable assurance that transactions authorized by management are recorded and reported properly and that assets are safeguarded against loss or unauthorized use. Importantly, the system of controls is continually reviewed for its effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel, and a strong program of internal audit.

The control environment is complemented by internal auditors who perform extensive audits and evaluate the adequacy of and the adherence to these controls, policies and procedures. In addition, the Company's independent public accountants have audited the financial statements in accordance with auditing standards generally accepted in the United States of America that include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the financial statements prepared by management.

The Board of Directors, through the Audit Committee, is responsible for: (i) assuring that management fulfills its responsibilities in the preparation of the Company's financial statements; (ii) appointing the independent accountants; and (iii) conducting reviews with the independent accountants, management, and the internal auditors. The Audit Committee meets regularly with management, the internal auditors and the independent accountants, jointly and separately, to receive reports on management's process of implementation and administration of internal accounting controls and other auditing and financial reporting matters. The independent accountants and the internal auditors have unfettered access to the Audit Committee.

Steven A. Powless
CEO

David L. Simon
Treasurer & CFO

# Independent Auditor's Report

To the Shareholders and Board of Directors
Computer Services, Inc.
Paducah, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of Computer Services, Inc. and Subsidiaries which comprise the consolidated balance sheets as of February 29, 2016 and February 28, 2015, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended February 29, 2016, and the related notes to the consolidated financial statements, (collectively, consolidated financial statements).

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Computer Services, Inc. and Subsidiaries as of February 29, 2016 and February 28, 2015, and the results of its operations and its cash flows for each of the three years ended February 29, 2016 in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Peoria, Illinois
May 2, 2016

## CONSOLIDATED STATEMENTS OF INCOME

*(in thousands, except share and per share data)*

| YEARS ENDED FEBRUARY 29 AND 28, | **2016** | 2015 | 2014 |
|---|---|---|---|
| Processing revenues | **$ 142,784** | $ 140,479 | $ 134,133 |
| Other revenues | **81,941** | 80,906 | 78,781 |
| Total revenues | **224,725** | 221,385 | 212,914 |
| Operating expenses | **176,608** | 175,568 | 168,821 |
| Operating income | **48,117** | 45,817 | 44,093 |
| Interest income (expense) | **48** | 9 | (34) |
| Income before income taxes | **48,165** | 45,826 | 44,059 |
| Provision for income taxes | **19,025** | 17,987 | 17,403 |
| Net income | **$ 29,140** | $ 27,839 | $ 26,656 |
| Earnings per common share | **$ 2.07** | $ 1.97 | $ 1.85 |
| Shares used in computing earnings per common and common equivalent share | **14,106,805** | 14,160,707 | 14,440,668 |

** See accompanying notes to consolidated financial statements.*

## CONSOLIDATED BALANCE SHEETS

*(in thousands, except share data)*

| FEBRUARY 29 AND 28, | | 2016 | | 2015 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | **$** | **17,397** | $ | 11,849 |
| Accounts receivable | | **28,045** | | 25,723 |
| Income tax receivable | | **78** | | 2,993 |
| Prepaid expenses and other current assets | | **11,978** | | 10,776 |
| Total current assets | | **57,498** | | 51,341 |
| Property and equipment, net of accumulated depreciation | | **34,655** | | 33,079 |
| Software and software licenses, net of accumulated amortization of $37,016 in 2016 and $35,467 in 2015 | | **21,683** | | 17,773 |
| Goodwill | | **60,115** | | 60,115 |
| Intangible assets | | **6,390** | | 7,064 |
| Other assets | | **22,874** | | 19,842 |
| Total assets | **$** | **203,215** | $ | 189,214 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued expenses | **$** | **18,709** | $ | 18,710 |
| Deferred revenue | | **8,402** | | 9,515 |
| Total current liabilities | | **27,111** | | 28,225 |
| Deferred income taxes | | **18,964** | | 15,547 |
| Other liabilities | | **1,166** | | 1,025 |
| Total liabilities | | **47,241** | | 44,797 |
| Shareholders' equity | | | | |
| Preferred stock; shares authorized, 5,000,000 in 2016 and 2015; none issued | | **-** | | - |
| Common stock, no par; shares authorized, 60,000,000 in 2016 and 20,000,000 in 2015; shares issued and outstanding, 13,992,981 in 2016 and 14,110,849 in 2015 | | **23,118** | | 21,536 |
| Retained earnings | | **132,856** | | 122,881 |
| Total shareholders' equity | | **155,974** | | 144,417 |
| Total liabilities and shareholders' equity | **$** | **203,215** | $ | 189,214 |

** See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

*(in thousands, except share and per share data)*

| | Common Stock | | Retained | |
|---|---|---|---|---|
| | Shares | Amount | Earnings | Total |
| Balance at February 28, 2013 | 14,620,743 | $ 19,522 | $ 105,845 | $ 125,367 |
| Net income | - | - | 26,656 | 26,656 |
| Cash dividends paid ($.60 per share) | - | - | (8,685) | (8,685) |
| Issuance of common stock | 5,556 | 181 | - | 181 |
| Issuance of restricted stock | 38,552 | - | - | - |
| Restricted stock vested and tax benefit | - | 1,316 | 178 | 1,494 |
| Purchase of common stock | (421,951) | (679) | (12,563) | (13,242) |
| Tax withholding related to share-based compensation | (14,949) | (24) | (416) | (440) |
| Balance at February 28, 2014 | 14,227,951 | $ 20,316 | $ 111,015 | $ 131,331 |
| Net income | - | - | 27,839 | 27,839 |
| Cash dividends paid ($.76 per share) | - | - | (10,769) | (10,769) |
| Issuance of common stock | 6,837 | 257 | - | 257 |
| Issuance of restricted stock | 36,670 | - | - | - |
| Restricted stock vested and tax benefit | - | 1,233 | 119 | 1,352 |
| Restricted stock forfeited and tax benefit | (2,180) | - | 3 | 3 |
| Purchase of common stock | (149,192) | (254) | (5,023) | (5,277) |
| Tax withholding related to share-based compensation | (9,237) | (16) | (303) | (319) |
| Balance at February 28, 2015 | 14,110,849 | $ 21,536 | $ 122,881 | $ 144,417 |
| **Net income** | **-** | **-** | **29,140** | **29,140** |
| **Cash dividends paid ($.94 per share)** | **-** | **-** | **(13,271)** | **(13,271)** |
| **Issuance of common stock** | **8,050** | **311** | **-** | **311** |
| **Issuance of restricted stock** | **40,931** | **-** | **-** | **-** |
| **Restricted stock vested and tax benefit** | **-** | **1,566** | **142** | **1,708** |
| **Restricted stock forfeited and tax benefit** | **(298)** | **-** | **-** | **-** |
| **Purchase of common stock** | **(159,574)** | **(295)** | **(5,739)** | **(6,034)** |
| **Tax withholding related to share-based compensation** | **(6,977)** | **-** | **(297)** | **(297)** |
| **Balance at February 29, 2016** | **13,992,981** | **$ 23,118** | **$ 132,856** | **$ 155,974** |

** See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(in thousands)*

| YEARS ENDED FEBRUARY 29 AND 28, | **2016** | 2015 | 2014 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Net income | **$ 29,140** | $ 27,839 | $ 26,656 |
| Adjustments to reconcile net income to net cash from operating activities | | | |
| Depreciation | **7,209** | 7,313 | 7,543 |
| Amortization | **7,815** | 7,263 | 7,981 |
| Restricted stock expense | **1,566** | 1,233 | 1,316 |
| Stock-based compensation expense | **311** | 257 | 181 |
| Impairment loss on intangible asset | **-** | 180 | - |
| Impairment loss on asset available for resale | **-** | 193 | - |
| Loss on sale of property and equipment | **7** | 53 | 52 |
| Tax benefit of restricted stock vested | **142** | 119 | 178 |
| Tax benefit of restricted stock forfeited | **-** | 3 | - |
| Deferred income taxes | **3,417** | 1,411 | 964 |
| Changes in operating assets and liabilities, net of acquisitions | | | |
| Accounts receivable | **(2,323)** | 265 | (3,998) |
| Income tax receivable | **2,915** | (2,455) | 259 |
| Prepaid expenses and other current assets | **(866)** | 96 | (5,269) |
| Other assets | **428** | (2,224) | 308 |
| Accounts payable and accrued expenses | **(3,725)** | (2,910) | 234 |
| Deferred revenue | **(1,051)** | (167) | 139 |
| Other liabilities | **79** | 81 | 81 |
| Net cash from operating activities | **45,064** | 38,550 | 36,625 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property and equipment | **6** | 389 | 9 |
| Purchase of property and equipment | **(8,794)** | (5,766) | (7,794) |
| Purchase of software and software licenses | **(11,126)** | (6,030) | (5,636) |
| Purchase of intangibles | **-** | - | (198) |
| Net cash from investing activities | **(19,914)** | (11,407) | (13,619) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of long-term debt | **-** | 9,000 | 35,500 |
| Payments on long-term debt | **-** | (9,007) | (35,560) |
| Payments of dividends | **(13,271)** | (10,769) | (8,685) |
| Purchase of common stock | **(6,034)** | (5,277) | (13,242) |
| Tax withholding related to share-based compensation | **(297)** | (319) | (440) |
| Net cash from financing activities | **(19,602)** | (16,372) | (22,427) |
| Net change in cash and cash equivalents | **5,548** | 10,771 | 579 |
| Cash and cash equivalents, beginning of year | **11,849** | 1,078 | 499 |
| Cash and cash equivalents, end of year | **$ 17,397** | $ 11,849 | $ 1,078 |

** See accompanying notes to consolidated financial statements.*

# Notes
## to Consolidated Financial Statements

*(in thousands, except share and per share data)*

**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; risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security, anti-money laundering, and fraud prevention.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

***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. At February 29, 2016 and February 28, 2015, an allowance for doubtful accounts of $164 and $63, respectively, had been recorded.

***Property and Equipment:*** At February 29, 2016 and February 28, 2015, property and equipment consisted of:

| | **2016** | 2015 |
|---|---|---|
| Land | **$ 1,716** | $ 1,716 |
| Buildings and improvements | **27,713** | 27,325 |
| Equipment | **61,244** | 55,941 |
| | **90,673** | 84,982 |
| Less accumulated depreciation | **56,018** | 51,903 |
| Balance, end of year | **$ 34,655** | $ 33,079 |

***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 years ended February 29, 2016 and February 28, 2015 and 2014 was $7,141, $6,243 and $6,673, 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 the accompanying consolidated financial statements. Property and equipment, software and other assets acquired through accounts payable and accrued expenses during the years ended February 29, 2016 and February 28, 2015 and 2014 were $5, $77 and $223, respectively.

***Deferred Commissions:*** Deferred commissions are the incremental costs that are directly associated with definitive term contracts with customers and consist of sales commissions paid to the Company's sales force. The commissions are deferred and amortized over the terms of the related customer contracts, which are typically 36 to 120 months, and recorded in other assets on the accompanying consolidated balance sheets. The Company believes this is the preferable method of accounting as the commission charges are so closely related to the revenue from the 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 on 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 fair value. The Company has elected to perform its annual analysis as of the end of each fiscal year. No impairment was identified for the years ended February 29, 2016 and February 28, 2015 and 2014.

There was no change in the carrying amount of goodwill for the year ended February 29, 2016.

Intangible assets not subject to amortization primarily consist of governmental licenses to operate a competitive local exchange carrier. Intangible assets not subject to amortization totaled $190 at February 29, 2016 and February 28, 2015, respectively. During the year ended February 28, 2015, the Company recorded an impairment of $180.

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 amount of intangibles subject to amortization at February 29, 2016 and February 28, 2015 was as follows:

| | 2016 | 2015 |
|---|---|---|
| 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 | **8,249** | 7,575 |
| Balance, end of year | **$ 6,200** | $ 6,874 |

Total amortization expense for the years ended February 29, 2016 and February 28, 2015 and 2014 was $674, $1,020 and $1,308, respectively.

The estimated annual future amortization expense for each of the next five years, and the estimated aggregate expense thereafter, for all intangible assets remaining at February 29, 2016 are as follows:

| Years ending February 28 and 29, | Amount |
|---|---|
| 2017 | $ 624 |
| 2018 | 609 |
| 2019 | 580 |
| 2020 | 580 |
| 2021 | 580 |
| Thereafter | 3,227 |
| Total | $ 6,200 |

***Earnings Per Common Share:*** Earnings per common share is based on net income available to common shareholders divided by the weighted average number of common shares considered to be outstanding during the period. The weighted average number of common shares outstanding was 14,106,805, 14,160,707 and 14,440,668 for the years ended February 29, 2016 and February 28, 2015 and 2014, respectively.

***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 the years before 2011.

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

***Revenue Recognition and Deferred Revenue:*** The Company generates revenue through the sale of data processing services, equipment and supplies, maintenance contracts, software, *e*Business services and other service products. The Company enters into data processing contracts with its customers primarily of one to ten years in length. Revenues are recognized as services are provided on these contracts. Each standard contract contains an early contract termination clause that allows the Company to collect a percentage of the anticipated revenues that would have been earned during the remaining contract term as liquidated damages if the customer terminates the Company's services prior to the end of the contract term. Revenues from early contract termination fees are recognized in the period received. Total early contract termination fees recorded as a component of processing revenues in the accompanying consolidated financial statements for the years ended February 29, 2016 and February 28, 2015 and 2014 were $5,375, $3,046 and $3,174, respectively. Total early contract termination fees recorded as a component of other revenues in the accompanying consolidated financial statements for the years ended February 29, 2016 and February 28, 2015 and 2014 were $578, $162 and $62, respectively. The Company recognizes product revenue, such as software license sales, which represent less than 5% of total revenue, ratably over the term of the associated post-contract customer support or 36 months, whichever is longer as vendor specific objective evidence of fair value for post-contract customer support has not been established.

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

The Company records revenue under certain contracts for postage and telecommunications net of the related expenses. The Company provides these services as a convenience to its customers and provides these services at the Company's cost. The total pass-through revenues for the years ended February 29, 2016 and February 28, 2015 and 2014 were $45,366, $47,313 and $44,933, respectively.

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

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

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

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This ASU simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred tax liabilities and assets into current and noncurrent amounts in classified balance sheets. Instead, it requires deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December

15, 2016. Early adoption is permitted, and this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company has elected to early adopt this standard and has elected to apply retrospectively to all deferred tax liabilities and assets. As a result of early adoption, all net deferred income tax liabilities as of February 29, 2016 and February 28, 2015 in the financial statements have been presented as noncurrent.

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

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

## NOTE 3. LAND AVAILABLE FOR RESALE

The cost of land available for resale of $1,347 at February 29, 2016 and February 28, 2015, respectively, primarily represents costs incurred during the development of an office park in Paducah, Kentucky. These costs are allocated to each lot based upon each lot's proportionate share of salable acreage. The project is substantially complete and any future associated costs will not be material. The Company recorded impairment during the year ended February 28, 2015 of $193 to reduce land available for resale to its estimated fair value. Management determined the fair value for assets available for resale with the assistance of an independent appraiser. At February 29, 2016 and February 28, 2015, land available for resale was included in other assets on the accompanying consolidated balance sheets.

## NOTE 4. INCOME TAXES

The provision for income taxes was as follows for the years ended February 29, 2016 and February 28, 2015 and 2014:

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Current | | | |
| Federal | **$ 13,156** | $ 13,916 | $ 14,094 |
| State | **2,452** | 2,660 | 2,345 |
| Deferred | **3,417** | 1,411 | 964 |
| Total | **$ 19,025** | $ 17,987 | $ 17,403 |

The effective tax rates were 39.50%, 39.25% and 39.50% for the years ended February 29, 2016 and February 28, 2015 and 2014, respectively. These effective tax rates differed from the statutory federal tax rate of 35% due primarily to state income taxes. Cash paid for income taxes during the years ended February 29, 2016 and February 28, 2015 and 2014 was $12,551, $18,910 and $16,002, respectively.

Deferred tax assets and (liabilities) consisted of the following at February 29, 2016 and February 28, 2015:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets | | |
| Accrued expenses | **$ 1,215** | $ 1,188 |
| Net operating loss carryforwards acquired | **486** | 561 |
| | | |
| Deferred tax liabilities | | |
| Property and equipment | **(7,770)** | (6,385) |
| Goodwill and intangible assets | **(4,874)** | (4,743) |
| Prepaid expenses | **(1,309)** | (1,358) |
| Other | **(6,712)** | (4,810) |
| Total | **$ (18,964)** | $ (15,547) |

Loss carryforwards for tax purposes at February 29, 2016 of $1,231 expire in July 2026.

## NOTE 5. NOTES PAYABLE

The Company has a $15,000 commercial revolving line of credit. Interest is payable monthly at one-month LIBOR plus 0.90% (1.34% and 1.17% at February 29, 2016 and February 28, 2015, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line at February 29, 2016 and February 28, 2015. The line of credit expires in January 2019.

The Company also has a $5,000 commercial revolving line of credit. Interest is payable monthly at prime minus 1.30% (2.20% and 1.95% at February 29, 2016 and February 28, 2015). The line of credit is unsecured and there were no outstanding borrowings on the line at February 29, 2016 and February 28, 2015. The line of credit expires in August 2016.

The Company is required to comply with certain covenants 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 years ended February 29, 2016 and February 28, 2015 and 2014 was $2, $22 and $61, respectively. Cash paid for interest expense during the years ended February 29, 2016 and February 28, 2015 and 2014 was $2, $22 and $61, respectively.

## NOTE 6. COMMON AND RESTRICTED STOCK

*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 Plan*

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 April and July 2014. At February 28, 2015, the Company had the authority to repurchase up to $5,657 of additional shares. The Company's Board of Directors authorized the repurchase of an additional $5,000 of the Company's common stock in December 2015. At February 29, 2016, the Company had the authority to repurchase up to $4,623 of additional shares.

## NOTE 7. STOCK-BASED COMPENSATION

In June 2013, the Company authorized the issuance of common stock to members of the Company's Board of Directors for services performed. Compensation expense recognized for common stock issued for services provided by members of the Board of Directors was $311, $257 and $181 for the years ended February 29, 2016 and February 28, 2015 and 2014, respectively.

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

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

The following is a summary of changes in unearned compensation on restricted stock at February 29 and 28:

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Balance, beginning of year | **$ 2,725** | $ 2,775 | $ 2,920 |
| Grant of restricted stock | | | |
| May 15, 2013 | **-** | - | 1,121 |
| February 3, 2014 | **-** | - | 50 |
| May 12, 2014 | **-** | 1,256 | - |
| May 5, 2015 | **1,562** | - | - |
| June 30, 2015 | **191** | - | - |
| Restricted stock vested | **(1,566)** | (1,233) | (1,316) |
| Restricted stock forfeited | **(12)** | (73) | - |
| Balance, end of year | **$ 2,900** | $ 2,725 | $ 2,775 |

The following is a summary of changes in unvested shares of restricted stock at February 29 and 28:

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Unvested balance, beginning of year | **85,373** | 95,472 | 120,177 |
| Granted | **40,931** | 36,670 | 38,552 |
| Vested | **(47,614)** | (44,589) | (63,257) |
| Forfeited | **(298)** | (2,180) | - |
| Unvested balance, end of year | **78,392** | 85,373 | 95,472 |
| | | | |
| Weighted average fair value: | | | |
| Granted | **$ 42.82** | $ 34.25 | $ 30.38 |
| Vested | **$ 32.89** | $ 27.66 | $ 20.80 |
| Forfeited | **$ 38.84** | $ 33.21 | $ - |

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was $1,566, $1,233 and $1,316 for the years ended February 29, 2016 and February 28, 2015 and 2014, respectively.

## NOTE 8. EMPLOYEE BENEFITS

The Company maintains a qualified defined contribution plan that covers substantially all employees. Contributions to the plan are funded annually and totaled $5,909, $6,225 and $5,370 for the years ended February 29, 2016 and February 28, 2015 and 2014, respectively.

Other long-term liabilities include deferred executive compensation of $792 and $713 at February 29, 2016 and February 28, 2015, respectively.

## NOTE 9. SELF-INSURANCE

The Company generally self-insures its risks for employee health insurance. The Company carries stop loss policies for specific losses in excess of $150 per individual per year for health coverage. Claims are expensed as incurred. In establishing accruals for claims incurred and reported and estimates for claims incurred but not yet reported, the Company uses factors such as historical experience, known trends, and third-party administrator estimates to determine the appropriate amounts to report as accrued liabilities. Amounts charged to expense for self-insured employee health insurance programs totaled $6,593, $7,421 and $5,977 for the years ended February 29, 2016 and February 28, 2015 and 2014, respectively.

## NOTE 10. COMMITMENTS

The Company's operations include definitive term operating leases relating principally to office space and vehicles.

At February 29, 2016, the Company was committed under lease agreements for approximate annual rental payments as follows:

| Years ending February 28 and 29, | Amount |
|---|---|
| 2017 | $ 2,587 |
| 2018 | 2,196 |
| 2019 | 1,467 |
| 2020 | 657 |
| 2021 | 261 |
| Thereafter | 96 |
| Total | $ 7,264 |

Rent expense under operating leases was $2,704, $2,719 and $3,396 for the years ended February 29, 2016 and February 28, 2015 and 2014, respectively.

## NOTE 11. 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 12. SUBSEQUENT EVENTS

All of the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements.  The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after, but before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the financial statements from being misleading. The Company has evaluated events through May 2, 2016, the date the financial statements were available to be issued.

On March 2, 2016, the Company’s Board of Directors declared a cash dividend of 25 cents per share payable to shareholders of record at the close of business on March 15, 2016. This dividend was paid on March 31, 2016 in the aggregate amount of $3,497.

On March 30, 2016, the Company’s Board of Directors declared a cash dividend of 25 cents per share, or approximately $3,506 in the aggregate, payable on June 25, 2016 to shareholders of record at the close of business on June 1, 2016.

## QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

*(in thousands, except per share data)*

| | Quarter | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| **2016** | | | | | |
| **Revenues** | **$ 57,148** | **$ 56,165** | **$ 54,093** | **$ 57,319** | **$ 224,725** |
| **Operating expenses** | **44,620** | **43,710** | **43,861** | **44,417** | **176,608** |
| **Operating income** | **12,528** | **12,455** | **10,232** | **12,902** | **48,117** |
| **Interest income (expense)** | **11** | **9** | **13** | **15** | **48** |
| **Income before income taxes** | **12,539** | **12,464** | **10,245** | **12,917** | **48,165** |
| **Provision for income taxes** | **4,953** | **4,923** | **4,047** | **5,102** | **19,025** |
| **Net income** | **$ 7,586** | **$ 7,541** | **$ 6,198** | **$ 7,815** | **$ 29,140** |
| **Earnings per common share, basic** | **$ 0.54** | **$ 0.53** | **$ 0.44** | **$ 0.56** | **$ 2.07** |
| **Market Price** | | | | | |
| **High** | **$ 43.75** | **$ 44.50** | **$ 41.95** | **$ 41.05** | |
| **Low** | **39.35** | **38.95** | **37.75** | **34.96** | |
| **Close** | **42.50** | **41.00** | **38.30** | **35.96** | |
| 2015 | | | | | |
| Revenues | $ 54,570 | $ 55,607 | $ 55,948 | $ 55,260 | $ 221,385 |
| Operating expenses | 44,075 | 42,975 | 44,016 | 44,502 | 175,568 |
| Operating income | 10,495 | 12,632 | 11,932 | 10,758 | 45,817 |
| Interest income (expense) | - | 5 | 4 | - | 9 |
| Income before income taxes | 10,495 | 12,637 | 11,936 | 10,758 | 45,826 |
| Provision for income taxes | 4,172 | 5,023 | 4,745 | 4,047 | 17,987 |
| Net income | $ 6,323 | $ 7,614 | $ 7,191 | $ 6,711 | $ 27,839 |
| Earnings per common share, basic | $ 0.44 | $ 0.54 | $ 0.51 | $ 0.48 | $ 1.97 |
| Market Price | | | | | |
| High | $ 35.60 | $ 37.50 | $ 43.00 | $ 41.00 | |
| Low | 33.00 | 33.30 | 35.75 | 37.35 | |
| Close | 34.75 | 36.20 | 40.95 | 40.55 | |
| 2014 | | | | | |
| Revenues | $ 51,720 | $ 54,030 | $ 53,050 | $ 54,114 | $ 212,914 |
| Operating expenses | 41,729 | 43,311 | 41,973 | 41,808 | 168,821 |
| Operating income | 9,991 | 10,719 | 11,077 | 12,306 | 44,093 |
| Interest income (expense) | (12) | (11) | (7) | (4) | (34) |
| Income before income taxes | 9,979 | 10,708 | 11,070 | 12,302 | 44,059 |
| Provision for income taxes | 3,942 | 4,229 | 4,373 | 4,859 | 17,403 |
| Net income | $ 6,037 | $ 6,479 | $ 6,697 | $ 7,443 | $ 26,656 |
| Earnings per common share, basic | $ 0.41 | $ 0.45 | $ 0.47 | $ 0.52 | $ 1.85 |
| Market Price | | | | | |
| High | $ 30.34 | $ 31.24 | $ 34.00 | $ 34.10 | |
| Low | 28.60 | 29.13 | 30.25 | 30.84 | |
| Close | 29.31 | 30.45 | 33.60 | 33.25 | |

# INVESTOR INFORMATION

**Annual Shareholders Meeting**
CSI Corporate Headquarters
3901 Technology Drive
Paducah, Kentucky 42001-5201
Thursday, June 30, 2016
9:00 a.m. CDT
Join the live webcast at www.csiweb.com.

**Shareholder Inquiries**
Communications regarding stock holdings, stock certificates, dividend payments, changes of address, consolidation of accounts, transfers of ownership or other stock matters may be directed to Computershare Limited.

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https://www-us.computershare.com/Investor/
Shareholder online inquiries: https://www-us.computershare.com/Investor/Contact

**Investor Relations**
The Computer Services, Inc. annual report, quarterly reports, press releases and current stock price information are available on the Company's website at www.csiweb.com. Visitors to our website may use the email updates option to automatically receive electronic notification of company announcements. Prospective investors, securities analysts, portfolio managers and representatives of financial institutions seeking these reports or other information regarding the Company may contact:

David L. Simon, Treasurer & CFO
Computer Services, Inc.
3901 Technology Drive
Paducah, KY 42001-5201
Telephone: 270.442.7361, ext. 10126
Fax: 270.575.6716
Email: dsimon@csiweb.com

**Common Stock**
Computer Services, Inc. has approximately 4,922 shareholders based on an estimate of the number of individual participants represented by security position listings and the number of record holders of the Company's common stock. The Company's common stock is traded on the Premier QX tier of the OTC Markets (www.otcqx.com) under the symbol CSVI. Quarterly dividends on Computer Services, Inc. common stock, when declared by the Board of Directors, are paid on or about March 31, June 25, September 25, and December 26. The Company does not currently offer a dividend reinvestment program.

"CSI's success comes from our tradition of putting customers first. And we remain committed to leading the way in service excellence, as we continue setting the standard for customer experience in the fintech industry."

STEVE POWLESS, CEO

# Leadership

## Executive Officers

**STEVEN A. POWLESS**
CEO

**R. STANLEY ECKENBERG**
President and COO

**DAVID L. SIMON**
Treasurer and CFO

## Board of Directors

**JOHN A. WILLIAMS**
Chairman, Board of Directors
Member, Executive Committee

**STEVEN A. POWLESS**
CEO, Computer Services, Inc.

**RICHARD A. ANDERSON**
County Manager, Fulton County, Georgia
Former COO of the Federal Reserve and Vice Chairman of BellSouth
Strategic Planning Advisor

**BASIL N. DROSSOS**
Former General Motors Executive
Member, Audit Committee
Member, Profit Sharing Committee

**BRUCE R. GALL**
Chairman and CEO, Fed Reporter, Inc.
CEO, Dornoch Management Corporation
Chairman, Profit Sharing Committee

**TERRANCE P. HAAS**
Former CEO, Harvard Drug Group
Member, Audit Committee

**DAVID M. PAXTON**
President and CEO, Paxton Media Group
Chairman, Executive Committee
Chairman, Compensation Committee

**DR. LINDA JOHNSON VITALE**
Partner, Manchester Capital
Former Professor and Chair, Information Systems Gordon Ford College of Business, Western Kentucky University
Chairwoman, Audit Committee

**ROBERT L. WALKER**
Former Senior Vice President and CFO, Western and Southern Financial Group
Member, Executive Committee
Member, Compensation Committee

**TAMMY D. SOUDER**
Vice President and Corporate Secretary, Computer Services, Inc.
Secretary to the Board

CSI

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