
COMPUTER SERVICES, INC.

ANNUAL INFORMATION AND DISCLOSURE STATEMENT

FOR THE FISCAL YEAR ENDED

FEBRUARY 29, 2016

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
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All information contained in this Annual Information and Disclosure Statement has been compiled to fulfill the disclosure requirements of OTC Markets Group, Inc. and Rule 15c2-11 under the Securities Exchange Act of 1934. The captions contained herein correspond to the sequential format as set forth in the applicable OTC Markets Group, Inc. disclosure guidelines. All dollar amounts are presented in thousands, except dividend and other per share data. Quantitative share data, among other non-dollar figures, are not presented in thousands.

Forward-Looking Statements

This Annual Information and Disclosure Statement contains "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. All statements except historical statements contained herein constitute "forward-looking statements." Forward-looking statements are inherently uncertain and are based only on current expectations and assumptions that are subject to future developments that may cause results to differ materially. Readers should carefully consider: (i) economic, competitive, technological and governmental factors affecting CSI's operations, customers, markets, services, products and prices; (ii) risk factors affecting the financial services information technology industry generally including, but not limited to, cybersecurity risks that may result in increased costs to CSI to protect against the risks, as well as liability or reputational damage to CSI in the event of a breach of our security; and (iii) other factors discussed in CSI's annual reports, quarterly reports, Information and Disclosure Statements and other documents posted from time to time on the OTCQX website (available at either www.otcmarkets.com or at 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 the OTC Markets Group, Inc., CSI undertakes no obligation to update, and is not responsible for updating, the information contained or incorporated by reference in this document beyond the publication date, whether as a result of new information or future events, or to conform this document to actual results or changes in CSI's expectations, or otherwise or for changes made to this document by wire services or Internet services.

**COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016**

Part A: General Company Information

Item1: Exact name of the issuer and its predecessor (if any)

Computer Services, Inc. ("CSI", the "Company", "we", "us", or "our")

Item 2: Address of the issuer's principal executive offices

Principal Executive Offices: 3901 Technology Drive
Paducah, Kentucky 42001-5201

Telephone: 270.442.7361
Facsimile: 270.442.9905
Web site: www.csiweb.com

Investor Relations Officer: David L. Simon, Treasurer & CFO

3901 Technology Drive
Paducah, Kentucky 42001-5201

Telephone: 270.442.7361 x10126
Facsimile: 270.575.6716
Email: dsimon@csiweb.com

Item 3: Jurisdiction(s) and date of the issuer's incorporation or organization

Jurisdiction of incorporation: Kentucky

Date of incorporation: March 19, 1965

**COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016**

Part B: Share Structure

Item 4: Exact title and class of securities outstanding

A. Common

Title: Computer Services, Inc.
Class: Common Stock
CUSIP: 20539A105
Trading Symbol: CSVI

B. Preferred (authorized, but no shares issued or outstanding)

Title: Computer Services, Inc.
Class: Preferred Stock
CUSIP: n/a
Trading Symbol: n/a

Item 5: Par or stated value and description of the security

A. Par or Stated Value

Common: no par value
Preferred: no par value

B. Common or Preferred Stock

1. Common stock dividend, voting and preemptive rights:

Cash dividend: Dividends may be paid on Common Stock when and if declared by the Company's Board of Directors. Dividends are typically declared and paid quarterly, with the most recent dividend being 25 cents per share, paid on March 31, 2016.

Voting rights: Each share is entitled to one vote.

Preemptive Rights: None.

2. Preferred stock dividend, voting, conversion and liquidation rights as well as redemption or sinking fund provisions:

N/A – no preferred shares outstanding.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

3. Describe any other material rights of common or preferred stockholders:

The Company has a shareholders' rights plan that granted to shareholders one preferred stock purchase right for each outstanding share of the Company's common stock. Each right entitles the purchase of one one-hundredth (1/100th) share of Series A preferred stock at a price determined by, and under the conditions set forth in, the rights plan. Because the issuance of the 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.

A shareholders' rights plan is a widely-used defense mechanism designed to prevent an unsolicited takeover attempt from a hostile third party. The shareholders' rights plan ensures that the Board of Directors will have ample time to consider its alternatives and formulate a measured response to any potential takeover attempt. A shareholders' rights plan is not intended to prevent a fair takeover. Instead, the shareholders' rights plan encourages any third-party acquiror to offer a fair control premium to the Company's existing shareholders.

4. Describe any provision in the issuer's charter or by-laws that would delay, defer or prevent a change in control of the issuer:

From the Company's Articles of Incorporation: The Board of Directors may base its response to any offer of another party to: (a) make a tender or exchange offer for any equity security of the Company, (b) merge or consolidate the Company with another corporation, or (c) purchase or otherwise acquire all or substantially all of the properties and assets of the Company (collectively, the "Acquisition Proposals") upon an evaluation of the best interests of the Company and its shareholders. Relevant factors to be considered in such evaluation include, without limitation, the following:

(a) The consideration being offered in the Acquisition Proposal, not only in relation to the then current market value of the Company's stock, but also in relation to (1) the Board of Directors' then current estimate (which need not be quantified) of the current or future value of the Company in a freely negotiated transaction, and (2) the Board of Directors' then current estimate (which need not be quantified) of the future value of the Company as an independent entity;

(b) The social, legal and economic effects upon employees and customers of the Company and its subsidiaries;

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

(c) The social, legal and economic effects on the communities in which the Company and its subsidiaries operate or are located; and

(d) The competence, experience and integrity of the acquiring party or parties and its or their management.

The Company's Articles of Incorporation also contain certain statutory business combination provisions that mirror those of the Kentucky Business Corporation Act that may have an effect on certain transactions that could constitute a change in control of the Company. See also the discussion of the shareholders' rights plan in response to Part B, Item 5.B.3, above.

Item 6: Number of shares or total amount of the securities outstanding for each class of securities authorized

The following table sets forth information concerning the equity securities of the Company as of February 29, 2016 and February 28, 2015:

SECURITIES AUTHORIZED AND OUTSTANDING

Class	Fiscal Year	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (public float)	Total Number of Beneficial Shareholders⁽¹⁾	Total Number of Shareholders of Record
Common	2016	60,000,000	13,992,981	13,013,888	4,639	283
	2015	20,000,000	14,110,849	13,144,829	3,796	301
Preferred	2016	5,000,000	-	-	-	-
	2015	5,000,000	-	-	-	-

(1) Estimate of individual participants represented by security position listings. Based on such security position listings, at least 100 beneficial shareholders each owns at least 100 shares of the Company's Common Stock.

**COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016**

Item 7: Name and address of the transfer agent

Mail correspondence:
Computershare Limited
P.O. Box 30170
College Station, Texas 77842-3170

Overnight correspondence:
Computershare Limited
211 Quality Circle, Suite 210
College Station, Texas 77845-4470

Telephone: 888.522.6645
TTD for Hearing impaired: 800.231.5469
Shareholder website: <https://www-us.computershare.com/investor/>
Shareholder online inquiries: <https://www-us.computershare.com/investor/contact>

Computershare Limited is currently registered under the Securities Exchange Act of 1934, and is an authorized transfer agent subject to regulation by the U.S. Securities and Exchange Commission.

**COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016**

Part C: Business Information

Item 8: Nature of the issuer's business

A. Business Development

1. **Form of organization:** Corporation (Kentucky)
2. **Year organized:** 1965
3. **Fiscal year end date:** Last day of February
4. **Bankruptcy, receivership or any similar proceedings:** None.
5. **Material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets:** None.
6. **Default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring us to make payments:** None.
7. **Any change of control:** None.
8. **Any increase of ten percent (10%) or more of the same class of equity securities:** None, except pursuant to stock splits and/or stock dividends described in Part C, Item 8.A.9, below.
9. **Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization:**

a. Stock splits and/or stock dividends:

<u>Date</u>	
8/12/1965	Original issue
4/25/1972	25-for-1
4/23/1979	3-for-1
11/30/1988	2-for-1
6/30/1992	2-for-1
2/28/1995	2-for-1
12/14/1998	5%
12/13/1999	5%
12/31/2001	2-for-1
10/15/2004	2-for-1
4/30/2010	2-for-1

b. Recapitalizations: None.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

- c. **Mergers and Acquisitions:** For acquisitions of certain subsidiaries, see Part C, Item 8.B., below.
- d. **Spin-offs:** None.
- e. **Reorganizations:** None.

10. Any delisting of securities by any securities exchange or deletion from the OTC Bulletin Board:

None.

11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator:

a. Legal proceedings and/or administrative actions:

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

We record accruals for loss 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 set forth in our 2016 Annual Report filed separately through the OTC Disclosure and News Service, available at either www.otcmarkets.com or at www.otcqx.com, that is incorporated herein by reference). 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 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 of the Company in any particular period.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

b. Trading suspensions by a securities regulator: None.

B. Business of Issuer

Who We Are

Computer Services, Inc., including its subsidiaries, delivers core processing, managed services, mobile and Internet solutions, payments processing, print and electronic distribution, treasury management and regulatory compliance solutions to financial institutions and corporate customers across the nation. Exceptional service, dynamic solutions and superior results are the foundation of CSI's reputation and have resulted in the Company's inclusion in such top industry-wide rankings as the FinTech 100, Talkin' Cloud 100 and MSPmentor Top 501 Global Managed Service Providers List. Providing outsourced technology solutions to banks and credit unions is a niche, one that has become mature and competitive, in an industry that includes both outsourced service providers and the internal technology departments within financial institutions.

For more than 50 years, CSI has been committed to delivering world-class technology to our customers. We have redundant data centers in Paducah, Kentucky, and Valparaiso, Indiana utilizing UNISYS systems. These systems retain the stability, transaction volume capacity, scalability, recovery and security normally associated with a mainframe, and they expand the architecture to Windows® integration, providing easy-to-use flexibility to the end user.

What We Do

We derive our revenues from processing services, maintenance, and support fees; software licensing and installation fees; eBusiness 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.

To best serve our customers, we provide a full range of services in multiple service centers strategically located throughout the United States. In the unlikely event of a disaster, safeguards are in place to transfer processing from one center to another. This design is a critical part of CSI's comprehensive business continuation/disaster recovery and backup plans and our ability to serve our customers.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Acquisitions

Acquisitions are part of the CSI success story and we target companies that complement our existing products and services:

ATTUS Technologies, Inc. (“ATTUS”), acquired in 2003, is an industry leader in software and services for regulatory compliance, homeland security and fraud prevention. ATTUS serves over 4,500 customers in the financial services, Internet search, shared economy, social media, insurance, software, healthcare, pharmaceuticals, energy and utilities, wholesale goods, travel and leisure, real estate, non-profit, retail and other industries. ATTUS’ solutions provide monitoring of social media use of customers’ Internet systems and compliance with the requirements of the Gramm-Leach-Bliley Act (“GLBA”), the USA PATRIOT Act, the Office of Foreign Assets Control (“OFAC”), the Financial Crimes Enforcement Network (“FinCEN”), the Bureau of Industry and Security, anti-money laundering regulations, the Bank Secrecy Act (“BSA”), and Regulation CC and Regulation E of the Federal Reserve Board. ATTUS is based in Charlotte, North Carolina. This acquisition provided CSI with expanded opportunities in the financial services industry by opening new sales channels.

McCoy Myers and Associates, Inc. (“McCoy Myers”), acquired in 2005, is an Amarillo, Texas-based provider that serves banks in Colorado, Illinois, Kansas, Nebraska, Minnesota, New Mexico, North Carolina, Oklahoma and Texas. This acquisition provided us with a new software platform and a new market for banks that choose to handle their data processing in-house. McCoy Myers also processes customers in a service bureau environment.

Summit Financial Solutions, Inc. (“Summit”), acquired in 2007, is a provider of item processing solutions, including remote image capture, remote deposit, cash letter manager, branch capture, merchant capture and document storage. Electronic capture of checks experienced dramatic growth when the federal Check 21 legislation was passed in 2003 and implemented in 2004, and this acquisition strengthened our delivery of services for this market segment.

CSI Telecom Group, Inc. (“CSI Telecom Group”), acquired in stages beginning in 2005 and completed in 2008, is a provider of Internet-based broadband telecommunications services and operates as a competitive local exchange carrier. This acquisition expanded our growth opportunities to deliver voice, data and video services to our customers. It also positioned CSI to deliver even more cost effective, secure telecommunications services to our customers.

Myriad Systems, Inc. (“MSI”), acquired in 2009, is a provider of print and mail, electronic document and payment delivery, and item processing solutions for financial institutions across the United States. This acquisition strengthened our suite of products and services for financial institutions by adding an industry-leading platform for statement and other document delivery. In addition, MSI added a strong

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

customer base of credit unions that has resulted in additional sales for CSI's services, including network management and regulatory compliance solutions.

HEIT Consulting, Inc., acquired in 2011, is a provider of cloud-based managed compliance, security and IT services for approximately 400 financial institutions. This acquisition made CSI one of the largest providers of cloud-based managed services in IT for financial institutions. Cloud-based managed services enable financial institutions to access on-demand technology and IT services without the need to invest in expensive hardware and staffing. Financial institutions gain 24-hour coverage of their technology's security and compliance systems by an experienced outside provider.

Organization

CSI provides its products and services through three primary groups.

- **Financial Services:** Our Financial Services Group oversees the delivery of our core processing operations to financial institutions nationwide. Our core operations consist of two functionally distinct core processing platforms: NuPoint and Meridian that support both outsourced operating environments; Meridian also supports in-house operating environments. For more than five decades, we have specialized in fully integrated, flexible and secure core solutions that meet the diverse demands of today's financial institutions, from *de novo* banks to established holding companies with billions of dollars in assets. Our innovative solutions and responsive services strengthen our customers' infrastructure, enabling them to deliver best-in-class banking to their consumers. The Financial Services Group includes relationship management, customer support, education services, implementations and product management.
- **Technology Services:** Our Technology Services Group oversees the delivery of our managed services and electronic and print delivery solutions. Through CSI's managed services, we offer competitive IT solutions that allow financial institutions to leverage hosted technology resources that make their infrastructure more secure and easier to manage. Through our electronic and print solutions, we provide a comprehensive suite of solutions that allow customers to approach document delivery more securely and efficiently. Technology Services includes such initiatives as research and development, IT infrastructure management and telecommunications.
- **Regulatory Compliance:** Our Regulatory Compliance Group provides automated, dynamic solutions that mitigate risk, decrease cost and improve the compliance posture for CSI's customers. With regulations constantly changing, we have developed comprehensive solutions that address today's requirements and provide the flexibility to meet tomorrow's demands. Our industry-leading solutions range from consulting and security services to compliance monitoring and terrorism and anti-money laundering watch list screening. We help our customers stay in

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

compliance with such regulations as those of OFAC and under the BSA. Financial institutions and businesses alike use CSI's expertise and solutions to enhance their compliance programs and reduce operational cost.

These three groups serve not only the financial services industry but also a wide array of customers in other business markets. Our products and services enable our customers to implement proven technology solutions that can be tailored to support their individual growth, service, operational and performance goals. Our solutions also enable financial institutions and corporate entities to offer the high-demand products and services required to compete more successfully, and to capitalize on evolving trends shaping the industries we serve.

Our History

Incorporated in March 1965 with six employees and three banks as customers, CSI has become a prominent part of the outsourced services portion of the financial services technology industry and one of the longest continuous providers of core bank data processing services in the nation. As new technologies have emerged, we have established a reputation for product innovation. We began delivering payments processing and card services in the late 1970s/early 1980s; check imaging and Internet/eBusiness solutions in the 1990s; risk assessment and homeland security solutions in the early 2000s; and service-oriented architecture ("SOA"), fraud prevention, network management, regulatory compliance and document delivery solutions to financial institutions and corporate entities nationwide in the late 2000s/early 2010s. We strive to deliver dynamic solutions that help our customers remain competitive, compliant and profitable.

The CSI Market

As the financial services industry has become more competitive, the need for CSI to offer increasingly comprehensive banking and technology solutions has become more critical. Our customers expect us to provide industry-leading, affordable products that allow them to remain competitive and compliant.

We continue to make strategic moves that position our company to capitalize on opportunities in the financial services industry and expand into broader vertical markets outside traditional banking. We believe the markets for products to support payments processing, regulatory compliance solutions, telecommunications, financial management and managed services will be key building blocks for our growth, and we are confident in our ability to identify the right strategies, build business plans around those strategies and transform our company into an even broader, more diversified enterprise moving forward.

What differentiates CSI from other providers?

Financial institutions and corporate entities nationwide count on CSI to deliver the relevant technology and responsive service they need to remain competitive, compliant and profitable. Our solutions range from core banking systems and payments processing

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

to cloud-based services and regulatory compliance. CSI has the flexibility, knowledge and scalability to meet the diverse demands of companies of many different sizes, across multiple industries. Regardless of our customers' needs, CSI delivers end-to-end technology solutions that empower businesses to save money, operate more efficiently and reach new customers.

Through solid performance and partnership, CSI provides dynamic solutions that achieve superior results.

To best serve our financial services customers, CSI differentiates itself in a mature, competitive industry through our one-of-a-kind approach to customer service: managing customer accounts with reasonably nearby relationship managers, meeting customers' needs whenever and wherever they arise, and providing the training and education that are so critical to success in the fast-paced world of the financial services industry.

We have maintained this focus, and today CSI is recognized in the financial services industry for its unique approach to customer service as demonstrated by the following:

- **Relationship Managers** are assigned and dedicated to each customer. We believe no other provider has as low a concentration of customers per relationship manager, and customers report that this approach to service is a deciding factor in their initial choice of, and renewal of service contracts with, CSI.
- **Customer Resource Centers** provide 24/7 support staff and are located in multiple U.S. locations serving customers coast to coast.
- **Managed Account Plan ("MAP"):** Relationship managers serving our customers are trained in a MAP program that consists of customer profiles, objectives, action plans and tracking documents. Relationship managers help customers build a MAP that ensures the customer implements the products and services it needs to accomplish its business and technology objectives.
- **Long-term Employees** are another benefit of CSI's relationship management process. Members of CSI's Relationship Management and Customer Resource Center support teams have been with CSI an average of more than 15 years.

CSI's employees operate and monitor the technologies, deliver the products and provide the technology planning, technical assistance, expert consulting and hands-on training that are critical elements in successful IT operations, and they are available around-the-clock. These highly skilled professionals consult with customers, introduce new technologies, perform installations, conduct training and other support services, and they are positioned throughout the CSI service area to insure immediate and personal support. We believe that our concentration of technology experts is unsurpassed in the industry and provides us with a competitive advantage over other service providers.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Tracking Market Changes and Regulatory Trends

Staying abreast of the latest regulatory compliance changes, CSI uses several methods for tracking market trends and adding them to our product offerings. Application Product Managers (“APMs”) are assigned responsibility for managing a product (e. g., Internet banking, check imaging, Bank Secrecy Act/Anti-Money Laundering regulations, document imaging, wire automation, loans, deposits and general ledger). APMs track trends and assess their impact on our customers. APMs attend industry conferences, follow trade publications, visit with vendors to receive updates on products and strategies, and meet with customer groups to gather their collective vision for the industry. They also work with senior managers to constantly refine our strategy in their assigned product areas.

Regulatory changes are tracked by CSI staff. We attend regulatory conferences, subscribe to regulatory advisory services and engage outside advisers to assist us in tracking and advising us on regulatory changes. We also work with examiners from the Office of the Comptroller of the Currency, Federal Reserve, FDIC and several state regulators as they examine our processes on an annual basis. For more than 50 years, CSI has remained committed to an obligation of regulatory compliance in contracts with customers.

We also benefit from competing in regular sales cycles. We rely on a number of sources to identify the need for new services and enhancements. Those include:

- **Industry Trade Shows and Organizations:** CSI personnel attend industry trade shows to drive brand awareness, assess the latest industry trends and new technologies, and evaluate competitors' offerings. CSI officers are leaders in the principal industry organization and participate extensively in industrywide issue exploration and resolution.
- **Regulatory Compliance:** Many of our products originate from the need for our customers to comply with ever-changing federal and state regulations. Our customers depend on us to help them remain compliant.
- **Direct Customer Input:** Many of our best ideas for enhancements come directly from our customers through their communications and interactions with our relationship managers. In addition, we conduct satisfaction surveys annually, asking customers to rate all functional departments of CSI, as well as our products and services.
- **Annual Customer Conference:** Every year many of our customers attend CSI's annual customer conference along with CSI professionals, vendor partners and bank guests. This conference is recognized as one of the industry's best conferences and is a vital part of our growth strategy.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

- **Regional User Group and Customer Advisory Meetings:** These regional meetings enable smaller groups of customers to meet periodically to discuss issues, strategies, and technology and product initiatives. User groups are an excellent source of customer feedback that helps drive our product development and modifications.

1. Primary and secondary SIC codes:

7374 - Computer processing and data preparation and processing services
7373 - Computer integrated system design

2. If the issuer has never conducted operations, is in the development stage or is currently conducting operations:

The Company has been conducting operations continuously since its organization in 1965.

3. If the issuer is considered a “shell company” pursuant to Securities Act Rule 405:

The Company is not a shell company.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

4. The names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements of the issuer:

The following table sets forth information concerning Computer Services, Inc. and its subsidiaries as of February 29, 2016:

COMPUTER SERVICES, INC. and SUBSIDIARIES

Name	Relationship	Business Purpose	Method of Operation	Ownership	Included in Issuer's Consolidated Financial Statements
Computer Services, Inc.	Parent	Data Processing, Software & Services	Corporation (Kentucky)	This is the issuer	Yes
ATTUS Technologies, Inc.	Subsidiary	Compliance Software & Services	Corporation (North Carolina)	Parent (100%)	Yes
McCoy Myers & Associates, Inc.	Subsidiary	Data Processing, Software & Services	Corporation (Texas)	Parent (100%)	Yes
Summit Financial Solutions, Inc.	Subsidiary	Check Imaging Software & Services	Corporation (Missouri)	Parent (100%)	Yes
CSI Telecom Group, Inc.	Subsidiary	Telecommunications Services	Corporation (Kentucky)	Parent (100%)	Yes
Myriad Systems, Inc.	Subsidiary	Print & Mail, and Electronic Document Delivery Solutions	Corporation (Oklahoma)	Parent (100%)	Yes
HEIT Consulting, Inc.	Subsidiary	Cloud-Based Managed Compliance, Security and IT Services	Corporation (Colorado)	Parent (100%)	Yes
CSI Air, LLC	Subsidiary	Company Owned Aircraft	Limited Liability Company (Kentucky)	Parent (100%)	Yes
Tran Tec, Inc.	Subsidiary	In Reserve	Corporation (Kentucky)	Parent (100%)	Yes

5. The effect of the existing or probable governmental regulations on the business:

The financial services industry is subject to extensive, complex and constantly changing federal and state regulation. Our current and prospective customers, which, in terms of revenue, primarily consist of financial institutions such as community and regional banks, operate in markets that are subject to substantial regulatory oversight and supervision. We must ensure our products and services work within the extensive and evolving regulatory requirements applicable to our customers, including but not limited to those under the federal truth-in-lending

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

and truth-in-savings rules, the Privacy of Consumer Financial Information regulations, usury laws, the Equal Credit Opportunity Act, the Fair Housing Act, the Electronic Funds Transfer Act, the Fair Credit Reporting Act, the BSA, the USA PATRIOT Act, GLBA, the Community Reinvestment Act, and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The compliance of the Company's products and services with these requirements depends on a variety of factors including the particular functionality, the interactive design and the classification of customers, and the manner in which a customer utilizes the system. Our customers must assess and determine what is required of them under these regulations and they contract with us to assist them, through our products and services, in meeting their regulatory needs. We cannot predict the ultimate effect of this complex legislation, regulations and industry changes on our customers and on us.

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.

While rates of merger and acquisition activity among community banks appear to have moderated, we do expect a continuation of the trend toward consolidation in part because of increased regulatory compliance costs. We believe our bank customers will be active in this market in the coming year, resulting in both increased fees as our customers acquire other banks and higher early contract termination fees as customers are acquired by non-CSI customer banks. However, the early termination fees do not fully offset the future stream of lost revenues from the terminating banks.

CSI is subject to periodic review by the Federal Financial Institutions Examination Council as regulator under the Bank Service Company Act. CSI is not chartered by the Office of the Comptroller of Currency, the Board of Governors of the Federal Reserve System or other federal or state agencies that regulate or supervise depository institutions. As a service provider to insured financial institutions, however, our operations are governed by many of the same regulatory requirements as those imposed on financial institutions. On occasion our services are also subject to examination by state banking authorities. All of the foregoing regulators have broad supervisory authority to remedy any shortcomings identified in their reviews and examinations.

6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities is borne directly by customers:

	<u>2016</u>	<u>2015</u>
Estimated research and development expenditures	\$ 13,000	\$ 12,000

None of the costs of our research and development activities is billed directly to our customers.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

7. Costs and effects of compliance with environmental laws (federal, state and local):

The Company believes that the costs and effects of compliance with environmental laws on the Company are not material.

8. The number of total employees and number of full-time employees:

	<u>Total</u>	<u>Full-time</u>
Employees as of February 29, 2016	1,109	1,088

Item 9: Nature of products or services offered

A. Principal products or services, and their markets

CSI Products and Services are offered primarily to financial institutions and can be summarized in the following categories:

- Core Processing – Service Bureau or In-House; Financial Products
- Managed Services
- Mobile and Internet Solutions
- Payments Processing – Card Services, Image Capture and Processing Options
- Electronic and Print Distribution
- Regulatory Compliance, OFAC, Anti-Money Laundering and Anti-Fraud Solutions
- Social Media Monitoring
- Security
- Education
- Third-Party Solutions for which CSI is a reseller and provider of connectivity
- CSI Websites

New products are always in development.

1. Core Processing

Technology does not come in a one-size-fits-all package. At CSI, we focus on identifying and using the right technology to satisfy our individual customers' needs. We understand the demands of the financial industry and have long been aware that mission-critical applications require systems that are secure, stable, redundant and capable of handling large volumes of transactions. We also understand the need to make the user experience flexible and uncomplicated.

CSI's core banking products include what we believe to be the best general accounting applications in the industry for demand deposits, time deposits and loans, and these applications are supported by many fully integrated ancillary services.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

SOA, a set of design principles used during the phases of systems development and integration, has improved CSI's flexibility and speed of development. With the release of CSI NuPoint® and Meridian, our bank customers have immediate and automatic access to the latest software features and functionality available. All newly developed core-related or ancillary products leverage this architecture for efficient management within both CSI and our customer base.

In today's banking environment, having all customer contact points reflect the same up-to-date account balance is important. Regardless of whether a banking customer is using Internet banking, voice response, ATM, debit card or the teller at the branch, the most accurate balance is always accessible. CSI offers universal real-time balance data to meet this need.

Financial Products

Financial Management System: The framework for CSI's family of financial products offers general ledger plus complete accounting, security control and performance analysis on a consolidated, branch or cost-center basis.

Profitability Analysis and Reporting: This solution provides customer performance ratings in terms of profit/loss to customer banks. It displays relative rankings, comparatives and trends, and provides CSI's customers with the information necessary to make better decisions and perform more profitably in the highly competitive community banking market.

Executive View: This tool has dramatically changed the way bank executives look at such management information as deposit and loan information, information related to BSA, money laundering, suspicious activity and transaction trend monitoring. Bankers can also use this value-added product to monitor accounts for potential fraud.

Business Intelligence: This solution set offers asset/liability management solutions that include loan relationship pricing, interest rate risk, rate sensitivity gap, rate-shocked income, and economic value of equity analyses, along with future performance projections and regulatory requirement parameters.

2. Managed Services

We provide managed network services to hundreds of banks. We believe that few network providers can match CSI's record on security, compliance and reliability. The CSI network is designed to meet both external regulations and our customers' internal business initiatives and requirements, and it is backed by superior expertise, resources and credentials. Customers can use our wide area networks ("WAN") to route data, voice and video not only among their banks' locations, but also to CSI and to the Internet in a completely secure and fully redundant meshed network.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Telecommunications Network: Through a competitive local exchange carrier operated by CSI Telecom Group, we offer our fiber optic telecommunications network virtually anywhere CSI does business. This allows CSI to offer Resilient Packet Ring networks with desirable features such as complete redundancy, scalable bandwidth and full replication of back-up services. It also allows us to satisfy our customers' needs for cost-effective networks that will support bandwidth-intensive services and to connect CSI host centers and remote operations with a more robust WAN.

Data Vault: Data backup and off-site storage are very important topics with regulatory examiners. CSI offers its customers the ability to back up their mission-critical information currently located on bank servers to servers located in CSI's data centers. This service helps customers satisfy regulators by improving the quality and security of disaster recovery plans. The high-speed capacity of CSI's telecommunications architecture makes this service possible.

Network Management Services ("NMS"): NMS helps customers keep their internal networks compliant by putting CSI's IT experts at their disposal. This enables banks to simplify network management efforts and enhance critical business functions. NMS covers all aspects of local and wide area networks management including patch updates, active monitoring and reporting of network health and issues, administrative support, backup management and the like.

Internet Service Provider: CSINET provides our customers with secure, high-speed Internet access plus email for their employees. Volume-based pricing allows customers to connect as few or as many PCs as they like.

Virtual Private Network Connectivity: CSI offers a secure "pipeline" or "tunnel" through the Internet for customer banks to access their information from any location. This provides an effective solution for mobile bank executives, home users and small remote offices.

Web Hosting: CSIWebHost® provides the hardware, the access, the security, the backup and the support for customer banks' websites.

3. Mobile and Internet Solutions

The Internet has revolutionized banking and has become a cost-effective, efficient method for product delivery. CSI has a robust Internet product line:

Internet Banking: Internet Banking provides secure real-time access to account information anytime and anywhere Internet access is available.

Online Payments: Online payments service allows banks to integrate bill-pay functions into the websites. This secure service offering allows banks to make their websites more competitive and offer now-expected services to their customers.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Employee Intranet: CSI Secure Connect for Employees, our corporate intranet product, improves communication by keeping bank employees on the same electronic page while automating many of the labor intensive and time consuming communication tasks that frequently burden an organization.

Board Portal: CSI Secure Connect for Boards offers secure, remote access to board reports, policies, meeting minutes, and online voting. It also includes an integrated Google® search to locate current and archived information.

Website Design Tool: CSI DesignPro is a template-based website design tool that enables users with no technical expertise to design, publish and maintain a professional-looking website.

Digital Banking Applications: CSI offers smartphone and tablet-based mobile banking applications that are used by businesses and customers to access banking and customer service features from portable devices.

4. Payments Processing

Banks need payment processing technologies that allow them to keep pace with the rapidly changing marketplace. CSI offers a full range of options that includes card services, image capture and item processing. Many of these functions can be performed either by the bank in-house and/or in conjunction with CSI data centers.

i. Card Services

One of the fastest growing segments in the banking industry today is electronic transaction processing, a market we serve through our Card Services unit. Card Services provides everything our customers need for their card programs, from card production to network affiliation and ATM, debit card and point-of-sale transaction processing. Transaction volume in the banking industry is growing at 8% to 10% per year, and estimates for future growth indicate a sustainable increase of electronic transactions. We believe CSI is well-positioned to capitalize on this growth.

ii. Image Capture

Check imaging, particularly after the adoption of the federal Check 21 legislation in 2003 and its implementation in 2004, represented a significant change in the way banks processed and cleared checks. CSI offers a line of products and services to take advantage of this technology, and our acquisition of Summit strengthened our delivery of check imaging services.

Branch and Merchant Capture: Allows bank branches and merchants to capture items at their locations, convert them into image-based transactions and transmit them (via a secure Internet connection) to a central location for processing. Branch and Merchant Capture results in cost and efficiency gains

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

for both the bank and its customers, and provides an effective solution for banks with branches located a significant distance from a processing location.

Remote Capture: CSI offers software platforms that power remote capture of check images. Our platforms can be run in the bank and are structured to provide a high volume production environment. This software includes functionality for daily capture, reject re-entry, reporting, statement processing and email statement processing. CSI's Remote Capture solution also supports image retrieval through Internet banking applications.

Image Clearing: CSIXchange allows CSI financial institution customers to exchange items with other CSI financial institution customers. Banks benefit from quicker funds availability because of the reduced clearing time and from the lower per-item price CSI charges compared to alternatives, including the Federal Reserve automated clearinghouses.

Image Exception Item Processing ("EIP"): Image EIP relieves the bank of paper item handling and enables it to correct unpostables and make daily decisions about exception items. Image EIP can be used to return or repost items to demand deposit accounts, savings accounts, general ledger, time deposit accounts, loans, and safe deposit box accounts.

iii. Processing Options

CSI offers item processing options that can be performed either by the bank in-house and/or in conjunction with CSI data centers. CSI can capture items at a data center or the customer may capture items using one or a combination of several forms of remote capture (centralized, branch or merchant).

5. Electronic and Print Distribution

CSI processes, prints, mails and archives periodic account statements and notices and other types of documents for electronic delivery.

We also design, produce and inventory stock forms, and we create and deliver direct mail promotional materials. We provide multiple services in three key areas: print and mail, electronic delivery, and storage and archiving. Among those, the following services are available:

Statements: CSI can print, the customer can print, or we can use truncated or emailed statements and eliminate printing and postage entirely.

Data (Report) Archival: We can store reports at CSI or transmit reports to the customer for storage on a bank system.

Notice Production: CSI can print and mail notices, customers can print and mail, or we can use electronic notices and eliminate printing and postage entirely.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

6. Regulatory Compliance and Anti-Fraud Solutions

Bank examiners regularly focus on a bank's exposure to information security risk and review efforts related to core processing systems, internal networks, electronic banking products, connectivity to external networks, the location of sensitive information and other technology components. CSI continues to provide customers with the products they need to comply with regulations:

Card Fraud: The rise in debit card activity the banking industry is experiencing is an area of significant risk. As customer transaction usage increases 8% to 10% per year, the number of fraudulent transactions is also growing which ultimately translates into losses for banks. CSI currently offers several products designed to manage fraud in the card services area including real-time denials, transaction scoring and notification options.

Check Fraud Protection: Our Positive Pay fraud control product assists in identifying items such as counterfeit checks, altered checks, incorrectly encoded checks and unauthorized copies of checks.

Compliance Services: CSI WatchDOG® products help customers meet stringent compliance regulations in a number of areas including ERM, OFAC and federal FinCEN reporting.

Compliance Solution for Wire Rooms: CSI WatchDOG® Wire streamlines a bank's wire process and helps insure OFAC compliance.

Loan Risk Management: CSI's loan risk management solution helps customers manage and monitor the performance of collection, delinquent and other "watch list" loans. User-friendly, multiple work queues allow banks to organize collection data in separate queues for each collector.

Risk and Suspicious Activity Monitoring: iMonitor, CSI's solution for identifying high-risk activity and reporting suspicious activity, monitors activities by branch, product or customer level, reports suspicious patterns that could indicate money laundering and identifies high-risk activity.

Social Media Management: CSI WatchDOG® Social Compliance provides financial institutions with advanced compliance capabilities and protection for participating in social media across multiple online platforms, allowing them to leverage social media without the risk of violating the growing list of compliance regulations.

7. Security

Managing security is one of the most crucial tasks for any financial institution. It can also be the most complicated and time-consuming. CSI's Online Security system simplifies the process and increases customers' efficiency in setting up security. We

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

provide reports for daily monitoring. We provide online traffic reports that show all online activity posted. We also provide security transaction reports. Each core application has the ability to restrict/secure employee account information from online viewing. For demand deposit accounts, confidential information can be restricted on trial balance and other reports.

We utilize sophisticated encryption and intrusion prevention practices and hire leading third-party firms to conduct penetration testing of the CSI network. The CSI network infrastructure provides security through a layered approach such as firewalls, intrusion prevention systems, and segregated networks. Data encryption and host-based intrusion prevention systems provide an additional layer to server security. CSI monitors alerts and events 24/7 to ensure the integrity of the network and systems.

CSI engages an independent certified public accounting firm to conduct annual assessments of CSI's information systems controls. The assessments are conducted pursuant to *Attestation Standards Section 101* and *Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization of the Auditing Standards Board of the American Institute of Certified Public Accountants*. CSI makes copies of the assessment reports available to its customers.

8. Education

Because we realize that our customers' employees are their most valuable asset, and a well-trained employee base can return substantial benefits, we established a separate unit within our company - CSI Education Services - to coordinate intensive bank employee training in four major areas:

Online Training: CSI offers training sessions that cover new products, feature enhancements, software releases and other news. Bankers can attend these sessions at any CSI training center or from their bank through the Internet. Because we want customers to take advantage of these training opportunities and send as many employees to the sessions as possible, we do not charge for them.

Application Training: Fee-based, specialized education sessions are offered in Paducah, Kentucky, and other CSI locations. These three-day, hands-on training sessions focus on topics including time deposits, loans, deposits and more.

Webinars: Offered on a regular basis, our webinars feature products, software releases and the like. Bankers can participate in these training sessions from the comfort of their banks through the Internet. Typically, we do not charge for these webinars.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

eLearning: This fee-based learning management system allows bank employees to learn about specific topics or procedures from any PC with Internet access. eLearning lets managers assign classes to their employees and provides tracking and reporting of courses completed.

Many CSI training and educational sessions are archived in an accessible modality and are available at any time for review or for new customer employee training.

9. Third-Party Solutions

CSI is “open” in its approach to other vendors offering ancillary products for our customers. We will provide reputable vendors the opportunity to join with CSI in offering their products and services to CSI’s customer base, with technical interfacing and integration with CSI’s core processing systems. Examples are our Internet banking partnerships with Digital Insight and First Data, industry leaders in Internet banking, cash management and voice response services; and our relationship with SAP North America to deliver enhanced business intelligence solutions and data analytics technology.

10. CSI Websites

CSI has multiple websites: a public website that can be viewed by anyone, anywhere; secure websites designed specifically for the use of our customers (extranets); and an internal website for our employees (intranet).

CSIweb.com: Our public website contains a wide variety of information: an investor relations section that includes current stock prices, investment news, annual reports and quarterly reports; biographies of the CSI Board of Directors; a complete listing of our business solutions; articles written by CSI staff that have been published online and/or in banking magazines; and a Company history.

Customer Portals: We offer secure websites (extranets) exclusively for the use of customers and CSI staff. These customer portals are used for the exchange of information between CSI and our customers: memos, messages, updates, training opportunities, production issue updates, product releases, survey input, and “help” for how to use all CSI products and services can all be found on the site. “Threaded Discussion” chat rooms are also available for customer interaction.

CSI Secure Connect: Our internal website (intranet) has security measures in place that allow access by CSI staff only. Each department maintains a site within CSI Secure Connect that is available to the entire CSI employee base; a bulletin board and dynamic messaging on the homepage that keeps staff up-to-date on late-breaking issues; and a robust intranet search engine that quickly provides employees with access to the information they need to do their jobs.

CSI also hosts websites for many of its customers, using URLs assigned to the customers or obtained by CSI on behalf of its customers. See Part C, Item 9.A.2, above.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

B. Distribution methods for the products and services

Financial institutions can outsource ongoing information processing to our CSI NuPoint® and Meridian platforms based on the core processing solution most compatible with their respective specific operational requirements, and our Meridian core banking solution is available for in-house installation at customer sites.

Customers can eliminate the significant up-front capital expenditures required by in-house installations and the responsibility for operating information and transaction processing infrastructures by outsourcing these functions to CSI. Customers electing to outsource their core processing typically sign contracts ranging from five to ten years that include transaction-based processing fees and minimum guaranteed payments during the contract period.

Customers electing to install our solutions in-house may license our Meridian proprietary software system based on an initial license fee. The large majority of these customers pay ongoing annual software maintenance fees. We also are an authorized reseller of the hardware and peripheral equipment that is required by our software solutions, and we contract to perform software implementation, data conversion, training, ongoing support, and other related services. In-house customers generally license our core software system under a standard license agreement that provides a fully paid, nonexclusive, nontransferable right to host the software on a specified mainframe computer with access to processed data electronically available throughout a customer's institution.

C. Status of any publicly announced new product or service

Not applicable.

D. Competitive business conditions, competitive position in the industry and methods of competition

Please see Part C, Item 8.B, above – “What differentiates CSI from other providers?”

E. Sources and availability of raw materials and the names of principal suppliers

Not applicable.

F. Dependence on one or a few major customers

We are not dependent on one or a few major customers.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

G. Patents, trademarks, licenses, franchises, concessions, royalty agreement or labor contracts, including their duration

We own various trademarks, licenses and patents associated with our business that range in original length from 15 years to perpetual. We do not own or lease any franchises and are not subject to any concessions or royalty payments. The Company's workforce is not unionized.

H. The need for any government approval of principal products or services and the status of any requested government approvals

Please see Part C, Item 8.B, above – "Tracking Market Changes and Regulatory Trends"; and Part C, Item 8.B.5, above – "The effect of existing or probable government regulations on the business."

Item 10: Nature and extent of the issuer's facilities

The Company's principal executive office is located in Paducah, Kentucky. We currently operate 40 facilities in 12 states that are used for a multitude of business purposes including full-service data centers, item processing, distribution, customer support, product development, telecommunications, disaster recovery, and other functions. We own seven buildings representing approximately 219,000 square feet of office space in four states. We lease office and equipment space in 33 facilities representing approximately 123,000 square feet in 12 states. The terms of the leases vary from month-to-month through terms expiring in 2022. In addition, we own approximately 44 acres of land in Paducah, Kentucky. We believe our facilities are generally well maintained, in good operating condition, and adequate for our present and foreseeable business needs.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Part D: Management Structure and Financial Information

Item 11: Names of the chief executive officer, members of the Board of Directors, as well as control persons

A. Directors and Executive Officers

1. Directors

The directors of the Company, as well as certain information about them, as of February 29, 2016 are presented in the following table.

DIRECTORS

Name	Position with Company	Director Since
John A. Williams	Chairman and Director	1965
Richard A. Anderson	Director	2012
Basil N. Drossos	Director	2007
Bruce R. Gall	Director	2003
Terrance P. Haas	Director	2012
David M. Paxton	Director	1999
Steven A. Powless	CEO and Director	1992
Dr. Linda Johnson Vitale	Director	2006
Robert L. Walker	Director	2001

For privacy reasons, the business addresses of the Company's non-employee directors have been excluded from the above table. All correspondence to the Company's directors may be sent to any director in care of the Company's Corporate Headquarters at 3901 Technology Drive, Paducah, Kentucky 42001-5201.

The following information is provided regarding the Company's directors, all of whom are United States citizens:

John A. Williams, age 75, Chairman. Mr. Williams, the founder of the Company, has served as Chairman of the Board since 1999. He previously served as Chairman of the Board and Chief Executive Officer from 1981 to 1999. He also has been a director since 1965. He previously served as President from 1969 to 1981 and as Executive Director until 1969. Mr. Williams is a founder and past president of the Association of Financial Technology. He served as Chairman of the Board of the Federal Reserve Bank of St. Louis, Louisville Branch for three years. In 2004, he was named Distinguished Citizen by the Paducah Chamber of

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Commerce. In 2006, he received the Telecommunications Systems Management Entrepreneurship Award from Murray State University and the Governor's Technology Award recognizing him as a leader in technology innovation. In 2009, Mr. Williams was inducted into the University of Kentucky Gatton College of Business and Economics Alumni Hall of Fame. Also in 2009, he received the Telecommunications Systems Management Lifetime Achievement Award from Murray State University and the Paducah Chamber of Commerce presented him its Summit Award for leadership in education and poverty. In 2014, Mr. Williams was inducted into the Kentucky Entrepreneur Hall of Fame. In 2015, he was the recipient of Leadership Kentucky's Flame of Excellence Award for his long and distinguished career in public service. Several Kentucky governors have appointed him to serve on Governors' Commissions on subjects ranging from Economic Development to Science & Technology, and most recently on Tax Reform. Currently, he serves as Co-Chair on the Advisory Board of the Kentucky Chamber of Commerce Leadership Institute for School Principals. He is a graduate of the University of Kentucky Gatton College of Business and Economics. Mr. Williams is a member of the Company's Executive Committee.

Richard A. Anderson, age 57, Director. Mr. Anderson, a director since November 2012, is a former AT&T, Inc. executive and is a recognized public service leader in the state of Georgia. He currently serves as the County Manager for Fulton County (Atlanta), Georgia, following service as Chief Operating Officer of the Federal Reserve Board and Vice Chairman of the Georgia Regional Transportation Authority. His career in the telecommunications industry includes serving as Group President-Global Business Services of AT&T, Inc. and Vice Chairman of BellSouth Corporation. Mr. Anderson previously served as a director of the Company from February 2010 to April 2011 when he was required to step down from his outside director positions as part of his responsibilities at the Federal Reserve Board. He received his BS and MBA degrees from Murray State University where he serves on the Board of Trustees. Mr. Anderson serves as the Company's lead Strategic Planning Advisor.

Basil N. Drossos, age 68, Director. Mr. Drossos, a director since 2007, is retired Executive Director, Global Purchasing and Supply Chain of General Motors Corporation. Mr. Drossos joined General Motors in 1979, holding numerous leadership positions in general management, sales and marketing, manufacturing, purchasing and finance during his career. He holds a Master's Degree in International Management from The American Graduate School of International Management, a Master's Degree in Business Administration from Xavier University and a Bachelor's Degree from Centre College. Mr. Drossos is a member of the Company's Audit and Profit Sharing Committees.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Bruce R. Gall, age 71, Director. Mr. Gall, a director since 2003, is founder and Chairman of Fed Reporter, Inc., CEO of Dornoch Management Corporation and founder of Distributed Planning Systems Corporation, all involved in developing compliance and government reporting systems for the banking industry. He is a graduate of Sir George Williams University, Montreal, Canada, and Ivey School of Business, London, Canada where he is an executive in residence. Mr. Gall serves as Chair of the Company's Profit Sharing Committee.

Terrance P. Haas, age 50, Director. Mr. Haas, a director since March 2012, is the former Chief Executive Officer of The Harvard Drug Group, the second largest generics-focused pharmaceutical distributor in the United States. Other past positions include working as an independent private equity advisor and holding numerous leadership positions at AmerisourceBergen Corporation including Executive Vice President and Chief Integration Officer and President of AmerisourceBergen Drug Corporation. Mr. Haas is a graduate of St. Louis University and holds a Master's Degree in Business Administration from the University of Notre Dame. Mr. Haas is a member of the Company's Audit Committee.

David M. Paxton, age 59, Director. Mr. Paxton, a director since 1999, is President and Chief Executive Officer of Paxton Media Group, a fourth generation, family-owned media company founded in 1896. Past positions include Morgan Stanley & Co., Inc. (Chicago and New York) and J.J.B. Hilliard, W.L. Lyons, Inc. He currently serves on the Board of Directors of the Associated Press. He is a graduate of Harvard College and the Stanford University Graduate School of Business. Mr. Paxton serves as Chair of the Company's Executive and Compensation Committees.

Steven A. Powless, age 60, CEO. Mr. Powless has been Chief Executive Officer since 1999. In March 2011, the positions of Chief Executive and President, which Mr. Powless had also held, were split and another officer became President. Mr. Powless previously served as President and Chief Operating Officer from 1993 to 1999 and as Executive Vice President from 1989 to 1993. He also has been a director since 1992. Mr. Powless joined the Company in 1987. He is a graduate of Murray State University where he received the Distinguished Alumnus Award in 2014.

Dr. Linda Johnson Vitale, age 56, Director. Dr. Vitale, a director since 2006, is a Partner at Manchester Capital, LLC, a Kentucky private equity firm. Prior to her role at Manchester Capital, Dr. Vitale served as Professor and Chair of Information Systems in the Gordon Ford College of Business at Western Kentucky University. She was the Founder, President and CEO of CITE, a non-profit dedicated to broadband research; and in 2004 she was named an international finalist for the Intelligent Community Visionary of the Year for her strategic implementation of ConnectKentucky. She received her Bachelor's and Master's Degrees from Western Kentucky University and her PhD from the

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

University of Kentucky. Dr. Vitale serves as Chair of the Company's Audit Committee.

Robert L. Walker, age 65, Director. Mr. Walker, a director since 2001, is retired Senior Vice President and Chief Financial Officer of Western & Southern Financial Group, a *Fortune 500* financial services company. Other past employers include National Data Corporation, Provident Corporation and The Mead Corporation. He is a graduate of Transylvania University where he serves on the Board of Trustees. He is also a graduate of the University of Kentucky College of Law where he serves on the Visiting Law Committee. He also serves on the TriHealth Board of Trustees and is past chair as well as currently serving on the Executive, Finance and Compensation committees. Mr. Walker is a member of the Company's Executive and Compensation Committees.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

2. Executive Officers

The executive officers of the Company, as well as certain biographical information about the two who are not directors, are as follows:

EXECUTIVE OFFICERS

Name & Business Address	Position with Company	Officer Since
Steven A. Powless Computer Services, Inc. 3901 Technology Drive Paducah, KY 42001-5201	CEO	1987
R. Stanley Eckenberg Computer Services, Inc. 3901 Technology Drive Paducah, KY 42001-5201	President & COO	1995
David L. Simon Computer Services, Inc. 3901 Technology Drive Paducah, KY 42001-5201	Treasurer & CFO	1995

The following information is provided regarding the Company's executive officers not already described herein, both of whom are United States citizens:

R. Stanley Eckenberg, age 62, President & COO. Mr. Eckenberg was elected President and Chief Operating Officer on March 29, 2011. He previously served as Executive Vice President from 2003 to March 28, 2011, Senior Vice President - Products and Services from 1998 to 2003 and as a Vice President from 1995 to 1998. Mr. Eckenberg joined the Company in 1992. He is a graduate of Southern Illinois University.

David L. Simon, age 62, Treasurer & CFO. Mr. Simon was appointed by the Board to serve as Treasurer and Chief Financial Officer upon joining the Company in 1995. He is a graduate of the University of Louisville and holds a Master's Degree in Business Administration from the University of Kentucky Gatton College of Business and Economics.

3. Equity Ownership of Directors and Executive Officers

Please see Part D, Item 14, below.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

4. Compensation of Directors and Executive Officers

The following table sets forth information concerning the compensation paid during the last fiscal year by the Company to its directors and executive officers as a group serving at February 29, 2016:

SUMMARY COMPENSATION SCHEDULE

Name	Fiscal Year	Fees Earned or Paid in Cash (\$)⁽¹⁾	Salaries (\$)	Bonuses (\$)	Fees Earned or Paid in Stock (\$)⁽¹⁾	Stock Awards (\$)⁽²⁾	Option Awards (\$)⁽³⁾	Non-Equity Incentive Plan Compensation Earnings (\$)⁽⁴⁾	Change in Pension Value & Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)⁽⁵⁾⁽⁶⁾	Total (\$)
Non-Employee Directors (8 in Total)	2016	284	-	-	311	-	-	-	-	100	695
Executive Officers ⁽⁷⁾ (3 in Total)	2016	-	1,095	-	-	640	-	545	-	128	2,535

- (1) Directors who are employed by the Company do not receive any separate compensation for service on the Board of Directors. The non-employee Chairman of the Board receives a quarterly retainer of \$12.5. Each non-employee Director other than the Chairman of the Board receives a quarterly retainer of \$8.75. The non-employee Chairwoman of the Audit Committee receives a quarterly committee fee of \$3.25. Each non-employee Audit Committee member other than the Chairwoman of the Audit Committee receives a quarterly retainer of \$2. The non-employee Chairman of the Executive Committee receives a quarterly committee fee of \$2.5. Each non-employee Executive Committee member other than the Chairman of the Executive Committee receives a quarterly committee fee of \$1.25. Each non-employee Profit Sharing Committee member receives a quarterly committee fee of \$0.5. Non-employee Directors are paid quarterly in a combination of cash and stock. Each non-employee Director receives a minimum of \$7.5 in stock for fees earned in a fiscal quarter and may elect to receive stock in payment of up to 100% of fees earned in a fiscal quarter.
- (2) Represents the dollar amount recognized for financial statement reporting purposes calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, "Compensation – Stock Compensation" for the fiscal year ended February 29, 2016, of restricted stock awards granted in and prior to fiscal year 2016.
- (3) Options were not granted to any of the directors or executive officers during fiscal year 2016.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

- (4) Represents amounts earned under the Company's annual incentive plans in fiscal year 2016 and paid in fiscal year 2017.
- (5) The Company pays for or reimburses directors' travel, lodging and other reasonable out-of-pocket expenses in connection with attendance at Board, Committee and Shareholder meetings. The Company also reimburses directors for other reasonable expenses related to Board service, such as director education. These amounts are not included in the table above.
- (6) The amounts listed under the column entitled "All Other Compensation" in the Summary Compensation Table above include contributions to the Computer Services, Inc. and Subsidiaries Profit Sharing Plan and Trust, life insurance benefits, club memberships (which are generally used for business purposes, but may be used from time to time for personal purposes) and, in the case of one director who is a retired officer, certain deferred compensation.
- (7) The Company has determined that compensation information regarding the executive officers as a group is, given the modest aggregate amounts in every category, sufficient to an understanding of the Company and that providing confidential information as to each individual executive officer would not contribute materially to an understanding of the Company. The Company's Chief Executive Officer has an Employment Agreement with the Company. No other officer has an Employment Agreement. The Company's Chairman of the Board no longer provides services pursuant to a Consulting Agreement that expired in accordance with its terms on August 31, 2008, but it remains in effect as to certain retirement and other benefits. The Company's President & Chief Operating Officer and Treasurer & Chief Financial Officer each has a Termination Benefits Agreement with the Company. Copies of the forms of the Agreements referred to in this Note have been filed; see Item 18, below.

B. Legal/disciplinary history

Please identify whether any of the executive officers and directors have, in the last five years, been the subject of:

- 1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses):**

None.
- 2. The entry of an order, judgment or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities or banking activities:**

None.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended or vacated:

None.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activity:

None.

C. Disclosure of family relationships

Describe any family relationships among and between the issuer's directors, officers, persons nominated or chosen by the issuer to become directors or officers, or beneficial owners of more than five percent (5%) of any class of the issuer's equity securities.

None.

D. Disclosure of related party transactions

Describe any transaction during the issuer's last two full fiscal years and the current fiscal year or any currently proposed transaction, involving the issuer, in which (i) the amount involved exceeds the lesser of \$120 or one percent of the average of the issuer's total assets at year-end for its last three fiscal years and (ii) any related person had or will have a direct or indirect material interest.

The Company has for longer than the past two full fiscal years provided web hosting services to CJC Worldwide Technologies, LLC ("CJC") in connection with CJC's providing complex substantive data services to third parties. For fiscal 2016 and 2015, the Company reported revenues of \$171 and \$169, respectively, from CJC. A principal owner and officer of CJC is the son of John A. Williams, the Chairman of the Board of Directors of the Company.

As a part of its on-going, publicly announced share repurchase program, the Company purchases shares of its common stock from directors, officers and key employees from time to time. In March 2010, the Company's Board of Directors adopted a policy that limits, without Executive Committee consent, repurchases from any one director, officer or employee to no more than an aggregate number of shares having a repurchase price of Five Hundred Thousand Dollars in any 12-month period. The policy further defines the price at which the Company may repurchase shares from officers, directors and employees to be the lower of the last trade of the day or the midpoint between the

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

closing inside bid and ask quotes. Each transaction must be completed before the next trading day's market open.

The Company's repurchases of its shares from directors and officers since the beginning of the 2015 fiscal year on March 1, 2014, are reflected in the following table (without regard to the \$120 reporting guideline threshold):

COMMON STOCK PURCHASED FROM DIRECTORS AND OFFICERS ⁽¹⁾

Date	Party Shares Purchased From	Number of Shares Purchased	Amount Paid by Issuer (\$)
FY2015:			
03/18/2014	Officer	3,286	113
03/18/2014	Officer	1,250	43
07/14/2014	Officer	2,552	87
07/29/2014	Officer	21,538	754
08/19/2014	Officer	593	21
Fiscal Year 2015 Total		29,219	1,018
FY2016:			
11/11/2015	Non-Employee Director	30,000	1,169
Fiscal Year 2016 Total		30,000	1,169
FY2017 ⁽²⁾: None			

- (1) Repurchased shares do not include shares netted against shares subject to a restricted stock award for tax withholding purposes.
(2) Current through the filing date of this Annual Information and Disclosure Statement.

E. Disclosure of conflicts of interest

None.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Item 12: Financial information for the issuer's most recent fiscal period

The Company's audited consolidated financial statements for the fiscal year ended February 29, 2016, are incorporated herein by reference from the Company's 2016 Annual Report filed separately through the OTC Disclosure and News Service, available at either www.otcm Markets.com or at www.otcqx.com. The audited consolidated financial statements include the following reports:

- (1) balance sheet;
- (2) statement of income;
- (3) statement of cash flows;
- (4) statement of changes in equity;
- (5) notes to consolidated financial statements; and
- (6) independent auditor's report.

Item 13: Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence

The Company's audited consolidated financial statements for the fiscal years ended February 29, 2016 and February 28, 2015, are incorporated herein by reference from the Company's 2016 Annual Report and 2015 Annual Report filed separately through the OTC Disclosure and News Service, available at either www.otcm Markets.com or at www.otcqx.com. The audited consolidated financial statements include the following reports:

- (1) balance sheets;
- (2) statements of income;
- (3) statements of cash flows;
- (4) statements of changes in equity;
- (5) notes to consolidated financial statements; and
- (6) independent auditor's report.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Item 14: Beneficial owners

Provide a list of the name, address and shareholdings of all persons beneficially owning more than five percent (5%) of any class of the issuer's equity securities

The following table sets forth information as of February 29, 2016, concerning the equity ownership of (a) all persons known by Computer Services, Inc. to be the beneficial owners of 5% or more of its outstanding Common Stock and (b) all of the Company's directors and executive officers as a group:

PRINCIPAL BENEFICIAL OWNERS OF SHARES

Name of Beneficial Owner	Relationship to Issuer	Amount and Nature of Beneficial Ownership⁽¹⁾	Percent of Class
All Directors & Executive Officers as a Group (11 in Total)		979,093	7.00%

(1) The Company has determined that beneficial ownership information regarding all directors and all executive officers as a group is sufficient to an understanding of the Company and the degree to which management has a stake as shareholders of the Company. The Company notes the holdings of all 11 directors and executive officers of an aggregate of 7.00% are shown on the basis of the outstanding shares.

Item 15: Name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure

A. Investment banker

None.

B. Promoter

None.

C. Counsel

Wyatt, Tarrant & Combs, LLP
500 West Jefferson Street, Suite 2500
Louisville, Kentucky 40202-2898
Telephone: 502.589.5235
Facsimile: 502.589.0309
Attn: Richard Northern, Esq.
Email: rnorthern@wyattfirm.com

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

D. Auditor

Preparation of the Company's financial statements is the responsibility of the Company's management. The Company's outside audit firm, RSM US LLP ("RSM"), is responsible for expressing an opinion on these financial statements based on its audit.

RSM has confirmed to the Company that RSM and its personnel are licensed to practice public accounting in all states in which the Company conducts its business. According to RSM, it is currently the 5th largest certified public accounting and consulting firm in the United States. Because RSM audits over 100 public companies (source: RSM), it is required to undergo annual inspection by the Public Company Accounting Oversight Board.

A discussion of aggregate fees for professional services rendered to the Company by (i) RSM, (ii) Crowe Horwath, LLP and (iii) BKD, LLP for the fiscal years ended February 29, 2016 and February 28, 2015, is included in the management discussion and analysis of financial condition and results of operations ("MD&A") section of the Company's 2016 Annual Report and is incorporated herein by reference from that document filed separately through the OTC Disclosure and News Service, available at either www.otcm Markets.com or at www.otcqx.com.

Auditor contact information:

RSM US LLP
401 Main Street, Suite 1200
Peoria, Illinois 61602-1242
Telephone: 309.671.8700
Facsimile: 309.673.2620
Attn: John Kaiser, Partner
Email: john.kaiser@rsmus.com

E. Public relations consultant

William Mills Agency
300 West Wieuca Road
Bldg. One, Suite 300
Atlanta, Georgia 30342
Attn: William Mills III
Email: william@williammills.com

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

F. Investor relations consultant

Corporate Communications, Inc.
3100 West End Avenue, Suite 550
Nashville, Tennessee 37203-1320
Telephone: 615.254.3376
Facsimile: 615.254.3420
Attn: Gil Fuqua
Email: gfuqua@cci-ir.com

G. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement

None.

Item 16: Management's discussion and analysis or plan of operation

A. Plan of operation

This item is not applicable, as the Company has had revenues in each of the last two fiscal years.

B. Management's discussion and analysis of financial condition and results of operations

The Company's MD&A for each of the fiscal years ended February 29, 2016 and February 28, 2015, required by this item are incorporated herein by reference from the Company's 2016 Annual Report filed separately through the OTC Disclosure and News Service, available at either www.otcmarkets.com or at www.otcqx.com, that is incorporated herein by reference.

C. 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.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Part E: Issuance History

Item 17: List of securities offerings and shares issued for services in the past two years

The following table sets forth information concerning the equity securities of Computer Services, Inc. issued during the fiscal years ended February 29, 2016, February 28, 2015 and during the current fiscal year through the filing date of this Annual Information and Disclosure Statement:

COMMON STOCK ISSUED

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Amount Paid to Issuer (\$)	Trading Status of Shares	Certificates Issued with Restrictive Legends⁽¹⁾
FY2015:						
05/12/2014	Restricted Stock Grant	Executive Officers & Other Officers (36 in Total)	36,670	-	Restricted	Yes
05/22/2014	Restricted Stock Grant	Non-Employee Directors (8 in Total)	1,506	-	Restricted	Yes
08/22/2014	Restricted Stock Grant	Non-Employee Directors (8 in Total)	2,012	-	Restricted	Yes
11/20/2014	Restricted Stock Grant	Non-Employee Directors (8 in Total)	1,678	-	Restricted	Yes
02/19/2015	Restricted Stock Grant	Non-Employee Directors (8 in Total)	1,641	-	Restricted	Yes

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

COMMON STOCK ISSUED
(CONTINUED)

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Amount Paid to Issuer (\$)	Trading Status of Shares	Certificates Issued with Restrictive Legends⁽¹⁾
FY2016:						
05/05/2015	Restricted Stock Grant	Executive Officers, Other Officers & Key Employees (39 in Total)	36,613	-	Restricted	Yes
05/21/2015	Restricted Stock Grant	Non-Employee Directors (8 in Total)	1,454	-	Restricted	Yes
06/30/2015	Restricted Stock Grant	Officers (2 in Total)	4,318	-	Restricted	Yes
08/24/2015	Restricted Stock Grant	Non-Employee Directors (8 in Total)	2,057	-	Restricted	Yes
11/21/2015	Restricted Stock Grant	Non-Employee Directors (8 in Total)	2,261	-	Restricted	Yes
02/22/2016	Restricted Stock Grant	Non-Employee Directors (8 in Total)	2,278	-	Restricted	Yes

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

COMMON STOCK ISSUED
(CONTINUED)

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Amount Paid to Issuer (\$)	Trading Status of Shares	Certificates Issued with Restrictive Legends ⁽¹⁾
FY2017 ⁽²⁾:						
05/09/2016	Restricted Stock Grant	Executive Officers, Other Officers & Key Employees (48 in Total)	43,542	-	Restricted	Yes
05/23/2016	Restricted Stock Grant	Non-Employee Directors (8 in Total)	2,319	-	Restricted	Yes

(1) The certificates evidencing the shares contain a legend stating that the shares have not been registered under the Securities Act of 1933, as amended, or any state securities laws and setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act of 1933 or a Restricted Stock Award Agreement, as the case may be.

(2) Current through the filing date of this Annual Information and Disclosure Statement.

In addition to these issuances of common stock, the total number of shares outstanding was affected from time to time by repurchases of shares by the Company pursuant to its on-going stock repurchase program as described in Part D, Item 11.D., above, and in the Consolidated Statements of Changes in Equity and Note 6 of Consolidated Financial Statements set forth in our 2016 Annual Report filed separately through the OTC Disclosure and News Service, available at either www.otcmkt.com or at www.otcqx.com, that is incorporated herein by reference.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

Part F: Exhibits

Item 18: Material contracts

- A.** Form of Employment Agreement dated as of March 1, 2006, by and between the Company and Steven A. Powless (Chief Executive Officer) is hereby incorporated by reference from the Company's Annual Information and Disclosure Statement for the fiscal year ended February 28, 2007. The First Amendment to Employment Agreement dated as of May 9, 2011 is hereby incorporated by reference from the Company's Annual Information and Disclosure Statement for the fiscal year ended February 28, 2011. The Second Amendment to Employment Agreement dated as of September 30, 2011 is hereby incorporated by reference from the Company's Annual Information and Disclosure Statement for the fiscal year ended February 29, 2012. There have been no amendments to such Employment Agreement from September 30, 2011 through the time period covered by this Annual Information and Disclosure Statement.
- B.** Consulting Agreement dated as of August 31, 2007, by and between the Company and John A. Williams (Chairman of the Board of Directors) is hereby incorporated by reference from the Company's Information and Disclosure Statement for the fiscal quarter ended August 31, 2007. There have been no amendments to such Consulting Agreement from August 31, 2007 through the time period covered by this Annual Information and Disclosure Statement. Although Mr. Williams no longer provides services pursuant to the Consulting Agreement, which expired in accordance with its terms on August 31, 2008, it remains in effect as to certain retirement and other benefits.
- C.** Form of Termination Benefits Agreement dated as of May 9, 2011, by and between the Company and R. Stanley Eckenberg (President and Chief Operating Officer) and David L. Simon (Treasurer and Chief Financial Officer) is hereby incorporated by reference from the Company's Annual Information and Disclosure Statement for the fiscal year ended February 28, 2011. There have been no amendments to such Termination Benefits Agreements from May 9, 2011 through the time period covered by this Annual Information and Disclosure Statement.

The foregoing documents incorporated herein by reference are incorporated from the documents referenced above that are filed separately through the OTC Disclosure and News Service, available at either www.otcm Markets.com or at www.otcqx.com.

Item 19: Articles of incorporation and bylaws

On June 30, 2015, the shareholders of the Company approved an Amendment to the Articles of Incorporation to increase the number of authorized shares of Common Stock from 20,000,000 to 60,000,000. The shares may be used in the future, upon the authorization of the Company's Board of Directors, for general corporate purposes including, among other purposes, in stock splits and stock dividends, in raising additional capital, in acquisitions and for employee incentive and other benefit plans. A copy of the Amendment was included as Exhibit 8.B at the end of Quarterly Report for the fiscal period ended May 31, 2015. There have been no amendments to

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

the Articles of Incorporation or the By-Laws from June 30, 2015 through the time period covered by this Annual Information and Disclosure Statement.

The foregoing documents incorporated herein by reference are incorporated from the documents referenced above that are filed separately through the OTC Disclosure and News Service, available at either www.otcmarkets.com or at www.otcqx.com.

Item 20: Purchases of equity securities by the issuer and affiliated purchasers

The information required by this item is included in the MD&A and notes to consolidated financial statements sections of the Company's 2016 Annual Report and are incorporated herein by reference from the Company's 2016 Annual Report filed separately through the OTC Disclosure and News Service, available at either www.otcmarkets.com or at www.otcqx.com.

Item 21: Issuer's certifications

Please see Exhibits 21.A and 21.B at the end of this information and disclosure statement.

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

EXHIBIT 21.A

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this annual disclosure statement of the Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this disclosure statement.

Date: May 24, 2016

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

COMPUTER SERVICES, INC.
ANNUAL INFORMATION AND DISCLOSURE STATEMENT
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016

EXHIBIT 21.B

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

1. I have reviewed this annual disclosure statement of the Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this disclosure statement.

Date: May 24, 2016

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