BEYOND TRADITION

2017 CSI Annual Report

CSI

Beyond Tradition

Tradition keeps us grounded. It connects us to the experiences that have shaped our development. Our traditions represent our legacies. But to truly foster growth and innovation, we also must look beyond tradition to explore new ideas and chart new courses into the future.

At CSI, we understand the value of honoring traditions—and the importance of looking beyond them to drive customer and shareholder value.

Innovation is one of our defining attributes, and for good reason. For more than 50 years, CSI has focused on "what's next." That philosophy has been instilled in our company since 1965 by our founder, John A. Williams. He saw an opportunity to empower financial institutions through technology, and CSI has continued to deliver a decisive combination of innovative solutions and dedicated service that enables our customers to become more competitive, compliant and profitable. That is our tradition. And as we look toward the future, we embrace our responsibility to hold fast to those uniquely CSI attributes that customers value—innovative solutions, unmatched service, trusted leadership, shared culture—while we pursue new ideas and seek to create new opportunities for our company, our customers and our shareholders.

Traditions embody **who we are,** but looking beyond tradition shapes **who we become.**

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Overview

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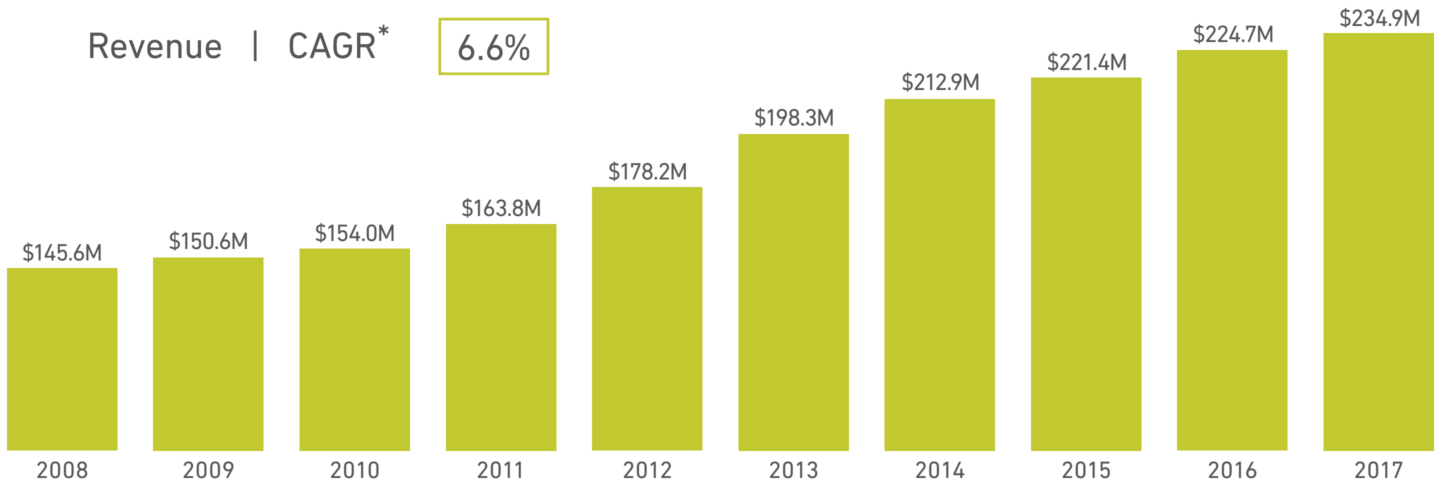
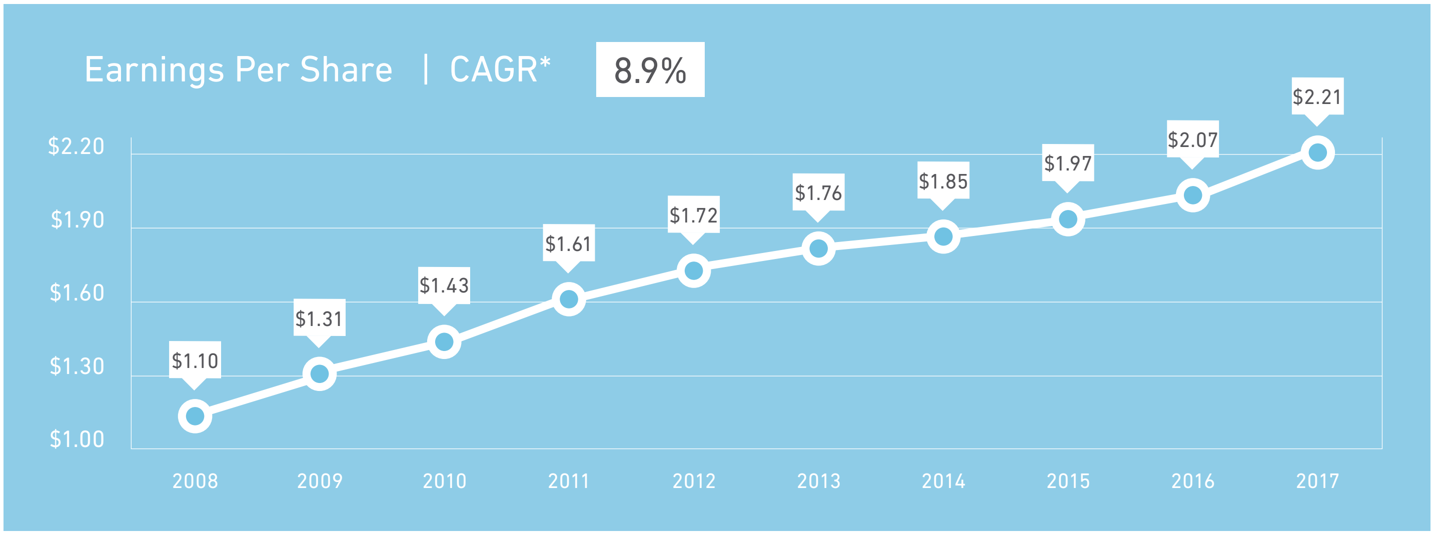
Financial Highlights

Revenue | CAGR* 6.6%





*Compound Annual Growth Rate

Years Ended February 28 and 29		2017		2016		2015	percentage change 2017	percentage change 2016
Revenues	$	**234,901**	$	224,725	$	221,385	▲ **4.5%**	1.5%
Net income	$	**30,921**	$	29,140	$	27,839	▲ **6.1%**	4.7%
Earnings per common share	$	**2.21**	$	2.07	$	1.97	▲ **6.8%**	5.1%
Net cash provided by operating activities	$	**49,650**	$	45,064	$	38,550	▲ **10.2%**	16.9%
Capital expenditures, net	$	**13,678**	$	19,914	$	11,407	▼ **(31.3%)**	74.6%
Share repurchases	$	**3,387**	$	6,034	$	5,277	▼ **(43.9%)**	14.3%
Cash dividends paid on common stock	$	**14,852**	$	13,271	$	10,769	▲ **11.9%**	23.2%
Per share of common stock	$	**1.06**	$	0.94	$	0.76	▲ **12.8%**	23.7%
Return on average Shareholder's equity		**19.0%**		19.4%		20.2%		

As of February 28 and 29		2017		2016		2015	2017	2016
Total debt	$	**-**	$	-	$	-	-	-
Debt to total capitalization	$	**-**	$	-	$	-	**-**	-
Common shares outstanding		**13,955,403**		13,992,981		14,100,849	▼ **(0.3%)**	(0.8%)
Stock price per common share	$	**45.00**	$	35.96	$	40.55	▲ **25.1%**	(11.3%)
Market capitalization	$	**627,933**	$	503,188	$	572,195	▲ **24.8%**	(12.1%)
Employees		**1,135**		1,109		1,094	▲ **2.2%**	1.4%

All figures displayed in thousands, except share, per share and employee data unless otherwise noted.

2017 Shareholder Letter

Dear Shareholder:

Steve Powless
Chief Executive Officer, Computer Services, Inc.

CSI reported record revenues and net income for fiscal 2017. This marked our 17th consecutive year of revenue growth and our 20th consecutive year of growth in net income. Our Board of Directors also raised the cash dividend paid to shareholders during fiscal 2017, marking our 45th consecutive year of increasing our cash dividend. We are very proud of our results for fiscal 2017 and our long-term record of growing shareholder value on a trajectory that few other public companies can match.

RECORD 2017 RESULTS

Revenues increased 4.5% to a record $234.9 million, and net income rose 6.1% to a record $30.9 million in fiscal 2017 compared with the prior year. Our excellent results highlight our success in new account sales, cross-sales to existing customers, and high renewal rates for contracts that we continue to earn from our customers. Not only are CSI customers renewing their contracts at a very high percentage rate, the average renewal period for their contracts is eight years in length. We believe this combination highlights our solid foundation of recurring revenues at CSI, and underscores our customers' strong satisfaction with CSI and their confidence in our ability to deliver innovative solutions that support their future growth. In addition, we believe these same factors are contributing to CSI winning new customers from our competitors.

CSI's financial engine remained very strong in fiscal 2017. Cash flows from operations rose to $49.7 million, contributing to a 99% growth in cash and cash equivalents to $34.6 million at year-end 2017 compared with $17.4 million at the prior year's end. We also ended the year with no long-term debt.

We continue to invest in our company to support our long-term growth opportunities. During fiscal 2017, we invested $13.7 million in new property, equipment, hardware and software. We also returned more than $18 million to shareholders, including $14.9 million in cash dividends and $3.4 million in CSI shares that were repurchased.

During fiscal 2017, our Board of Directors increased the quarterly cash dividend 12% to $0.28 per share. CSI's Board of Directors declared our first cash dividend in 1972 and has since increased it for 45 consecutive years, a record matched by only a few other public companies. In April 2017, the board also authorized an additional $10 million to the share repurchase program, complementing the $1.2 million remaining under previous authorizations. We believe the board's consistent program of growing our cash dividend and the share repurchase program highlights its positive, long-term outlook for CSI.

We also returned more than **$18 million** to shareholders,

including **$14.9 million** in cash dividends and **$3.4 million** in CSI shares that were repurchased.

> **Our customers continue to validate our superior levels of service and support by their high renewal rate on contracts.**

OUTLOOK FOR THE FUTURE

We expect continued growth in fiscal 2018 based on new contracts signed, continued high renewal rates from existing customers and growth in cross-sales. We expect our first quarter's results to benefit from higher contract termination fees, and for our growth rates to return to more normative levels for the remainder of the fiscal year. We are in excellent financial condition to invest in new services, products, hardware and software in order to remain competitive and leverage future growth opportunities.

CSI has achieved an enviable record over the past 52 years. Our company was founded by John Williams in 1965. John served as chief executive officer until I succeeded him in 1999, and he continued to serve as CSI's chairman of the board. His term as a CSI director expires in June 2017, and John has decided to retire from our Board of Directors. At that time, John will be named chairman emeritus of CSI's Board of Directors and I will succeed him as board chair.

John Williams' vision for creating a technology company that delivers both customer success and shareholder value highlights his contributions to CSI over the past 52 years. He has left an indelible mark on our company, our culture and our future. I am grateful that he will continue working with CSI and the board as a consultant in the future.

As I take on the additional responsibilities of chairman of the board, I am pleased to announce that David Culbertson, a 28-year employee at CSI, was named chief operating officer. David will lead the development, implementation and support of CSI's core banking solutions, electronic print and distribution offerings and our IT managed services. He previously served as president of CSI's Technology Services Group. As chief operating officer, his duties will expand to include our Financial Services Group, our largest business segment.

Our entire team at CSI is very positive about our future. Our customers continue to validate our superior levels of service and support by their high renewal rate on contracts. We also are winning new customers across our industry segments, demonstrating that our products and services are competitive and match or exceed the best in our industry. Going forward, we expect to continue investing in new products, services and technology to enhance our competitive edge, and our team remains focused on expanding and diversifying our revenue streams. We believe excellent opportunities exist to leverage our core competencies to drive additional business opportunities.

We value your investment and interest in CSI and look forward to reporting on our continued progress in fiscal 2018.

Steven A. Powless
Chief Executive Officer

"We value your investment and interest in CSI and look forward to reporting on our continued progress in fiscal 2018."

Beyond Tradition: John A. Williams

CSI Founder and Chairman of the Board

John Williams has always had an eye toward the future. Never one to accept the status quo or resist a challenge, he has cultivated a remarkable career from his desire to lead, to innovate – to look beyond traditional methods or practices and find new ways of doing things differently.

His entrepreneurial spirit emerged in college, when he developed a business plan during his junior year that would have a dramatic effect on the financial services industry: MICR technology was adopted as the banking standard by the American Bankers Association in 1960, and from that, John formulated the blueprint for what, only five short years later, would become Computer Services, Inc. (CSI). He first served as CSI's executive director upon its incorporation in March 1965, and in April 1969, John became the company's president. Since then, he's maintained his forward-looking focus, helping CSI go from an operating loss of $35,407 in fiscal year 1966 to an operating income of $50 million on revenues of $235 million today.

And John's keen understanding of technology and its ability to reshape the world drew him into other endeavors as well. Throughout his career, John has been called upon to lend his technology and business acumen to countless organizations and committees. He has served on Kentucky's Science and Technology Commission, the Federal Reserve-Louisville (chair) and the Association for Financial Technology (president), just to name a few. John also received the prestigious Technology Leadership Award from the governor of Kentucky for his tireless efforts in advancing technology throughout the state and beyond. And through it all, John remained steadfast in helping guide CSI's product innovation, from its earliest beginnings in data processing to its recent expansion of its regtech solutions. In everything from core processing and Internet connectivity to portal technology and computer programming, John has been a pioneer in the fintech industry—and he will have a lasting influence on innumerable banks and businesses as a result of his innovative spirit.

And while technology has been his tool, community has been his craft. Not only has cultivating a strong organizational culture within CSI been a significant priority for John, he also has dedicated his life to building stronger educational and local communities through his service to others. Realizing that education is the bridge that leads people to better opportunity, John has provided dedicated leadership on countless education-focused committees, including Kentuckians for Excellence in Education Task Force, Kentucky State Board of Elementary and Secondary Education, and the Leadership Institute for School Principals; he has also served as an educator himself, teaching courses for various banking schools and as a faculty member at Paducah Community College. It is through his commitment to advancing education, at all academic levels, that John's legacy truly shines and makes him the torchbearer for what it means to live a life of service.

John Williams, CSI's founder and chairman, built a career that's been anything but traditional. He conceived a business plan in college that, today, serves thousands of companies on a global scale and employs more than 1,100 individuals nationwide. He has helped guide CSI's strategic growth for over fifty years, and he has made an everlasting impression on the technology industry and educational community, as well as CSI's employees, customers and shareholders.

And we thank him immensely for his many years of service and ability to look beyond tradition to improve the world around him – and us.

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

(in thousands, except share and per share data)

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

FORWARD-LOOKING STATEMENTS

All statements except historical statements contained herein constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. This annual report, quarterly reports and other written and oral statements that we make from time to time contain such forward-looking statements that may anticipate results based on management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and words and terms of similar substance in connection with any discussion of future operating or financial performance. Nonetheless, all statements except historical statements contained herein constitute "forward-looking statements." Forward-looking statements are inherently uncertain and are based only on current expectations and assumptions that are subject to future developments that may cause results to differ materially. Readers should carefully consider: (i) economic, competitive, technological and governmental factors affecting CSI's operations, customers, markets, services, products and prices; (ii) risk factors affecting the financial services information technology industry generally including, but not limited to, cybersecurity risks that may result in increased costs to CSI to protect against the risks, as well as liability or reputational damage to CSI in the event of a breach of our security; and (iii) other factors discussed in the Company's annual reports, quarterly reports, Information and Disclosure Statements and other documents posted from time to time on the OTCQX website (available at either www.otcmarkets.com or www.otcqx.com), including without limitation, the description of the nature of CSI's business and its management discussion and analysis of financial condition and results of operations for reported periods. Except as required by law or OTC Markets Group, Inc., CSI undertakes no obligation to update, and is not responsible for updating, the information contained or incorporated by reference herein beyond the publication date, whether as a result of new information or future events, or to conform this document to actual results or changes in CSI's expectations, or for changes made to this document by wire services or Internet services or otherwise.

OVERVIEW

Our Business. We provide service and information technology solutions to meet the business needs of financial institutions and corporate entities, predominantly, in both service bureau and in-house environments. Our customer mix includes community banks, regional banks and multi-bank holding companies, and a variety of other business enterprises, each with a unique set of information, technology and service requirements.

We derive our revenues from processing services, maintenance, and support fees; software licensing and installation fees; professional services; and equipment and supply sales. In addition to core processing, our integrated banking solutions include digital banking; check imaging; cash management; branch and merchant capture; print and mail, and electronic document delivery services; corporate intranets; secure web hosting; e-messaging; teller and platform services; ATM and debit card service and support; payments solutions; risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security, anti-money laundering, and fraud prevention.

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

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

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

Merger and acquisition activity among community banks varies from time to time. Our bank customers are active in this market, resulting in both increased fees as our customers acquire other banks and higher early contract termination fees as customers are acquired by non-CSI customer banks. However, the early termination fees do not fully offset the future stream of lost revenues from the terminating banks.

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

RESULTS OF OPERATIONS

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

	Percentage of Revenues			Percentage Change	
YEARS ENDED FEBRUARY 28 AND 29,	**2017**	2016	2015	**2017**	2016
Revenues	**100.0 %**	**100.0** %	100.0 %	**4.5 %**	1.5 %
Operating expenses	**78.7**	**78.6**	79.3	**4.7**	0.6
Operating income	**21.3**	**21.4**	20.7	**3.9**	5.0
Interest income, net	**0.0**	**0.0**	0.0	**nmf***	nmf*
Income before income taxes	**21.3**	**21.4**	20.7	**4.0**	5.1
Provision for income taxes	**8.2**	**8.5**	8.1	**0.7**	5.8
Net income	**13.2 %**	**13.0** %	12.6 %	**6.1 %**	4.7 %

* *not meaningful*

FISCAL 2017 COMPARED TO FISCAL 2016

Revenues. Total revenues increased $10,176, or 4.5%, to $234,901 in fiscal 2017 from $224,725 in fiscal 2016. The growth in revenues was primarily driven by the addition of new customers; cross-sales to existing customers; increases in transaction volumes from existing customers; growth in mobile and Internet banking; growth in cloud-based managed services; growth in homeland security and fraud prevention services; and an increase in plastic card reissuances; partially offset by the effect of lost business during fiscal 2017 and 2016. Revenues included early contract termination fees of $3,694 in fiscal 2017 compared to $5,953 in fiscal 2016. These fees are generated when a customer terminates its contract prior to the end of the contracted term, a circumstance that typically arises when an existing CSI customer is acquired by another financial institution that is not a CSI customer. These fees can vary significantly from period to period based on the number and size of customers that are acquired and how early in the contract term a customer is acquired.

Operating Expenses. Operating expenses increased $8,312, or 4.7%, in fiscal 2017 compared to fiscal 2016.

The increase in operating expenses was primarily due to:

- higher employee-related expenses in fiscal 2017 compared to fiscal 2016 on higher medical plan expenses, as well as slightly higher average staffing and typical annual wage adjustments;
- higher depreciation, amortization and maintenance expenses on equipment, software and software licenses;
- higher cost of goods sold on higher related plastic card reissuance revenue and digital banking revenue; and
- higher professional fees and general administrative expenses;

partially offset by:

- lower cost of goods sold on lower related third party software, hardware, and maintenance revenue; and
- savings realized from expense management initiatives that reduced travel-related expenses compared to fiscal 2016.

Operating Income. Operating income increased $1,864, or 3.9%, in fiscal 2017 compared to fiscal 2016. Operating margins compressed slightly to 21.3% in fiscal 2017 compared to 21.4% in fiscal 2016.

Interest Income, net. Consolidated net interest income was $93 in fiscal 2017 compared to $48 in fiscal 2016, primarily due to higher average cash balances.

Provision for Income Taxes. The provision for income taxes increased to $19,153 in fiscal 2017 compared to $19,025 in fiscal 2016 due to higher taxable income, partially offset by a lower effective tax rate. The consolidated effective income tax rate was 38.25% and 39.50% in fiscal 2017 and 2016, respectively.

Net Income. Net income increased 6.1% to $30,921 in fiscal 2017 from $29,140 in fiscal 2016. Earnings per share increased 6.8% to $2.21 in fiscal 2017 from $2.07 in fiscal 2016. The growth rate in earnings per share exceeded the growth rate in net income due to 0.7% net fewer weighted average shares outstanding for fiscal 2017 as a result of shares purchased during fiscal 2016 and fiscal 2017 under our share repurchase program.

FISCAL 2016 COMPARED TO FISCAL 2015

Revenues. Total revenues increased $3,340, or 1.5%, to $224,725 in fiscal 2016 from $221,385 in fiscal 2015. The growth in revenues was primarily driven by the addition of new customers; cross-sales to existing customers; increases in transaction volumes from existing customers; and growth in homeland security and fraud prevention services, print and mail and electronic delivery services, mobile and Internet banking, and cloud-based managed services; partially offset by the effect of lost business during fiscal 2016 and 2015. Revenues included early contract termination fees of $5,953 in fiscal 2016 compared to $3,208 in fiscal 2015. These fees are generated when a customer terminates its contract prior to the end of the contracted term, a circumstance that typically arises when an existing CSI customer is acquired by another financial institution that is not a CSI customer. These fees can vary significantly from period to period based on the number and size of customers that are acquired and how early in the contract term a customer is acquired.

Operating Expenses. Operating expenses increased $1,040, or 0.6%, in fiscal 2016 compared to fiscal 2015.

The increase in operating expenses was primarily due to:

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

partially offset by:

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL ASSET POSITION

Years ended February 28 and 29,	2017	2016	2015
Financial assets *	$ **34,552**	$ 17,397	$ 11,849
Short- and long-term debt	**-**	-	-
Net financial assets	$ **34,552**	$ 17,397	$ 11,849

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

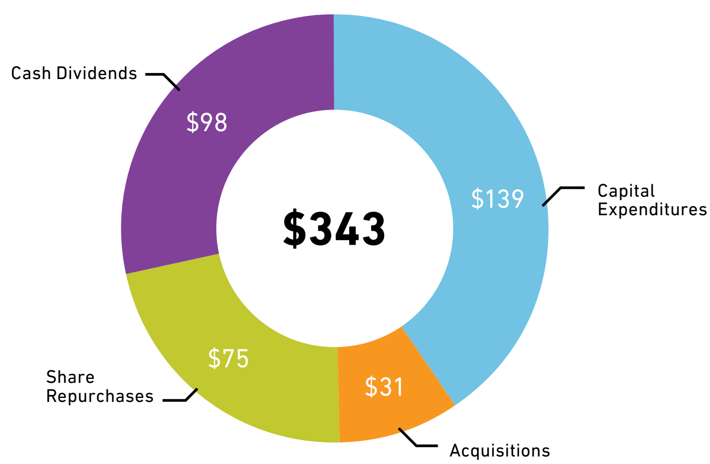
Financial Position. As of February 28, 2017, we had cash and cash equivalents of $34,552, working capital of $44,017 and a current ratio (current assets to current liabilities) of 2.3:1. As of February 29, 2016, we had cash and cash equivalents of $17,397, working capital of $30,387 and a current ratio of 2.1:1. As of February 28, 2015, we had cash and cash equivalents of $11,849, working capital of $23,116 and a current ratio of 1.8:1.

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

Debt Capacity. We have available lines of credit and revolving-credit agreements with a group of banks. As of February 28, 2017, we had access to $20,000 in lines of credit of which $5,000 expire within one year. Under these lines of credit, our lenders have committed to loan us up to $20,000 at our request, subject to our continued compliance with the terms and conditions of the agreements. No amounts were outstanding under these lines of credit as of February 28, 2017.

PRIMARY USES OF CASH SINCE THE BEGINNING OF FISCAL 2008

(Millions)



SUMMARY OF CASH FLOWS

Years ended February 28 and 29,		2017		2016		2015
Cash flows from:						
Operating activities	$	**49,650**	$	45,064	$	38,550
Investing activities		**(14,065)**		(19,914)		(11,407)
Financing activities		**(18,430)**		(19,602)		(16,372)
Net change in cash & cash equivalents	$	**17,155**	$	5,548	$	10,771

Operating Activities. Net cash from operating activities was $49,650 for fiscal 2017, compared to $45,064 for fiscal 2016.

The increase in net cash provided by operating activities was primarily attributable to:

- higher current period net income, net of non-cash items such as depreciation and amortization;
- a smaller increase in accounts receivable balances during fiscal 2017 compared to that of fiscal 2016;
- a smaller decrease in accounts payable and accrued expenses during fiscal 2017 compared to that of fiscal 2016; and
- an increase in deferred revenue in fiscal 2017 compared to a decrease in fiscal 2016;

partially offset by:

- a decrease in income tax liability during fiscal 2017 compared to an increase during fiscal 2016.

Investing Activities. Net cash used by investing activities was $14,065 for fiscal 2017, compared to $19,914 for fiscal 2016. The decrease in net cash used by investing activities was primarily attributable to lower purchases of equipment and software.

Financing Activities. Net cash used by financing activities was $18,430 for fiscal 2017, compared to $19,602 for fiscal 2016. The decrease in net cash used by financing activities was primarily attributable to a decrease of $2,753 in common stock purchased and redeemed to $3,578 in fiscal 2017 compared to $6,331 in fiscal 2016, net of an increase of $1,581 in dividends paid to shareholders to $14,852 in fiscal 2017 compared to $13,271 in fiscal 2016.

CREDIT LINES

We renewed an unsecured bank credit line in January 2016 that provides for funding of up to $15,000 and bears interest at a floating rate based on one-month LIBOR plus 0.90% (1.69% and 1.34% as of February 28, 2017 and February 29, 2016, respectively). The credit line expires in January 2019. As of February 28, 2017, no amount was outstanding under the credit line.

We renewed an unsecured bank credit line in August 2016 that provides for funding of up to $5,000 and bears interest at a floating rate based on the prime rate minus 1.30% (2.45% and 2.20% as of February 28, 2017 and February 29, 2016, respectively). The credit line expires in August 2017. As of February 28, 2017, no amount was outstanding under the credit line.

The credit agreements contain customary restrictive and financial covenants as well as customary events of default. The terms of the credit agreements also include standard provisions related to conditions of borrowing, including a customary material adverse effect clause which could limit our ability to borrow funds. We have not experienced a material adverse effect, and we know of no circumstances or events that would be reasonably likely to result in a material adverse effect. At this time, we do not believe the material adverse effect clause poses a material funding risk to us.

We believe our cash balances, operating cash flows, access to debt financing and borrowing capacity, taken together, provide adequate resources to fund our ongoing liquidity requirements, to fund future expansion opportunities, capital expenditures and share repurchases, and to refinance debt as it matures.

REPURCHASE OF COMMON STOCK

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or borrowings under its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. The program is conducted on a continuous basis with rolling fund authorizations but, for completeness of presentation, the following descriptions of program activity track discrete fund authorizations.

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

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

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

In December 2015, the Board of Directors authorized a $5,000 increase in the share repurchase program. During fiscal 2016 we purchased 10,778 shares under the December 2015 authorization at an average price of $35.12 per share. During fiscal 2017, we purchased an additional 84,072 shares under the December 2015 authorization at an average price of $40.29.

As of February 28, 2017, $1,234 remained available pursuant to the December 2015 authorization for share repurchases.

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

SUMMARY OF COMMON STOCK PURCHASES

	Shares of Common Stock Purchased	Average Per-Share Price Paid	Total Cost of Common Stock Purchased
2017:			
December 2015 program	**84,072**	**$ 40.29**	**$ 3,388**
Total	**84,072**		**$ 3,388**
2016:			
December 2015 program	10,778	$ 35.12	$ 377
July 2014 program	132,382	37.77	5,000
April 2014 program	16,414	39.90	657
Total	159,574		$ 6,034
2015:			
April 2014 program	122,204	$ 35.56	$ 4,343
September 2013 program	26,988	34.58	934
Total	149,192		$ 5,277

DIVIDENDS ON COMMON STOCK

We declared and paid dividends of $14,852 in fiscal 2017 and $13,271 in fiscal 2016. The regular cash dividend of $1.06 per share in fiscal 2017 reflected an increase of 12.8% over the 94 cents per share paid in fiscal 2016. Our dividend payout ratio (dividends as a percentage of net income) was 48.0% in fiscal 2017 and 45.5% in fiscal 2016. The fiscal 2017 cash dividend rate marks the 45th consecutive year with an increase in the regular dividend rate.

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

AUDIT AND NON-AUDIT FEES

Aggregate fees for professional services rendered for the Company by (i) RSM US LLP (“RSM”); (ii) Crowe Horwath LLP (“Crowe”) and (iii) BKD, LLP (“BKD”) for fiscal 2017 and fiscal 2016 were:

	2017	2016
RSM US LLP		
Audit fees	$ 96	$ 94
Audit related services	-	-
Tax preparation and planning services	10	9
Other non-auditing services	-	-
Total	$ 106	$ 103
Crowe Horwath LLP		
Audit fees	$ -	$ -
Audit related services	514	470
Tax preparation and planning services	-	-
Other non-auditing services	37	40
Total	$ 551	$ 510
BKD, LLP		
Audit fees	$ -	$ -
Audit related services	10	10
Tax preparation and planning services	-	-
Other non-auditing services	-	-
Total	$ 10	$ 10

Audit Fees. Aggregate fees billed for professional services rendered for the audit of the Company's consolidated financial statements for fiscal 2017 and fiscal 2016.

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

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

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

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

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

MARKET RISK

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

OFF-BALANCE SHEET ARRANGEMENTS

As of February 28, 2017, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

LEGAL PROCEEDINGS AND CONTINGENCIES

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

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

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

SUBSEQUENT EVENTS

On March 2, 2017, the Company's Board of Directors declared a cash dividend of 28 cents per share payable to shareholders of record as of the close of business on March 15, 2017. This dividend was paid on March 31, 2017 in the aggregate amount of $3,907.

On April 7, 2017, the Company's Board of Directors declared a cash dividend of 28 cents per share, or approximately $3,918 in the aggregate, payable on June 26, 2017 to shareholders of record as of the close of business on June 1, 2017.

On April 7, 2017, the Company's Board of Directors authorized the repurchase of an additional $10,000 of the Company's common stock. This authorization is in addition to the previously authorized repurchases as disclosed elsewhere in this annual report.

SELECTED FINANCIAL DATA

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

YEARS ENDED FEBRUARY 28 AND 29,	2017	2016	2015	2014
Income Summary				
Revenues	$ 234,901	$ 224,725	$ 221,385	$ 212,914
Operating expenses	184,920	176,608	175,568	168,821
Operating income	49,981	48,117	45,817	44,093
Interest income (expense)	93	48	9	(34)
Income before income taxes	50,074	48,165	45,826	44,059
Provision for income taxes	19,153	19,025	17,987	17,403
Net income	30,921	29,140	27,839	26,656
Net loss attributable to the noncontrolling interest	-	-	-	-
Net income attributable to Computer Services, Inc.	$ 30,921	$ 29,140	$ 27,839	$ 26,656
Financial Position				
Working capital	$ 44,017	$ 30,387	$ 23,116	$ 9,233
Current ratio	2.3	2.1	1.8	1.3
Net tangible assets	$ 103,753	$ 89,469	$ 77,238	$ 62,952
Property and equipment, net	$ 35,420	$ 34,655	$ 33,079	$ 35,252
Capital expenditures, net	$ 13,678	$ 19,914	$ 11,407	$ 13,421
Depreciation and amortization	$ 15,489	$ 15,024	$ 14,576	$ 15,524
Total debt	$ -	$ -	$ -	$ 7
Total debt to total capitalization	- %	- %	- %	- %
Earnings before interest, taxes, depreciation and amortization (EBITDA)	$ 65,470	$ 63,141	$ 60,393	$ 59,617
Net cash provided by operating activities	$ 49,650	$ 45,064	$ 38,550	$ 36,625
Free cash flow	$ 35,972	$ 25,150	$ 27,143	$ 23,204
Return on average shareholders' equity	19.0 %	19.4 %	20.2 %	20.8 %
Per Common Share				
Net income, basic	$ 2.21	$ 2.07	$ 1.97	$ 1.85
Weighted average common and common equivalent shares outstanding, basic	14,007,182	14,106,805	14,160,707	14,440,668
Net income, diluted	$ 2.21	$ 2.07	$ 1.97	$ 1.85
Weighted average common and common equivalent shares outstanding, diluted	14,007,182	14,106,805	14,160,707	14,440,668
Cash dividends paid, regular	$ 1.06	$ 0.94	$ 0.76	$ 0.60
Cash dividends paid, special	$ -	$ -	$ -	$ -
Book value at year-end	$ 12.18	$ 11.15	$ 10.23	$ 9.23
Market value at year-end	$ 45.00	$ 35.96	$ 40.55	$ 33.25
Price-earnings ratio at year-end, diluted	20.4	17.4	20.6	18.0
Dividend yield, regular	2.4 %	2.6 %	1.9 %	1.8 %
Dividend yield, including special dividend				
Dividend payout ratio, regular	48.0 %	45.5 %	38.7 %	32.6 %
Dividend payout ratio, including special dividend				
Margins				
EBITDA as a percent of total revenue	27.9 %	28.1 %	27.3 %	28.0 %
Operating income as a percent of total revenue	21.3 %	21.4 %	20.7 %	20.7 %
Income before taxes as a percent of total revenue	21.3 %	21.4 %	20.7 %	20.7 %
Net income as a percent of total revenue	13.2 %	13.0 %	12.6 %	12.5 %
Effective tax rate	38.2 %	39.5 %	39.3 %	39.5 %
Growth Rates				
Revenue	4.5 %	1.5 %	4.0 %	7.4 %
Net income	6.1 %	4.7 %	4.4 %	3.2 %
Earnings per common share, diluted	6.8 %	5.1 %	6.5 %	5.1 %
Cash dividends per common share, regular	12.8 %	23.7 %	26.7 %	13.2 %
Other				
Employees at year-end	1,135	1,109	1,094	1,104

2013	2012	2011	2010	2009	2008	2007
$ 198,256	$ 178,224	$ 163,776	$ 153,985	$ 150,649	$ 145,618	$ 124,501
156,395	137,839	123,898	118,253	116,441	116,752	99,308
41,861	40,385	39,878	35,732	34,208	28,866	25,193
(16)	(60)	(182)	(264)	(271)	(684)	(372)
41,845	40,325	39,696	35,468	33,937	28,182	24,821
16,006	14,819	15,680	13,833	13,235	10,516	9,513
25,839	25,506	24,016	21,635	20,702	17,666	15,308
-	-	-	-	12	427	284
$ 25,839	$ 25,506	$ 24,016	$ 21,635	$ 20,714	$ 18,093	$ 15,592
$ 7,498	$ 13,097	$ 9,483	$ 7,742	$ 9,161	$ 9,450	$ 8,181
1.3	1.5	1.5	1.4	1.6	1.7	1.6
$ 55,878	$ 55,088	$ 56,442	$ 44,510	$ 46,231	$ 47,553	$ 40,371
$ 34,996	$ 32,341	$ 30,008	$ 30,857	$ 28,357	$ 30,005	$ 31,376
$ 21,025	$ 10,382	$ 16,729	$ 10,640	$ 8,600	$ 13,400	$ 9,278
$ 14,932	$ 13,529	$ 14,224	$ 13,537	$ 12,674	$ 12,917	$ 11,405
$ 67	$ 222	$ 3,290	$ 8,478	$ 5,041	$ 10,117	$ 13,406
0.1 %	0.2 %	3.0 %	8.3 %	5.6 %	11.1 %	15.3 %
$ 56,793	$ 53,914	$ 54,102	$ 49,269	$ 46,882	$ 41,783	$ 36,598
$ 41,102	$ 45,783	$ 38,533	$ 35,586	$ 34,766	$ 26,558	$ 27,552
$ 20,077	$ 35,401	$ 21,803	$ 24,946	$ 26,166	$ 13,158	$ 18,273
20.6 %	21.9 %	24.0 %	24.4 %	25.0 %	23.3 %	22.8 %
$ 1.76	$ 1.74	$ 1.64	$ 1.48	$ 1.36	$ 1.15	$ 0.99
14,695,122	14,649,630	14,609,566	14,627,012	15,281,120	15,715,388	15,747,910
$ 1.76	$ 1.72	$ 1.61	$ 1.43	$ 1.31	$ 1.10	$ 0.94
14,721,622	14,792,213	14,875,352	15,077,878	15,810,934	16,433,286	16,514,986
$ 0.53	$ 0.47	$ 0.41	$ 0.36	$ 0.33	$ 0.29	$ 0.25
$ 1.00	$ -	$ -	$ -	$ -	$ -	$ -
$ 8.57	$ 8.56	$ 7.32	$ 6.38	$ 5.69	$ 5.21	$ 4.68
$ 29.69	$ 32.80	$ 26.75	$ 18.05	$ 13.00	$ 16.10	$ 14.65
16.9	19.1	16.6	12.6	9.9	14.6	15.6
1.8 %	1.4 %	1.5 %	2.0 %	2.6 %	1.8 %	1.7 %
5.2 %						
30.2 %	27.0 %	25.0 %	24.4 %	24.5 %	25.2 %	25.2 %
87.1 %						
28.6 %	30.3 %	33.0 %	32.0 %	31.1 %	28.7 %	29.4 %
21.1 %	22.6 %	24.3 %	23.2 %	22.7 %	19.8 %	20.2 %
21.1 %	22.6 %	24.2 %	23.0 %	22.5 %	19.4 %	19.9 %
13.0 %	14.3 %	14.7 %	14.1 %	13.7 %	12.4 %	12.5 %
38.3 %	36.7 %	39.5 %	39.0 %	39.0 %	37.3 %	38.3 %
11.2 %	8.8 %	6.4 %	2.2 %	3.5 %	17.0 %	18.6 %
1.3 %	6.2 %	11.0 %	4.4 %	14.5 %	16.0 %	10.6 %
2.3 %	6.8 %	12.6 %	9.2 %	19.1 %	17.0 %	10.6 %
12.8 %	14.6 %	13.6 %	8.6 %	14.4 %	16.4 %	18.9 %
1,099	1,053	917	909	902	933	907

Management's Statement of Responsibility

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

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

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

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

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

Steven A. Powless
CEO

David L. Simon
Treasurer & CFO

Independent Auditor's Report

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Computer Services, Inc. and Subsidiaries which comprise the consolidated balance sheets as of February 28, 2017 and February 29, 2016, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended February 28, 2017, and the related notes to the consolidated financial statements (collectively, consolidated financial statements).

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Computer Services, Inc. and Subsidiaries as of February 28, 2017 and February 29, 2016, and the results of their operations and their cash flows for each of the three years in the period ended February 28, 2017, in accordance with accounting principles generally accepted in the United States of America.

RSM

RSM US LLP

Peoria, Illinois
April 26, 2017

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

YEARS ENDED FEBRUARY 28 AND 29,	**2017**	2016	2015
Revenues	**234,901**	224,725	221,385
Operating expenses	**184,920**	176,608	175,568
Operating income	**49,981**	48,117	45,817
Interest income, net	**93**	48	9
Income before income taxes	**50,074**	48,165	45,826
Provision for income taxes	**19,153**	19,025	17,987
Net income	**$ 30,921**	$ 29,140	$ 27,839
Earnings per common share	**$ 2.21**	$ 2.07	$ 1.97
Shares used in computing earnings per common share	**14,007,182**	14,106,805	14,160,707

** See accompanying notes to consolidated financial statements.*

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

FEBRUARY 28 AND 29,	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 34,552	$ 17,397
Accounts receivable	28,249	28,045
Income tax receivable	1,121	78
Prepaid expenses and other current assets	13,143	11,978
Total current assets	77,065	57,498
Property and equipment, net of accumulated depreciation	35,420	34,655
Software and software licenses, net of accumulated amortization of $42,541 in 2017 and $37,016 in 2016	19,778	21,683
Goodwill	60,115	60,115
Intangible assets	6,082	6,390
Other assets	26,709	22,874
Total assets	$ 225,169	$ 203,215
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 8,094	$ 7,308
Accrued expenses	14,639	11,401
Deferred revenue	10,315	8,402
Total current liabilities	33,048	27,111
Deferred income taxes	20,583	18,964
Other liabilities	1,588	1,166
Total liabilities	55,219	47,241
Shareholders' equity		
Preferred stock - 5,000,000 shares authorized; none issued	-	-
Common stock - no par; 60,000,000 shares authorized; 13,955,403 shares issued as of February 28, 2017; 13,992,981 shares issued as of February 29, 2016	24,409	23,118
Retained earnings	145,541	132,856
Total shareholders' equity	169,950	155,974
Total liabilities and shareholders' equity	$ 225,169	$ 203,215

** See accompanying notes to consolidated financial statements.*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands, except share and per share data)

	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance as of February 28, 2014	14,227,951	$ 20,316	$ 111,015	$ 131,331
Net income	-	-	27,839	27,839
Cash dividends paid ($.76 per share)	-	-	(10,769)	(10,769)
Issuance of common stock	6,837	257	-	257
Issuance of restricted stock	36,670	-	-	-
Restricted stock vested and tax benefit	-	1,233	119	1,352
Restricted stock forfeited and tax benefit	(2,180)	-	3	3
Purchase of common stock	(149,192)	(254)	(5,023)	(5,277)
Tax withholding related to share-based compensation	(9,237)	(16)	(303)	(319)
Balance as of February 28, 2015	14,110,849	21,536	122,881	144,417
Net income	-	-	29,140	29,140
Cash dividends paid ($.94 per share)	-	-	(13,271)	(13,271)
Issuance of common stock	8,050	311	-	311
Issuance of restricted stock	40,931	-	-	-
Restricted stock vested and tax benefit	-	1,566	142	1,708
Restricted stock forfeited and tax benefit	(298)	-	-	-
Purchase of common stock	(159,574)	(295)	(5,739)	(6,034)
Tax withholding related to share-based compensation	(6,977)	-	(297)	(297)
Balance as of February 29, 2016	13,992,981	23,118	132,856	155,974
Net income	**-**	**-**	**30,921**	**30,921**
Cash dividends paid ($1.06 per share)	**-**	**-**	**(14,852)**	**(14,852)**
Issuance of common stock	**8,075**	**313**	**-**	**313**
Issuance of restricted stock	**43,542**	**-**	**-**	**-**
Restricted stock vested and tax benefit	**-**	**1,153**	**19**	**1,172**
Purchase of common stock	**(84,072)**	**(165)**	**(3,222)**	**(3,387)**
Tax withholding related to share-based compensation	**(5,123)**	**(10)**	**(181)**	**(191)**
Balance as of February 28, 2017	**13,955,403**	**$ 24,409**	**$ 145,541**	**$ 169,950**

** See accompanying notes to consolidated financial statements.*

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

YEARS ENDED FEBRUARY 28 AND 29,	**2017**	2016	2015
Cash flows from operating activities			
Net income	**$ 30,921**	$ 29,140	$ 27,839
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	**7,234**	7,209	7,313
Amortization	**8,255**	7,815	7,263
Restricted stock expense	**1,153**	1,566	1,233
Stock-based compensation expense	**313**	311	257
Impairment loss on intangible asset	**-**	-	180
Impairment loss on asset available for resale	**-**	-	193
Loss on sale of property and equipment	**19**	7	53
Tax benefit of restricted stock vested	**19**	142	119
Tax benefit of restricted stock forfeited	**-**	-	3
Deferred income taxes	**1,619**	3,417	1,411
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable	**(134)**	(2,323)	265
Income tax receivable	**-**	2,915	(2,455)
Prepaid expenses and other current assets	**(946)**	(866)	96
Other assets	**1,123**	428	(2,224)
Accounts payable and accrued expenses	**(1,218)**	(3,725)	(2,910)
Deferred revenue	**2,031**	(1,051)	(167)
Income tax payable	**(1,043)**	-	-
Other liabilities	**304**	79	81
Net cash from operating activities	**49,650**	45,064	38,550
Cash flows from investing activities			
Proceeds from sale of property and equipment	**42**	6	389
Purchase of property and equipment	**(8,030)**	(8,794)	(5,766)
Purchase of software and software licenses	**(5,690)**	(11,126)	(6,030)
Purchase of intangibles	**(387)**	-	-
Net cash from investing activities	**(14,065)**	(19,914)	(11,407)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	**-**	-	9,000
Payments on long-term debt	**-**	-	(9,007)
Payments of dividends	**(14,852)**	(13,271)	(10,769)
Purchase of common stock	**(3,387)**	(6,034)	(5,277)
Tax withholding related to share-based compensation	**(191)**	(297)	(319)
Net cash from financing activities	**(18,430)**	(19,602)	(16,372)
Net change in cash and cash equivalents	**17,155**	5,548	10,771
Cash and cash equivalents, beginning of year	**17,397**	11,849	1,078
Cash and cash equivalents, end of year	**$ 34,552**	$ 17,397	$ 11,849

** See accompanying notes to consolidated financial statements.*

Notes
to Consolidated Financial Statements

(in thousands, except share and per share data)

NOTE 1. NATURE OF BUSINESS

Computer Services, Inc., including its subsidiaries, ("CSI" or the "Company") delivers core processing, digital banking, managed services, payments processing, print and electronic distribution, and regulatory compliance solutions to financial institutions and corporate entities across the nation. Technology planning, personal account management and exceptional customer service are what CSI believes have established its reputation as one of the nation's premier providers of technology solutions for the financial services industry. In addition to core processing, the Company's integrated banking solutions include check imaging; cash management; branch and merchant capture; mobile and Internet banking; print and mail, and online document delivery services; corporate intranets; secure Web hosting; e-messaging; teller and platform services; ATM and debit card service and support; and payments solutions. For both financial institutions and corporate customers generally, the Company offers cybersecurity risk assessment; network management; cloud-based managed services; and compliance software and services for regulatory compliance, homeland security, anti-money laundering, and fraud prevention.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Accounts Receivable: Accounts receivable consist primarily of amounts due from bank customers for data processing services. Interest is not charged on receivables. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. As of February 28, 2017 and February 29, 2016, an allowance for doubtful accounts of $296 and $164, respectively, had been recorded.

Property and Equipment: As of February 28, 2017 and February 29, 2016, property and equipment consisted of:

	2017	2016
Land	$ 1,716	$ 1,716
Buildings and improvements	27,909	27,713
Equipment	63,210	61,244
Contruction in progress	6	-
	92,841	90,673
Less accumulated depreciation	57,421	56,018
Balance, end of year	$ 35,420	$ 34,655

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives for buildings are 40 years, and useful lives for equipment range from three to ten years.

Software and Software Licenses and Related Amortization: Software and software licenses include the capitalization of certain costs incurred to develop new software or to enhance existing software that is primarily utilized by the Company to process customer transactions, software acquired in business acquisitions and licenses that are purchased from third parties. Software and software licenses are amortized using the straight-line method over three to ten years or the life of the licenses. Total amortization expense for the years ended February 28, 2017, February 29, 2016, and February 28, 2015 was $7,560, $7,141 and $6,243, respectively.

Long-Term Assets: Property and equipment, intangible assets subject to amortization and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. Property and equipment, software and other assets acquired through accounts payable and accrued expenses as of February 28, 2017, February 29, 2016, and February 28, 2015 were $0, $5 and $77, respectively.

Deferred Contract Costs: Deferred contract costs are the incremental costs that are directly associated with definitive term contracts with customers. The costs are deferred and amortized over the terms of the related customer contracts, which are typically 36 to 120 months. Other assets on the accompanying consolidated balance sheets are predominantly comprised of deferred contract costs. The current portion of deferred contract costs are included in prepaid expenses and other current assets on the accompanying consolidated balance sheets. The Company believes this is the preferable method of accounting as these customer acquisition and related integration costs are so closely related to the revenue from the definitive term customer contracts that they should be recorded as an asset and charged to expense over the same period that the revenue is recognized. Amortization of deferred contract costs is included in operating expenses on the accompanying consolidated statements of income.

Goodwill and Other Intangible Assets: The Company records as goodwill the excess of the purchase price over the fair value of identifiable net assets acquired. Goodwill acquired in a purchase business combination is not amortized, but instead reviewed for impairment at least annually, as well as when an event-triggering impairment may have occurred. The impairment determination for goodwill is made using a two-step process by comparing the carrying value of the reporting unit to its fair value. The first step tests for impairment, while the second step, if necessary, measures the impairment. An impairment loss is recognized to the extent that the carrying amount exceeds its implied fair value. The Company has elected to perform its annual analysis as of the end of each fiscal year. No impairment was identified for the years ended February 28, 2017, February 29, 2016, and February 28, 2015.

There was no change in the carrying amount of goodwill for the years ended February 28, 2017 and February 29, 2016.

Intangible assets not subject to amortization primarily consist of governmental licenses to operate a competitive local telecommunications exchange carrier. Intangible assets not subject to amortization totaled $190 as of both February 28, 2017 and February 29, 2016.

Other intangible assets primarily consist of customer relationships, non-compete agreements, patents, trade names and developed technology arising from acquisitions. The intangibles are amortized on a straight-line method over three to 16 years.

The carrying amount of intangibles subject to amortization as of February 28, 2017 and February 29, 2016 was as follows:

	2017	2016
Customer relationships	**$ 11,593**	$ 11,206
Non-compete agreements	**1,700**	1,700
Patents	**427**	427
Trade name	**530**	530
Developed technology	**370**	370
Other	**216**	216
	14,836	14,449
Less accumulated amortization	**8,944**	8,249
Balance, end of year	**$ 5,892**	$ 6,200

Total amortization expense for the years ended February 28, 2017, February 29, 2016, and February 28, 2015 was $695, $674 and $1,020, respectively.

The estimated annual future amortization expense for each of the next five years, and the estimated aggregate expense thereafter, for all intangible assets remaining as of February 28, 2017 are as follows:

Years ending February 28 and 29,	Amount
2018	$ 687
2019	658
2020	658
2021	658
2022	587
Thereafter	2,644
Total	$ 5,892

Earnings Per Common Share: Earnings per common share is based on net income available to common shareholders divided by the weighted average number of common shares considered to be outstanding during the period. The weighted average number of common shares outstanding was 14,007,182, 14,106,805 and 14,160,707 for the years ended February 28, 2017, February 29, 2016 and February 28, 2015, respectively.

Income Taxes: The provision for deferred income taxes is established using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, some portion or all of the deferred tax assets will, more likely than not, not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates on the date of enactment.

When tax returns are filed, some positions taken are highly likely to be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be sustained ultimately. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes the position will, more likely than not, be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits on the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. With few exceptions, the Company is no longer subject to U.S. federal, or state and local income tax examinations by tax authorities for years before fiscal 2014.

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

Revenue Recognition and Deferred Revenue: The Company generates revenue through the sale of data processing services, equipment and supplies, maintenance contracts, software, eBusiness services, and other service products. The Company enters into data contracts with its customers primarily of one to ten years in length. Revenues are recognized as services are provided on these contracts. Each standard contract contains an early contract termination clause that allows the Company, if the customer terminates the Company's services prior to the end of the contract term, to collect as liquidated damages a percentage of the anticipated revenues that would have been earned during the remaining contract term. Revenues from early contract termination fees are recognized as operating income in the period when the Company has completed its perfomance obligations to the customer. Total early contract termination fees recorded as a component of revenues in the accompanying consolidated financial statements for the years ended February 28, 2017, February 29, 2016 and February 28, 2015 were $3,694, $5,953 and $3,208, respectively. The Company recognizes product revenue, such as software license sales, which represent less than 5% of total revenue, ratably over the term of the associated post-contract customer support or 36 months, whichever is longer.

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

The Company records revenue under certain contracts for postage and telecommunications net of the related expenses. The Company provides these services as a convenience to its customers and provides these services at the Company's cost. The total pass-through revenues for the years ended February 28, 2017, February 29, 2016 and February 28, 2015 were $45,616, $45,366 and $47,313, respectively.

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

Concentration of Credit Risk: The Company maintains cash balances at several financial institutions in excess of the insurance limits provided by the Federal Deposit Insurance Corporation. The Company has not experienced any losses and does not believe it is exposed to any significant credit risk with respect to these cash deposits. In addition, the Company has entered into a deposit placement program that distributes a substantial portion of the Company's funds among different select FDIC-insured financial institutions to avoid the effect of the insurance limits at any single institution.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, which is the principle in the current guidance. The Company will also need to apply the new guidance to determine whether revenue should be recognized over time or at a point in time. This standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the issuance of ASU 2014-09 and the Company's election of a reporting method on its consolidated financial statements beginning with the Company's 2019 fiscal year.

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

In March 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718), which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for fiscal years beginning after December 15, 2016. The Company is in the process of evaluating the impacts of the adoption of this ASU. The Company currently anticipates the changes will be adopted in the first quarter of its 2018 fiscal year.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Company on January 1, 2019. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 removes Step 2 of the goodwill impairment test. Under the new guidance, the Company will perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge will be recognized for the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill allocated to the reporting unit. ASU 2017-04 will be effective for the Company on January 1, 2022. Early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact that the adoption of this new standard will have on its consolidated financial position and results of operations.

NOTE 3. LAND AVAILABLE FOR RESALE

The cost of land available for resale of $1,347 as of both February 28, 2017 and February 29, 2016, primarily represents costs associated with the development of an office park in Paducah, Kentucky. These costs are allocated to each lot based upon each lot's proportionate share of salable acreage and are included in other assets on the accompanying consolidated balance sheets. The project is substantially complete and any future associated costs will not be material.

NOTE 4. INCOME TAXES

The provision for income taxes was as follows for the years ended February 28, 2017, February 29, 2016 and February 28, 2015:

	2017	2016	2015
Current			
Federal	**$ 15,158**	$ 13,156	$ 13,916
State	**2,376**	2,452	2,660
Deferred	**1,619**	3,417	1,411
Total	**$ 19,153**	$ 19,025	$ 17,987

The effective tax rates were 38.25%, 39.50% and 39.25% for the years ended February 28, 2017, February 29, 2016 and February 28, 2015, respectively. These effective tax rates differed from the statutory federal tax rate of 35% due primarily to state income taxes. Cash paid for income taxes during the years ended February 28, 2017, February 29, 2016 and February 28, 2015 was $18,570, $12,551 and $18,910, respectively.

Deferred tax assets and (liabilities) consisted of the following as of February 28, 2017 and February 29, 2016:

	2017	2016
Deferred tax assets		
Accrued expenses	$ 1,394	$ 1,215
Net operating loss carryforwards acquired	411	486
Deferred tax liabilities		
Property and equipment	(8,422)	(7,770)
Goodwill and intangible assets	(5,007)	(4,874)
Prepaid expenses	(1,354)	(1,309)
Other	(7,605)	(6,712)
Total	$ (20,583)	$ (18,964)

Loss carryforwards for tax purposes as of February 28, 2017 of $1,040 expire in July 2026.

NOTE 5. NOTES PAYABLE

The Company has a $15,000 commercial revolving line of credit. Interest is payable monthly at one-month LIBOR plus 0.90% (1.69% and 1.34% as of February 28, 2017 and February 29, 2016, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of February 28, 2017 and February 29, 2016. The line of credit expires in January 2019.

The Company also has a $5,000 commercial revolving line of credit. Interest is payable monthly at prime minus 1.30% (2.45% and 2.20% as of February 28, 2017 and February 29, 2016, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of February 28, 2017 and February 29, 2016. The line of credit expires in August 2017.

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

Total interest expense for the years ended February 28, 2017, February 29, 2016 and February 28, 2015 was $3, $2 and $22, respectively. Cash paid for interest expense during the years ended February 28, 2017, February 29, 2016 and February 28, 2015 was $3, $2 and $22, respectively.

NOTE 6. COMMON AND RESTRICTED STOCK

Shareholders' Rights Plan

The Company has a shareholders' rights plan that granted to shareholders one preferred stock purchase right ("Right") for each outstanding share of the Company's common stock. Each Right entitles the purchase of one one-hundredth of a share of Series A Preferred stock at a price determined by, and under the conditions set forth in, the Amended and Restated Rights Agreement. Because the issuance of Rights may substantially dilute the stock ownership of a person or group attempting to take over the Company without the approval of the Company's Board of Directors, the Company's rights plan could make an acquisition of the Company (or a significant percentage of its outstanding capital stock) by a third party without first negotiating with the Board more difficult. The Rights expire on January 28, 2022, unless extended or reissued by the Board.

Share Repurchase Plan

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash or borrowings under its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. The Company's Board of Directors authorized the repurchase of an additional $5,000 of the Company's common stock in December 2015. As of February 29, 2016, the Company had the authority to repurchase up to $4,623 of additional shares. The Company's Board of Directors did not authorize the repurchase of any additional shares of the Company's common stock during the year ended February 28, 2017. As of February 28, 2017, the Company had the authority to repurchase up to $1,234 of additional shares.

NOTE 7. STOCK-BASED COMPENSATION

Beginning in June 2013, the Company has authorized the issuance of common stock to members of the Company's Board of Directors for services performed. Compensation expense recognized for common stock issued for services provided by members of the Board of Directors and fully vested was $313, $311 and $257 for the years ended February 28, 2017, February 29, 2016, and February 28, 2015, respectively.

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

The Company follows authoritative accounting guidance related to stock-based compensation, which addresses the accounting for stock-based employee plans. The standard requires that such transactions are accounted for using a fair-value based method of accounting.

The fair value of the restricted shares on the date of the grant is amortized ratably over the vesting period. Fair value of restricted shares granted is based on the closing price of Company common stock as of the date of the restricted stock grant. Unearned compensation initially recorded based on the market value of the shares on the date of grant is being amortized over four years.

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

	2017	2016	2015
Balance, beginning of year	$ 2,900	$ 2,725	$ 2,775
Grant of restricted stock			
May 12, 2014	-	-	1,256
May 5, 2015	-	1,562	-
June 30, 2015	-	191	-
May 9, 2016	1,622	-	-
Restricted stock vested	(1,153)	(1,566)	(1,233)
Restricted stock forfeited	-	(12)	(73)
Balance, end of year	$ 3,369	$ 2,900	$ 2,725

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

	2017	2016	2015
Unvested balance, beginning of year	**78,392**	85,373	95,472
Granted	**43,542**	40,931	36,670
Vested	**(32,500)**	(47,614)	(44,589)
Forfeited	**-**	(298)	(2,180)
Unvested balance, end of year	**89,434**	78,392	85,373
Weighted average fair value:			
Granted	**$ 37.25**	$ 42.82	$ 34.25
Vested	**$ 35.48**	$ 32.89	$ 27.66
Forfeited	**$ -**	$ 38.84	$ 33.21

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was $1,153, $1,566 and $1,233 for the years ended February 28, 2017, February 29, 2016 and February 28, 2015, respectively.

NOTE 8. EMPLOYEE BENEFITS

The Company maintains a qualified defined contribution plan that covers substantially all employees. Contributions to the plan are funded annually and totaled $5,689, $5,909 and $6,225 for the years ended February 28, 2017, February 29, 2016, and February 28, 2015, respectively.

Other long-term liabilities include deferred executive compensation of $872 and $792 as of February 28, 2017 and February 29, 2016, respectively.

NOTE 9. SELF-INSURANCE

The Company generally self-insures its risks for employee health insurance. The Company carries stop loss policies for specific losses in excess of $150 per individual per year for health coverage. Claims are expensed as incurred. In establishing accruals for claims incurred and reported and estimates for claims incurred but not yet reported, the Company uses factors such as historical experience, known trends, and third-party administrator estimates to determine the appropriate amounts to report as accrued liabilities. Amounts charged to expense for self-insured employee health insurance programs totaled $9,383, $6,593 and $7,421 for the years ended February 28, 2017, February 29, 2016 and February 28, 2015, respectively.

NOTE 10. COMMITMENTS

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

At February 28, 2017, the Company was committed under lease agreements for approximate annual rental payments as follows:

Years ending February 28 and 29,	Amount
2018	$ 2,611
2019	2,098
2020	1,354
2021	875
2022	535
Thereafter	368
Total	$ 7,841

Rent expense under operating leases was $2,612, $2,704 and $2,719 for the years ended February 28, 2017, February 29, 2016 and February 28, 2015, respectively.

NOTE 11. CONTINGENCIES

The Company may, from time to time, be the defendant in certain litigation arising in the ordinary course of business. In the opinion of management and outside legal counsel, any currently pending or threatened litigation involving the Company is adequately covered by insurance or the ultimate outcome will not have a material impact on the financial position or results of operations of the Company.

NOTE 12. SUBSEQUENT EVENTS

All of the effects of subsequent events that provide additional evidence about conditions that existed as of the consolidated balance sheet date, including the estimates inherent in the process of preparing the consolidated financial statements, are recognized in the consolidated financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist as of the consolidated balance sheet date but arose after that date and before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the consolidated financial statements from being misleading. The Company has evaluated events through April 26, 2017, the date the consolidated financial statements were available to be issued.

On March 2, 2017, the Company's Board of Directors declared a cash dividend of 28 cents per share payable to shareholders of record as of the close of business on March 15, 2017. This dividend was paid on March 31, 2017 in the aggregate amount of $3,907.

On April 7, 2017, the Company's Board of Directors declared a cash dividend of 28 cents per share, or approximately $3,918 in the aggregate, payable on June 26, 2017 to shareholders of record as of the close of business on June 1, 2017.

On April 7, 2017, the Company's Board of Directors authorized the repurchase of an additional $10,000 of the Company's common stock. This authorization is in addition to the previously authorized repurchases as disclosed elsewhere in this annual report.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per share data)

	Quarter				
	First	Second	Third	Fourth	Total
2017					
Revenues	**$ 56,123**	**$ 57,929**	**$ 60,539**	**$ 60,310**	**$ 234,901**
Operating expenses	**45,198**	**44,691**	**47,070**	**47,961**	**184,920**
Operating income	**10,925**	**13,238**	**13,469**	**12,349**	**49,981**
Interest income (expense)	**19**	**20**	**26**	**28**	**93**
Income before income taxes	**10,944**	**13,258**	**13,495**	**12,377**	**50,074**
Provision for income taxes	**4,186**	**5,071**	**5,162**	**4,734**	**19,153**
Net income	**$ 6,758**	**$ 8,187**	**$ 8,333**	**$ 7,643**	**$ 30,921**
Earnings per common share, basic	**$ 0.48**	**$ 0.59**	**$ 0.59**	**$ 0.55**	**$ 2.21**
Market Price					
High	**$ 39.00**	**$ 39.89**	**$ 39.75**	**$ 45.26**	
Low	**34.76**	**36.00**	**36.01**	**38.75**	
Close	**37.00**	**37.27**	**39.25**	**45.00**	
2016					
Revenues	$ 57,148	$ 56,165	$ 54,093	$ 57,319	$ 224,725
Operating expenses	44,620	43,710	43,861	44,417	176,608
Operating income	12,528	12,455	10,232	12,902	48,117
Interest income (expense)	11	9	13	15	48
Income before income taxes	12,539	12,464	10,245	12,917	48,165
Provision for income taxes	4,953	4,923	4,047	5,102	19,025
Net income	$ 7,586	$ 7,541	$ 6,198	$ 7,815	$ 29,140
Earnings per common share, basic	$ 0.54	$ 0.53	$ 0.44	$ 0.56	$ 2.07
Market Price					
High	$ 43.75	$ 44.50	$ 41.95	$ 41.05	
Low	39.35	38.95	37.75	34.96	
Close	42.50	41.00	38.30	35.96	
2015					
Revenues	$ 54,570	$ 55,607	$ 55,948	$ 55,260	$ 221,385
Operating expenses	44,075	42,975	44,016	44,502	175,568
Operating income	10,495	12,632	11,932	10,758	45,817
Interest income (expense)	-	5	4	-	9
Income before income taxes	10,495	12,637	11,936	10,758	45,826
Provision for income taxes	4,172	5,023	4,745	4,047	17,987
Net income	$ 6,323	$ 7,614	$ 7,191	$ 6,711	$ 27,839
Earnings per common share, basic	$ 0.44	$ 0.54	$ 0.51	$ 0.48	$ 1.97
Market Price					
High	$ 35.60	$ 37.50	$ 43.00	$ 41.00	
Low	33.00	33.30	35.75	37.35	
Close	34.75	36.20	40.95	40.55	

Investor Information

ANNUAL SHAREHOLDERS MEETING
CSI Corporate Headquarters
3901 Technology Drive
Paducah, Kentucky 42001-5201
Thursday, June 29, 2017
9:00 a.m. CDT
Join the live webcast at www.csiweb.com.

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

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Computershare Limited

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

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

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COMMON STOCK
Computer Services, Inc. has approximately 3,570 shareholders based on an estimate of the number of individual participants represented by security position listings and the number of record holders of the Company's common stock. The Company's common stock is traded on the Premier QX tier of the OTC Markets (www.otcqx.com) under the symbol CSVI. Quarterly dividends on Computer Services, Inc. common stock, when declared by the Board of Directors, are paid on or about March 31, June 25, September 25, and December 26. The Company does not currently offer a dividend reinvestment program.

CSI Leadership

Executive Officers

Steven A. Powless
CEO

R. Stanley Eckenberg
President

David L. Simon
Treasurer and CFO

Board of Directors

John A. Williams*
Chairman, Board of Directors
Member, Executive Committee
*Becomes Chairman Emeritus effective June 29, 2017

Steven A. Powless*
CEO, Computer Services, Inc.
Member, Risk Committee
*Becomes Chairman of the Board effective June 29, 2017

Basil N. Drossos
Former General Motors Executive
Chairman, Audit Committee
Member, Profit Sharing Committee

Bruce R. Gall
Chairman and CEO, Fed Reporter, Inc.
CEO, Dornoch Management Corporation
Chairman, Profit Sharing Committee
Chairman, Risk Committee

Terrance P. Haas
Former CEO, Harvard Drug Group
Member, Audit Committee
Member, Executive Committee
Member, Risk Committee

David M. Paxton
President and CEO, Paxton Media Group
Chairman, Executive Committee
Chairman, Compensation Committee

Robert L. Walker
Lead Independent Director
Former Senior Vice President and CFO, Western and Southern Financial Group
Member, Audit Committee
Member, Executive Committee
Member, Compensation Committee

Kristin Rudolph Muhlner
Executive and Technology Consultant
Former CEO of newBrand Analytics & RollStream

Tammy D. Souder
Vice President and Corporate Secretary, Computer Services, Inc.
Secretary to the Board

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