
COMPUTER SERVICES, INC.

QUARTERLY REPORT

FOR THE FISCAL QUARTER ENDED

NOVEMBER 30, 2017

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2017

All information contained in this Quarterly Report has been compiled to fulfill the disclosure requirements of OTC Markets Group, Inc. and Rule 15c2-11 under the Securities Exchange Act of 1934. The captions contained herein correspond to the sequential format as set forth in the applicable disclosure guidelines of OTC Markets Group, Inc. All dollar amounts are presented in thousands, except dividend and other per share data. Quantitative share data, among other non-dollar figures, are not presented in thousands. Computer Services, Inc. and its subsidiaries are referred to as "CSI" or the "Company".

Forward-Looking Statements

This Quarterly Report contains "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. All statements except historical statements contained herein constitute "forward-looking statements." Forward-looking statements are inherently uncertain and are based only on current expectations and assumptions that are subject to future developments that may cause results to differ materially. Readers should carefully consider: (i) economic, competitive, technological and governmental factors affecting CSI's operations, customers, markets, services, products and prices; (ii) risk factors affecting the financial services information technology industry generally including, but not limited to, cybersecurity risks that may result in increased costs to CSI to protect against the risks, as well as liability or reputational damage to CSI in the event of a breach of our security; and (iii) other factors discussed in CSI's Annual Reports, Quarterly Reports, Information and Disclosure Statements and other documents posted from time to time on the OTCQX website (available either at www.otcmarkets.com or www.otcqx.com), including without limitation, the description of the nature of CSI's business and its management discussion and analysis of financial condition and results of operations for reported periods. Except as required by law or OTC Markets Group, Inc., CSI undertakes no obligation to update, and is not responsible for updating, the information contained or incorporated by reference in this document beyond the publication date, whether as a result of new information or future events, or to conform this document to actual results or changes in CSI's expectations, or for changes made to this document by wire services or Internet services or otherwise.

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Item 1: Exact name of issuer and address of its principal executive offices.

Name of Issuer: Computer Services, Inc. (“CSI”, the “Company”, “We”, “Us”, or “Our”)

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

Telephone: 270.442.7361
 Facsimile: 270.442.9905
 Website: www.csiweb.com

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

3901 Technology Drive
 Paducah, Kentucky 42001-5201

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

Item 2: Shares outstanding.

The following table sets forth information concerning each authorized class of equity securities of Computer Services, Inc. as of November 30, 2017:

SECURITIES AUTHORIZED AND OUTSTANDING

Class	As of	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (public float)	Total Number of Beneficial Shareholders (1)	Total Number of Shareholders of Record
Common	11/30/2017	60,000,000	13,956,435	13,380,373	3,414	271
Preferred	11/30/2017	5,000,000	-	-	-	-

(1) Estimate of individual participants represented by security position listings. Based on such estimate, more than 100 beneficial shareholders each own at least 100 shares of common stock.

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Item 3: Interim Financial Statements.

COMPUTER SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)
(in thousands, except share and per share data)

	<u>Three Months Ended November 30,</u>		<u>Nine Months Ended November 30,</u>	
	2017	2016	2017	2016
Total Revenues	\$ 61,046	\$ 60,539	\$ 186,914	\$ 174,591
Operating expenses	48,326	47,070	145,501	136,959
Operating income	12,720	13,469	41,413	37,632
Interest income, net	26	26	90	65
Income before income taxes	12,746	13,495	41,503	37,697
Provision for income taxes	5,003	5,162	16,213	14,419
Net income	\$ 7,743	\$ 8,333	\$ 25,290	\$ 23,278
Earnings per share	\$ 0.55	\$ 0.59	\$ 1.81	\$ 1.66
Shares used in computing earnings per common and common equivalent share	13,957,966	14,023,840	13,968,154	14,014,749

**See accompanying notes to consolidated financial statements.*

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

	11/30/2017 <i>(Unaudited)</i>	2/28/2017 <i>(Audited)</i>	11/30/2016 <i>(Unaudited)</i>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 43,595	\$ 34,552	\$ 38,397
Accounts receivable	26,698	28,249	25,594
Income tax receivable	-	1,121	-
Prepaid expenses and other current assets	13,390	13,143	12,135
Total current assets	83,683	77,065	76,126
Property and equipment, net of accumulated depreciation	37,263	35,420	35,453
Software and software licenses, net of accumulated amortization	23,859	19,778	20,916
Goodwill	60,115	60,115	60,115
Intangible assets	5,560	6,082	6,258
Other assets	30,519	26,709	23,080
Total assets	\$ 240,999	\$ 225,169	\$ 221,948
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 8,022	\$ 8,094	\$ 8,979
Accrued expenses	22,888	14,639	18,791
Deferred revenue	8,559	10,315	8,128
Income tax payable	484	-	1,321
Total current liabilities	39,954	33,048	37,219
Long-term liabilities			
Deferred income taxes	20,583	20,583	18,964
Other long-term liabilities	2,262	1,588	1,558
Total long-term liabilities	22,845	22,171	20,522
Total liabilities	62,799	55,219	57,741
Shareholders' equity			
Preferred stock; shares authorized, 5,000,000; none issued	-	-	-
Common stock, no par; 60,000,000 shares authorized; 13,956,435 shares issued as of November 30, 2017; 13,955,403 shares issued as of February 28, 2017; 14,005,724 shares issued as of November 30, 2016.	25,804	24,409	24,436
Retained earnings	152,396	145,541	139,771
Total shareholders' equity	178,200	169,950	164,207
Total liabilities and shareholders' equity	\$ 240,999	\$ 225,169	\$ 221,948

*See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share data)

	Nine Months Ended November 30, 2017			
	Common Stock		Retained Earnings	Total
	Shares	Amount		
Balance at February 28, 2017	13,955,403	\$ 24,409	\$ 145,541	\$ 169,950
Net income	-	-	25,290	25,290
Cash dividends paid (\$.87 per share)	-	-	(12,155)	(12,155)
Cash dividends payable (\$.31 per share)	-	-	(4,327)	(4,327)
Issuance of common stock	5,084	235	-	235
Issuance of restricted stock	41,000	-	-	-
Restricted stock vested	-	1,254	-	1,254
Restricted stock forfeited	(584)	-	-	-
Purchase of common stock	(39,517)	(84)	(1,746)	(1,830)
Tax withholding related to share-based compensation	(4,951)	(10)	(207)	(217)
Balance at November 30, 2017	13,956,435	\$ 25,804	\$ 152,396	\$ 178,200

*See accompanying notes to consolidated financial statements.

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

	Nine Months Ended November 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$ 25,290	\$ 23,278
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	5,533	5,389
Amortization	6,641	6,153
Restricted stock expense	1,254	1,141
Stock-based compensation expense	235	249
Loss on disposal of assets	10	-
Tax benefit of restricted stock vested	-	(178)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	1,610	2,529
Prepaid expenses and other current assets	(499)	(442)
Other assets	1,291	2,165
Accounts payable and accrued expenses	(1,063)	2,803
Deferred revenue	(1,706)	(180)
Income tax payable	1,605	1,398
Other liabilities	623	297
Net cash from operating activities	40,824	44,602
Cash flows from investing activities		
Proceeds from sale of property and equipment	-	41
Purchase of property and equipment	(7,379)	(6,201)
Purchase of software and software licenses	(10,200)	(4,720)
Purchase of intangibles	-	(387)
Net cash from investing activities	(17,579)	(11,267)
Cash flows from financing activities		
Payments of dividends	(12,155)	(10,930)
Purchase of common stock	(1,830)	(1,214)
Tax withholding related to share-based compensation	(217)	(191)
Net cash from financing activities	(14,202)	(12,335)
Net change in cash and cash equivalents	9,043	21,000
Cash and cash equivalents, beginning of period	34,552	17,397
Cash and cash equivalents, end of period	\$ 43,595	\$ 38,397

*See accompanying notes to consolidated financial statements.

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**Notes to Consolidated Financial Statements
 (Unaudited)**

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. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Accounts Receivable: Accounts receivable consist primarily of amounts due from bank customers for data processing services. Interest is not charged on receivables. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. As of November 30, 2017 and 2016, an allowance for doubtful accounts of \$121 and \$66, respectively, had been recorded.

Property and Equipment: As of November 30, 2017 and 2016, property and equipment consisted of:

	2017	2016
Land	\$ 1,716	\$ 1,716
Buildings and improvements	28,385	27,717
Equipment	68,455	63,754
Construction-in-progress	162	9
	98,718	93,196
Less accumulated depreciation	61,455	57,743
Balance, end of period	\$ 37,263	\$ 35,453

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

Software and Software Licenses and Related Amortization: Software and software licenses include the capitalization of certain costs incurred to develop new software or to enhance existing software that is primarily utilized by the Company to process customer transactions; software acquired in business acquisitions; and licenses that are purchased from third parties. Software and software licenses are amortized using the straight-line method over three to ten years or the life of the licenses. Total amortization expense for the three months ended November 30, 2017 and 2016 was \$2,063 and \$1,932, respectively.

Long-Term Assets: Property and equipment, intangible assets subject to amortization and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized during the periods presented by these quarterly financial statements.

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 is 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 value.

No impairment was determined and, accordingly, no change in the carrying amount of goodwill was recorded during the three months ended November 30, 2017.

Intangible assets not subject to amortization primarily consist of governmental licenses to operate a telecommunications competitive local exchange carrier. Intangible assets not subject to amortization totaled \$190 as of both November 30, 2017 and 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.

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The carrying amounts of intangibles subject to amortization as of November 30, 2017 and 2016 are as follows:

	2017	2016
Customer relationships	\$ 11,593	\$ 11,593
Non-compete agreements	1,700	1,700
Patents	427	427
Trade name	530	530
Developed technology	370	370
Other	216	216
	\$ 14,836	\$ 14,836
Less accumulated amortization	9,466	8,768
Balance, end of period	\$ 5,370	\$ 6,068

Total amortization expense was \$172 and \$175 for the fiscal quarters ended November 30, 2017 and 2016, respectively.

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 13,957,966 and 14,023,840 for the fiscal quarters ended November 30, 2017 and 2016, 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 in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before fiscal 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 contracts with its customers varying from 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

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term. Revenues from early contract termination fees are recognized as operating income in the period when the Company has completed its performance obligations to the customer. Total early contract termination fees recorded as a component of revenues in the accompanying consolidated financial statements for the three months ended November 30, 2017 and 2016 were \$809 and \$1,320, 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 these services for the three months ended November 30, 2017 and 2016 were \$11,881 and \$11,610, 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 current guidance. The Company will 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 leased property 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

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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 before determining whether to adopt the change earlier than the Company's 2020 fiscal year. The Company expects that, after adoption, it will 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 will expand its financial statements disclosures applicable to such leases.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation*, which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance was effective for fiscal years beginning after December 15, 2016. Therefore, ASU 2016-09 was effective for the Company beginning March 1, 2017. The Company elected to apply the impacts of this standard on a prospective basis. As part of implementing this standard, we additionally elected as an accounting policy to account for forfeitures of share-based awards when they occur. The implementation of this standard had the following impact on our condensed consolidated financial statements.

- Condensed consolidated statement of income- The new standard requires that the tax effects of share-based compensation be recognized in the provision for income taxes. Previously, these amounts were recognized as a component of shareholders' equity on the consolidated balance sheets. Since adoption this fiscal year, we have recognized \$77 of net tax benefits as reductions of income tax expense, which reduced our effective income tax rate by 0.19%.
- Condensed consolidated statements of cash flows- The Company elected to apply the presentation requirements for cash flows related to excess tax benefits prospectively. This resulted in a benefit reflected in operating activities. The presentation requirement for cash flows related to employee taxes paid for withheld shares had no impact on our consolidated statement of cash flows since such cash flows have historically been presented as a financing activity.

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 will 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 before determining whether to adopt the change earlier than 2019.

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 before determining whether to adopt the change earlier than 2022.

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Interim Financial Statements: The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim consolidated financial statements and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes thereto, which are included in its 2017 Annual Report filed separately through the OTC Disclosure and News Service, available at either www.otcmarkets.com or at www.otqx.com.

In the opinion of management of the Company, the accompanying consolidated financial statements reflect all adjustments necessary to present fairly the financial position of the Company as of November 30, 2017 and 2016, and the results of its operations, its changes in equity and its cash flows for the three- and nine-month periods ended November 30, 2017 and 2016.

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

NOTE 3. LAND AVAILABLE FOR RESALE

The cost of land available for resale of \$1,347 as of both November 30, 2017 and 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. The project is substantially complete and any future associated costs will not be material. As of November 30, 2017 and 2016, land available for resale was included in other assets on the accompanying consolidated balance sheets.

NOTE 4. INCOME TAXES

The effective tax rates were 39.25% and 38.25% for the three months ended November 30, 2017 and 2016, respectively. These effective tax rates differed from the statutory federal tax rate of 35% due primarily to state income taxes and adjustments to various deferred tax assets and liabilities. Cash paid for income taxes during the three months ended November 30, 2017 and 2016 was \$4,528 and \$4,732, respectively.

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% (2.27% and 1.62% as of November 30, 2017 and 2016, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of November 30, 2017 and 2016. The line of credit was renewed in January 2016 and 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% (2.95% and 2.20% as of November 30, 2017 and 2016, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of November 30, 2017 and 2016. The line of credit was renewed in August 2017 and expires in August 2018.

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

Total interest expense for the three months ended November 30, 2017 and 2016 was \$5 and \$1, respectively. Cash paid for interest expense during the three months ended November 30, 2017 and 2016 was \$5 and \$1, respectively.

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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 of Directors more difficult. The Rights expire on January 28, 2022, unless extended or reissued by the Board of Directors.

Share Repurchase Program

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash or borrowings under its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At November 30, 2016, the Company had the authority to repurchase additional shares for up to \$3,408. The Company's Board of Directors authorized the repurchase of an additional \$10,000 of the Company's common stock in April 2017. At November 30, 2017, the Company had the authority to repurchase additional shares for up to \$9,404.

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 \$235 and \$249 for the nine months ended November 30, 2017 and 2016, 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 be 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.

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The following is a summary of unearned compensation on restricted stock as of November 30, 2017, as well as activity for the nine months then ended:

Balance, February 28, 2017	\$ 3,369
Grant of restricted stock	
May 3, 2017	1,882
Restricted stock vested	(1,254)
Restricted stock forfeited	(27)
<u>Balance, November 30, 2017</u>	<u>\$ 3,970</u>

The following is a summary of unvested shares of restricted stock as of November 30, 2017, as well as activity for the nine months then ended:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance, February 28, 2017	89,434	\$ 37.67
Granted	41,000	45.90
Vested	(34,301)	36.57
Forfeited	(584)	45.90
<u>Unvested balance, November 30, 2017</u>	<u>95,549</u>	<u>\$ 41.55</u>

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was \$1,254 and \$1,141 for the nine months ended November 30, 2017 and 2016, respectively.

NOTE 8. CONTINGENCIES

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

NOTE 9. SUBSEQUENT EVENTS

All of the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date and before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the financial statements from being misleading. The Company has evaluated events through January 12, 2018, the date the financial statements were available to be issued.

On September 27, 2017, the Board of Directors authorized a cash dividend of 31 cents per share, or \$4,326 in the aggregate, paid on December 26, 2017 to shareholders of record as of the close of business on December 1, 2017.

On December 22, 2017, the federal government enacted a tax reform statute based on a bill, H. R. 1, that had a working title of the Tax Cuts and Jobs Act of 2017. For ease of reference, we will refer to the new statute as "2017 Tax Reform". The 2017 Tax Reform reduced the maximum federal income taxation rate of statutory C corporations, including the Company, from 35% to a flat 21%. The 2017 Tax Reform also changed a multitude of other provisions including, for example, the expensing of capital investment. The

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tax rate change will have the greatest effect on the Company but other provisions may also have effects, albeit relatively minor, on the Company's financial results and liquidity over time. During the fourth fiscal quarter of 2018, the Company will further evaluate, in accordance with regulatory guidance, the tax consequences of the 2017 Tax Reform. The 2017 Tax Reform will be fully effective for the Company's fiscal 2019 that begins on March 1, 2018.

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Item 4: Management's Discussion and Analysis.

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to the accompanying unaudited consolidated financial statements to help provide an understanding of our results of operations, our financial condition and the changes in our financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report.

OVERVIEW

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

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

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 may 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. Similarly, we cannot predict the ultimate effect of current and future efforts to rollback regulations, both those of recent adoption and others of much longer standing.

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

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RESULTS OF OPERATIONS

The following tables present the percentage of revenues represented by each item in our unaudited consolidated statements of income and the percentage change in those items for the periods indicated:

Three months ended November 30,	2017	2016	Change		Percentage of Revenues	
			Amount	Percentage	2017	2016
Total revenues	\$ 61,046	\$ 60,539	\$ 507	0.8%	100.0%	100.0%
Operating expenses	48,326	47,070	1,255	2.7%	79.2%	77.8%
Operating income	12,720	13,469	(749)	(5.6%)	20.8%	22.2%
Interest income, net	26	26	-	nmf	0.0%	0.0%
Income before income taxes	12,746	13,495	(749)	(5.6%)	20.9%	22.3%
Provision for income taxes	5,003	5,162	(159)	(3.1%)	8.2%	8.5%
Net income	\$ 7,743	\$ 8,333	\$ (590)	(7.1%)	12.7%	13.8%
Earnings per share	\$ 0.55	\$ 0.59	\$ (0.04)	(6.8%)		
Shares used in computing earnings per common and common equivalent share	13,957,966	14,023,840	(65,874)	(0.5%)		

Nine months ended November 30,	2017	2016	Change		Percentage of Revenues	
			Amount	Percentage	2017	2016
Total revenues	\$ 186,914	\$ 174,591	\$ 12,323	7.1%	100.0%	100.0%
Operating expenses	145,501	136,959	8,542	6.2%	77.8%	78.4%
Operating income	41,413	37,632	3,781	10.0%	22.2%	21.6%
Interest income, net	90	65	25	nmf	0.0%	0.0%
Income before income taxes	41,503	37,697	3,807	10.1%	22.2%	21.6%
Provision for income taxes	16,213	14,419	1,794	12.4%	8.7%	8.3%
Net income	\$ 25,290	\$ 23,278	\$ 2,012	8.6%	13.5%	13.3%
Earnings per share	\$ 1.81	\$ 1.66	\$ 0.15	9.0%		
Shares used in computing earnings per common and common equivalent share	13,968,154	14,014,749	(46,595)	(0.3%)		

Revenues

Total revenues increased \$507, or 0.8%, for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 and increased \$12,323, or 7.1%, for the first nine months of fiscal 2018 compared to the first nine months of fiscal 2017. The growth in revenues benefited from higher revenues from digital banking, regulatory compliance services and managed services. Revenues included approximately \$809 in early contract termination fees in the third quarter of fiscal 2018 compared with \$1,320 in the third quarter of fiscal 2017. Excluding the effect of the early contract termination fees from both periods, third quarter fiscal 2018 revenues increased approximately 1.8% compared with the third quarter of fiscal 2017. For the first nine months of fiscal 2018, revenues included early contract termination fees of \$6,950 compared to early termination fees of \$2,338 in the first nine months of fiscal 2017. Excluding the effect of the early contract termination fees from both periods, revenues for the first nine months of fiscal 2018 increased approximately 4.5% compared to the first nine months of fiscal 2017. The early contract termination 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

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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 \$1,255, or 2.7%, for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 and increased \$8,542, or 6.2%, in the first nine months of fiscal 2018 compared to the first nine months of fiscal 2017.

The year-over-year increase in operating expenses for the third quarter of fiscal 2018 was primarily due to:

- higher personnel expenses due to higher staffing and the effect of typical annual salary adjustments;
- higher travel expenses primarily related to sales and marketing efforts;
- higher advertising and promotion expenses;
- higher professional fees expense; and
- higher personnel training expenses.

The year-over-year increase in operating expenses for the first nine months of fiscal 2018 was primarily due the same factors, as well as:

- higher cost of goods sold due to higher third-party hardware and software resales;
- higher software amortization and hardware depreciation expenses due to new capital investments placed into service during the trailing twelve-month period; and
- higher employee health plan costs.

Operating Income

Operating income decreased \$749, or 5.6%, for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 and increased \$3,781, or 10.0%, for the first nine months of fiscal 2018 compared to the first nine months of fiscal 2017. Operating margins were 20.8% and 22.2% for the three- and nine-month periods ended November 30, 2017, respectively, compared to 22.2% and 21.6% for the three- and nine-month periods ended November 30, 2016, respectively. The decreases in operating income and margin for the third quarter of fiscal 2018 were primarily due to up-front investments in our regulatory compliance area, which caused operating expense growth to outpace revenue growth for the quarter. Operating margin was also hampered in the third quarter of fiscal 2018 by a decline in early contract termination fees compared to the third quarter of fiscal 2017. The increases in operating income and margin for the first nine months of fiscal 2018 were due to growth in sales and the effect of higher early contract termination fees received in the first quarter of fiscal 2018 compared with the first quarter of fiscal 2017.

Interest Income and Expense

Consolidated net interest income was \$26 for the third quarter of fiscal 2018 and \$90 for the first nine months of fiscal 2018 compared to \$26 for the third quarter of fiscal 2017 and \$65 for the first nine months of fiscal 2017 due to higher average invested cash balances.

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Provision for Income Taxes

The provision for income taxes decreased to \$5,003 for the third quarter of fiscal 2018 compared to \$5,162 for the third quarter of fiscal 2017 due to lower taxable income partially offset by a higher effective tax rate. The provision for income taxes increased to \$16,213 for the first nine months of fiscal 2018 compared to \$14,419 for the first nine months of fiscal 2017 due to higher taxable income augmented by a higher effective tax rate. The estimated consolidated effective income tax rate was 39.25% for the three- and nine-month periods ended November 30, 2017 and 38.25% for the three- and nine-month periods ended November 30, 2016. The increase in the effective rate was due primarily to a one-time benefit received during fiscal 2017, changes in state income tax rates and adjustments to various deferred tax assets and liabilities.

The Company will benefit from the 2017 Tax Reform. See Note 9 of Notes to Consolidated Financial Statements, above.

Net Income

Net income decreased 7.1% for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017. Net income for the third quarter of fiscal 2018 was \$7,743 or \$0.55 per share on 14.0 million weighted average shares outstanding compared to \$8,333 or \$0.59 per share on 14.0 million weighted average shares outstanding for the third quarter of fiscal 2017. For the first nine months of fiscal 2018, net income increased 8.6% to \$25,290, or \$1.81 per share, compared to \$23,278, or \$1.66 per share, for the first nine months of fiscal 2017.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. The following table summarizes net cash from operating activities in the accompanying consolidated statements of cash flows for the first nine months of fiscal 2018 and 2017, respectively:

Summary of Operating Cash Flows
(Unaudited)

	Nine Months Ended November 30,	
	2017	2016
Net income	\$ 25,290	\$ 23,278
Non-cash expenses	13,673	12,755
Change in receivables	1,610	2,529
Change in deferred revenue	(1,706)	(180)
Change in other assets and liabilities	1,958	6,221
Net cash from operating activities	\$ 40,824	\$ 44,602

Net cash provided by operating activities decreased 8.5% for the first nine months of fiscal 2018 compared to the first nine months of fiscal 2017. Cash from operations is primarily used to fund capital expenditures; repay debt, if any; pay dividends; and repurchase stock.

Investing Activities. Net cash used by investing activities for the first nine months of fiscal 2018 was \$17,579. The cash was used for purchases of equipment and software. Net cash used by investing activities for the first nine months of fiscal 2017 was \$11,267, primarily for equipment and software.

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Financing Activities. Net cash used by financing activities for the first nine months of fiscal 2018 was \$14,202, for dividends paid to shareholders of \$12,155, the purchase of common stock of \$1,830 and \$217 related to share-based compensation. Net cash used by financing activities for the first nine months of fiscal 2017 was \$12,335, for dividends paid to shareholders of \$10,930, the purchase of common stock of \$1,214, and \$191 related to share-based compensation.

2017 Tax Reform. The Company's liquidity and capital resources will be enhanced by the 2017 Tax Reform. See Note 9 of Notes to Consolidated Financial Statements, above.

Credit Lines

We renewed an unsecured bank credit line on January 19, 2016 that provides for funding up to \$15,000 and bears interest at a floating rate equal to one-month LIBOR plus 0.90% (2.27% and 1.62% at November 30, 2017 and 2016, respectively). The unsecured revolving credit agreement expires on January 31, 2019. At November 30, 2017, no amount was outstanding under the credit line.

We renewed an unsecured bank credit line on August 7, 2017 that provides for funding of up to \$5,000 and bears interest at a floating rate equal to the prime rate minus 1.30% (2.95% and 2.20% at November 30, 2017 and 2016, respectively). The credit line expires on August 6, 2018. At November 30, 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 customary material adverse effect clauses which could limit our ability to borrow funds. We have not experienced a material adverse effect, and we know of no circumstances or events that would be reasonably likely to result in a material adverse effect. At this time, we do not believe the material adverse effect clauses pose a material funding risk to us.

Off Balance Sheet Arrangements

As of November 30, 2017, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Liquidity Requirements

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

Item 5: Legal proceedings.

The information required by this item is hereby incorporated by reference to Item 8.A(11) of the Company's Annual Information and Disclosure Statement for the fiscal year ended February 28, 2017 as published by the OTC Markets Group, Inc. on the OTC Disclosure and News Service available on the OTCQX website (www.otcmarkets.com or www.otcqx.com). No change in the status thereof has occurred through the time period covered by this Quarterly Report.

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Item 6: Defaults upon senior securities.

None.

Item 7: Other information.

A. Sale and Purchase of Equity Securities:

The following table sets forth information concerning the equity securities of CSI issued from September 1, 2017 through the filing date of this Quarterly Report.

COMMON STOCK ISSUED

Date	Nature of Offering	Party Shares Issued To	Number of Shares Issued	Amount Paid to Issuer \$	Trading Status of Shares	Certificates Issued with Restrictive Legends ⁽¹⁾
11/21/2017	Stock Grants	Non-Employee Directors (7 in Total)	1,654	-	Restricted	Yes

(1) The certificates evidencing the shares contain a legend stating that the shares have not been registered under the Securities Act of 1933, as amended, or any state securities laws and setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act of 1933 and/or a CSI Share Subscription and Restriction Agreement.

No equity securities of CSI were sold for cash and 11,532 equity securities of CSI were purchased during the three months ended November 30, 2017.

Item 8: Exhibits.

A. Material Contracts:

Form of Termination Benefits Agreement dated as of October 2, 2017, by and between the Company and T. David Culbertson (Chief Operating Officer) is attached to this Statement for filing purposes.

B. Articles of incorporation and bylaws

The Articles of Incorporation and Bylaws of the Company were not amended in the period covered by this Quarterly Report.

Item 9: Certifications.

Please see Exhibits 9 (A) and 9 (B) at the end of this Quarterly Report.

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EXHIBIT VIII (A)

FORM OF TERMINATION BENEFITS AGREEMENT

This Termination Benefits Agreement, dated as of October 2, 2017 (the "Agreement"), is made by and between Computer Services, Inc., a Kentucky corporation (the "Company"), and _____ (the "Executive"), a natural person resident in Kentucky.

The Company has a program for key officers that provides termination benefits upon the occurrence of certain employment events involving an officer. The Company and Executive, intending to be bound legally, agree as follows:

ARTICLE I
Definitions

For purposes of this Agreement,

1.1 "Applicable Period" shall mean the durational period commencing ninety (90) days before, and ending two (2) years after, a Change in Control.

1.2 "Average Annual Compensation" shall mean one-third of the aggregate dollar amount accrued with respect to the Company's then-past three (3) completed fiscal years for both Executive's basic compensation and his incentive compensation.

1.3 "Cause" shall mean the occurrence of any of the following:

- (i) Executive having been convicted of any felony or other crime involving moral turpitude;
- (ii) the continued and habitual use of narcotics or alcohol by Executive to an extent that materially impairs his performance of duties pursuant to this Agreement;
- (iii) the willful malfeasance or gross negligence by Executive in the performance of duties pursuant to this Agreement including, but not limited to, a knowing violation of the Company's Code of Ethics that results in a material adverse effect on the Company;
- (iv) the knowing violation to a material extent by Executive of any material provision of this Agreement;
- (v) gross misconduct by Executive that is materially injurious to the Company; or
- (vi) Executive having intentionally and knowingly caused the financial statements and disclosures contained in the Company's periodic reports to be inappropriate, or having caused those financial statements and disclosures to fail to fairly present, in all material respects, the operations and financial condition of the Company.

1.4 "Change in Control" shall mean any of the following events with respect to the Company:

- (i) any "person" (as such term used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934) becomes the beneficial owner, directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities who was not previously the holder of such percentage; or
- (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (the "Board") cease for any reason to

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constitute at least a majority thereof, except if the election, or the nomination for election by the Company's shareholders, of each new director was approved by a vote of at least two-thirds ($\frac{2}{3}$) of the directors then still in office who were directors at the beginning of the period.

1.5 "Disability" shall mean the inability of Executive to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

1.6 "Good Reason" shall mean, following a Change in Control, any of the following events during the Applicable Period upon the occurrence of which Executive terminates his employment:

(i) without Executive's express written consent, the assignment to Executive of any duties inconsistent with his positions, duties, responsibilities and status with the Company immediately prior to the Change in Control, or a change in reporting responsibilities, titles or offices as in effect immediately prior to the Change in Control, or any removal from, or any failure to re-elect Executive to, any of such positions, except in connection with the termination of employment for Cause, or as a result of Executive's death or by Executive other than for Good Reason;

(ii) a reduction by the Company in Executive's base salary as in effect on the date of this Agreement or as the same may have been increased from time to time thereafter;

(iii) the relocation of the Company's principal executive offices to a location outside the Paducah, Kentucky area, or the Company's requiring Executive to be based anywhere other than the Company's principal executive offices except for required travel on the Company's business to an extent substantially consistent with Executive's business travel obligations prior to the Change in Control;

(iv) the failure by the Company to continue in effect any benefit or compensation plan, pension plan, life insurance plan, health and accident plan or disability plan in which Executive participated just prior to the Change in Control (or plans providing Executive with substantially similar benefits), the taking of any action by the Company that would adversely affect Executive's participation in or materially reduce Executive's benefits under any of such plans or deprive Executive of any material fringe benefits;

(v) the failure by the Company to provide Executive with the number of paid vacation days to which Executive is then entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect just prior to the Change in Control; or

(vi) termination by reason of Executive's Disability.

Provided, however, that Good Reason shall not be deemed to exist with respect to events (i) through (v), immediately above, unless Executive has first provided notice to the Company of the existence of the event within a period of ninety (90) days after the initial existence of the event, and after such notice the Company has been provided a period of thirty (30) days to eliminate the event but fails to do so.

ARTICLE II
Termination During Applicable Period

2.1 Termination. If a Change in Control shall have occurred and Executive's employment is terminated for Good Reason within the Applicable Period, Executive shall be entitled to the benefits described in Section 2.2, below (the "Severance Benefits"). Provided, however, that Executive shall not be entitled to the Severance Benefits if his employment is terminated: (i) by reason of Executive's death; or (ii) by the Company for "Cause".

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2.2 Severance Benefits. The Severance Benefits consist of a cash payment ("Cash Payment"), an incentive benefit ("Incentive Benefit") and a welfare continuation benefit ("Welfare Continuation Benefit").

(a) Cash Payment. The Cash Payment is a payment equal to two hundred percent (200%) of Executive's Average Annual Compensation. Payment of this benefit shall be made as follows: (i) fifty percent (50%) in equal monthly installments for twelve (12) months following the later of (x) the Change of Control, or (y) Executive's termination of employment, payable on the first (1st) business day in each such month, and (ii) fifty percent (50%) in a single lump cash sum at the end of such twelve (12) months, with the understanding that a portion of such twelve (12) monthly installments qualify as a short term deferral exception ("Short Term Deferral Exception") to the definition of deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and the remaining twelve (12) monthly installments qualify as the exception to the definition of deferred compensation under Section 409A as an involuntary separation from service ("Involuntary Separation from Service Exception"). Provided, however, any portion of such twelve (12) monthly installments that do not qualify as either the Short Term Deferral Exception or the Involuntary Separation from Service exception shall be paid in a single lump cash sum on the first (1st) business day of the seventh (7th) month following the later of (x) the Change of Control, or (y) Executive's termination of employment.

(b) Incentive Benefit. The Incentive Benefit consists of full vesting of Executive in all outstanding stock options, other stock-based benefits, and other long-term incentives, and the lapsing of all restrictions on restricted stock except those imposed by federal or state securities laws.

(c) Welfare Continuation Benefit. The Welfare Continuation Benefit consists of cash payments to Executive equal to the amount required to pay COBRA insurance premiums and to otherwise continue coverage under the Company's life insurance, disability, dental and medical plans (with dental and medical coverage to include any family coverage regardless of whether Executive dies) for twelve (12) months following the later of (x) such Change of Control, or (y) Executive's termination of employment, provided that the Welfare Continuation Benefit shall cease upon Executive's becoming entitled to comparable benefits under a subsequent employer's arrangements.

ARTICLE III
Tax Law Limitation

Notwithstanding any other provision of this Agreement to the contrary, if any payment (within the meaning of Section 280G(b)(2) of the Code), or distribution to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, Executive's employment with the Company, would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by Executive with respect to such excise tax, then the total amount payable hereunder shall be reduced to One Dollar (\$1) less than three hundred percent (300%) of Executive's "base amount" within the meaning of Section 280G of the Code.

ARTICLE IV
Mitigation

Executive is not required to seek other employment or otherwise mitigate the amount of any payments to be made by the Company pursuant to this Agreement, and non-Company employment by Executive will not reduce or otherwise affect any amounts or benefits due Executive pursuant to this Agreement except for the effect on the Welfare Continuation Benefit described in Section 2.2(c), above, in regard to "comparable benefits".

ARTICLE V

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Successors

5.1 Required Assumption. The Company shall require any and all successors (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. In the event of any such succession, any and all references to the Company in other paragraphs of this Agreement shall be deemed to mean and include the successor.

5.2 Benefit Enforceability. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, beneficiaries, devisees and legatees. If Executive should die while any amounts are payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, beneficiary or other designee or, if there be no such designee, to Executive's estate.

ARTICLE VI
General and Miscellaneous

6.1 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or sent by email, telecopy or other telecommunications device capable of creating a written record (and promptly confirmed by delivery of a hard copy, unless receipt of a hard copy is waived by the recipient) to the home address of Executive as it appears on the personnel records of the Company, and to the Company at: Computer Services, Inc., 3901 Technology Drive, Paducah, Kentucky 42001, ATTN: Chairman of the Board (as may be amended by similar notice).

6.2 Breach, Waiver of Breach. The waiver by either party hereto of a breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any subsequent breach. A breach by either party of this Agreement shall release the other party from its obligations hereunder.

6.3 Law to Govern. The validity, interpretation, construction and performance of this Agreement shall be governed by the procedural and substantive laws of the Commonwealth of Kentucky, without regard to principles of conflicts of laws.

6.4 Waiver of Jury. EACH OF THE PARTIES HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, RELATED TO, OR IN CONNECTION WITH THIS AGREEMENT. INSTEAD, ANY DISPUTE RESOLVED IN COURT WILL BE RESOLVED IN A BENCH TRIAL WITHOUT A JURY.

6.5 Counterparts. This Agreement may be executed in one or more counterparts, all of which together shall constitute a single agreement, and all of which shall constitute an original for all purposes.

6.6 Attorneys' Fees. The Company shall pay all legal fees and expenses incurred by Executive resulting from termination, including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement.

6.7 Amendment. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, waiver, modification or discharge is agreed to in writing signed by Executive and the Company. Section headings contained herein are for convenience of reference only and shall not affect the interpretation of this Agreement.

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6.8 Non-Exclusivity of Rights. Nothing in this Agreement shall prevent or limit Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company or any of its subsidiaries or successors and for which Executive may qualify, nor shall anything herein limit or reduce such rights as Executive may have under any other agreements with the Company or any of its subsidiaries or successors. Amounts that are vested benefits or that Executive is otherwise entitled to receive under any plan or program of the Company or any of its subsidiaries shall be payable in accordance with such plan or program, except as explicitly modified by this Agreement.

6.9 No Guaranteed Employment. Executive and the Company acknowledge that this Agreement shall not confer upon Executive any right to continued employment and shall not impair the right of the Company to terminate the employment of Executive at any time.

6.10 No Setoff. The Company shall have no right of setoff or counterclaim in respect of any claim, debt or obligation against any payment provided for in this Agreement.

6.11 Invalidity of Provisions. If any provision of this Agreement is adjudicated to be invalid or unenforceable under applicable law in any jurisdiction, the validity or enforceability of the remaining provisions thereof shall be unaffected as to such jurisdiction and such adjudication shall not affect the validity or enforceability of such provision in any other jurisdiction.

6.12 Non-Waiver of Rights. The failure by the Company or Executive to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement, or any part hereof, or the right of the Company or Executive thereafter to enforce each and every provision in accordance with the terms of this Agreement.

* * * * *

The parties have caused the execution of, or executed, this Termination Benefits Agreement as of the date first written above.

COMPUTER SERVICES, INC.

The "EXECUTIVE"

By: _____
Chief Executive Officer

Signature

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EXHIBIT 9 (A)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this Quarterly Report of the Company for the period ended November 30, 2017;
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report.

Date: January 12, 2018

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

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EXHIBIT 9 (B)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

1. I have reviewed this Quarterly Report of the Company for the period ended November 30, 2017;
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report.

Date: January 12, 2018

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