COMPUTER SERVICES, INC.

A Kentucky Corporation

3901 Technology Drive
Paducah, Kentucky 42001-5201

Telephone: 800.545.4274
Corporate Website: www.csiweb.com

SIC Code: 7374

Quarterly Report

For the period ended August 31, 2021
(the "Reporting Period")

The number of shares outstanding of our Common Stock is 27,459,808 as of October 14, 2021.

The number of shares outstanding of our Common Stock was 27,502,375 as of May 31, 2021.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: [ ] No: [✓]

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: [ ] No: [✓]

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: [ ] No: [✓]

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2021

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”, the “Company”, “We”, “Us”, or “Our”.

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 or suspected breach of our security; (iii) risk factors affecting the United States economy generally including without limitation acts of terrorism, military actions including war and viral epidemics and pandemics that alter human behaviors, including the COVID-19 pandemic and its effect on our business operations and financial results; (iv) increasing domestic and international regulations imposing burdensome requirements regarding the privacy of consumer data especially consumer financial transaction data of which CSI possesses substantial quantities; and (v) other factors discussed in CSI's Annual Reports, Quarterly Reports, Information and Disclosure Statements, News Releases, and other documents posted from time to time on the OTCQX website (www.otcmarkets.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.

Pandemic

The effects of the Covid-19 pandemic on the Company and its operations are discussed in the 2021 Annual Report to Shareholders incorporated herein by reference and filed separately through the OTC Disclosure and News Service, available at www.otcmarkets.com.

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2021

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

Name of Issuer:	Computer Services, Inc.	
Principal Executive Offices:	3901 Technology Drive Paducah, Kentucky 42001-5201	
	Telephone:	800.545.4274
	Facsimile:	270.442.9905
	Website:	www.csiweb.com
Investor Relations Officer:	Brian K. Brown, Treasurer & CFO	
	3901 Technology Drive Paducah, Kentucky 42001-5201	
	Telephone:	270.442.7361 x10689
	Facsimile:	270.575.6716
	Email:	brian.brown@csiweb.com

Item 2: Shares outstanding.

The following table sets forth information concerning each authorized class of equity securities of Computer Services, Inc. as of August 31, 2021:

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	8/31/2021	60,000,000	27,467,482	26,856,029	6,379	253
Preferred	8/31/2021	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.

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2021

Item 3: Interim Financial Statements.

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2021	2020	2021	2020
Revenues	$ 77,051	$ 72,462	$ 153,707	$ 143,100
Operating expenses	58,312	54,000	116,167	105,923
Operating income	18,739	18,462	37,540	37,178
Non-operating income	84	37	84	37
Interest income, net	38	202	78	332
Income before income taxes	18,861	18,702	37,702	37,547
Provision for income taxes	4,345	4,442	8,772	9,134
Net income	$ 14,516	$ 14,260	$ 28,930	$ 28,413
Earnings per common share	$ 0.53	$ 0.52	$ 1.05	$ 1.03
Shares used in computing earnings per common share	27,483,076	27,654,660	27,497,566	27,654,450

See accompanying notes to consolidated financial statements.

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2021

COMPUTER SERVICES, INC.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

	8/31/2021 *(Unaudited)*	2/28/2021 *(Audited)*	8/31/2020 *(Unaudited)*
ASSETS			
Current assets			
Cash	$ 54,274	$ 45,398	$ 77,178
Funds held on behalf of clients	9,485	8,566	8,969
Accounts receivable, net	37,462	42,223	35,077
Income tax receivable	-	932	-
Deferred contract costs	20,691	18,718	17,154
Prepaid expenses and other current assets	12,278	10,917	10,868
Total current assets	134,190	126,754	149,247
Property and equipment, net of accumulated depreciation	42,973	43,755	45,132
Software and software licenses, net of accumulated amortization	20,858	22,728	24,543
Deferred contract costs	118,514	106,936	96,518
Internally developed software, net	6,922	6,855	5,601
Goodwill	60,115	60,115	60,115
Intangible assets, net	3,100	3,396	3,725
Right of use assets	5,417	6,734	7,699
Other assets	7,123	7,076	5,432
Total assets	$ 399,212	$ 384,349	$ 398,010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 9,724	$ 11,494	$ 11,286
Accrued expenses	18,526	8,602	17,196
Deferred contract liabilities	55,826	48,763	44,602
Deferred revenue	11,153	12,830	10,564
Client funding obligation - settlement liabilities	9,485	8,566	8,969
Current portion of operating lease liabilities	2,370	2,563	2,514
Income tax payable	657	-	3,213
Total current liabilities	107,741	92,818	98,344
Long-term liabilities			
Deferred income taxes, net	29,313	29,314	24,394
Deferred contract liabilities	12,029	11,448	10,951
Other liabilities	1,752	1,721	1,817
Postretirement benefits	-	-	60
Operating lease liabilities	3,226	4,357	5,506
Total long-term liabilities	46,320	46,839	42,728
Total liabilities	154,061	139,658	141,073
Shareholders' equity			
Preferred stock; shares authorized, 5,000,000; none issued			
Common stock, no par; 60,000,000 shares authorized; 27,467,482 shares issued at August 31, 2021; 27,565,001 shares issued at February 28, 2021; 27,631,286 shares issued at August 31, 2020;	34,789	32,546	32,285
Retained earnings	210,899	211,852	223,528
Accumulated other comprehensive income, net	(538)	293	1,124
Total shareholders' equity	245,151	244,691	256,938
Total liabilities and shareholders' equity	$ 399,212	$ 384,349	$ 398,010

See accompanying notes to consolidated financial statements.

COMPUTER SERVICES, INC.

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

(in thousands, except share and per share data)

	Six Months Ended August 31, 2021				
	Common Stock			Accumulated Other Comprehensive	
	Shares	Amount	Retained Earnings	Income (Loss)	Total
Balance at February 28, 2021	27,565,001	$ 32,546	$ 211,852	$ 293	$ 244,691
Net income	-	-	28,930	-	28,930
Cash dividends paid ($0.25 per share)	-	-	(13,754)	-	(13,754)
Cash dividends payable ($0.27 per share)	-	-	(7,416)	-	(7,416)
Issuance of common stock	5,344	321	-	-	321
Issuance of restricted stock	49,908	-	-	-	-
Restricted stock vested and tax benefit	-	2,128	-	-	2,128
Restricted stock forfeited and tax benefit	(3,433)	-	-	-	-
Other comprehensive loss	-	-	-	(831)	(831)
Purchase of common stock	(131,393)	(181)	(7,646)	-	(7,826)
Tax withholding related to share-based compensation	(17,945)	(25)	(1,068)	-	(1,092)
Balance at August 31, 2021	**27,467,482**	**$ 34,789**	**$ 210,899**	**$ (538)**	**$ 245,151**

See accompanying notes to consolidated financial statements.

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

	Six Months Ended August 31, 2021	2020
Operating Activities		
Net income	$ 28,930	$ 28,413
Depreciation	3,612	4,456
Amortization	4,038	6,636
Amortization of right of use assets	1,254	1,119
Restricted stock expense	1,553	856
Stock-based compensation expense	321	273
Tax benefit of restricted stock vested	357	-
Gain from equity investment	(84)	(37)
Changes in operating assets and liabilities:		
Accounts receivable	4,761	2,951
Prepaid expenses and other current assets	(1,363)	(1,489)
Right of use asset/lease liabilities	(1,261)	(1,113)
Other assets	(48)	374
Funds held on behalf of clients	(919)	(538)
Client funding obligation-settlement liabilities	919	538
Accounts payable and accrued expenses	1,315	3,699
Deferred revenue	(1,660)	(640)
Deferred contract liabilities	7,643	(6,301)
Deferred contract assets	(13,551)	(2,580)
Internally developed software	(66)	(711)
Income tax payable	1,232	4,564
Other liabilities	(816)	(857)
Net cash from operating activities	36,167	39,614
Investing Activities		
Purchase of property and equipment	(2,830)	(4,444)
Purchase of software and software licenses	(1,872)	(12,184)
Sale of equity investment	84	37
Net cash used in investing activities	(4,618)	(16,590)
Financing Activities		
Dividends paid	(13,754)	(11,618)
Purchase of common stock	(7,826)	(3,555)
Tax withholding related to share-based compensation	(1,092)	(783)
Net cash used in financing activities	(22,673)	(15,955)
Net change in cash	8,876	7,069
Cash, beginning of period	45,398	70,109
Cash, end of period	$ 54,274	$ 77,178

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1. NATURE OF OPERATIONS

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. 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 electronic 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, anti-terrorism financing 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 Consolidated Financial Statements: The preparation of consolidated 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.

Cash Equivalents: The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Deposit accounts that are comprised of funds held on behalf of others are not considered to be the Company's cash and cash equivalents, see following paragraph. The Company maintains cash balances at many financial institutions, the majority of which balances are in excess of the insurance limits of the Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses and the Company does not believe there is any significant credit risk with respect to these cash deposits. The Company has entered into deposit placement programs that distribute a substantial portion of the Company's funds among different select FDIC-insured financial institutions to avoid or to minimize the effect of the insurance limits at any single institution.

Funds Held on Behalf of Others and Client Funding Obligation – Settlement Liability: The Company holds funds on behalf of card processing clients in connection with providing card processing services. End-of-day available client bank balances are held in depository accounts. Funds held on behalf of clients in the form of cash and cash equivalents are included in funds held on behalf of clients on the consolidated balance sheet. All funds held on behalf of clients represent assets that are restricted for use. Funds held on behalf of clients that meet the definition of restricted cash and restricted cash equivalents are not included in our beginning and end of period cash balances on the consolidated statements of cash flows. Cash inflows and outflows related to funds held on behalf of clients are reported on a net basis in the operating section of the consolidated statements of cash flows. The Company is obligated to remit restricted cash held to card processing clients in connection with providing card processing services, generally the following business day. The settlement liability represents the amount of funds held on behalf of others which is included in current liabilities.

Accounts Receivable: Accounts receivable are stated at the amount of consideration from customers of which the Company has an unconditional right to receive plus any accrued and unpaid interest. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. As of August 31, 2021 and 2020, allowances for doubtful accounts of $0 and $112, respectively have been recorded.

Property and Equipment: As of August 31, 2021 and 2020, property and equipment consisted of:

	2021	2020
Land	**$ 1,716**	$ 1,716
Buildings and improvements	**36,432**	36,428
Equipment	**79,599**	83,218
Construction-in-progress	**1,402**	667
	119,149	122,030
Less accumulated depreciation	**76,175**	76,898
Balance, end of period	**$ 42,973**	$ 45,132

Depreciation: Depreciation and amortization are charged to expense on the straight-line basis over the estimated useful life of each asset.

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. Some software is primarily utilized by the Company to process customer transactions. Other software was obtained in business acquisitions or acquired under licenses that are purchased from third parties. Software and software licenses are amortized using the straight-line method over three to ten years or the life of the licenses. Total amortization expense for the three months ended August 31, 2021 and 2020 was $2,750 and $2,838, respectively.

Capitalized Software Development Costs: The Company incurs salary and certain external costs to develop software for internal use. Under the guidance of Accounting Standard Codification (ASC) 350-40, *Internal-Use Software* (ASC 350-40), the Company has capitalized these costs and amortized them over the period of benefit. Under the provisions of ASC 350-40, costs in the preliminary project stage are expensed. Costs are capitalized once the Company has reached the application development stage, which includes costs and time for coding, software configuration, and testing. Any post-implementation activities such as maintenance or bug fixes are expensed.

The carrying amount of capitalized software development costs subject to amortization as of August 31, 2021 and August 31, 2020 was as follows:

	2021		**2020**	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Internally developed software costs	**$ 14,469**	**$ (7,548)**	$ 11,454	$ (5,854)

Total amortization expense for the three months ended August 31, 2021 and 2020 was $403 and $385, respectively.

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 Company performs a qualitative assessment of the reporting unit. An impairment charge will be recognized for the amount by which the carrying value of an entity reporting unit, including goodwill, exceeds its fair value. The Company has elected to perform its annual analysis as of the end of each fiscal year. No impairment was identified for years ended February 28, 2021 and February 29, 2020.

During the three months ended August 31, 2021, no impairment was determined and, accordingly, no change in the carrying amount of goodwill was recorded. Prior period amounts have been reclassified to conform to the new reportable segment presentation as described in Note 9.

	Three Months Ended August 31,	
	2021	**2020**
Enterprise Banking Group	**$ 15,490**	$ 15,490
Business Solutions Group	**44,625**	44,625
Total	**$ 60,115**	$ 60,115

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 $165 as of both August 31, 2021 and 2020.

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

The carrying amounts of intangibles subject to amortization as of August 31, 2021 and 2020 were as follows:

	2021		2020	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Customer relationships	**$ 11,593**	**$ 8,856**	$ 11,593	$ 8,264
Non-compete agreements	**1,700**	**1,700**	1,700	1,700
Patents	**427**	**427**	427	427
Trade name	**530**	**331**	530	298
Developed technology	**370**	**370**	370	370
Other	**216**	**216**	216	216
	$ 14,836	**$ 11,901**	**$ 14,836**	**$ 11,275**

Total amortization expense for the three months ended August 31, 2021 and 2020 was $145 and $164, 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. Management determined there were no events in the current quarter indicating impairment. Property and equipment, software and other assets acquired through accounts payable and accrued expenses during the three months ended August 31, 2021 and 2020 was $734 and $179, respectively.

Contract Balances: 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 useful life, which in general is between 7 to 10 years. The costs associated with contract fulfillment are being capitalized and amortized over the useful life. The Company believes this is the preferable method of accounting as these customer acquisition and related integration costs are closely related to the revenue from the definitive term customer contracts and that they should be recorded as an asset and charged to expense over the same period the revenue is recognized. Amortization of deferred contract costs is included in operating expense on the accompanying consolidated statements of income.

The Company incurs costs to fulfill contracts related to travel and salaries for on-boarding and implementation services. These costs are not related to separate performance obligations, and therefore in accordance with ASC 340-40, *Other Assets and Deferred Costs – Contracts with Customers,* these costs are capitalized and amortized over the period of benefit, which has been determined to be the contract term.

Revenue Recognition and Deferred Revenue: The Company generates revenue through the sale of data processing services, equipment and supplies, maintenance contracts, software, *e*Business services, and other service products. The Company enters into service contracts with its customers varying from one to ten years in length. Revenues are recognized as services are provided on these contracts. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer which may be at a point in time or over time. Standard contracts generally contain 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 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 August 31, 2021 and 2020 were $788 and $1,090, respectively.

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 revenues are 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 net pass-through revenues for these services for the three months ended August 31, 2021 and 2020 were $371 and $380, respectively.

The Company provides billing credits to certain customers to be used for future services. These credits are capitalized at contract inception and amortized over the contract life, generally 7 to 10 years.

Performance Obligations: Revenue is recognized when control of the promised goods or services is transferred to the Company's customers. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods or services provided and the terms and conditions of the customer contract.

Allocation of Transaction Price: The transaction price, once determined, is allocated between the various performance obligations in the contract based upon their respective standalone selling prices. The standalone selling prices are determined based on the prices at which the Company separately sells each good or service. For items that are not sold separately, the Company estimates the standalone selling prices using relevant information that is reasonably available.

Significant Judgments: The Company has determined that direct labor costs associated with product installations meet the criteria of being directly related to a contract or a renewal of a contract because the costs generate and enhance the resources to satisfy the performance obligations. As such, the Company capitalizes these costs as incurred and amortizes them over the life of the contract. Each standard contract contains an early termination clause. See *Revenue Recognition and Deferred Revenue*, above for early contract termination revenue discussion.

Disaggregation of Revenue: The following table presents the Company's revenues disaggregated into categories that depict economic factors that affect the nature, amount, timing, and uncertainty of revenue and cash flows of such revenues recognized during the three and six months ended August 31, 2021 and 2020:

	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2021	**2020**	**2021**	**2020**
Enterprise Banking Group	**$ 47,915**	$ 44,903	**$ 95,588**	$ 88,207
Business Solutions Group	**29,136**	27,559	**58,119**	54,893
Total revenue	**$ 77,051**	$ 72,462	**$ 153,707**	$ 143,100

Accounting Policies and Practical Expedients Elected: The Company elected to apply an accounting policy election that permits an entity to exclude from revenue (transaction price) any amounts collected from customers on behalf of governmental authorities, such as sales taxes, use tax, and other similar taxes collected concurrent with revenue-producing activities. Therefore, the Company presents revenue net of sales taxes and similar revenue-based taxes. The Company elected to use the portfolio approach to evaluate contracts. As a practical expedient, a portfolio approach is permitted if it is reasonably expected that the approach's impact on the consolidated financial statements will not be materially different from the impact of applying the revenue standard on an individual contract basis. The Company elected a practical expedient that allows the Company to recognize the promised amount of consideration without adjusting for the time value of money if the contract has a duration of one year or less, or if the reason the contract extended beyond one year is because the timing of delivery of the product is at the customer's discretion. The Company's contracts typically do not have significant financing components.

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

Postretirement Benefit Obligation: The Company's postretirement benefit obligation is measured and calculated using generally accepted actuarial methods. The Compensation-Retirement Benefits Topic of the FASB Accounting Standards Codification (ASC) requires the Company to recognize the funded status of its postretirement benefit in the consolidated balance sheets with corresponding charges for net periodic postretirement benefit cost to operations and net actuarial gains and losses to other comprehensive income (loss).

As of August 31, 2021, the postretirement benefit had obligations of $60 and employer contributions to the plan and benefits paid from the plan of $24. Current liabilities of $60 were recorded. Other comprehensive income was ($538), net of tax. A discount rate of 3.55% was assumed.

As of August 31, 2021, other comprehensive loss amortization of $831 was recognized on the Income Statement.

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 or 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 is more likely than not to be sustained upon examination, including the resolution of any appeals or litigation processes. 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 2016.

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

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 outstanding during the period. The weighted average number of common shares outstanding was 27,483,076 and 27,654,660 for the fiscal quarters ended August 31, 2021 and 2020, respectively.

Recent Accounting Pronouncements: In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12), which introduces a number of amendments that are designed to simplify the application of accounting for income taxes. Such amendments include removing certain exceptions for intraperiod tax allocation, interim reporting when a year-to-date loss exceeds the anticipated loss, reflecting the effect of an enacted change in tax laws or rates in the annual effective tax rate and recognition of deferred taxes related to outside basis differences for ownership changes in investments. ASU 2019-12 also provides clarification related to when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction. In addition, ASU 2019-12 provides guidance on the recognition of a franchise tax (or similar tax) that is partially based on income as an income-based tax and accounting for any incremental amount incurred as a non-income-based tax. For public entities, ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. ASU 2019-12 was effective for the Company on March 1, 2021, and it does not expect the adoption to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (a consensus of the FASB Emerging Issues Task Force)" (ASU 2018-15). The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 was effective for the Company for annual and interim reporting periods beginning March 1, 2020. The effect of this is not material to the Company's consolidated financial statements.

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 included in its 2021 Annual Report filed separately through the OTC Disclosure and News Service and available at www.otcmarkets.com.

In the opinion of management of the Company, the accompanying consolidated financial statements reflect all adjustments necessary to present fairly the consolidated financial position of the Company as of August 31, 2021 and 2020, the results of its operations for the three-month periods ended August 31, 2021 and 2020, and its changes in equity and its cash flows for the six-month periods ended August 31, 2021 and 2020.

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. LEASES

Accounting Policies: The Company determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of "ROU" assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Company also determines lease classification as operating or finance at the lease commencement date.

The Company accounts for the lease and non-lease components separately. The lease components consist of common area maintenance costs related to real estate leases.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Company uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Certain leases require the Company to pay executory costs (property taxes, insurance, maintenance, and other operating expenses) associated with the leased asset. Such amounts are not included in the measurement of the lease liability to the extent they are variable in nature. These variable lease costs are recognized as a variable lease expense when incurred.

The lease term may include options to extend or to terminate the lease that the Company is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Company has elected not to record leases with an initial term of 12 months or less on the consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

As of August 31, 2021 and 2020, the weighted-average remaining lease term for the Company's operating leases was 37 months and 45 months, respectively, and the weighted average discount rate was 2.99% and 3.11%, respectively.

Nature of Leases: The Company has determined that all leases entered into were classified as operating lease arrangements.

Operating Leases: The Company leases office space for branch sales and services offices that expire in various years through 2027. These leases generally contain renewal options for periods ranging from 3 to 5 years and require the Company to pay all executory costs. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

The Company leases a vehicle fleet for employees. Under the terms of the master lease agreement, the Company has guaranteed a residual value for the lease of the fleet. No amounts related to the residual value guarantee have been deemed probable and, thus, required to be booked.

Quantitative Disclosures: The lease cost and other required information for the six months ended August 31, 2021 and 2020 are:

		2021		2020
Lease cost				
Operating lease cost	**$**	**1,356**	$	1,333
Short-term lease cost		**34**		-
Variable lease cost		**228**		223
Total lease cost	**$**	**1,618**	$	1,556
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flow used for operating leases	**$**	**1,372**	$	1,324
Right of use assets obtained in exchange for new operating lease obligations	**$**	**219**	$	1,611

Future minimum lease payments and reconciliation to the consolidated balance sheet at August 31, 2021 are as follows:

Years ending February 28 and 29,		Future Minimum Lease Payments
2022 (remaining period)	$	1,332
2023		2,045
2024		1,177
2025		704
2026		342
Thereafter		246
Total lease payments to be paid		5,846
Less future interest		(250)
Lease liabilities	$	5,596

NOTE 4. LAND AVAILABLE FOR SALE

The cost of land available for sale of $1,269 and $1,347 as of August 31, 2021 and 2020, respectively, primarily represents costs associated with the development of an office park in Paducah, Kentucky. These costs are allocated to each lot based upon each lot's proportionate share of salable acreage. The project is substantially complete and any future associated costs will not be material. As of August 31, 2021 and 2020, land available for resale was included in other assets on the accompanying consolidated balance sheets.

NOTE 5. INCOME TAXES

The Company's effective tax rates were 23.04% and 23.75% for the three months ended August 31, 2021 and 2020, respectively. These rates differed from the statutory federal tax rate of 21.00% for the three month periods ended 2021 and 2020 due primarily to state income taxes as well as various tax deductions and credits. Cash paid for income taxes during the three months ended August 31, 2021 and 2020 was $7,215 and $4,544, respectively.

NOTE 6. LINE OF CREDIT

The Company has a $15,000 commercial revolving line of credit. Interest is payable monthly at one-month LIBOR plus 0.90% (0.98% and 1.06% as of August 31, 2021 and 2020, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of August 31, 2021 and 2020. The line of credit expires in January 2023.

The Company also has a $5,000 commercial revolving line of credit. Interest is payable monthly at prime minus 1.30% (1.95% and 1.95% as of August 31, 2021 and 2020, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of August 31, 2021 and 2020. The line of credit was renewed in August 2021 and expires in August 2022.

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

NOTE 7. 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. 100,000 shares of the Company's blank check Preferred Stock were designated Series A Preferred Stock for use in the issuance of the Rights. None of the shares have been issued.

Share Repurchase Program: The Board of Directors has authorized, from time-to-time, the Company to repurchase shares of its common stock. Under these authorizations, 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 August 31, 2020, the Company had the authority to repurchase additional shares for up to $3,956. At August 31, 2021, the Company had the authority to repurchase additional shares for up to $1,863.

NOTE 8. STOCK-BASED COMPENSATION

Beginning in 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 $321 and $273 for the six months ended August 31, 2021 and 2020, respectively.

Restricted Stock Plan: Beginning in 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 annual 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 that 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 the four-year vesting period.

The following is a summary of unearned compensation on restricted stock as of August 31, 2021, as well as activity for the six months then ended:

Balance at February 28, 2021	$	5,316
Grant of restricted stock		
May 3, 2021		2,444
May 18, 2021		400
July 6, 2021		25
July 12, 2021		25
August 2, 2021		50
August 23, 2021		35
August 30, 2021		50
Restricted stock vested		(2,128)
Restricted stock forfeited		(146)
Balance at August 31, 2021	$	6,071

The following is a summary of unvested shares of restricted stock as of August 31, 2021, as well as activity for the six months then ended:

	Shares		Weighted Average Grant Date Fair Value
Unvested balance at February 28, 2021	153,987	$	34.52
Granted	49,908		60.69
Vested	(66,578)		31.96
Forfeited	(3,433)		42.43
Unvested balance at August 31, 2021	133,884	$	45.35

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was $1,553 and $856 for the six months ended August 31, 2021 and 2020, respectively.

NOTE 9. SEGMENT REPORTING

The Company is a leading provider of financial, regulatory compliance and information technology solutions and services to financial institutions and other corporate entities. As of March 1, 2020, the Company began managing and reporting on its businesses differently than it had previously with the adoption of business segments.

The Company's two reportable business segments are managed and reported upon separately based on fundamental differences in their operations. The Chief Operating Decision Makers (CODMs), determined to be the Senior Executive Leadership Team, evaluate the performance of the segments based on the contributions to operating income of the respective segments and allocate additional resources to each based on various factors, including product development and innovation focus, market conditions, emerging technologies, competitive factors, and others. Only revenue and costs of revenue are considered in the evaluation for each segment. Assets and liabilities are not allocated to segments for reporting presentation as the CODMs do not use such information as a key performance indicator.

The Company's operations are classified into two reportable segments as follows:

Enterprise Banking Group ("EBG") comprises our core bank processing services including payments solutions as well as our integrated banking solutions for mobile and Internet banking.

Business Solutions Group ("BSG") comprises: document solutions including check imaging, branch and merchant capture, print and mail and electronic document delivery services; managed services including network management, cloud-based managed services, corporate intranets, telecommunications services, secure remote working connectivity, secure Web hosting, Board portals, e-messaging, software licensing and installation fees, professional services, equipment and supply sales, and maintenance and support fees; and regulatory compliance services including compliance software and services, homeland security, anti-money laundering, anti-terrorism financing, and fraud prevention.

Segment revenue and operating income were as follows during the periods presented:

	Three Months Ended August 31, 2021		
	EBG	**BSG**	**Total**
Revenues	**$ 47,915**	**$ 29,136**	**$ 77,051**
Cost of revenue	**25,310**	**19,907**	**45,217**
Research and development			**4,863**
Selling, general, and administration			**8,231**
Operating expenses			**58,312**
Segment income	**$ 22,605**	**$ 9,229**	
Operating income			**18,739**
Interest income, net			**38**
Gain/Loss - sale of investment			**84**
Income before income taxes			**$ 18,861**

	Six Months Ended August 31, 2021		
	EBG	**BSG**	**Total**
Revenues	**$ 95,588**	**$ 58,119**	**$ 153,707**
Cost of revenue	**50,919**	**39,468**	**90,387**
Research and development			**9,708**
Selling, general, and administration			**16,073**
Operating expenses			**116,167**
Segment income	**$ 44,669**	**$ 18,651**	
Operating income			**37,540**
Interest income, net			**78**
Gain/Loss - sale of investment			**84**
Income before income taxes			**$ 37,702**

	Three Months Ended August 31, 2020		
	EBG	**BSG**	**Total**
Revenues	$ 44,903	$ 27,559	$ 72,462
Cost of revenue	22,898	18,790	41,689
Research and development			4,792
Selling, general, and administration			7,519
Operating expenses			54,000
Segment income	$ 22,005	$ 8,769	
Operating income			18,462
Interest income, net			202
Gain/Loss - sale of investment			37
Income before income taxes			$ 18,702

	Six Months Ended August 31, 2020		
	EBG	**BSG**	**Total**
Revenues	$ 88,207	$ 54,893	$ 143,100
Cost of revenue	44,720	37,013	81,733
Research and development			9,231
Selling, general, and administration			14,958
Operating expenses			105,923
Segment income	$ 43,487	$ 17,880	
Operating income			37,178
Interest income, net			332
Gain/Loss - sale of investment			37
Income before income taxes			$ 37,547

NOTE 10. 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 consolidated financial position or results of operations of the Company.

NOTE 11. 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 October 14, 2021, the date the second fiscal quarter consolidated financial statements were available to be issued.

On July 8, 2021, the Company's Board of Directors declared a cash dividend of 27 cents per share payable to shareholders of record as of the close of business on September 1, 2021. This dividend was paid on September 24, 2021 in the aggregate amount of $7,416.

On September 23, 2021, the Company's Board of Directors authorized a cash dividend of 27 cents per share, or approximately $7,415 in the aggregate, payable on December 27, 2021 to shareholders of record as of the close of business on December 1, 2021.

On September 23, 2021, 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 previous authorizations disclosed elsewhere in this Quarterly Report.

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. Management believes this supplemental information is relevant to 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 and regional banks, multi-bank holding companies and global technology, logistics and insurance organizations, as well as a variety of other business enterprises, each with a unique set of information, technology and service requirements.

We derive our revenues from: core bank processing services, maintenance, and support fees; software licensing and installation fees; professional services; and equipment and supply sales. In addition to core bank processing, our integrated banking solutions include: digital banking; payments solutions; cybersecurity and IT Infrastructure solutions; check imaging; cash management; branch and merchant capture; print and mail and electronic document distribution services; corporate intranets; Board portals; secure Web hosting; e-messaging; teller and platform services; ATM and debit card service and support; and compliance software and services for regulatory compliance, homeland security, anti-money laundering, anti-terrorism financing and fraud prevention.

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 of these. Our consolidated financial statements and results of operations reflect acquired business after the completion of the acquisition and are not restated. We account for acquired businesses using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Market Conditions. We believe that financial institutions are increasingly focused on technology solutions, including digital banking, 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, the Financial Choice Act of 2017 and the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, now supplemented by the 2020 legislative response to the COVID-19 pandemic, including the Coronavirus Aid, Relief and Security (CARES) Act, as well as changes in the financial industry have resulted and will continue to result in constantly changing regulations impacting the financial and financial technology industries. We cannot predict the ultimate effect of the COVID-19 pandemic, legislation, regulations and industry changes on our customers or our Company.

Historically, merger and acquisition activity among community banks has varied markedly from time to time. We expect some disruption of past patterns as the nation continues to adjust to the COVID-19 pandemic. Our bank customers have been active in the merger and acquisition market, resulting in both increased revenues as our customers acquire other banks and 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.

***COVID-19 Pandemic*.** In March 2020, the World Health Organization formally recognized that a novel strain of coronavirus, COVID-19, had reached pandemic levels in the United States. In response, the United States federal government, as well as states and cities, have taken actions to prevent the spread of COVID-19 such as vaccine mandates, imposing travel restrictions and bans, quarantines, social distancing guidelines, shelter-in-place or lock-down orders and similar limitations. Accordingly, the COVID-19 pandemic has adversely impacted economic activity in many business sectors and has contributed to significant volatility in financial activities and markets during calendar 2020 and 2021.

Our operating performance is subject to economic and market conditions, including the effects of the COVID-19 pandemic, as well as their impacts on levels of consumer spending. As a result of the COVID-19 pandemic and the related decline in economic activity, we initially experienced a decline in payments volume and transactions that negatively impacted both of our operating segments' transaction-based fees in the prior fiscal year. Most payment transaction volumes began to recover in the second quarter of fiscal 2021 and continued to improve in the first half of fiscal 2022. We expect volume improvement to continue in the remainder of fiscal 2022. Despite the impacts on broad economic activity and our operating circumstances caused by COVID-19, the overall impact on our ability to deliver our services has been manageable and our balance sheet, liquidity, earnings, cash flow and sales results remain strong, in part due to reduced travel and other expenses for activities of necessity curtailed during the pandemic.

In response to the onset of the COVID-19 pandemic, we have taken several actions to protect the health and safety of our employees while maintaining business continuity. These actions include, among others: requiring a majority of our employees to work remotely; limiting or suspending non-essential travel; suspending all non-essential visitors to our facilities; disinfecting facilities and workspaces extensively and frequently; providing personal protective equipment; and requiring employees who must be present at our facilities to adhere to a variety of safety protocols. In addition, we have implemented various measures to support our employees who are working remotely while balancing additional personal responsibilities and priorities created by the pandemic and governmental responses. We have also provided increased pay for certain employees involved in critical infrastructure who cannot work remotely. At this time, and over the next quarter in response to the spread of the Delta variant and increased infection rates, we are continuing such safety measures including allowing employees to continue remote work, limiting non-essential travel and requiring vaccination for business travel, and requiring visitors and employees who must be present at our facilities to adhere to a variety of safety protocols.

We will continue to monitor and assess any new developments related to COVID-19 and implement appropriate actions to minimize the risk to our operations of any material adverse developments. Ultimately, the extent of the impact of the COVID-19 pandemic on our future operational and financial performance will depend on, among other matters, the duration and intensity of the pandemic; governmental and private sector responses to the pandemic and the impact of such responses on us, including the availability and administration of COVID-19 vaccines; and the continuing impact of the pandemic on our employees, customers, vendors, operations and sales, including any such impacts that result from recessionary or suppressive forces within the broader economy. All of these factors are inherently uncertain and cannot be predicted.

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2021

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:

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

			Change		Percentage of Revenues	
Three Months Ended August 31,	**2021**	**2020**	**Amount**	**Percentage**	**2021**	**2020**
Revenues	$ 77,051	$ 72,462	$ 4,589	6.3%	100.0%	100.0%
Operating expenses	58,312	54,000	4,312	8.0%	75.7%	74.5%
Operating income	18,739	18,462	277	1.5%	24.3%	25.5%
Non-operating income	84	37	46	123.3%	0.1%	0.1%
Interest income, net	38	202	(164)	(81.2%)	0.0%	0.3%
Income before income taxes	18,861	18,702	159	0.9%	24.5%	25.8%
Provision for income taxes	4,345	4,442	(97)	(2.2%)	5.6%	6.1%
Net income	$ 14,516	$ 14,260	$ 256	1.8%	18.8%	19.7%
Earnings per common share	$ 0.53	$ 0.52	$ 0.01	1.9%		
Shares used in computing earnings per common share	27,483,076	27,654,660	(171,584)	(0.6%)		

			Change		Percentage of Revenues	
Six Months Ended August 31,	**2021**	**2020**	**Amount**	**Percentage**	**2021**	**2020**
Revenues	$ 153,707	$ 143,100	$ 10,606	7.4%	100.0%	100.0%
Operating expenses	116,167	105,923	10,244	9.7%	75.6%	74.0%
Operating income	37,540	37,178	362	1.0%	24.4%	26.0%
Non-operating income	84	37	46	123.3%	0.1%	0.0%
Interest income, net	78	332	(253)	(76.4%)	0.1%	0.2%
Income before income taxes	37,702	37,547	155	0.4%	24.5%	26.2%
Provision for income taxes	8,772	9,134	(362)	(4.0%)	5.7%	6.4%
Net income	$ 28,930	$ 28,413	$ 517	1.8%	18.8%	19.9%
Earnings per common share	$ 1.05	$ 1.03	$ 0.02	1.9%		
Shares used in computing earnings per common share	27,497,566	27,654,450	(156,884)	(0.6%)		

Revenues

Total revenues increased $4,589, or 6.3%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $10,606, or 7.4%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021. For both periods, the growth in revenues benefited from robust sales activity in both the Enterprise Banking and Business Solutions Groups. Revenue growth benefited in both periods from increased transaction volumes in payments processing due to the recovery from the suppression of transaction volumes in both prior year periods attributable to the COVID-19 pandemic economic environment. Digital banking and regulatory compliance revenues also continued to be growth leaders in both periods. Revenues included $788 in early contract termination fees in the second quarter of fiscal 2022 compared with $1,090 in the second quarter of fiscal 2021. Excluding the effect of the early contract termination fees from both periods, second quarter fiscal 2022 revenues increased 6.9% compared with the second quarter of fiscal 2021. For the first six months of fiscal 2022, revenues included early contract termination fees of $1,389 compared with early contract termination fees of $3,943 in the first six months of fiscal 2021. Excluding the effect of the early contract termination fees from both periods, revenues for the first six months of fiscal 2022 increased 9.5% compared with the first six months of fiscal 2021. 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 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 $4,312, or 8.0%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $10,244, or 9.7%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021.

For both periods, the increase in operating expenses was primarily related to:

- higher personnel expenses primarily due to higher staffing for the current year period, the effect of typical annual salary adjustments, higher health insurance expense, special COVID-19 pandemic related employee incentives, and higher profit sharing plan contribution expenses;
- higher cost of goods sold on higher related payments processing and digital banking revenues;
- higher equipment expense due to new capital investments placed into service during the trailing 12-month period; and
- higher professional fees.

For the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021, the increase in operating expenses was also related to:

- higher travel expense due to the prior year period’s significantly reduced travel due to the COVID-19 pandemic.

Operating Income

Operating income increased $277, or 1.5%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $362, or 1.0%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021 primarily from increased payments processing and digital banking revenues that were partially offset by a decrease in early contract termination fees, as well as an increase in operating expenses mainly driven by higher personnel expenses. Operating margins were 24.3% and 24.4% for the three- and six-month periods ended August 31, 2021, respectively, compared with 25.5% and 26.0% for the three- and six-month periods ended August 31, 2020, respectively. Excluding the effect of early contract termination fees, operating income increased $579, or $3.3%, in the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $2,916, or 8.8%, in the first six months of fiscal 2022 compared with the first six months of fiscal 2021.

Interest Income, net

Consolidated net interest income was $38 for the second quarter of fiscal 2022 and $78 for the first six months of fiscal 2022 compared with $202 for the second quarter of fiscal 2021 and $332 for the first six months of fiscal 2021. For both periods, the decline in net interest income was due to lower interest rates earned on invested cash balances and lower average invested cash balances.

Income Before Income Taxes

Income before income taxes increased $159, or 0.9%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $155, or 0.4%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021 due to the offsetting decrease in interest income to the increase in operating income described above for both periods, respectively.

Provision for Income Taxes

The provision for income taxes decreased to $4,345 for the second quarter of fiscal 2022 compared with $4,442 for the second quarter of fiscal 2021 and decreased to $8,772 for the first six months of fiscal 2022 compared with $9,134 for the first six months of fiscal 2021 due to a lower effective tax rate for both periods. The estimated consolidated effective income tax rate was 23.04% for the second quarter of fiscal 2022 compared with 23.75% for the second quarter of fiscal 2021. The estimated consolidated effective income tax rate was 23.27% for the first six months of fiscal 2022 compared with 24.33% for the first six months of fiscal 2021. The decrease in the effective rate was due primarily to the timing of the recognition and allowances of certain deductions and credits taken in both fiscal years and a reduction in the Company's estimation of potential future exposure related to certain ongoing federal and state tax audits.

Net Income

Net income increased $256, or 1.8%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $517, or 1.8%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021. Net income for the second quarter of fiscal 2022 was $14,516, or $0.53 per share, on 27.5 million weighted average shares outstanding compared with $14,260, or $0.52 per share, on 27.7 million weighted average shares outstanding for the second quarter of fiscal 2021. Net income for the first six months of fiscal 2022 was $28,930, or $1.05 per share, on 27.5 million weighted average shares outstanding compared with $28,413, or $1.03 per share, on 27.7 million weighted average shares outstanding for the first six months of fiscal 2021.

Reportable Segment Discussion

The Company is a leading provider of financial, regulatory compliance and information technology solutions and services to financial institutions and other corporate entities. Beginning with the first quarter of fiscal 2021, the Company reorganized into two reportable operating segments, as follows:

Enterprise Banking Group ("EBG") comprises our core bank processing services including payments solutions as well as our integrated banking solutions for mobile and Internet banking.

Business Solutions Group ("BSG") comprises: document solutions including check imaging, branch and merchant capture, print and mail and electronic document delivery services; managed services including network management, cloud-based managed services, corporate intranets, telecommunications services, secure remote working connectivity, secure Web hosting, Board portals, e-messaging, software licensing and installation fees, professional services, equipment and supply sales, and maintenance and support fees; and regulatory compliance services including compliance software, homeland security, anti-money laundering, anti-terrorism financing, and fraud prevention.

The Company's two reportable business segments are managed and reported upon separately based on fundamental differences in their operations. The Company evaluates the performance of its segments based on the contributions to operating income of the respective segments and allocates resources to them based on various factors, including product development and innovation focus, market conditions, emerging technologies, competition, and others. Only revenue and costs of revenue are considered in the evaluation for each segment. Operating expenses that are not directly attributable to one of the two reportable segments are presented in the aggregate at the consolidated Company level.

EBG	**Three Months Ended August 31,**			**Six Months Ended August 31,**		
	2021	**2020**	**% Change**	**2021**	**2020**	**%**
Revenues	$ 47,915	$ 44,903	6.7%	$ 95,588	$ 88,207	8.4%
Cost of revenue	25,310	22,898	10.5%	50,919	44,720	13.9%
Segment income	$ 22,605	$ 22,005	2.7%	$ 44,669	$ 43,487	2.7%

EBG revenues increased $3,012, or 6.7%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $7,381, or 8.4%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021. For both periods, the Company benefited from a recovery in payments processing transaction volumes over the prior year periods, during which transaction volumes were suppressed due to the general reduction in economic activity as a result of the initial public and private sectors' response to the COVID-19 pandemic. Revenue growth was also driven by increased revenue from new and existing customers including increased demand for the segment's digital banking solutions as banks have continued to accelerate their digital support of customers as a result of the COVID-19 pandemic. EBG cost of revenue increased $2,412, or 10.5%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $6,199, or 13.9% for the first six months of fiscal 2022 compared with the first six months of fiscal 2021 primarily related to higher personnel expense and higher cost of goods sold on higher related revenues in payments processing and digital banking. EBG operating income increased $600, or 2.7%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $1,182, or 2.7%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021.

BSG	Three Months Ended August 31,			Six Months Ended August 31,		
	2021	2020	% Change	2021	2020	%
Revenues	$ 29,136	$ 27,559	5.7%	$ 58,119	$ 54,893	5.9%
Cost of revenue	19,907	18,790	5.9%	39,468	37,013	6.6%
Segment income	$ 9,229	$ 8,769	5.3%	$ 18,651	$ 17,880	4.3%

BSG revenues increased $1,577, or 5.7%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased $3,226, or 5.9%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021. For both periods, the revenue increase was primarily driven by increased regulatory compliance revenues as well as network services and document delivery revenues, partially offset by a decrease in sales of third-party hardware and software. BSG cost of revenue increased $1,117, or 5.9%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased by $2,455, or 6.6%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021 primarily related to higher personnel expense and higher cost of goods sold on higher related network services revenues, partially offset by lower cost of goods sold on lower related revenues of third-party hardware and software. BSG operating income increased by $460, or 5.3%, for the second quarter of fiscal 2022 compared with the second quarter of fiscal 2021 and increased by $771, or 4.3%, for the first six months of fiscal 2022 compared with the first six months of fiscal 2021.

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 six months of fiscal 2022 and 2021, respectively:

Summary of Operating Cash Flows
(Unaudited)
(in thousands)

	Six Months Ended August 31,	
	2021	**2020**
Net income	$ 28,930	$ 28,413
Non-cash expenses	11,135	12,222
Change in receivables	4,761	2,951
(Gain)/Loss on sales of investment	(84)	(37)
Change in deferred revenue	(1,660)	(640)
Change in other assets and liabilities	(6,915)	(3,294)
Net cash from operating activities	$ 36,167	$ 39,614

Net cash provided by operating activities decreased 8.7% for the first six months of fiscal 2022 compared with the first six months of fiscal 2021. The decrease in operating cash flows was primarily due to the change in payables and accrued expenses for the first six months of fiscal 2022 compared with the first six months of fiscal 2021. Cash from operations is primarily used to fund capital expenditures; repay debt, if any; pay dividends; and repurchase stock.

Investing Activities. Net cash used by investing activities for the first six months of fiscal 2022 was $4,618. The cash was used for purchases of equipment and software during the period. Net cash used by investing activities for the first six months of fiscal 2021 was $16,590, primarily used for purchases of equipment and software during the period.

Financing Activities. Net cash used by financing activities for the first six months of fiscal 2022 was $22,673 for dividends paid to shareholders of $13,754, and for the purchase and redemption of common stock of $8,918. Net cash used by financing activities for the first six months of fiscal 2021 was $15,955 for dividends paid to shareholders of $11,618, and for the purchase and redemption of common stock of $4,337.

Credit Lines

The Company renewed an unsecured bank credit line on April 15, 2020 that provides for funding up to $15,000 and bears interest at a floating rate equal to one-month LIBOR plus 0.90% (0.98% and 1.06% at August 31, 2021 and 2020, respectively). The unsecured revolving credit agreement expires in January 2023. At August 31, 2021, no amount was outstanding under the credit line.

The Company renewed an unsecured bank credit line on August 25, 2021 that provides for funding of up to $5,000 and bears interest at a floating rate equal to the prime rate minus 1.30% (1.95% and 1.95% at August 31, 2021 and 2020, respectively). The credit line expires in August 2022. At August 31, 2021, no amount was outstanding under the credit line.

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

Off Balance Sheet Arrangements

As of August 31, 2021, 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 and equity 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. We believe that our liquidity resources will remain adequate despite the COVID-19 pandemic.

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 Report – Supplemental Disclosures for the fiscal year ended February 28, 2021 as published by the OTC Markets Group, Inc. on the OTC Disclosure and News Service available on the OTCQX website (www.otcmarkets.com). No change in the status thereof has occurred through the time period covered by this Quarterly Report.

Item 6: Defaults upon senior securities.

None.

Item 7: Other information.

A. Sale and Purchase of Equity Securities:

The following table sets forth information concerning the equity securities of CSI issued from June 1, 2021 through the last date of the quarter included in 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)
7/6/2021	Stock Grants	Other Officer (1 in Total)	453	-	Restricted	Yes
7/12/2021	Stock Grants	Key Employee (1 in Total)	441	-	Restricted	Yes
8/2/2021	Stock Grants	Key Employee (1 in Total)	337	-	Restricted	Yes
8/2/2021	Stock Grants	Other Officer (1 in Total)	505	-	Restricted	Yes
8/20/2021	Stock Grants	Non-Employee Directors (6 in Total)	2,873	-	Restricted	Yes
8/23/2021	Stock Grants	Other Officer (1 in Total)	584	-	Restricted	Yes
8/30/2021	Stock Grants	Other Officer (1 in Total)	424	-	Restricted	Yes
8/30/2021	Stock Grants	Other Officer (1 in Total)	424	-	Restricted	Yes

(1) The certificates, or transfer agent account entries in lieu of 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 131,393 equity securities of CSI were repurchased during the six months ended August 31, 2021. As reflected in the Condensed Consolidated Statement of Changes in Equity in Item 3, above, CSI redeemed 17,945 shares of common stock related to tax withholding payments as a part of share-based compensation during the six months ended August 31, 2021.

Item 8: Exhibits.

A. Material Contracts:

Attached as Exhibit 18.A. is a Form of Employment Agreement dated as of July 7, 2021, by and between the Company and T. David Culbertson (President and Chief Executive Officer).

B. Articles of incorporation and bylaws

The By-Laws have not been amended since March 25, 2021.

Item 9: Certifications.

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

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2021

EXHIBIT 9 (A)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David Culbertson, principal executive officer of Computer Services, Inc. (the “Company”), certify that:

1. I have reviewed this Quarterly Report of the Company for the period ended August 31, 2021;

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: October 14, 2021

/s/ David Culbertson
David Culbertson
Chief Executive Officer

EXHIBIT 9 (B)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian K. Brown, principal financial officer of Computer Services, Inc. (the "Company"), certify that:

1. I have reviewed this Quarterly Report of the Company for the period ended August 31, 2021;

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: October 14, 2021

/s/ Brian K. Brown
Brian K. Brown
Chief Financial Officer

EXHIBIT 18.A

EXECUTIVE EMPLOYMENT AGREEMENT

This is an Executive Employment Agreement made and entered into as of the seventh (7th) day of July 2021 (the "Agreement") by and between Computer Services, Inc., a Kentucky corporation (the "Company"), and T. David Culbertson ("Executive").

In consideration of their respective obligations contained in this Agreement, intending to be bound legally, the parties agree as follows:

1. Employment. The Company hereby employs Executive, and Executive hereby accepts employment on the terms and conditions set forth in this Agreement.

2. Term. The term of employment pursuant to this Agreement shall be for a period of five (5) years commencing on the date of this Agreement, subject to automatic extension in accordance with Section 2(a), and also subject to earlier termination by the Company for Cause in accordance with Section 2(b).

(a) At the end of the third (3rd) year of the original term of this Agreement and annually thereafter, the term of employment pursuant to this Agreement shall be extended for an additional one (1) year period from the original termination date and annually thereafter the then-extended term shall be further extended for an additional year unless Executive is terminated for Cause or the Company gives notice to Executive or Executive gives notice to the Company not less than sixty (60) days prior to the end of the third (3rd) year of the original term, or the annual renewal date thereafter as the case may be, to the effect that the employment of Executive pursuant to this Agreement will not extend beyond the original or extended termination date, as the case may be.

(b) For purposes of this Agreement, the Company shall have "Cause" to terminate Executive's employment under this Agreement upon 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 his duties under this Agreement;

(iii) The willful malfeasance or gross negligence by Executive in the performance of his duties under this Agreement including, but not limited to, a knowing violation of the Company's Code of Ethics for its Chief Executive Officer 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 his having caused those financial statements and disclosures to fail to fairly present, in all material respects, the operations and financial condition of the Company.

3. Compensation**.**

(a) Base Salary. Executive's initial base salary shall be [redacted] per fiscal year. Executive's base salary may be changed from time to time, in the Company's sole discretion; provided, however, that any change shall apply only prospectively; and, further provided, that in no event shall Executive's base salary be less than the cumulative sum of [redacted] per fiscal year plus any prior increases during the term of this Agreement above that amount; and, still further provided, that Executive shall remain eligible for incentive compensation in accordance with the provisions of this Agreement. Such base salary will be payable in accordance with the normal payroll practices of the Company and will be subject to usual and customary withholdings.

(b) Incentive Compensation. Executive is also eligible for incentive compensation in accordance with the provisions of subsection (c), below. The incentive compensation will take the forms of: (i) a cash bonus payable as of the Audit Report Date (as defined below) of each calendar year following the end of, and based upon the financial performance of the Company during, the Company's most recently ended fiscal year; and (ii) a restricted stock award to be made as of the Audit Report Date of each calendar year following the end of, and based upon the financial performance of the Company during, the Company's most recently ended fiscal year. Shares of the Company's common stock included in any restricted stock award shall be subject to the Company's then-current form of Restricted Stock Award Agreement and shall have the following vesting schedule: twenty five percent (25%) of any shares awarded shall be vested in Executive, and released from the restrictions of the Restricted Stock Award Agreement, on each of the first four anniversaries of the award date. For purposes of this Agreement, the "Audit Report Date" shall be five (5) business days following the date on which the Audit Committee of the Company's Board of Directors accepts the audit report and opinion of the Company's independent certified public accountants for the preceding fiscal year.

(c) Terms of Incentive Compensation.

(i) Measurement Period. Annual incentive compensation shall be based on the financial performance of the Company during its most recently ended fiscal year. The Company's fiscal year has always ended as of the last day of February. If the Company changes its fiscal year for any reason, then the stub period for the transition from the old fiscal year to the new shall be treated *pro rata* for purposes of incentive compensation pursuant to this Agreement.

(ii) Target Financial Performance. The Company, through the Compensation Committee of the Board of Directors, subject to review and approval by the Board (with Executive *not* participating even though he may be a Director), shall annually, during the first quarter of a new fiscal year (after preliminary results of the previous fiscal year are made available by the Company's Treasurer and Chief Financial Officer), establish standards for the financial and other performance of the Company for then-current fiscal year (collectively, the standards are referred to as the "Target"). The Target shall be immediately communicated to Executive and shall then be the basis for computing the incentive compensation of Executive for purposes of this Agreement; provided, however, that the Target may be adjusted if the final, audited financial results of the previous fiscal year differ materially from the preliminary results.

(iii) Initial Target; Default. The Target for the Company's Fiscal Year 2022 shall be the achievement by the Company of fully diluted earnings per share from continuing operations of [redacted] of such figure for the Company's Fiscal Year 2021, as determined by the Company's Treasurer and Chief Financial Officer and approved by the Compensation Committee, based on the audited financial statements for the respective periods. Whenever earnings per share are used for purposes of this Agreement, they shall be calculated to four decimal places (1/100th of one cent (1¢)). This initial Target shall also be the default Target for subsequent fiscal years (i. e., the same percentage improvement) until changed by the Company in accordance with subsection (c)(ii), above. Once the initial Target is so changed, the new Target shall become the default Target for subsequent fiscal years until it is changed, *ad infinitum*.

For purposes of this Agreement, "fully diluted earnings per share from continuing operations" shall be those that are reflected in the audited financial statements with such good faith adjustments to account for extraordinary or non-recurring items as the Compensation Committee in its discretion may determine.

(iv) Goal; Threshold; Cap; Multiplier. The goal of the incentive compensation provisions of this Agreement is to provide a reasonable opportunity for Executive to earn a cash bonus of [redacted] of base salary and a restricted stock award of [redacted] of base salary based on performance targets established by the Company from time to time. No incentive compensation, however, shall be payable unless the Company achieves eighty percent (80.0%) of the Target, and no additional incentive compensation shall be earned if the Company achieves above one hundred twenty percent (120.0%) of the Target. At eighty percent (80.0%) of the Target, the incentive compensation shall be forty percent (40%); at one hundred percent (100.0%) of the Target, the incentive compensation shall be one hundred percent (100.0%); and, at one hundred twenty percent (120.0%) of the Target, the incentive compensation shall be one hundred sixty percent (160.0%). Between the threshold and cap percentages, the incentive compensation is prorated such that the percentage paid increases by three percent (3.0%) for every one percent (1.0%) increment in the level of achievement. For purposes of this Section 3, including without limitation this subsection (c)(iv) and subsection (c)(vi), the concept of "reasonable opportunity" shall govern the setting of a new Target. "Reasonable opportunity" shall be based upon, with such weighting as the Company deems appropriate: (A) benchmarking of the Company's financial performance against its industry peer group; (B) incentive and other compensation levels paid within the industry by peer group members that report their executive compensation in public filings; (C) the historical growth rates of the Company's business; (D) a prudent risk-reward ratio in undertaking new ventures or making acquisitions; (E) the maintenance of consistency in the growth of the Company and its financial attributes; and (F) similar factors.

(v) Examples.

(A) At eighty percent (80%) of Target level, the cash bonus would be thirty percent (30%) of base salary (seventy-five percent (75%) cash bonus factor times the incentive compensation level of forty percent (40%)), and the restricted stock award would be fifty percent (50%) of base salary (one hundred twenty-five percent (125%) cash bonus factor times incentive compensation level of forty percent (40%)).

(B) At one hundred percent (100%) of Target level, the cash bonus would be seventy- five percent (75%) of base salary, and the restricted stock award would be one hundred twenty five percent (125%) of base salary.

(C) At one hundred twenty percent (120%) of Target level, the cash bonus would be one hundred twenty percent (120%) of base salary, and the restricted stock award would be two hundred (200%) of base salary.

(vi) New Targets; Minimum Incentive Compensation After Change in Control. The initial Target has been established by the Company with the participation of Executive and with the benefit of the advice of outside experts. The initial Target is consistent with the Company's strategic plan. In establishing any Target to succeed the initial Target, the Company shall: (A) use its best efforts to set a practicably achievable Target that can reasonably produce an incentive compensation level equal to the goal set in Section 3(c)(iv), above; and (B) act not inconsistently with the Company's then-current strategic plan. In the event of a change in control of the Company, as defined elsewhere in this Agreement, and despite the result of use of the new Target, Executive shall receive, with respect to a period of three (3) full fiscal years following the change in control of the Company, the greater of: (x) one hundred percent (100.00%) of the numerical average of his annual incentive compensation for three (3) full fiscal years preceding the change in control; or (y) one hundred percent (100.00%) on the then-current target incentive compensation; provided that Executive remains as an employee of the Company for those years. If Executive does not remain as an employee of the Company for those years, his compensation, including incentive compensation, shall be governed by the other provisions of this Agreement that deal specifically with his termination.

(vii) 2022. In addition to incentive compensation with respect to the Company's fiscal year 2023, the Executive is also entitled to participate in the Company's incentive compensation program that will be awarded in 2022 for prior services.

(d) Compensation in Various Termination Scenarios.

(i) By Company. If the Company terminates Executive's employment otherwise than for "Cause" without the consent of Executive, the Company shall not be relieved of its obligations under this Agreement which obligations shall continue without diminution, set-off, or mitigation, as if the termination had not occurred; except that his incentive compensation for periods following his date of termination shall be the amount determined in accordance with Section 3(c)(vi), above, as if a change in control of the Company had occurred. If the termination of Executive otherwise than for "Cause" takes place following a "change in control of the Company," as defined below, Executive shall be entitled not only to all of the benefits under this Agreement as if his employment had not been terminated, subject to the timing differences as may be elected by Executive in accordance with Section 10, but also to the special benefits described in Section 10.

(ii) By Executive. If the Executive terminates his employment with the Company for any reason including death or disability (but not for “Good Reason” after a change in control of the Company, as governed by Section 10, below), the Executive shall be entitled to the following payments and benefits, subject to any appropriate offsets, as permitted by applicable law, for debts or money due from the Executive to the Company or an affiliate thereof or damages from any breach hereunder: (i) unpaid salary compensation through, and any unpaid reimbursable expenses outstanding as of, the date of termination; and (ii) all benefits, if any, that had accrued to the Executive through the Date of Termination under the plans and programs described in Section 4, below, or any other applicable plans in which he participated as an employee of the Company, in the manner and in accordance with the terms of such plans. Executive shall not be entitled to incentive compensation with respect to the fiscal year in which he terminates his employment, unless his termination was by reason of: (x) death or disability in which event his incentive compensation is governed by Section 3(d)(iii), below; or (y) for "Good Reason" after a change in control of the Company in which event his incentive compensation is governed by Section 10, below.

(iii) Death or Disability. If Executive should die during the term of this Agreement or if he should be prevented from performing his duties by reason of illness or disability for a continuous period of one hundred twenty (120) days or more, the incentive compensation payable for the fiscal year in which such event occurs shall be that portion of the incentive compensation otherwise payable multiplied by the number of months in which he actively performed his duties during such year divided by twelve.

(iv) For "Cause". If Executive's employment is terminated for "Cause", he shall not be entitled to incentive compensation benefits for the fiscal year within which such termination occurs.

4. Executive Benefits.

(a) Employee Benefit Plans. During the term of this Agreement, Executive shall be entitled to participate in all employee benefit plans of the Company available to its executive officers, including without limitation the Company's paid vacation, holiday, sick leave, disability and profit-sharing plans, subject to the reasonable eligibility, enrollment and other requirements of such plans.

(b) Restricted Stock. The Company and Executive are parties to Restricted Stock Agreements establishing the terms of awards of restricted stock to Executive. Nothing in this Agreement shall be deemed to have the effect by implication of modifying or in any respect reducing the benefits to which Executive is entitled pursuant to the Restricted Stock Agreements. *See* Section 3(c)(vii), above, with respect to the award of incentive compensation including restricted stock in 2022.

(c) No Implication. Nothing in this Agreement shall be deemed to have the effect by implication of modifying or in any respect reducing the benefits to which Executive is otherwise entitled.

5. Duties of Executive. Executive shall serve as Chief Executive Officer of the Company. Executive shall have all of the powers and responsibilities of such positions as provided in the By-Laws of the Company, which with respect to Executive's positions shall not be altered so as to materially diminish Executive's responsibilities. Executive shall devote his primary time, attention and energies to the businesses of the Company, and he shall perform such other reasonable duties consistent with his title as set forth above as the Board of Directors of the Company shall prescribe from time to time.

6. Extent of Services. So long as he remains in the employ of the Company, Executive shall not engage in any other material business activities, whether or not any such business activity is pursued for gain, profit or other pecuniary advantage, except as otherwise permitted by Section 7(c), below.

7. Covenants Not to Compete or Interfere. For a period ending on three years following the termination of Executive's employment with the Company whether pursuant to this Agreement or otherwise(the "Termination Date"), Executive will not, directly or indirectly, as a sole proprietor, member of a partnership, or shareholder, investor, officer or director of a corporation, or as an employee, agent, associate or consultant of any person, firm or corporation other than the Company or one of its affiliates:

(a) Solicit any business of the type engaged in by the Company or its affiliates from: (i) any current clients or customers; (ii) any former clients or customers; or (iii) prospects of the Company or its affiliates, which prospects were solicited directly by Executive or where Executive supervised, directly or indirectly, in whole or in part, the solicitation activities related to any such persons;

(b) Solicit any employee of the Company or its affiliates to terminate his or her employment; or

(c) Engage in any business which is in substantial competition with any substantial business conducted, at the time such engagement is commenced, by the Company or its affiliates in the states or portions thereof in which the Company is actually doing business or in which the Company is then actively proposing to do business ("Prohibited Activity"); provided, however, that this Section 7(c) and Section 6 of this Agreement shall not be construed as preventing Executive from investing his personal assets in businesses in such form or tenor as may only require immaterial services as an investor on the part of Executive in the operation or the affairs of the companies in which such investments are made and in which his participation is solely that of an investor.

(d) As used in this Section 7 and in Section 8, "affiliate" shall mean any person, firm or corporation that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the Company, whether such control is through stock ownership, contract or otherwise.

(e) The parties desire and intend that the provisions of this Section 7 shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular portion of this Section 7 shall be adjudicated to be invalid or unenforceable, or the scope thereof limited, this Section 7 shall be deemed amended to delete therefrom, or limit the scope of, the portion thus adjudicated to be invalid or unenforceable or so limited, such deletion or limitation to apply only with respect to the operation of this Section 7 in the particular jurisdiction in which such adjudication is made.

(f) Both parties acknowledge the adequacy and sufficiency of the consideration underlying this Agreement. Executive acknowledges that the restrictive period of time and geographic extent of the restrictive covenant in this Section 7 are reasonable in view of the nature of the businesses in which the Company and its affiliates are engaged and Executive's current and anticipated future knowledge of the Company's confidential information and operations.

8. Disclosure of Information. Executive recognizes and acknowledges that the confidential or proprietary information of the Company, including information as may exist from time to time as to the identity of customers of the Company or as to its affiliates and other similar items, are valuable, special and unique assets of the Company's business, access to and knowledge of which are essential to the performance of the duties of Executive hereunder. Executive will not, during or after the term hereof, in whole or in part, disclose such confidential or proprietary information to any person, firm, corporation, association or other entity for any reason or purpose whatsoever, nor shall Executive make use of any such property for his own purposes or for the benefit of any other person, firm, corporation or other entity under any circumstances, during or after the term hereof, provided that after the term hereof these restrictions shall not apply to such information that is then in the public domain (provided that he was not responsible, directly or indirectly, for such information entering the public domain without the consent of the Company).

9. Injunctive Relief. If there is a breach or threatened breach of the provisions of Sections 7 or 8 of this Agreement, the Company shall be entitled to an injunction restraining Executive from such breach, if an injunction is permitted by applicable law. Nothing herein shall be construed as prohibiting the Company from pursuing any other remedies for such breach or threatened breach.

10. Change in Control. "A change in control of the Company" shall be deemed to have occurred if, following the date of this Agreement (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 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 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 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 of the directors then still in office who were directors at the beginning of the period.

(a) Termination of Employment. If any of the events described above as constituting a change in control of the Company shall occur, the Executive shall be entitled to the benefits provided in this Section 10 upon the termination of his employment during the period beginning ninety (90) days before, and ending two (2) years after, the change in control of the Company unless such termination is because of his death, by the Company for "Cause", or by the Executive other than for "Good Reason

(i) "Cause". For the purposes of this Section 10, "Cause" shall have the same meaning as in Section 2(b) of this Agreement. For purposes of this Section 10, no act, or failure to act, on the part of Executive shall be considered "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of not less than two-thirds of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable notice to Executive and an opportunity for Executive, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board Executive was guilty of conduct constituting "Cause" and specifying the particulars thereof in detail.

(ii) "Good Reason". Executive may terminate his employment for Good Reason following a change in control of the Company. For purposes of this Agreement, "Good Reason" following a change in control of the Company shall mean:

(A) 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 his reporting responsibilities, titles or offices as in effect immediately prior to the change in control, or any removal of him from or any failure to re-elect him to any of such positions, except in connection with the termination of his employment for Cause or as a result of his death, or by him other than for Good Reason;

(B) a reduction by the Company in Executive's base salary as in effect on the date hereof or as the same may be increased from time to time;

(C) 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 his business travel obligations prior to the change in control;

(D) 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 time of change in control (or plans providing Executive with substantially similar benefits), the taking of any action by the Company that would adversely affect his participation in or materially reduce his benefits under any of such plans or deprive him of any material fringe benefits;

(E) the failure by the Company to provide him with the number of paid vacation days to which he 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 time of the change in control;

(F) 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 by reason of permanent and total disability; or

(G) any purported termination of Executive's employment by the Company that is not effected pursuant to a Notice of Termination satisfying the requirements of subparagraph (iii), below; and for purposes of this Agreement, no such purported termination shall be effective. Provided, however, that Good Reason shall not be deemed to exist with respect to events (A) through (F), immediately above, unless the 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.

(iii) "Notice of Termination". Any termination by the Company or by Executive, pursuant to this Agreement, shall be communicated by written Notice of Termination to the other party. For purposes of this Agreement, a "Notice of Termination" shall mean a notice that indicates the specific termination provision in this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated.

(iv) "Date of Termination". "Date of Termination", for purposes of this Section 10 only, and not for purposes of Section 7, above, shall mean: (A) if Executive's employment is terminated pursuant to subsection (ii), above, the date specified in the Notice of Termination; and (B) if Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given; provided that, if within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding and final arbitration award or by a final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected).

(b) Compensation. Compensation of Executive following a change in control of the Company and the occurrence of a Date of Termination shall be as follows:

(i) If Executive's employment shall be terminated for Cause, the Company shall pay Executive his full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given and the Company shall have no further obligations to Executive under this Agreement.

(ii) If the Company shall terminate Executive's employment other than for Cause or if Executive shall terminate his employment for Good Reason, then the Company shall pay to Executive as severance pay in a lump sum, or otherwise as Executive may by written notice specify, on the fifth (5^{th}) day following the Date of Termination, the following amounts and shall satisfy the following obligations:

(A) his full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given;

(B) in lieu of any further salary payment to Executive for periods subsequent to the Date of Termination, an amount equal to his Average Annual Compensation times the number of years and fractions thereof remaining in the term of this Agreement, but not less than three (3) years (for purposes of this Section 10, “Average Annual Compensation” shall mean one-third of the aggregate dollar amount accrued with respect to both of the Company’s then-past three completed fiscal years for Executive’s basic compensation and incentive compensation pursuant to Section 3, above);

(C) any of Executive's incurred but unreimbursed costs resulting from a relocation within the contemplation of Section 11;

(D) 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);

(E) for the continued benefit of Executive for one (1) year after the Date of Termination, all employee benefit plans and programs or arrangements in which Executive was entitled to participate immediately prior to the Date of Termination shall be maintained in full force and effect, provided that his continued participation is possible under the general terms and provisions of such plans and programs. If his participation in any such plan or program is barred, the Company shall arrange to provide him with benefits substantially similar to those he is entitled to receive under such plans and programs;

(F) in addition to the previously described benefits to which Executive is entitled under this Agreement, stock options and stock appreciation rights and other similar rights held by him immediately prior to the termination, if not otherwise immediately exercisable, shall become so and restrictions (other than transferability restrictions imposed by federal or state securities laws) applicable to restricted stock of the Company then owned by Executive shall lapse as of the termination.

(iii) Permanent and Total Disability. If Executive's employment shall be terminated, either by the Company or by him, due to his permanent and total disability the Company shall pay him as severance pay the same benefits as stated in the previous subsection (ii)(A-F) of this Section 10(b).

(iv) Mitigation. Executive shall not be required to mitigate the amount of any payment provided for in this Section 10 by seeking other employment or otherwise, nor shall the amount of any payment provided for in this Section 10 be reduced by any compensation earned by him as the result of employment by another employer after the Date of Termination, or otherwise.

(v) If any payment within the meaning of Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), pursuant to the terms of this Section 10(b) would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax, then the total amount payable pursuant to this Section 10(b) shall be reduced to $1 less than 300% of the Executive's "base amount" within the meaning of Section 280G of the Code.

11. Place of Performance. In connection with his employment by the Company, Executive is expected to be based at the Company's principal offices in Paducah, Kentucky and is not expected to be required to be absent therefrom on travel status or otherwise more than forty-five (45) days in any calendar year. If the Company relocates or transfers its principal executive offices to a location more than forty-five (45) miles from the Company's headquarters in McCracken County, Kentucky, the Company will promptly pay (or reimburse Executive for) all reasonable moving and related relocation expenses incurred by Executive in connection with any such relocation of the Company's principal executive offices. The Company will indemnify Executive against any loss realized in the sale of his principal residence in connection with any such change of residence. Any such loss shall be measured by the difference between the sale price and Executive's federal income tax basis for such residence.

12. 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 medium capable of creating a written record (and promptly confirmed in writing) to the home address of Executive specified at the end of this Agreement (as may be amended by proper notice from time to time), and to the

Company at: Computer Services, Inc., 3901 Technology Drive, Paducah, Kentucky 42001, ATTN: Chairman of the Executive Committee (as may be amended by similar notice).

13. 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.

14. Law to Govern. This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Kentucky.

15. Assignment; Guaranty. The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors of the Company and may be assigned, for all or any part of the term hereof, by the Company to any corporation (i) that at the time controls the capital stock of the Company; (ii) that succeeds to substantially all of the assets of the Company; or (iii) the controlling capital stock of which is at the time owned by the Company; provided, however, that no assignment contemplated by Clause (iii) shall be made unless the Company guarantees the performance of any obligations so assigned. In the event of such assignment, any and all references to the Company in other paragraphs of this Agreement shall be deemed to mean and include such assignee corporation.

16. Entire Agreement. Except as otherwise stated herein, this instrument supersedes all previous agreements, contains the entire agreement of the parties with respect to its subject matter, and may not be changed orally but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge may be sought.

17. Counterparts. This Agreement may be executed in one (1) or more counterparts, all of which together shall constitute a single agreement, and all of which shall constitute an original for all purposes.

18. Attorneys' Fees. Except as provided in Section 10(b)(ii)(D), if any party shall bring an action in connection with the performance, breach or interpretation of this Agreement, then the prevailing party in such action as determined by the court having jurisdiction thereof shall be entitled to recover from the losing party in such action, as determined by the court having jurisdiction, all reasonable court costs and expenses of such litigation, including attorneys' fees, court costs, costs of investigation and other costs reasonably related to such litigation, in such amount as may be determined in the discretion of the court having jurisdiction.

COMPUTER SERVICES, INC.
QUARTERLY REPORT
FOR THE FISCAL QUARTER ENDED AUGUST 31, 2021

Computer Services, Inc. has caused the execution of this Agreement by a duly authorized representative, and T. David Culbertson has executed this Agreement, both as of the date first set forth above.

COMPUTER SERVICES, INC.	T. DAVID CULBERTSON
By: ______________________________	______________________________
	Signature
Title: Chairman	Executive's Home Address:
	______________________________
	______________________________
	______________________________