# COMPUTER SERVICES, INC.

A Kentucky Corporation

**3901 Technology Drive**
**Paducah, Kentucky 42001-5201**

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Telephone: 800.545.4274
Corporate Website: www.csiweb.com

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SIC Code: 7374

# Quarterly Report

## For the period ended November 30, 2020

(the "Reporting Period")

The number of shares outstanding of our Common Stock is 27,582,692 as of January 13, 2021.

The number of shares outstanding of our Common Stock was 27,631,286 as of August 31, 2020.

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 NOVEMBER 30, 2020

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.*

# COMPUTER SERVICES, INC.
# QUARTERLY REPORT
# FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2020

**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 November 30, 2020:

**SECURITIES AUTHORIZED AND OUTSTANDING**

| Class | As of | Number of Shares Authorized | Number of Shares Outstanding | Freely Tradable Shares (public float) | Total Number of Beneficial Shareholders (1) | Total Number of Shareholders of Record |
|---|---|---|---|---|---|---|
| Common | 11/30/2020 | 60,000,000 | 27,583,755 | 26,871,030 | 5,652 | 250 |
| Preferred | 11/30/2020 | 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 NOVEMBER 30, 2020

## Item 3: Interim Financial Statements.

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

| | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Revenues | $ 72,750 | $ 72,115 | $ 215,850 | $ 211,483 |
| Operating expenses | 55,133 | 57,202 | 161,055 | 165,118 |
| Operating income | 17,617 | 14,913 | 54,795 | 46,365 |
| Non-operating income | - | - | 37 | 57 |
| Interest income, net | 68 | 323 | 399 | 1,016 |
| Income before income taxes | 17,685 | 15,236 | 55,231 | 47,438 |
| Provision for income taxes | 4,200 | 3,200 | 13,334 | 9,797 |
| Net income | $ 13,485 | $ 12,037 | $ 41,898 | $ 37,641 |
| Earnings per common share | $ 0.49 | $ 0.43 | $ 1.52 | $ 1.36 |
| Shares used in computing earnings per common share | 27,612,335 | 27,685,814 | 27,640,514 | 27,693,661 |

*See accompanying notes to consolidated financial statements.*

# COMPUTER SERVICES, INC.
# QUARTERLY REPORT
# FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2020

**COMPUTER SERVICES, INC. AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets**

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

| | 11/30/2020 (Unaudited) | 2/29/2020 (Audited) | 11/30/2019 (Unaudited) |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 74,690 | $ 70,109 | $ 67,855 |
| Funds held on behalf of clients | 9,530 | 8,912 | 2,350 |
| Accounts receivable | 38,630 | 37,993 | 35,855 |
| Income tax receivable | - | 1,352 | - |
| Deferred contract costs | 17,990 | 14,979 | 11,161 |
| Prepaid expenses and other current assets | 11,645 | 10,509 | 10,855 |
| Total current assets | 152,485 | 143,854 | 128,077 |
| Property and equipment, net of accumulated depreciation | 45,128 | 45,144 | 44,725 |
| Software and software licenses, net of accumulated amortization | 22,639 | 18,224 | 19,340 |
| Deferred contract costs | 102,301 | 82,449 | 64,469 |
| Internally developed software, net | 5,694 | 5,517 | - |
| Goodwill | 60,115 | 60,115 | 60,115 |
| Intangible assets, net | 3,561 | 4,054 | 4,219 |
| Right of use assets | 7,092 | 7,606 | 7,914 |
| Other assets | 5,497 | 4,637 | 4,792 |
| Total assets | $ 404,512 | $ 371,600 | $ 333,651 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable | $ 10,436 | $ 9,528 | $ 9,889 |
| Accrued expenses | 18,463 | 9,432 | 19,929 |
| Deferred contract liabilities | 47,076 | 38,364 | 31,994 |
| Deferred revenue | 10,494 | 11,196 | 9,895 |
| Client funding obligation - settlement liabilities | 9,530 | 8,912 | - |
| Current portion of operating lease liabilities | 2,472 | 2,266 | 2,243 |
| Income tax payable | 3,069 | - | 1,742 |
| Total current liabilities | 101,540 | 79,698 | 75,693 |
| Long-term liabilities | | | |
| Deferred income taxes, net | 24,394 | 24,394 | 17,787 |
| Deferred contract liabilities | 11,623 | 9,826 | 204 |
| Other liabilities | 1,757 | 1,723 | 1,780 |
| Postretirement benefits | - | 189 | 254 |
| Operating lease liabilities | 4,936 | 5,655 | 5,979 |
| Total long-term liabilities | 42,709 | 41,787 | 26,003 |
| Total liabilities | 144,249 | 121,485 | 101,696 |
| Shareholders' equity | | | |
| Preferred stock; shares authorized, 5,000,000; none issued | | | |
| Common stock, no par; 60,000,000 shares authorized; 27,583,755 shares issued at November 30, 2020; 27,654,865 shares issued at February 29, 2020; 27,673,760 shares issued at November 30, 2019; | 32,368 | 30,295 | 30,053 |
| Retained earnings | 227,186 | 217,865 | 199,530 |
| Other comprehensive income, net | 709 | 1,955 | 2,371 |
| Total shareholders' equity | 260,262 | 250,115 | 231,954 |
| Total liabilities and shareholders' equity | $ 404,512 | $ 371,600 | $ 333,651 |

*See accompanying notes to consolidated financial statements.*

# COMPUTER SERVICES, INC.
# QUARTERLY REPORT
# FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2020

**COMPUTER SERVICES, INC. AND SUBSIDIARIES**
**Condensed Consolidated Statement of Changes in Equity**
***(Unaudited)***
***(in thousands, except share and per share data)***

| | Nine Months Ended November 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Retained | Other Comprehensive | |
| | Shares | Amount | Earnings | Income | Total |
| Balance at February 29, 2020 | 27,654,865 | $ 30,295 | $ 217,865 | $ 1,955 | $ 250,115 |
| Net income | - | - | 41,898 | - | 41,898 |
| Cash dividends paid ($0.67 per share) | - | - | (18,526) | - | (18,526) |
| Cash dividends payable ($0.25 per share) | - | - | (6,896) | - | (6,896) |
| Issuance of common stock | 7,730 | 424 | - | - | 424 |
| Issuance of restricted stock | 57,411 | - | - | - | - |
| Restricted stock vested and tax benefit | - | 1,830 | - | - | 1,830 |
| Other comprehensive income (loss) | - | - | - | (1,246) | (1,246) |
| Purchase of common stock | (118,101) | (158) | (6,395) | - | (6,553) |
| Tax withholding related to share-based compensation | (18,150) | (23) | (760) | - | (783) |
| **Balance at November 30, 2020** | **27,583,755** | **$ 32,368** | **$ 227,186** | **$ 709** | **$ 260,262** |

*See accompanying notes to consolidated financial statements.*

# COMPUTER SERVICES, INC.
# QUARTERLY REPORT
# FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2020

**COMPUTER SERVICES, INC. AND SUBSIDIARIES**

**Condensed Consolidated Statements of Cash Flows**

***(Unaudited)***

***(in thousands)***

| | Nine Months Ended November 30, | |
|---|---|---|
| | **2020** | **2019** |
| Cash flows from operating activities | | |
| Net income | $ 41,898 | $ 37,641 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Depreciation | 6,704 | 6,562 |
| Amortization | 11,320 | 7,803 |
| Restricted stock expense | 1,341 | 2,662 |
| Stock-based compensation expense | 424 | 318 |
| (Gain)/Loss on disposal of assets | 1 | 2 |
| (Gain)/Loss on sale of investment | (37) | (57) |
| Changes in operating assets and liabilities, | | |
| Accounts receivable | (565) | 1,970 |
| Prepaid expenses and other current assets | (2,371) | (1,560) |
| Other assets | 313 | (3,880) |
| Accounts payable and accrued expenses | 1,560 | (2,478) |
| Deferred revenue | (777) | (3,957) |
| Changes in deferred contract liabilities | (10,203) | - |
| Changes in deferred contract assets | (6) | - |
| Changes in internally developed software | (1,137) | - |
| Income tax payable | 4,421 | 3,408 |
| Other liabilities | (1,327) | 68 |
| Net cash from operating activities | 51,559 | 48,502 |
| | | |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (6,689) | (9,689) |
| Purchase of software and software licenses | (14,466) | (6,859) |
| Proceeds from sale of equity investment | 37 | 1,050 |
| Net cash from investing activities | (21,117) | (15,498) |
| | | |
| Cash flows from financing activities | | |
| Payments of dividends | (18,526) | (15,788) |
| Purchase of common stock | (6,553) | (3,038) |
| Tax withholding related to share-based compensation | (783) | (525) |
| Net cash from financing activities | (25,862) | (19,351) |
| | | |
| Net change in cash and cash equivalents | 4,581 | 13,653 |
| Cash and cash equivalents, beginning of period | 70,109 | 56,553 |
| Cash and cash equivalents, end of period | $ 74,690 | $ 70,206 |

*See accompanying notes to consolidated financial statements.*

## COMPUTER SERVICES, INC.
## QUARTERLY REPORT
## FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2020

### Notes to Consolidated Financial Statements

***(Unaudited)***

### NOTE 1. NATURE OF OPERATIONS

Computer Services, Inc., including its subsidiaries, ("CSI" or the "Company") delivers core bank processing, digital banking, managed services, payments processing, print and electronic distribution, and regulatory compliance solutions to financial institutions and corporate entities across the nation. Technology planning, personal account management and exceptional customer service are what CSI believes have established its reputation as one of the nation's premier providers of technology solutions for the financial services industry. In addition to core processing, the Company's integrated banking solutions include: check imaging; cash management; branch and merchant capture; mobile and Internet banking; print and mail, and 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. The COVID-19 pandemic has not affected the estimates made by management to date but future pandemic developments may. 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 does not believe it is exposed to 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. Interest is not charged on receivables. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. As of November 30, 2020 and 2019, allowances for doubtful accounts of $10 and $69, respectively have been recorded.

***Property and Equipment:*** As of November 30, 2020 and 2019, property and equipment consisted of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Land | **$** | **1,716** | $ | 1,716 |
| Buildings and improvements | | **36,428** | | 29,897 |
| Equipment | | **84,547** | | 77,586 |
| Construction-in-progress | | **809** | | 6,085 |
| | | **123,499** | | 115,284 |
| Less accumulated depreciation | | **78,371** | | 70,558 |
| Balance, end of period | **$** | **45,128** | $ | 44,725 |

***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 November 30, 2020 and 2019 was $4,178 and $2,532, 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.

In prior years, the Company did not account for costs for internally developed software in accordance with ASC 350-40, *Internal-Use Software*. In fiscal 2020, the Company retrospectively calculated the amount of time and material costs that should have been capitalized to appropriately record the capitalized asset, related accumulated and expensed amortization, and equity impact. Results for the fourth quarter of fiscal 2019 were restated to account for the capitalization of these costs. No comparative restatements for prior periods are being presented as the Company determined the net impact of the adoption was immaterial to individual quarters.

The carrying amount of capitalized software development costs subject to amortization as of November 30, 2020 was as follows:

| | 2020 | |
|---|---|---|
| | **Gross Carrying Amount** | **Accumulated Amortization** |
| Internally developed software costs | $ 11,881 | $ (6,186) |

Total amortization expense for the three months ended November 30, 2020 was $333.

***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 29, 2020 and February 28, 2019.

During the three months ended November 30, 2020, 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 discussed in Note 10.

| | **Enterprise Banking Group** | **Business Solutions Group** | **Total** |
|---|---|---|---|
| **Balance, November 30, 2020** | $ 15,490 | $ 44,625 | $ 60,115 |
| **Balance, November 30, 2019** | $ 15,490 | $ 44,625 | $ 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 $164 as of both November 30, 2020 and 2019.

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 November 30, 2020 and 2019 were as follows:

| | **2020** | | **2019** | |
|---|---|---|---|---|
| | **Gross Carrying Amount** | **Accumulated Amortization** | **Gross Carrying Amount** | **Accumulated Amortization** |
| Customer relationships | **$ 11,593** | **$ 8,420** | $ 11,593 | $ 7,795 |
| Non-compete agreements | **1,700** | **1,700** | 1,700 | 1,700 |
| Patents | **427** | **427** | 427 | 427 |
| Trade name | **530** | **306** | 530 | 273 |
| Developed technology | **370** | **370** | 370 | 370 |
| Other | **216** | **216** | 216 | 216 |
| | **$ 14,836** | **$ 11,439** | **$ 14,836** | **$ 10,781** |

Total amortization expense for the three months ended November 30, 2020 and 2019 was $164.

***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 November 30, 2020 and 2019 were $179 and $373, 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 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 November 30, 2020 and 2019 were $975 and $998, 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 November 30, 2020 and 2019 were $383 and $440, 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. The Company has been recording incremental contract costs since 2014 as a result of an accounting policy election.

***Performance Obligations***: Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that 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. The Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606), on March 1, 2018, using a modified retrospective approach with the cumulative effect of initially applying the new standard recognized in retained earnings at the beginning of the year of adoption.

***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 the 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 since 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 which affect the nature, amount, timing, and uncertainty of revenue and cash flows of such revenues recognized during the three and nine months ended November 30, 2020 and 2019:

| | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Enterprise Banking Group | **$ 45,180** | $ 43,069 | **$ 133,387** | $ 128,211 |
| Business Solutions Group | **27,570** | 29,046 | **82,463** | 83,272 |
| Total revenue | **$ 72,750** | $ 72,115 | **$ 215,850** | $ 211,483 |

***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 November 30, 2020, the postretirement benefit had obligations of $258 and employer contributions to the plan and benefits paid from the plan of $54. Current liabilities of $254 were recorded. Other comprehensive income was $709, net of tax. A discount rate of 3.55% was assumed.

As of November 30, 2020, other comprehensive income (loss) amortization of $1,246 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 considered to be outstanding during the period. The weighted average number of common shares outstanding was 27,612,335 and 27,685,814 for the fiscal quarters ended November 30, 2020 and 2019, 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, with early adoption permitted. The Company plans to adopt ASU 2019-12 effective March 1, 2021 and does not expect the adoption to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 was effective for the Company on March 1, 2019. ASU 2016-15 requires a retrospective transition method. However, if impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues are to be applied prospectively as of the earliest date practicable. The Company has evaluated the effect of the standard on its Statement of Cash Flows and does not believe there is an impact for the quarter ending November 30, 2020.

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 is effective for the Company for annual and interim reporting periods beginning March 1, 2020. The Company does not believe the effect of this is material to its 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 2020 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 November 30, 2020 and 2019, the results of its operations for the three-month periods ended November 30, 2020 and 2019, and its changes in equity and its cash flows for the nine-month periods ended November 30, 2020 and 2019.

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. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

In prior years, the Company did not account for costs for internally developed software in accordance with ASC 350-40, *Internal-Use Software*. In fiscal 2020, the Company retrospectively calculated the amount of time and material costs that should have been capitalized to appropriately record the capitalized asset, related accumulated and expensed amortization, and equity impact. The Company determined that the net impact of the adoptions on fiscal 2020 and fiscal 2019 were immaterial to the results of any prior quarter and could therefore be recognized entirely within the fourth quarter of each respective year.

In prior years, the Company did not account for costs incurred to fulfill contracts in accordance with ASC 340-40, *Contracts with Customers*. In fiscal 2020, the Company retrospectively calculated the implementation salary and expense costs that should have been capitalized to appropriately record the capitalized asset, related accumulated and expensed amortization, and equity impact. The Company determined that the net impact of the adoptions on fiscal 2020 and fiscal 2019 were immaterial to the results of any prior quarter and could therefore be recognized entirely within the fourth quarter of each respective year.

In prior years, the Company did not account for consideration received for one-time implementation services in accordance with ASC 606, *Revenue from Contracts with Customers*. In fiscal 2020, the Company retrospectively calculated the implementation fees that should have been capitalized to appropriately record the contract liability, related accumulated and expensed amortization, and equity impact. The Company determined that the net impact of the adoptions on fiscal 2020 and fiscal 2019 were immaterial to the results of any prior quarter and could therefore be recognized entirely within the fourth quarter of each respective year.

### NOTE 4. LEASES

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases: Targeted Improvements*, which provides an optional transition method of applying the new lease standard. ASC 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e., the comparatives under ASC 840 option.

The Company adopted Topic 842 on March 1, 2019, (the effective date), using the comparative under ASC 840 transition method, which applies ASC 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Company elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Company has lease agreements with non-lease components that relate to the lease components. The Company elected to account for non-lease components and the lease components to which they relate as separate lease components for all. Also, the Company elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Company did not elect the hindsight practical expedient in determining the lease term for existing leases as of March 1, 2019.

The most significant impact of adoption at March 1, 2019 was the recognition of operating lease ROU assets and operating lease liabilities of $6,588 and $6,714, respectively, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect the Company's consolidated statements of income, comprehensive income or cash flows.

***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 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 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 November 30, 2020, the weighted-average remaining lease term for the Company's operating leases was 43 months and the weighted average discount rate was 3.09%.

***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 (property taxes, maintenance and insurance). 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 a vehicle fleet. No amounts related to the residual value guarantee have been deemed probable.

***Quantitative Disclosures***: The lease cost and other required information for the nine months ended November 30, 2020 are:

| | | **2020** |
|---|---|---|
| Lease cost | | |
| Operating lease cost | $ | 2,028 |
| Short-term lease cost | | - |
| Variable lease cost | | 336 |
| Total lease cost | $ | 2,364 |

| | | **2020** |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flow from operating leases | $ | 2,023 |
| | | |
| Right of use assets obtained in exchange for lease obligations | | |
| Operating leases | $ | 1,674 |

Future minimum lease payments and reconciliation to the consolidated balance sheet at November 30, 2020 are as follows:

| Years ending February 28 and 29, | | Future Minimum Lease Payments |
|---|---|---|
| 2021 (remaining period) | $ | 703 |
| 2022 | | 2,572 |
| 2023 | | 2,055 |
| 2024 | | 1,184 |
| 2025 | | 704 |
| Thereafter | | 588 |
| Total lease payments to be paid | | 7,806 |
| Less future interest | | (398) |
| Lease liabilities | $ | 7,408 |

**NOTE 5. LAND AVAILABLE FOR RESALE**

The cost of land available for resale of $1,347 as of both November 30, 2020 and 2019, primarily represents costs associated with the development of an office park in Paducah, Kentucky. These costs are allocated to each lot based upon each lot's proportionate share of salable acreage. The project is substantially complete and any future associated costs will not be material. As of November 30, 2020 and 2019, land available for resale was included in other assets on the accompanying consolidated balance sheets.

## NOTE 6. INCOME TAXES

The Company's effective tax rates were 23.75% and 21.00% for the three months ended November 30, 2020 and 2019, respectively. The higher of these rates differed from the statutory federal tax rate of 21.00% for the three month period ended November 30, 2019 due primarily to state income taxes as well as other tax deductions and credits. Cash paid for income taxes during the three months ended November 30, 2020 and 2019 was $4,344 and $3,544, respectively.

## NOTE 7. 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% (1.05% and 2.60% as of November 30, 2020 and 2019, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of November 30, 2020 and 2019. 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 3.45% as of November 30, 2020 and 2019, respectively). The line of credit is unsecured and there were no outstanding borrowings on the line as of November 30, 2020 and 2019. The line of credit was renewed in August 2020 and expires in August 2021.

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 8. 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 November 30, 2019, the Company had the authority to repurchase additional shares for up to $8,400. At November 30, 2020, the Company had the authority to repurchase additional shares for up to $957. On December 11, 2020, the Board of Directors authorized an additional $10,000 for share repurchases. See Note 12. Subsequent Events.

## NOTE 9. STOCK-BASED COMPENSATION

Beginning in June 2013, the Company has authorized the issuance of common stock to members of the Company's Board of Directors for services performed. Compensation expense recognized for common stock issued for services provided by members of the Board of Directors and fully vested was $424 and $318 for the nine months ended November 30, 2020 and 2019, respectively.

***Restricted Stock Plan:*** Beginning in June 2004, the Company has authorized, from time-to-time, the issuance of restricted stock to certain key employees under the Computer Services, Inc. Restricted Stock Plan. The shares vest ratably in four equal 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, which addresses the accounting for stock-based employee plans. The standard requires that such transactions are accounted for using a fair-value based method of accounting.

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

The following is a summary of unearned compensation on restricted stock as of November 30, 2020, as well as activity for the nine months then ended:

| | | |
|---|---|---|
| Balance, February 29, 2020 | $ | 4,715 |
| Grant of restricted stock | | |
| March 11, 2020 | | 50 |
| May 6, 2020 | | 2,442 |
| Restricted stock vested | | (1,830) |
| Balance, November 30, 2020 | $ | 5,377 |

The following is a summary of unvested shares of restricted stock as of November 30, 2020, as well as activity for the nine months then ended:

| | Shares | | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Unvested balance, February 29, 2020 | 169,729 | $ | 27.78 |
| Granted | 57,411 | | 43.41 |
| Vested | (71,399) | | 25.64 |
| Unvested balance, November 30, 2020 | 155,741 | $ | 34.52 |

Compensation expense recognized under the Computer Services, Inc. Restricted Stock Plan was $1,341 and $2,662 for the nine months ended November 30, 2020 and 2019, respectively.

In the quarter ended November 30, 2019, the Company recorded an expense of $1,060 associated with the Company's program for restricted stock grants and stock compensation. The expense was previously recorded within the Company's consolidated financial statements in a period that was not consistent with the period in which the employee's service for the award was earned. The Company has determined that the accumulated unrecorded stock compensation expense net of income tax expense, was $1,060 as of

November 30, 2019, and was not material to the consolidated financial statements. The $1,060 expense adjustment, which was recorded in the quarter ended November 30, 2019, relates to the accumulation of prior periods' stock compensation expense that the Company had historically recorded in the reporting period after the period to which the expense related. The Company determined that the expense previously reported in prior periods was not materially misstated in any given reporting period, and as such, no adjustments to the financial statements for such periods were recorded.

The Company has evaluated the effect of the additional expense on prior periods, both qualitatively and quantitatively, and concluded that it did not have a material impact on, nor did it require amendment of any previously filed annual or quarterly consolidated financial statements.

## NOTE 10. 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. On March 1, 2020, the Company began managing and reporting on its businesses differently than it had previously. Before then, the requirements to disclose segments had not been applicable under ASC 280 *Segment Reporting.*

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.

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, determined to be the Senior Executive Leadership Team, evaluate the performance of its segments based on the contributions to operating income of the respective segments and allocates additional resources to them 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 are not allocated to segments for internal reporting presentations.

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

| | **Three Months Ended November 30, 2020** | | |
|---|---|---|---|
| | **EBG** | **BSG** | **Total** |
| **Revenues** | **$ 45,180** | **$ 27,570** | **$ 72,750** |
| Cost of revenue | 24,209 | 18,153 | 42,362 |
| Research and development | | | 4,663 |
| Selling, general, and admin | | | 8,108 |
| **Operating expenses** | | | **55,133** |
| **Segment income** | **$ 20,971** | **$ 9,417** | |
| **Operating income** | | | **17,617** |
| Interest income, net | | | 68 |
| Gain/Loss - Sale of Investment | | | - |
| Income before income taxes | | | $ 17,685 |

| | **Nine Months Ended November 30, 2020** | | |
|---|---|---|---|
| | **EBG** | **BSG** | **Total** |
| **Revenues** | **$ 133,387** | **$ 82,463** | **$ 215,850** |
| Cost of revenue | 68,772 | 54,977 | 123,749 |
| Research and development | | | 13,894 |
| Selling, general, and admin | | | 23,412 |
| **Operating expenses** | | | **161,055** |
| **Segment income** | **$ 64,615** | **$ 27,486** | |
| **Operating income** | | | **54,795** |
| Interest income, net | | | 399 |
| Gain/Loss - Sale of Investment | | | 37 |
| Income before income taxes | | | $ 55,231 |

| | **Three Months Ended November 30, 2019** | | |
|---|---|---|---|
| | **EBG** | **BSG** | **Total** |
| **Revenues** | **$ 43,069** | **$ 29,046** | **$ 72,115** |
| Cost of revenue | 23,658 | 19,198 | 42,856 |
| Research and development | | | 4,541 |
| Selling, general, and admin | | | 9,805 |
| **Operating expenses** | | | **57,202** |
| **Segment income** | **$ 19,411** | **$ 9,848** | |
| **Operating income** | | | **14,913** |
| Interest income, net | | | 323 |
| Gain/Loss - Sale of Investment | | | - |
| Income before income taxes | | | $ 15,236 |

| | **Nine Months Ended November 30, 2019** | | |
|---|---|---|---|
| | **EBG** | **BSG** | **Total** |
| **Revenues** | **$ 128,211** | **$ 83,272** | **$ 211,483** |
| Cost of revenue | 68,763 | 54,830 | 123,593 |
| Research and development | | | 13,381 |
| Selling, general, and admin | | | 28,144 |
| **Operating expenses** | | | **165,118** |
| **Segment income** | **$ 59,448** | **$ 28,442** | |
| **Operating income** | | | **46,365** |
| Interest income, net | | | 1,016 |
| Gain/Loss - Sale of Investment | | | 57 |
| Income before income taxes | | | $ 47,438 |

## NOTE 11. 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 12. SUBSEQUENT EVENTS

All of the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date and before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the financial statements from being misleading. The Company has evaluated events through January 13, 2021, the date the financial statements were available to be issued.

On September 24, 2020, the Company's Board of Directors authorized a cash dividend of 25 cents per share, or $6,896 in the aggregate, that was paid on December 28, 2020 to shareholders of record as of the close of business on December 1, 2020.

On December 10, 2020, the Company's Board of Directors authorized a special cash dividend of $1.00 per share, or $27,583 in the aggregate, that was paid on December 30, 2020 to shareholders of record as of the close of business on December 22, 2020.

On December 10, 2020, the Company's Board of Directors authorized the repurchase of an additional $10,000 of the Company's common stock. This authorization is in addition to the previously authorized repurchases as disclosed elsewhere in this Quarterly Report.

As a result of the pandemic of novel coronavirus disease (COVID-19), economic uncertainties continue that may negatively affect the financial position, results of operations and cash flows of the Company. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

## 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 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 adjusts 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 imposing travel restrictions and bans, quarantines, social distancing guidelines, shelter-in-place or lock-down orders and other similar limitations. Accordingly, the COVID-19 pandemic has adversely impacted economic activity in many business sectors and has contributed to significant volatility in financial markets during 2020.

Our operating performance is subject to economic and market conditions, including COVID-19, 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 have experienced a decline in payments volume and transactions that has negatively impacted both of our operating segments' transaction-based fees. Most payment transaction volumes began to recover in the second quarter of fiscal 2021 and have continued to improve into the third quarter of fiscal 2021. 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. We expect to continue such safety measures for the foreseeable future and may take further actions, or adapt these existing policies, as government authorities may require or recommend, or as we may determine to be in the best interest of our employees, customers and vendors.

We will continue to monitor and assess 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.

## RESULTS OF OPERATIONS

The following table presents 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. AND SUBSIDIARIES**
**Condensed Consolidated Statements of Income**
***(Unaudited)***
***(in thousands, except share and per share data)***

| | | | Change | | Percentage of Revenues | |
|---|---|---|---|---|---|---|
| **Three months ended November 30,** | **2020** | **2019** | **Amount** | **Percentage** | **2020** | **2019** |
| Revenues | $ 72,750 | $ 72,115 | $ 634 | 0.9% | 100.0% | 100.0% |
| Operating expenses | 55,133 | 57,202 | (2,070) | (3.6%) | 75.8% | 79.3% |
| Operating income | 17,617 | 14,913 | 2,704 | 18.1% | 24.2% | 20.7% |
| Non-operating income | - | - | - | 0.0% | 0.0% | 0.0% |
| Interest income, net | 68 | 323 | (255) | (79.1%) | 0.1% | 0.4% |
| Income before income taxes | 17,685 | 15,236 | 2,449 | 16.1% | 24.3% | 21.1% |
| Provision for income taxes | 4,200 | 3,200 | 1,001 | 31.3% | 5.8% | 4.4% |
| Net income | $ 13,485 | $ 12,037 | $ 1,448 | 12.0% | 18.5% | 16.7% |
| Earnings per common share | $ 0.49 | $ 0.43 | $ 0.06 | 14.0% | | |
| Shares used in computing earnings per common share | 27,612,335 | 27,685,814 | (73,479) | (0.3%) | | |

| | | | Change | | Percentage of Revenues | |
|---|---|---|---|---|---|---|
| **Nine months ended November 30,** | **2020** | **2019** | **Amount** | **Percentage** | **2020** | **2019** |
| Revenues | $ 215,850 | $ 211,483 | $ 4,367 | 2.1% | 100.0% | 100.0% |
| Operating expenses | 161,055 | 165,118 | (4,063) | (2.5%) | 74.6% | 78.1% |
| Operating income | 54,795 | 46,365 | 8,430 | 18.2% | 25.4% | 21.9% |
| Non-operating income | 37 | 57 | (20) | (34.3%) | 0.0% | 0.0% |
| Interest income, net | 399 | 1,016 | (617) | (60.7%) | 0.2% | 0.5% |
| Income before income taxes | 55,231 | 47,438 | 7,794 | 16.4% | 25.6% | 22.4% |
| Provision for income taxes | 13,334 | 9,797 | 3,537 | 36.1% | 6.2% | 4.6% |
| Net income | $ 41,898 | $ 37,641 | $ 4,257 | 11.3% | 19.4% | 17.8% |
| Earnings per common share | $ 1.52 | $ 1.36 | $ 0.16 | 11.8% | | |
| Shares used in computing earnings per common share | 27,640,514 | 27,693,661 | (53,147) | (0.2%) | | |

### Revenues

Total revenues increased $634, or 0.9%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and increased $4,367, or 2.1%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. For both periods, the growth in revenues benefited from robust sales activity in both the Enterprise Banking and Business Solutions Group. However, revenue growth continued to be hampered by reduced transaction volumes and nonrecurring third-party hardware and software sales as a result of the reduction in general economic activity throughout the United States due to the ongoing COVID-19 pandemic. Digital banking and regulatory compliance revenues continued to be growth leaders; however, payments processing revenue also grew during the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 despite some continued suppression of transaction volumes attributable to the COVID-19 pandemic economic environment. Revenues included approximately $975 in early contract termination fees in the third quarter of fiscal 2021 compared with $998 in the third quarter of fiscal 2020. Excluding the effect of the early contract termination fees from both periods, third quarter fiscal 2021 revenues increased approximately 0.9% compared with the third quarter of fiscal 2020. For the first nine months of fiscal 2021, revenues included early contract termination fees of $4,918 compared to early contract termination fees of $3,831 in the first nine months of fiscal 2020. Excluding the effect of the early contract termination fees from both periods, revenues for the first nine months of fiscal 2021 increased approximately 1.6% compared to the first nine months of fiscal 2020. 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 decreased $2,070, or 3.6%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and decreased $4,063, or 2.5%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020.

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

- lower travel and marketing expenses due to COVID-19 restrictions;
- lower recognized salary expenses due to the adoption of ASC 340 and ASC 350 in the fourth quarter of fiscal 2020; and
- lower profit sharing expense;

partially offset by:

- higher personnel expenses primarily due to higher staffing for the current year period and the effect of typical annual salary adjustments; and
- higher software amortization expense due to new capital investments placed into service during the trailing 12-month period.

### Operating Income

Operating income increased $2,704, or 18.1%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and increased $8,430, or 18.2%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. Operating margins were 24.2% and 25.4% for the three- and nine-month periods ended November 30, 2020, respectively, compared to 20.7%

and 21.9% for the three- and nine-month periods ended November 30, 2019, respectively. For the third quarter of fiscal 2021, the increases in operating income and operating margin benefited primarily from increased digital banking and payments processing revenues over the third quarter of fiscal 2020 and a suppression of operating expenses attributable to the pandemic-related travel restrictions. For the first nine months of fiscal 2021, the increases in operating income and operating margin benefited primarily from an increase in digital banking, payments processing, and document delivery revenues, a reduction in operating expenses attributable to the pandemic-related travel restrictions, and an increase in early contract termination fees compared to the first nine months of fiscal 2020. Excluding the effect of early contract termination fees, operating income increased $2,726, or $19.6%, in the third quarter of fiscal 2021 compared with the third quarter of fiscal 2020 and increased $7,343, or 17.3%, in the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020.

**Interest Income, net**

Consolidated net interest income was $68 for the third quarter of fiscal 2021 and $399 for the first nine months of fiscal 2021 compared to $323 for the third quarter of fiscal 2020 and $1,016 for the first nine months of fiscal 2020. For both periods, the decline in net interest income was due to lower interest rates earned on invested cash balances partially offset by higher average invested cash balances.

**Income Before Income Taxes**

Income before income taxes increased $2,449, or 16.1%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and $7,794, or 16.4%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020 due to the increase in operating income described above for both periods, respectively.

**Provision for Income Taxes**

The provision for income taxes increased to $4,200 for the third quarter of fiscal 2021 compared to $3,200 for the third quarter of fiscal 2020 due to a higher taxable income and a higher effective tax rate. The provision for income taxes increased to $13,334 for the first nine months of fiscal 2021 compared to $9,797 for the first nine months of fiscal 2020 for the same reasons. The estimated consolidated effective income tax rate was 23.75% for the third quarter of fiscal 2021 compared to 21.00% for the third quarter of fiscal 2020. The estimated consolidated effective income tax rate was 24.14% for the first nine months of fiscal 2021 compared to 20.65% for the first nine months of fiscal 2020. The increase in the effective rate was due primarily to the timing of the recognition 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 during the first quarter of fiscal 2020.

**Net Income**

Net income increased $1,448, or 12.0%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and increased $4,257, or 11.3%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. Net income for the third quarter of fiscal 2021 was $13,485, or $0.49 per share, on 27.6 million weighted average shares outstanding compared to $12,037, or $0.43 per share, on 27.7 million weighted average shares outstanding for the third quarter of fiscal 2020. Net income for the first nine months of fiscal 2021 was $41,898, or $1.52 per share, on 27.6 million weighted average shares outstanding compared to $37,641, or $1.36 per share, on 27.7 million weighted average shares outstanding for the first nine months of fiscal 2020.

**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 November 30,** | | | **Nine Months Ended November 30,** | | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **% Change** | **2020** | **2019** | **% Change** |
| Revenues | $ 45,180 | $ 43,069 | 4.9% | $ 133,387 | $ 128,211 | 4.0% |
| Cost of revenue | 24,209 | 23,658 | 2.3% | 68,772 | 68,763 | 0.0% |
| **Segment income** | **$ 20,971** | **$ 19,411** | **8.0%** | **$ 64,615** | **$ 59,448** | **8.7%** |

EBG revenues increased $2,111, or 4.9%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and increased $5,176, or 4.0%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. For both periods, revenue growth was driven by increased revenue from new and existing customers including increased demand for the segment's digital banking solutions as banks accelerated their online support of customers due to the COVID-19 pandemic. Moreover, during the third quarter of fiscal 2021, the Company benefited from continued recovery in payments processing transaction volumes, resulting in payments processing revenue growth compared to the third quarter of fiscal 2020. EBG cost of revenue increased $551, or 2.3%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 primarily related to higher cost of goods sold on higher related revenues in digital banking and payments processing. EBG cost of revenue was flat for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. EBG operating income increased $1,560, or 8.0%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and increased $5,167, or 8.7%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020.

| **BSG** | **Three Months Ended November 30,** | | | **Nine Months Ended November 30,** | | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **% Change** | **2020** | **2019** | **% Change** |
| Revenues | $ 27,570 | $ 29,046 | (5.1%) | $ 82,463 | $ 83,272 | (1.0%) |
| Cost of revenue | 18,153 | 19,198 | (5.4%) | 54,977 | 54,830 | 0.3% |
| **Segment income** | **$ 9,417** | **$ 9,848** | **(4.4%)** | **$ 27,486** | **$ 28,442** | **(3.4%)** |

BSG revenues decreased $1,476, or 5.1%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and decreased $809, or 1.0%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. For both periods, the revenue decrease was primarily driven by a decrease in sales of third-party hardware and software and migration from item capture (paper) transactions to digital banking transactions as a result of current period pandemic-related economic conditions. These decreases were partially offset in the first nine months of fiscal 2021 by increased regulatory compliance revenues. BSG cost of revenue decreased by $1,045, or 5.4%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and increased by $147, or 0.3%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. For the third quarter of fiscal 2021, the decrease was primarily related to lower cost of goods sold on lower related revenues of third-party hardware and software. For the first nine months of fiscal 2021, the increase in the segment's cost of revenue was primarily related to higher personnel expense and other investments in the BSG segment that are expected to drive future revenue growth, partially offset by lower cost of goods sold on lower related revenues. BSG operating income decreased by $431, or 4.4%, for the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and decreased by $956, or 3.4%, for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020.

## LIQUIDITY AND CAPITAL RESOURCES

***Operating Activities.*** The following table summarizes net cash from operating activities in the accompanying consolidated statements of cash flows for the first nine months of fiscal 2021 and 2020, respectively:

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

| | **Nine Months Ended November 30,** | |
|---|---|---|
| | **2020** | **2019** |
| Net income | $ 41,898 | $ 37,641 |
| Non-cash expenses | 19,789 | 17,347 |
| Change in receivables | (565) | 1,970 |
| (Gain)/Loss on sales of investment | (37) | (57) |
| Change in deferred revenue | (777) | (3,957) |
| Change in other assets and liabilities | (8,748) | (4,442) |
| Net cash from operating activities | $ 51,559 | $ 48,502 |

Net cash provided by operating activities increased 6.3% for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. The increase in operating cash flows was primarily due to higher net income for the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020. Cash from operations is primarily used to fund capital expenditures; repay debt, if any; pay dividends; and repurchase stock.

***Investing Activities.*** Net cash used by investing activities for the first nine months of fiscal 2021 was $21,117. The cash was used for purchases of equipment and software during the period. Net cash used by investing activities for the first nine months of fiscal 2020 was $15,498, primarily used for purchases of equipment and software during the period, partially offset by cash proceeds from the sale of an investment of $1,050 received during the period.

***Financing Activities.*** Net cash used by financing activities for the first nine months of fiscal 2021 was $25,862 for dividends paid to shareholders of $18,526, and for the purchase and redemption of common stock of $7,336. Net cash used by financing activities for the first nine months of fiscal 2020 was $19,351 for dividends paid to shareholders of $15,788, and for the purchase and redemption of common stock of $3,563.

***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% (1.05% and 2.60% at November 30, 2020 and 2019, respectively). The unsecured revolving credit agreement expires on January 31, 2023. At November 30, 2020, no amount was outstanding under the credit line.

The Company renewed an unsecured bank credit line on August 26, 2020 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 3.45% at November 30, 2020 and 2019, respectively). The credit line expires on August 25, 2021. At November 30, 2020, no amount was outstanding under the credit line.

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

***Off Balance Sheet Arrangements***

As of November 30, 2020, 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 29, 2020 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 September 1, 2020 through the filing date of this Quarterly Report.

**COMMON STOCK ISSUED**

| Date | Nature of Offering | Party Shares Issued To | Number of Shares Issued | Amount Paid to Issuer ($) | Trading Status of Shares | Certificates Issued with Restrictive Legends[1] |
|---|---|---|---|---|---|---|
| 11/19/2020 | Stock Grants | Non-Employee Directors (6 in Total) | 2,545 | - | 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 118,101 equity securities of CSI were repurchased during the nine months ended November 30, 2020. As reflected in the Condensed Consolidated Statement of Changes in Equity in Item 3, above, CSI redeemed 18,150 shares of common stock related to tax withholding payments as a part of share-based compensation during the nine months ended November 30, 2020.

**Item 8: Exhibits.**

**A. Material Contracts:**

None.

**B. Articles of incorporation and bylaws**

The By-Laws have not been amended since March 25, 2020.

**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 NOVEMBER 30, 2020**

**EXHIBIT 9 (A)**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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

1. I have reviewed this Quarterly Report of the Company for the period ended November 30, 2020;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report.

Date: January 13, 2021

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

# COMPUTER SERVICES, INC.
# QUARTERLY REPORT
# FOR THE FISCAL QUARTER ENDED NOVEMBER 30, 2020

## 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 November 30, 2020;

2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Quarterly Report.

Date: January 13, 2021

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