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T.R.A. DOCKET ROOM

August 8, 2007

Via DHL

Tennessee Regulatory Authority  
Dockets and Records  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Re: *Aero Communications, LLC – Docket No. 06-00024*  
*Certificate of Service/Application for a Certificate to Provide Competing Local*  
*Telecommunications Services*

To Whom It May Concern:

Enclosed for docketing and filing with the Tennessee Regulatory Authority is an original and thirteen (13) copies of Aero Communications, LLC's August 7, 2007 letter response to Commission inquiry in the above-referenced docket.

Your assistance in this matter is appreciated.

Sincerely,

A handwritten signature in dark ink, appearing to be 'B. Gadison', with a long, sweeping horizontal line extending to the right.

Bettye Gadison  
Regulatory Compliance Assistant

/bjg  
Enclosures



Law Office of Kristopher E. Twomey, P.C.  
LoKT Consulting

August 7, 2007

Via DHL  
Docket Manager  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Re: Docket No. 07-00165, Application of Aero Communications, LLC for a  
Certificate to Provide Competing Local Telecommunications Services in  
Tennessee

To Whom It May Concern:

On behalf of Aero Communications, LLC ("Aero"), I am responding to the July 18, 2007 letter sent by Utilities Division Chief Darlene Standley.

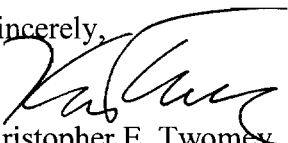
In response to the first question, Aero has not been the subject of any complaints filed with state or federal regulatory agencies where Aero is currently operating.

In response to question two, Aero does not have current financial statements available as Aero's accountants are currently conducting an audit. Aero wishes to show financial ability via a guarantee from its main shareholder, Computer Services, Inc. ("CSI") CSI is majority owner of Heartland Communications Internet Services, Inc., the sole member of Aero Communications, LLC. A guarantee letter prepared by CSI is attached to this letter. CSI is a publicly traded company with over \$120 million in revenues in 2006. CSI's most recent financial statements prepared for the end of the first quarter 2007 are also attached.

In response to question three, the insurance agency that prepared the surety bond has sent the signed acknowledgement page directly to the TRA. My assistant and I have spoken with Lisa Foust of TRA staff and she has forwarded the documents to the TRA's legal department to determine sufficiency. The surety acknowledgement is signed by David Simon, Chief Financial Officer of CSI.

If any further information is required, please contact me.

Sincerely,

  
Kristopher E. Twomey  
Counsel to Aero Communications, LLC



3901 Technology Drive, Paducah, KY 42001-5201  
270-442-7361 • FAX: 270-442-9905

August 7, 2007

Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Re: Aero Communications, LLC

Dear Sir or Madam:

Computer Services, Inc. ("CSP") is the majority shareholder of Heartland Communications Internet Services, Inc. ("Heartland"). Heartland owns all of the equity of applicant Aero Communications, LLC ("Aero"). As an indirect but ultimate majority owner of Aero, CSI asks that the Tennessee Regulatory Authority accept this letter as an undertaking for CSI to guaranty the performance of Aero in its pending application before the Tennessee Regulatory Authority. CSI is a 42-year old company with over \$120 million in annual revenues and shareholders' equity of over \$73 million at February 28, 2007, the end of its most recent fiscal year. (CSI's audited financial statements and other information are available to the public at [www.otcqx.com](http://www.otcqx.com) or at [www.csiweb.com](http://www.csiweb.com))

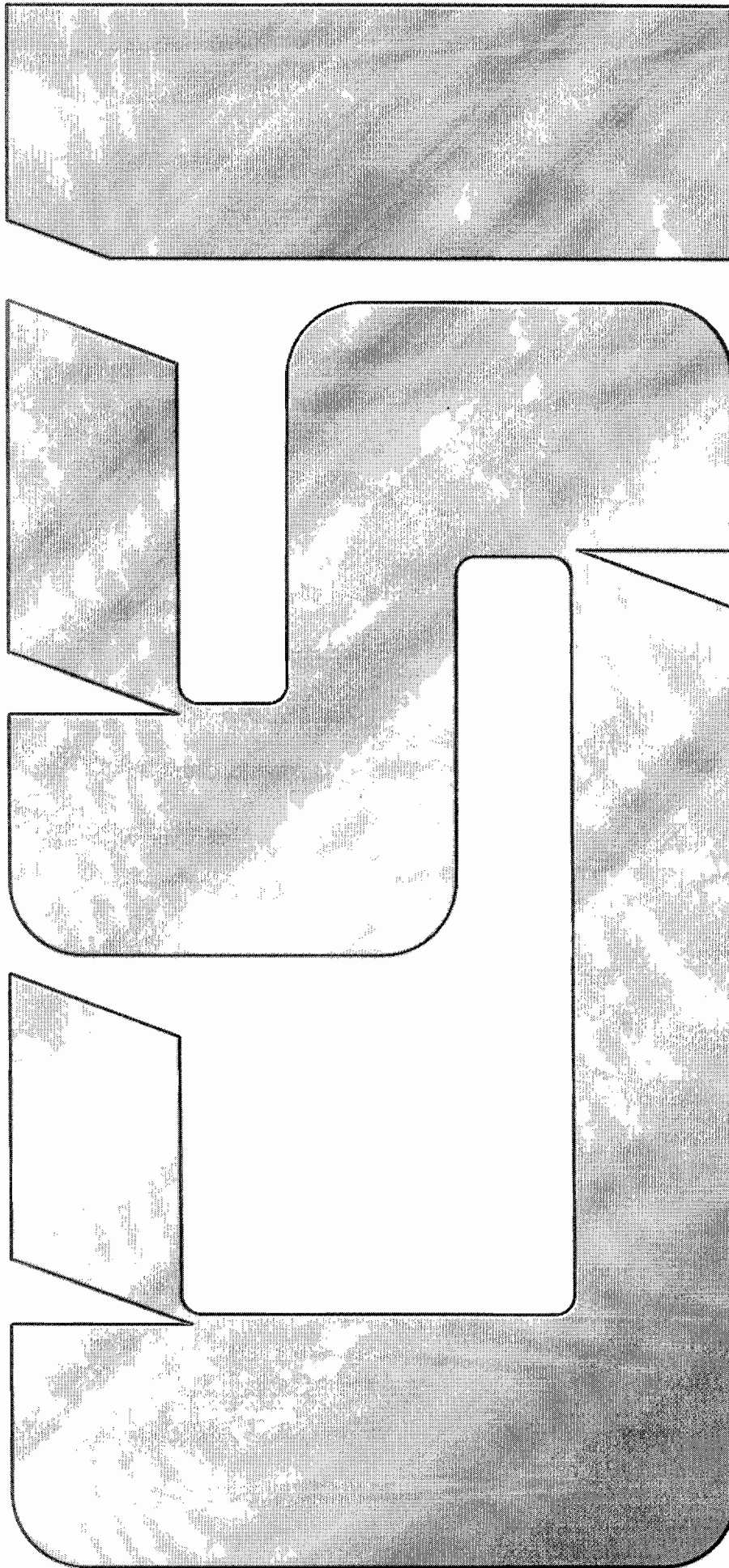
CSI hereby guarantees payment of all expenses, regulatory fees and surcharges, taxes, and any other financial obligations incurred by Aero in its operations as a competitive local exchange carrier and interexchange carrier in Tennessee. In addition, CSI hereby confirms that it will provide the necessary financial support to ensure that Aero has sufficient operating funds to provide services as a competitive telecommunications carrier in Tennessee.

As Treasurer and Chief Financial Officer of CSI, I am authorized to issue this letter on CSI's behalf. Please contact me at by telephone at 270.442.7361 x10126 or by email at [dsimon@csiweb.com](mailto:dsimon@csiweb.com) with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "David L. Simon", written over a horizontal line.

David L. Simon  
Treasurer & CFO



## **This is CSI**

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Computer Services, Inc. (CSI) (OTCQX: CSVI), provides service and software solutions for banks in both a service bureau and an in-house environment. In addition to core processing, our integrated banking solutions include check imaging, cash management, branch and merchant capture, Internet banking, corporate intranets, secure Web hosting, e-messaging, teller and platform services, ATM and debit card service and support, payment processing solutions, risk assessment, network management, and compliance software and services for regulatory compliance, homeland security and fraud prevention. Over 3,000 financial institutions are served with CSI's products and services.

## **Contents**

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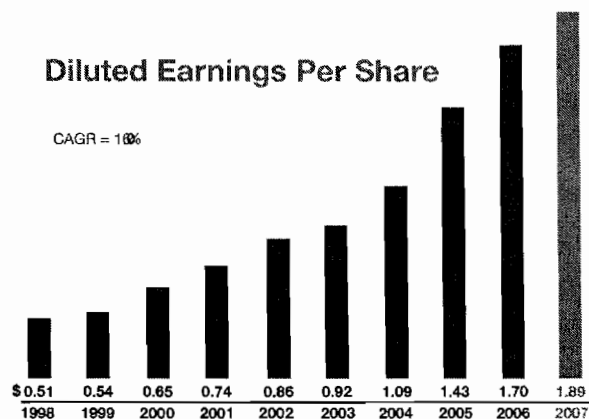
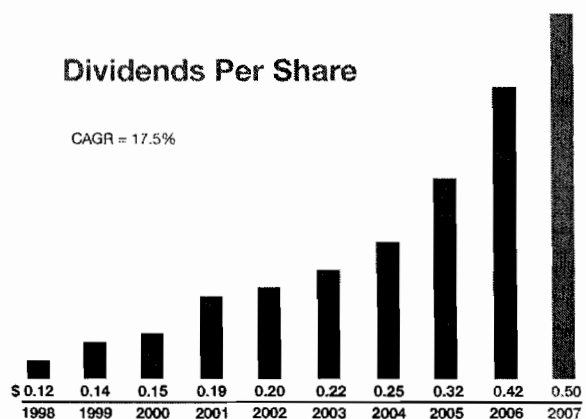
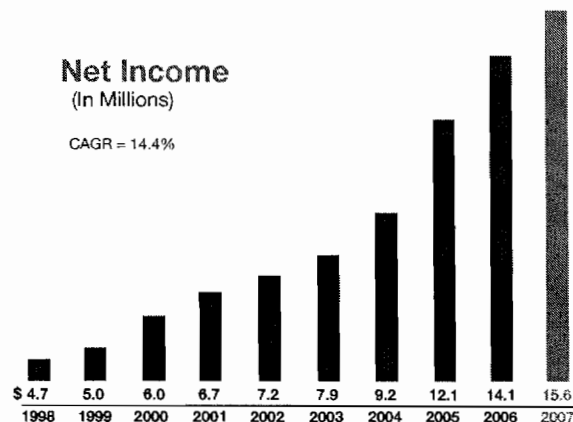
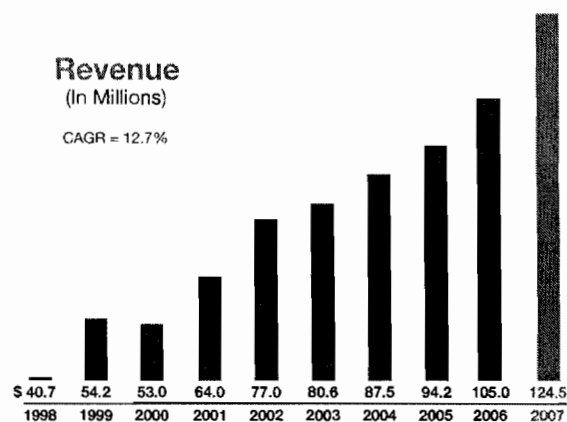
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# Financial Highlights

(in thousands, except per share data)

	Percentage Change				
YEARS ENDED FEBRUARY 28,	2007	2006	2005	2007	2006
<b>RESULTS OF OPERATIONS</b>					
Revenues	\$ 124,501	\$104,980	\$ 94,181	18.6%	11.5%
Net income	15,592	14,104	12,122	10.6	16.4
Net income per common share					
Basic	\$ 1.98	\$ 1.79	\$ 1.51	10.6%	18.5%
Assuming dilution	1.89	1.70	1.43	11.2	18.9
Weighted average common and common equivalent shares outstanding					
Basic	7,874	7,873	8,008	0.0 %	(1.7) %
Assuming dilution	8,257	8,316	8,451	(0.7)	(1.6)
<b>OTHER INFORMATION</b>					
Return on average shareholders' equity	23.0%	24.1 %	22.7%		
Dividends per common share	\$ 0.50	\$ 0.42	\$ 0.32	19.0%	31.3%
Net cash provided by operating activities	\$ 27,551	\$ 23,990	\$ 23,553	14.8	1.9
Total debt	\$ 13,406	\$ 10,233	\$ -	31.0	-
Employees at year-end	907	832	700	9.0	18.9



## Telecommunications are Expanding

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We increased our investment in Heartland Communications Internet Service to majority ownership in August 2006. Through Aero Communications, LLC, a local exchange carrier (CLEC) owned by Heartland, CSI can continue the expansion of our fiber optic telecommunications network to anywhere CSI does business.

This expansion allows CSI to offer Resilient Packet Ring (RPR) networks with desirable features such as complete redundancy, scalable bandwidth and full replication of backup services.

More specifically, this strategy allows us to satisfy our customers' needs for cost effective networks that will support bandwidth intensive services. And it allows us to connect CSI host centers and remote operations with an even more robust wide area network.

First Southern Bancorp, Inc., Stanford, KY, with assets of \$689 million and 26 locations, relies heavily on a secure, reliable communications network. That's why they made the decision to become CSI's first customer to upgrade to a Resilient Packet Ring network. According to Rockie Mason, Vice President of Technology and Business Marketing, the increasing cost of frame relay networks and the benefits of the RPR network made the bank's decision easy. ►

# **CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

YEARS ENDED FEBRUARY 28,	2007	2006	2005
Processing revenues	\$ 96,559	\$ 86,497	\$ 79,474
Other revenues	25,428	16,479	13,530
Liquidated damages	2,514	2,004	1,177
<b>Total revenues</b>	<b>124,501</b>	<b>104,980</b>	<b>94,181</b>
Operating expenses	99,107	80,850	74,411
<b>Income before other income (expense)</b>	<b>25,394</b>	<b>24,130</b>	<b>19,770</b>
Other income (expense)			
Interest, net	(372)	146	256
Other, net	(201)	(492)	690
Total	(573)	(346)	946
<b>Income before income taxes &amp; minority interest</b>	<b>24,821</b>	<b>23,784</b>	<b>20,716</b>
Provision for income taxes	9,513	9,680	8,594
<b>Income before minority interest</b>	<b>15,308</b>	<b>14,104</b>	<b>12,122</b>
Minority interest in net loss of consolidated entity	284	-	-
<b>Net income</b>	<b>\$ 15,592</b>	<b>\$ 14,104</b>	<b>\$ 12,122</b>
Earnings per share			
Basic	\$ 1.98	\$ 1.79	\$ 1.51
Assuming dilution	\$ 1.89	\$ 1.70	\$ 1.43
Shares used in computing earnings per common and common equivalent share			
Basic	7,874	7,873	8,008
Assuming dilution	8,257	8,316	8,451

See accompanying notes to consolidated financial statements.



## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

YEARS ENDED FEBRUARY 28,	2007	2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,850	\$ 1,748
Accounts receivable	14,396	14,042
Refundable and prepaid income taxes	-	308
Prepaid expenses and other current assets	3,714	2,862
Total current assets	21,960	18,960
Property and equipment, at cost		
Land	1,320	1,340
Buildings and improvements	19,533	17,996
Equipment	46,940	37,823
Construction-in-progress	8	901
	67,801	58,060
Accumulated depreciation	(36,425)	(31,550)
	31,376	26,510
Software and software licenses, net of accumulated amortization of \$14,882 in 2007 and \$10,787 in 2006	12,439	12,584
Goodwill	30,208	19,156
Intangible assets	2,510	1,800
Other assets	4,481	6,556
<b>Total assets</b>	<b>\$102,974</b>	<b>\$ 85,566</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 8,537	\$ 6,692
Deferred revenue	4,166	2,386
Income taxes payable	457	-
Notes payable, current portion	619	64
Total current liabilities	13,779	9,142
Notes payable, long-term	12,787	10,169
Deferred income taxes	1,893	2,804
Other liabilities	1,089	1,052
Total liabilities	29,548	23,167
Shareholders' equity		
Preferred stock; shares authorized, 5,000,000 in 2007 and 2006; none issued	-	-
Common stock, no par; shares authorized, 20,000,000 in 2007 and 2006; shares issued and outstanding, 7,928,356 in 2007 and 7,860,630 in 2006	12,103	8,896
Equity in minority interest	(770)	-
Retained earnings	63,350	54,688
Restricted stock	(1,257)	(1,185)
Total shareholders' equity	73,426	62,399
<b>Total liabilities and shareholders' equity</b>	<b>\$102,974</b>	<b>\$ 85,566</b>

See accompanying notes to consolidated financial statements

# **CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(in thousands, except per share data)

	Common Stock		Retained	Restricted	Equity in	Accumulated	
	Shares	Amount	Earnings	Stock	Minority	Other	Total
					Interest	Comprehensive	
						Income	
Balance at February 29, 2004	4,024	\$ 7,346	\$ 44,649	\$ -	\$ -	\$ 112	\$ 52,107
Comprehensive income:							
Net income	-	-	12,122	-	-	-	12,122
Other comprehensive income, net of tax							
Change in unrealized gains on securities	-	-	-	-	-	(112)	(112)
Total comprehensive income							12,010
Cash dividends paid (\$.32 per share)	-	-	(2,566)	-	-	-	(2,566)
Issuance of restricted stock	14	490	-	(490)	-	-	-
Stock split effected in the form of a 100% stock dividend	4,011	-	-	-	-	-	-
Purchase of common stock	(234)	(303)	(6,807)	-	-	-	(7,110)
Exercise of stock options, net	62	416	-	-	-	-	416
Balance at February 28, 2005	7,877	\$ 7,949	\$ 47,398	\$ (490)	\$ -	\$ -	\$ 54,857
Net income	-	-	14,104	-	-	-	14,104
Cash dividends paid (\$.42 per share)	-	-	(3,309)	-	-	-	(3,309)
Issuance of restricted stock	26	818	-	(818)	-	-	-
Restricted stock vested	-	-	-	123	-	-	123
Issuance of common stock in purchase of subsidiary	7	202	-	-	-	-	202
Purchase of common stock	(120)	(126)	(3,505)	-	-	-	(3,631)
Exercise of stock options, net	71	53	-	-	-	-	53
Balance at February 28, 2006	7,861	\$ 8,896	\$ 54,688	\$ (1,185)	\$ -	\$ -	\$ 62,399
Net income	-	-	15,592	-	-	-	15,592
Minority interest	-	-	-	-	(486)	-	(486)
Minority interest in net loss	-	-	-	-	(284)	-	(284)
Cash dividends paid (\$.50 per share)	-	-	(3,934)	-	-	-	(3,934)
Issuance of restricted stock	18	522	-	(522)	-	-	-
Restricted stock vested and tax benefit	-	-	43	302	-	-	345
Restricted stock forfeited	(5)	(148)	-	148	-	-	-
Issuance of common stock in purchase of subsidiary	94	2,800	-	-	-	-	2,800
Purchase of common stock	(107)	(134)	(3,039)	-	-	-	(3,173)
Exercise of stock options, net	67	167	-	-	-	-	167
Balance at February 28, 2007	7,928	\$ 12,103	\$ 63,350	\$ 1,257	\$ (770)	\$ -	\$ 73,426

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

YEARS ENDED FEBRUARY 28,	2007	2006	2005
Cash flows from operating activities			
Net income	\$ 15,592	\$ 14,104	\$ 12,122
Adjustments to reconcile net income to net cash from operating activities			
Minority interest in net loss of subsidiary	(284)	-	-
Depreciation	5,967	5,101	5,083
Amortization	5,740	4,552	3,426
(Gain)/loss on sale of property and equipment	(322)	235	(423)
Gain on sale of marketable securities	-	-	(192)
Loss on equity investment	391	463	-
Tax benefit of restricted stock vested	43	-	-
Deferred income taxes	(1,292)	(582)	537
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable	397	563	221
Prepaid expenses and other current assets	(776)	187	(173)
Other assets	72	(339)	(168)
Accounts payable and accrued expenses	283	(664)	1,185
Deferred revenue	939	120	233
Income taxes	765	214	1,666
Other liabilities	36	36	36
Net cash from operating activities	27,551	23,990	23,553
Cash flows from investing activities			
Proceeds from sale of property and equipment	520	49	613
Purchase of property and equipment	(7,481)	(5,743)	(6,042)
Purchase of software and software licenses	(2,317)	(5,961)	(2,740)
Purchase of subsidiary, net of cash received	(9,622)	(22,420)	-
Purchase of equity investment	(1,178)	(3,500)	-
Proceeds from sale of marketable securities	-	-	614
Net cash from investing activities	(20,078)	(37,575)	(7,555)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	11,693	13,000	-
Payments on long-term debt	(10,125)	(5,712)	-
Payment of dividends	(3,934)	(3,309)	(2,566)
Purchase of common stock	(3,172)	(3,631)	(7,110)
Proceeds from the exercise of stock options, net	167	53	416
Net cash from financing activities	(5,371)	401	(9,260)
Net change in cash and cash equivalents	2,102	(13,184)	6,738
Cash and cash equivalents, beginning of year	1,748	14,932	8,194
Cash and cash equivalents, end of year	\$ 3,850	\$ 1,748	\$ 14,932
Supplemental disclosure of cash paid for			
Income taxes	\$ 9,659	\$ 10,259	\$ 6,928
Interest	552	225	7
Non-cash investing and financing transactions			
Issuance of common stock in purchase of subsidiary	\$ 2,800	\$ 202	\$ -
Issuance of restricted stock	522	818	490

## NOTES

### NOTE 1 - NATURE OF BUSINESS

Computer Services, Inc. and Subsidiaries (the "Company") provides service and software solutions for predominantly financial institutions in both a service bureau and an in-house environment. In addition to core processing, the Company's integrated banking solutions include check imaging, cash management, branch and merchant capture, Internet banking, corporate intranets, secure Web hosting, e-messaging, teller and platform services, ATM and debit card service and support, payments solutions, risk assessment, network management, and compliance software and services for regulatory compliance, homeland security and fraud prevention.

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation:** The consolidated financial statements include the accounts of Computer Services, Inc. ("CSI") and its wholly and majority owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

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

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

**Accounts Receivable:** Accounts receivable consist primarily of amounts due from bank customers for data processing services. Interest is not charged on receivables. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. As of February 28, 2007 and 2006, no allowance for accounts receivable was considered necessary since management considers these accounts to be fully collectible.

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

**Amortization:** Software costs, including licenses, are amortized using the straight-line method over three to five years or the life of the licenses.

**Long-term Assets:** Property and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from

future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized through February 28, 2007.

**Goodwill and Other Intangible Assets:** Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

The change in the carrying amount of goodwill for the years ended February 28, 2007 and 2006, is as follows:

(in thousands)	2007	2006
Balance, beginning of year	\$ 19,156	\$ 4,251
Goodwill from acquisitions during the year	11,052	14,541
Adjustment to goodwill for deferred income taxes	-	364
Balance, end of year	\$ 30,208	\$ 19,156

Other intangible assets consist of customer relationships and non-compete agreements arising from acquisitions. The intangibles are amortized on a straight-line basis over five years for customer relationships and over ten years for non-compete agreements.

The change in carrying amount of intangibles for the years ended February 28, 2007 and 2006, is as follows:

(in thousands)	2007	2006
Balance, beginning of year	\$ 2,216	\$ 606
Intangibles from acquisitions during the year	1,108	1,610
	3,324	2,216
Less amortization	814	416
Balance, end of year	\$ 2,510	\$ 1,800

Total amortization expense for the years ended February 28, 2007 and 2006 and 2005, was \$399,000, \$204,000 and \$121,000, respectively.

Aggregate annual amortization expense for each of the next five years and thereafter is as follows:

(in thousands)	
Year Ending	Amount
February 28 and 29,	
2008	\$ 602
2009	495
2010	465
2011	408
2012	266
Thereafter	275