CASS INFORMATION SYSTEMS INC
Form 10-Q
May 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________________ to ___________________

Commission File No. 000-20827

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CASS INFORMATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Missouri	**43-1265338**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12444 Powerscourt Drive, Suite 550 **St. Louis, Missouri**	**63131**
(Address of principal executive offices)	(Zip Code)

(314) 506-5500
(Registrant s telephone number, including area code)

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one)	Large Accelerated Filer _____	Accelerated Filer __X__
	Non-Accelerated Filer _____ (Do not check if a smaller reporting company)	Smaller Reporting Company _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

The number of shares outstanding of the registrant's only class of common stock as of April 28, 2016: Common stock, par value $.50 per share 11,242,376 shares outstanding.

TABLE OF CONTENTS

Forward-looking Statements - Factors That May Affect Future Results

This report may contain or incorporate by reference forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and other factors beyond our control, which may cause future performance to be materially different from expected performance summarized in the forward-looking statements. These risks, uncertainties and other factors are discussed in Part I, Item 1A, Risk Factors of the Company s 2015 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands except Share and Per Share Data)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$ 11,995	$ 9,015
Interest-bearing deposits in other financial institutions	122,670	176,405
Federal funds sold and other short-term investments	10,681	67,752
Cash and cash equivalents	145,346	253,172
Securities available-for-sale, at fair value	373,145	375,696
Loans	684,617	659,055
Less: Allowance for loan losses	10,637	11,635
Loans, net	673,980	647,420
Premises and equipment, net	19,948	19,648
Investment in bank-owned life insurance	16,061	15,933
Payments in excess of funding	110,665	105,526
Goodwill	11,590	11,590
Other intangible assets, net	2,303	2,405
Other assets	23,980	24,116
Total assets	$ 1,377,018	$ 1,455,506
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 184,281	$ 181,823
Interest-bearing	421,564	464,661
Total deposits	605,845	646,484
Accounts and drafts payable	536,725	577,259
Other liabilities	25,413	24,385
Total liabilities	1,167,983	1,248,128
Shareholders Equity:		
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued		
Common stock, par value $.50 per share; 40,000,000 shares authorized and 11,931,147 shares issued at March 31, 2016 and December 31, 2015	5,966	5,966
Additional paid-in capital	125,719	126,290
Retained earnings	107,343	103,994
Common shares in treasury, at cost (657,831 shares at March 31, 2016 and 598,875 shares at December 31, 2015)	(25,490)	(22,208)
Accumulated other comprehensive loss	(4,503)	(6,664)
Total shareholders equity	209,035	207,378
Total liabilities and shareholders equity	$ 1,377,018	$ 1,455,506

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in Thousands except Per Share Data)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Fee Revenue and Other Income:		
Information services payment and processing revenue	$ 19,545	$ 19,418
Bank service fees	358	301
Gains on sales of securities	308	949
Other	294	164
Total fee revenue and other income	20,505	20,832
Interest Income:		
Interest and fees on loans	7,131	7,086
Interest and dividends on securities:		
Taxable	12	3
Exempt from federal income taxes	2,394	2,303
Interest on federal funds sold and other short-term investments	240	160
Total interest income	9,777	9,552
Interest Expense:		
Interest on deposits	513	591
Net interest income	9,264	8,961
Provision for loan losses	(1,000)	
Net interest income after provision for loan losses	10,264	8,961
Total net revenue	30,769	29,793
Operating Expense:		
Salaries and employee benefits	17,846	17,326
Occupancy	834	837
Equipment	1,055	1,071
Amortization of intangible assets	102	101
Other operating expense	3,079	2,973
Total operating expense	22,916	22,308
Income before income tax expense	7,853	7,485
Income tax expense	2,020	1,946
Net income	$ 5,833	$ 5,539
Basic earnings per share	.52	.48
Diluted earnings per share	.51	.48

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Comprehensive income:		
Net income	$ 5,833	$ 5,539
Other comprehensive income:		
Net unrealized gain (loss) on securities available-for-sale	3,674	1,496
Tax effect	(1,365)	(557)
Reclassification adjustments for gains included in net income	(308)	(949)
Tax effect	114	332
Foreign currency translation adjustments	46	(64)
Total comprehensive income	$ 7,994	$ 5,797

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31, 2016	2015
Cash Flows From Operating Activities:		
Net income	$ 5,833	$ 5,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,307	2,081
Net gains on sales of securities	(308)	(949)
Stock-based compensation expense	499	517
Provision for loan losses	(1,000)	-
Increase in income tax liability	378	31
Increase in pension liability	1,005	1,210
Other operating activities, net	(1,552)	1,475
Net cash provided by operating activities	7,162	9,904
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	19,039	45,198
Proceeds from maturities of securities available-for-sale	10,865	7,810
Purchase of securities available-for-sale	(25,102)	(19,297)
Net increase in loans	(25,560)	(14,187)
Increase in payments in excess of funding	(5,139)	(5,345)
Purchases of premises and equipment, net	(1,082)	(1,624)
Net cash (used in) provided by investing activities	(26,979)	12,555
Cash Flows From Financing Activities:		
Net increase in noninterest-bearing demand deposits	2,458	1,556
Net decrease in interest-bearing demand and savings deposits	(44,046)	(614)
Net increase (decrease) in time deposits	949	(4,063)
Net decrease in accounts and drafts payable	(40,534)	(98,602)
Cash dividends paid	(2,484)	(2,412)
Purchase of common shares for treasury	(3,772)	(3,358)
Other financing activities, net	(580)	(786)
Net cash used in financing activities	(88,009)	(108,279)
Net decrease in cash and cash equivalents	(107,826)	(85,820)
Cash and cash equivalents at beginning of period	253,172	294,335
Cash and cash equivalents at end of period	$ 145,346	$ 208,515
Supplemental information:		
Cash paid for interest	$ 501	$ 582
Cash paid for income taxes	1,671	1,942

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and related footnotes included in Cass Information System, Inc. s (the Company or Cass) Annual Report on Form 10-K for the year ended December 31, 2015.

Note 2 Intangible Assets

The Company accounts for intangible assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, Goodwill and Other Intangible Assets, (FASB ASC 350), which requires that intangibles with indefinite useful lives be tested annually for impairment and those with finite useful lives be amortized over their useful lives.

Details of the Company s intangible assets are as follows:

	March 31, 2016		December 31, 2015	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Assets eligible for amortization:				
Customer lists	$ 3,933	$ (2,103)	$ 3,933	$ (2,023)
Patent	72	(4)	72	(4)
Non-compete agreements	261	(222)	261	(209)
Software	234	(234)	234	(234)
Other	500	(134)	500	(125)
Unamortized intangible assets:				
Goodwill[1]	11,817	(227)	11,817	(227)
Total intangible assets	$ 16,817	$ (2,924)	$ 16,817	$ (2,822)

[1] Amortization through December 31, 2001 prior to adoption of FASB ASC 350.

The customer lists are amortized over seven and ten years; the patents over 18 years; the non-compete agreements over five years; software over three years; and other intangible assets over fifteen years. Amortization of intangible assets amounted to $102,000 and $101,000 for the three-month periods ended March 31, 2016 and 2015, respectively. Estimated annual amortization of intangibles is as follows: $407,000 in 2016, and $356,000 in each of 2017, 2018, 2019 and 2020.

Note 3 Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. There were no anti-dilutive shares in the three months ended March 31, 2016 and 2015. The calculations of basic and diluted earnings per share are as follows:

	Three Months Ended March 31,	
(In thousands except share and per share data)	**2016**	**2015**
Basic		
Net income	$ 5,833	$ 5,539
Weighted-average common shares outstanding	11,233,558	11,440,356
Basic earnings per share	$ .52	$ .48
Diluted		

Net income	$	5,833	$	5,539
Weighted-average common shares outstanding		11,233,558		11,440,356
Effect of dilutive restricted stock and stock appreciation rights		153,299		161,497
Weighted-average common shares outstanding assuming dilution		11,386,857		11,601,853
Diluted earnings per share	$	.51	$	.48

Note 4 Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 500,000 shares of the Company s common stock. As restored by the Board of Directors on October 19, 2015, the program provides that the Company may repurchase up to an aggregate of 500,000 shares of common stock and has no expiration date. The Company repurchased 75,882 and 69,288 shares during the three-month periods ended March 31, 2016 and 2015, respectively. As of March 31, 2016, 412,397 shares remained available for repurchase under the program. Repurchases may be made in the open market or through negotiated transactions from time to time depending on market conditions.

Note 5 Industry Segment Information

The services provided by the Company are classified into two reportable segments: Information Services and Banking Services. Each of these segments provides distinct services that are marketed through different channels. They are managed separately due to their unique service, processing and capital requirements.

The Information Services segment provides transportation, energy, telecommunication, and environmental invoice processing and payment services to large corporations. The Banking Services segment provides banking services primarily to privately held businesses and churches.

The Company s accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2015. Management evaluates segment performance based on net income after allocations for corporate expenses and income taxes. Transactions between segments are accounted for at what management believes to be fair value.

Substantially all revenue originates from, and all long-lived assets are located within the United States, and no revenue from any customer of any segment exceeds 10% of the Company s consolidated revenue.

Assets represent actual assets owned by Information Services and Banking Services and there is no allocation methodology used. Segment interest from customers is the actual interest earned on the loans owned by Information Services and Banking Services, respectively.

Summarized information about the Company s operations in each industry segment is as follows:

(In thousands)	**Information Services**	**Banking Services**	**Corporate, Eliminations and Other**	**Total**
Quarter Ended March 31, 2016				
Fee revenue and other income:				
Income from customers	$ 23,558	$ 7,211	$	$ 30,769
Intersegment income (expense)	3,258	376	(3,634)	
Net income	2,947	2,886		5,833
Goodwill	11,454	136		11,590
Other intangible assets, net	2,303			2,303
Total assets	663,487	718,234	(4,703)	1,377,018
Quarter Ended March 31, 2015				
Fee revenue and other income				
Income from customers	$ 24,274	$ 5,519	$	$ 29,793
Intersegment income (expense)	2,194	423	(2,617)	
Net income	3,816	1,723		5,539
Goodwill	11,454	136		11,590
Other intangible assets, net	2,661			2,661
Total assets	686,492	724,292	(10,036)	1,400,748

Note 6 Loans by Type

A summary of loan categories is as follows:

(In thousands)	March 31, 2016	December 31, 2015
Commercial and industrial	$ 209,663	$ 193,430
Real estate		
Commercial:		
Mortgage	106,656	108,836
Construction	9,857	1,182
Church, church-related:		
Mortgage	306,155	306,728
Construction	33,259	28,957
Industrial Revenue Bonds	19,018	19,831
Other	9	91
Total loans	$ 684,617	$ 659,055

The following table presents the aging of loans by loan categories at March 31, 2016 and December 31, 2015:

	Performing			Nonperforming		
(In thousands)	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
March 31, 2016						
Commercial and industrial	$ 209,663	$	$	$	$	$ 209,663
Real estate						
Commercial:						
Mortgage	106,366				290	106,656
Construction	9,857					9,857
Church, church-related:						
Mortgage	306,061				94	306,155
Construction	33,259					33,259
Industrial Revenue Bonds	19,018					19,018
Other	9					9
Total	$ 684,233	$	$	$	$ 384	$ 684,617
December 31, 2015						
Commercial and industrial	$ 193,430	$	$	$	$	$ 193,430
Real estate						
Commercial:						
Mortgage	105,804				3,032	108,836
Construction	1,182					1,182
Church, church-related:						
Mortgage	306,625				103	306,728
Construction	28,957					28,957
Industrial Revenue Bonds	19,831					19,831
Other	91					91
Total	$ 655,920	$	$	$	$ 3,135	$ 659,055

The following table presents the credit exposure of the loan portfolio by internally assigned credit grade as of March 31, 2016 and December 31, 2015:

(In thousands)	Loans Subject to Normal Monitoring[1]	Performing Loans Subject to Special Monitoring[2]	Nonperforming Loans Subject to Special Monitoring[2]	Total Loans
March 31, 2016				
Commercial and industrial	$ 206,999	$ 2,664	$	$ 209,663
Real estate				
Commercial:				
Mortgage	105,233	1,133	290	106,656
Construction	9,857			9,857
Church, church-related:				
Mortgage	298,242	7,819	94	306,155
Construction	33,259			33,259
Industrial Revenue Bonds	19,018			19,018
Other	9			9
Total	$ 672,617	$ 11,616	$ 384	$ 684,617
December 31, 2015				
Commercial and industrial	$ 190,303	$ 3,127	$	$ 193,430
Real estate				
Commercial:				
Mortgage	104,642	1,162	3,032	108,836
Construction	1,182			1,182
Church, church-related:				
Mortgage	299,135	7,490	103	306,728
Construction	28,957			28,957
Industrial Revenue Bonds	19,831			19,831
Other	91			91
Total	$ 644,141	$ 11,779	$ 3,135	$ 659,055

1 Loans subject to normal monitoring involve borrowers of acceptable-to-strong credit quality and risk, who have the apparent ability to satisfy their loan obligations.

2 Loans subject to special monitoring possess some credit deficiency or potential weakness which requires a high level of management attention.

Impaired loans consist primarily of nonaccrual loans, loans greater than 90 days past due and still accruing interest and troubled debt restructurings, both performing and nonperforming. Troubled debt restructuring involves the granting of a concession to a borrower experiencing financial difficulty resulting in the modification of terms of the loan, such as changes in payment schedule or interest rate. Management measures impairment in accordance with FASB ASC 310, Allowance for Credit Losses. At March 31, 2016 impaired loans were evaluated using the expected cash flow method. At December 31, 2015, all impaired loans were evaluated based on the fair value of the collateral and the expected cash flow method. The fair value of the collateral is based upon an observable market price or current appraised value and therefore, the Company classifies these assets as nonrecurring Level 3. There were no loans delinquent 90 days or more and still accruing interest at March 31, 2016 and December 31, 2015. There were no loans classified as troubled debt restructuring at March 31, 2016 and December 31, 2015.

There were no foreclosed loans recorded as other real estate owned (included in other assets) as of March 31, 2016, and December 31, 2015.

The following table presents the recorded investment and unpaid principal balance for impaired loans at March 31, 2016 and December 31, 2015:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
March 31, 2016			
Commercial and industrial:			

Nonaccrual	$	$	$
Real estate			
Commercial Mortgage:			
Nonaccrual	290	290	
Church Mortgage:			
Nonaccrual	94	94	94
Total impaired loans	$ 384	$ 384	$ 94
December 31, 2015			
Commercial and industrial:			
Nonaccrual	$	$	$
Real estate			
Commercial Mortgage:			
Nonaccrual	3,032	3,032	1,039
Church Mortgage:			
Nonaccrual	103	103	103
Total impaired loans	$ 3,135	$ 3,135	$ 1,142

A summary of the activity in the allowance for loan losses from December 31, 2015 to March 31, 2016 is as follows:

(In thousands)	December 31, 2015	Charge-Offs	Recoveries	Provision	March 31, 2016
Commercial and industrial	$ 3,083	$	$ 2	$ 356	$ 3,441
Real estate					
Commercial:					
Mortgage	2,803			(1,072)	1,731
Construction	9			65	74
Church, church-related:					
Mortgage	4,082			(16)	4,066
Construction	217			33	250
Industrial Revenue Bond	320			(13)	307
Other	1,121			(353)	768
Total	$ 11,635	$	$ 2	$ (1,000)	$ 10,637

Note 7 Commitments and Contingencies

In the normal course of business, the Company is party to activities that contain credit, market and operational risks that are not reflected in whole or in part in the Company s consolidated financial statements. Such activities include traditional off-balance sheet credit-related financial instruments and commitments under operating leases. These financial instruments include commitments to extend credit, commercial letters of credit and standby letters of credit. The Company s maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, commercial letters of credit and standby letters of credit is represented by the contractual amounts of those instruments. At March 31, 2016 and December 31, 2015, no amounts have been accrued for any estimated losses for these instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company or its subsidiaries to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At March 31, 2016, the balance of unused loan commitments, standby and commercial letters of credit were $9,562,000, $15,200,000, and $1,993,000, respectively. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. Commitments to extend credit and letters of credit are subject to the same underwriting standards as those financial instruments included on the consolidated balance sheets. The Company evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of the credit, is based on management s credit evaluation of the borrower. Collateral held varies, but is generally accounts receivable, inventory, residential or income-producing commercial property or equipment. In the event of nonperformance, the Company or its subsidiaries may obtain and liquidate the collateral to recover amounts paid under guarantees on these financial instruments.

The following table summarizes contractual cash obligations of the Company related to operating lease commitments and time deposits at March 31, 2016:

	Amount of Commitment Expiration per Period				
(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating lease commitments	$ 6,612	$ 1,362	$ 2,378	$ 1,652	$ 1,220
Time deposits	62,649	57,909	2,659	2,081	
Total	$ 69,261	$ 59,271	$ 5,037	$ 3,733	$ 1,220

The Company and its subsidiaries are involved in various pending legal actions and proceedings in which claims for damages are asserted. Management, after discussion with legal counsel, believes the ultimate resolution of these legal actions and proceedings will not have a material effect upon the Company s consolidated financial position or results of operations.

Note 8 Stock-Based Compensation

The Amended and Restated Omnibus Stock and Performance Compensation Plan (the Omnibus Plan) permits the issuance of up to 1,500,000 shares of the Company s common stock in the form of stock options, stock appreciation rights (SARs), restricted stock, restricted stock units and performance awards. The Company issues shares out of treasury stock for these awards. During the three months ended March 31, 2016, 27,518 restricted shares and 0 SARs were granted under the Omnibus Plan.

Restricted Stock

Restricted shares granted prior to April 16, 2013 are amortized to expense over a three-year vesting period. Beginning on April 16, 2013, restricted shares granted to Company employees are amortized to expense over a three-year vesting period whereas restricted shares granted to members of the Board of Directors are amortized to expense over a one-year service period, with the exception of those shares granted in lieu of cash payments for retainer fees which are expensed in the period earned. As of March 31, 2016, the total unrecognized compensation expense related to non-vested restricted shares was $2,671,000, and the related weighted-average period over which it is expected to be recognized is approximately 1.2 years.

Following is a summary of the activity of the restricted stock:

	Three Months Ended March 31, 2016	
	Shares	**Fair Value**
Balance at December 31, 2015	69,041	$ 51.33
Granted	27,518	$ 49.86
Vested	(25,378)	$ 50.56
Balance at March 31, 2016	71,181	$ 51.03

SARs

SARs vest over a three-year period, with one-third of the shares vesting and becoming exercisable each year on the anniversary date of the grant, and they expire 10 years from the original grant date. As of March 31, 2016, the total unrecognized compensation expense was $184,000, and the related weighted-average period over which it is expected to be recognized is 0.8 years. Following is a summary of the activity of the Company s SARs program for the three-month period ended March 31, 2016:

	Shares	**Weighted-Average Exercise Price**	**Average Remaining Contractual Term Years**	**Aggregate Intrinsic Value *(In thousands)***
Outstanding at December 31, 2015	307,323	$ 36.57	5.99	$ 4,577
Exercised	(3,352)	$ 27.80		
Outstanding at March 31, 2016	303,971	$ 36.66	5.75	$ 4,768
Exercisable at March 31, 2016	291,807	$ 35.62	5.66	$ 4,881

Following is a summary of the activity of the non-vested SARs during the three-month period ended March 31, 2016:

	Shares	**Weighted-Average Grant Date Fair Value**
Non-vested at December 31, 2015	52,507	$ 51.17
Vested	(40,343)	$ 48.02
Non-vested at March 31, 2016	12,164	$ 61.64

Note 9 Defined Pension Plans

The Company has a noncontributory defined-benefit pension plan, which covers most of its employees. The Company accrues and makes contributions designed to fund normal service costs on a current basis using the projected unit credit with service proration method to amortize prior service costs arising from improvements in pension benefits and qualifying service prior to the establishment of the plan over a period of approximately 30 years. Disclosure information is based on a measurement date of December 31 of the corresponding year. The following table represents the components of the net periodic pension costs:

(In thousands)	**Estimated 2016**	**Actual 2015**
Service cost benefits earned during the year	$ 3,527	$ 3,796
Interest cost on projected benefit obligations	3,480	3,178
Expected return on plan assets	(4,734)	(4,864)
Net amortization	1,200	1,542
Net periodic pension cost	$ 3,473	$ 3,652

Pension costs recorded to expense were $877,000 and $991,000 for the three-month periods ended March 31, 2016 and 2015, respectively. Pension costs decreased in 2016 due to an increase in the discount rate assumption and the use of the updated mortality tables. The Company made no contribution to the plan during the three-month period ended March 31, 2016 and is evaluating the amount of additional contributions, if any, in the remainder of 2016.

In addition to the above funded benefit plan, the Company has an unfunded supplemental executive retirement plan which covers key executives of the Company. This is a noncontributory plan in which the Company and its subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as its defined benefit plan. The following table represents the components of the net periodic pension costs for 2015 and an estimate for 2016:

(In thousands)	**Estimated 2016**	**Actual 2015**
Service cost benefits earned during the year	$ 133	$ 140
Interest cost on projected benefit obligation	367	348
Net amortization	295	654
Net periodic pension cost	$ 795	$ 1,142

Pension costs recorded to expense were $201,000 and $288,000 for the three-month periods ended March 31, 2016 and 2015, respectively.

Note 10 Income Taxes

As of March 31, 2016, the Company s unrecognized tax benefits were approximately $1,261,000, of which $912,000 would, if recognized, affect the Company s effective tax rate. As of December 31, 2015, the Company's unrecognized tax benefits were approximately $1,194,000, of which $861,000 would, if recognized, affect the Company's effective tax rate. During the next 12 months, the Company may realize a reduction of its unrecognized tax benefits of approximately $374,000 due to the lapse of federal and state statutes of limitations.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company had $63,000 and $54,000 of gross interest accrued as of March 31, 2016 and December 31, 2015, respectively. There were no penalties for unrecognized tax benefits accrued at March 31, 2016 and December 31, 2015.

The Company is subject to income tax in the U.S. federal jurisdiction and numerous state jurisdictions. U.S. federal income tax returns for tax years 2012 through 2014 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2011 through 2014.

Note 11 Investment in Securities

Investment securities available-for-sale are recorded at fair value on a recurring basis. The Company s investment securities available-for-sale are measured at fair value using Level 2 valuations. The market evaluation utilizes several sources which include observable inputs rather than significant unobservable inputs and therefore fall into the Level 2 category. The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investment securities are summarized as follows:

	March 31, 2016			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 349,614	$ 15,905	$	$ 365,519
Certificates of deposit	7,626			7,626

Total	$ 357,240	$ 15,905	$	$ 373,145

	December 31, 2015			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 356,531	$ 12,552	$ 13	$ 369,070
Certificates of deposit	6,626			6,626
Total	$ 363,157	$ 12,552	$ 13	$ 375,696

There were zero securities in an unrealized loss position as of March 31, 2016. There were 5 securities, or 1% of the total (1 greater than 12 months), in an unrealized loss position as of December 31, 2015. The fair values of securities with unrealized losses are as follows:

	December 31, 2015					
	Less than 12 months		12 months or more		Total	
(In thousands)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
State and political subdivisions	$ 3,638	$ 5	$ 1,208	$ 8	$ 4,846	$ 13
Certificates of deposit						
Total	$ 3,638	$ 5	$ 1,208	$ 8	$ 4,846	$ 13

The amortized cost and fair value of investment securities by contractual maturity are shown in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

	March 31, 2016	
(In thousands)	Amortized Cost	Fair Value
Due in 1 year or less	$ 39,256	$ 39,811
Due after 1 year through 5 years	58,997	61,414
Due after 5 years through 10 years	127,684	135,214
Due after 10 years	131,303	136,706
Total	$ 357,240	$ 373,145

Proceeds from sales of investment securities classified as available for sale were $19,039,000 for the three months ended March 31, 2016. Gross realized gains were $308,000 for the three months ended March 31, 2016. There was one security totaling $3,750,000 pledged to secure public deposits and for other purposes at March 31, 2016.

Note 12 Fair Value of Financial Instruments

Following is a summary of the carrying amounts and fair values of the Company s financial instruments:

	March 31, 2016		December 31, 2015	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	$ 145,346	$ 145,346	$ 253,172	$ 253,172
Investment securities	373,145	373,145	375,696	375,696
Loans, net	673,980	675,686	647,420	649,161
Accrued interest receivable	5,556	5,556	6,647	6,647
Total	$ 1,198,027	$ 1,199,733	$ 1,282,935	$ 1,284,676
Balance sheet liabilities:				
Deposits	$ 605,845	$ 606,236	$ 646,484	$ 646,892
Accounts and drafts payable	536,725	536,725	577,259	577,259
Accrued interest payable	46	46	35	35
Total	$ 1,142,616	$ 1,143,007	$ 1,223,778	$ 1,224,186

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents - The carrying amount approximates fair value.

Investment in Securities - The fair value is measured on a recurring basis using Level 2 valuations. Refer to Note 11, Investment in Securities, for fair value and unrealized gains and losses by investment type.

Loans - The fair value is estimated using present values of future cash flows discounted at risk-adjusted interest rates for each loan category designated by management and is therefore a Level 3 valuation. Management believes that the risk factor embedded in the interest rates along with the allowance for loan losses result in a fair valuation.

Impaired loans are valued using the fair value of the collateral which is based upon an observable market price or a current appraised value and therefore, the fair value is a nonrecurring Level 3 valuation.

Accrued Interest Receivable - The carrying amount approximates fair value.

Deposits - The fair value of demand deposits, savings deposits and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities and therefore, is a Level 2 valuation. The fair value estimates above do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market or the benefit derived from the customer relationship inherent in existing deposits.

Accounts and Drafts Payable - The carrying amount approximates fair value.

Accrued Interest - The carrying amount approximates fair value.

There were no transfers between Levels 1 and 2 of the fair value hierarchy for the three months ended March 31, 2016 and 2015. No financial instruments are measured using Level 3 inputs for the three months ended March 31, 2016 and 2015.

Note 13 Subsequent Events

In accordance with FASB ASC 855, Subsequent Events, the Company has evaluated subsequent events after the consolidated balance sheet date of March 31, 2016, and there were no events identified that would require additional disclosures to prevent the Company s unaudited consolidated financial statements from being misleading.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Cass provides payment and information processing services to large manufacturing, distribution and retail enterprises from its offices/locations in St. Louis, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina, Wellington, Kansas, Jacksonville, Florida, and Breda, Netherlands. The Company s services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays energy invoices, which include electricity and gas as well as waste and telecommunications expense, and is a provider of telecom expense management solutions. Cass extracts, stores, and presents information from transportation, energy, telecommunication and environmental invoices, assisting its customers transportation, energy, environmental and information technology managers in making decisions that will enable them to improve operating performance. The Company receives data from multiple sources, electronic and otherwise, and processes the data to accomplish the specific operating requirements of its customers. It then provides the data in a central repository for access and archiving. The data is finally transformed into information through the Company s databases that allow client interaction as required and provide Internet-based tools for analytical processing. The Company also, through Cass Commercial Bank, its St. Louis, Missouri-based bank subsidiary, provides banking services in the St. Louis metropolitan area, Orange County, California, Colorado Springs, Colorado, and other selected cities in the United States. In addition to supporting the Company s payment operations, the Bank provides banking services to its target markets, which include privately-owned businesses and churches and church-related ministries.

The specific payment and information processing services provided to each customer are developed individually to meet each customer s requirements, which can vary greatly. In addition, the degree of automation such as electronic data interchange, imaging, work flow, and web-based solutions varies greatly among customers and industries. These factors combine so that pricing varies greatly among the customer base. In general, however, Cass is compensated for its processing services through service fees and investment of account balances generated during the payment process. The amount, type, and calculation of service fees vary greatly by service offering, but generally follow the volume of transactions processed. Interest income from the balances generated during the payment processing cycle is affected by the amount of time Cass holds the funds prior to payment and the dollar volume processed. Both the number of transactions processed and the dollar volume processed are therefore key metrics followed by management. Other factors will also influence revenue and profitability, such as changes in the general level of interest rates which have a significant effect on net interest income. The funds generated by these processing activities are invested in overnight investments, investment grade securities, and loans generated by the Bank. The Bank earns most of its revenue from net interest income, or the difference between the interest earned on its loans and investments and the interest paid on its deposits and other borrowings. The Bank also assesses fees on other services such as cash management services.

Industry-wide factors that impact the Company include the willingness of large corporations to outsource key business functions such as freight, energy, telecommunication and environmental payment and audit. The benefits that can be achieved by outsourcing transaction processing, and the management information generated by Cass systems can be influenced by factors such as the competitive pressures within industries to improve profitability, the general level of transportation costs, deregulation of energy costs, and consolidation of telecommunication providers. Economic factors that impact the Company include the general level of economic activity that can affect the volume and size of invoices processed, the ability to hire and retain qualified staff, and the growth and quality of the loan portfolio. The general level of interest rates also has a significant effect on the revenue of the Company. As discussed in greater detail in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in the Company s 2015 Annual Report on Form 10-K, a decline in the general level of interest rates can have a negative impact on net interest income and conversely, a rise in the general level of interest rates can have a positive impact on net interest income.

Currently, management views Cass major opportunity as the continued expansion of its payment and information processing service offerings and customer base. Management intends to accomplish this by maintaining the Company s leadership position in applied technology, which when combined with the security and processing controls of the Bank, makes Cass unique in the industry.

Critical Accounting Policies

The Company has