CASS INFORMATION SYSTEMS INC
Form 10-Q
August 04, 2017

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 June 30, 2017

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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer _____ Accelerated Filer X

Non-Accelerated Filer _____ (Do not check if a smaller reporting company) Smaller Reporting Company _____ Emerging Growth Company _____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. _____

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 July 28, 2017: Common stock, par value $.50 per share 11,203,801 shares outstanding.

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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 2016 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)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$ 14,538	$ 11,814
Interest-bearing deposits in other financial institutions	99,984	136,852
Federal funds sold and other short-term investments	186,538	118,077
Cash and cash equivalents	301,060	266,743
Securities available-for-sale, at fair value	431,979	390,552
Loans	671,683	664,866
Less: Allowance for loan losses	10,196	10,175
Loans, net	661,487	654,691
Premises and equipment, net	21,259	21,086
Investment in bank-owned life insurance	16,692	16,445
Payments in excess of funding	111,435	105,347
Goodwill	12,569	11,590
Other intangible assets, net	2,217	1,997
Other assets	34,584	36,388
Total assets	$ 1,593,282	$ 1,504,839
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 201,942	$ 214,656
Interest-bearing	403,097	407,305
Total deposits	605,039	621,961
Accounts and drafts payable	729,403	642,287
Other liabilities	37,482	32,556
Total liabilities	1,371,924	1,296,804
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 June 30, 2017 and December 31, 2016	5,966	5,966
Additional paid-in capital	128,478	128,455
Retained earnings	126,032	118,363
Common shares in treasury, at cost (727,346 shares at June 30, 2017 and 742,681 shares at December 31, 2016)	(29,922)	(30,206)
Accumulated other comprehensive loss	(9,196)	(14,543)
Total shareholders equity	221,358	208,035
Total liabilities and shareholders equity	$ 1,593,282	$ 1,504,839

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Fee Revenue and Other Income:				
Information services payment and processing revenue	$ 23,282	$ 20,880	$ 45,571	$ 40,425
Bank service fees	389	289	671	647
Gains on sales of securities		79		387
Other	129	209	329	503
Total fee revenue and other income	23,800	21,457	46,571	41,962
Interest Income:				
Interest and fees on loans	7,104	7,316	14,057	14,447
Interest and dividends on securities:				
Taxable	84	21	161	33
Exempt from federal income taxes	2,659	2,437	5,260	4,831
Interest on federal funds sold and other short-term investments	485	236	853	476
Total interest income	10,332	10,010	20,331	19,787
Interest Expense:				
Interest on deposits	470	504	950	1,017
Net interest income	9,862	9,506	19,381	18,770
Provision for loan losses				(1,000)
Net interest income after provision for loan losses	9,862	9,506	19,381	19,770
Total net revenue	33,662	30,963	65,952	61,732
Operating Expense:				
Personnel	19,162	18,102	37,961	35,948
Occupancy	889	866	1,731	1,700
Equipment	1,200	1,110	2,504	2,165
Amortization of intangible assets	108	102	207	204
Other operating expense	3,542	2,879	6,816	5,958
Total operating expense	24,901	23,059	49,219	45,975
Income before income tax expense	8,761	7,904	16,733	15,757
Income tax expense	2,248	2,035	3,913	4,055
Net income	$ 6,513	$ 5,869	$ 12,820	$ 11,702
Basic earnings per share	$ .58	$ .53	$ 1.15	$ 1.05
Diluted earnings per share	.58	.52	1.13	1.03

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Comprehensive Income:				
Net income	$ 6,513	$ 5,869	$ 12,820	$ 11,702
Other comprehensive income:				
Net unrealized gain on securities available-for-sale	5,832	4,538	8,345	8,212
Tax effect	(2,167)	(1,686)	(3,100)	(3,051)
Reclassification adjustments for gains included in net income		(79)		(387)
Tax effect		29		143
Foreign currency translation adjustments	94	(35)	102	11
Total comprehensive income	$ 10,272	$ 8,636	$ 18,167	$ 16,630

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash Flows From Operating Activities:		
Net income	$ 12,820	$ 11,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,471	4,613
Net gains on sales of securities		(387)
Stock-based compensation expense	1,097	985
Provision for loan losses		(1,000)
Decrease in income tax benefit		16
Increase in income tax liability	748	1,325
Increase in pension liability	2,310	2,010
Other operating activities, net	(978)	(1,512)
Net cash provided by operating activities	21,468	17,752
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale		21,491
Proceeds from maturities of securities available-for-sale	25,694	19,609
Purchase of securities available-for-sale	(62,279)	(28,053)
Net increase in loans	(6,796)	(39,042)
Increase in payments in excess of funding	(6,088)	(11,674)
Purchases of premises and equipment, net	(1,935)	(2,631)
Net cash used in investing activities	(51,404)	(40,300)
Cash Flows From Financing Activities:		
Net (decrease) increase in noninterest-bearing demand deposits	(12,714)	13,813
Net decrease in interest-bearing demand and savings deposits	(1,077)	(27,575)
Net decrease in time deposits	(3,131)	(1,728)
Net increase in accounts and drafts payable	87,116	73,729
Cash dividends paid	(5,151)	(4,947)
Purchase of common shares for treasury		(9,217)
Other financing activities, net	(790)	(566)
Net cash provided by financing activities	64,253	43,509
Net increase in cash and cash equivalents	34,317	20,961
Cash and cash equivalents at beginning of period	266,743	253,172
Cash and cash equivalents at end of period	$ 301,060	$ 274,133
Supplemental information:		
Cash paid for interest	$ 956	$ 1,009
Cash paid for income taxes	3,152	2,787

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, 2016.

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.

In March 2017, the Company completed an acquisition and recorded intangible assets of $1,406,000. Those intangible assets were valued as $980,000 for goodwill, $355,000 for the customer list and $71,000 for non-compete agreements.

Details of the Company s intangible assets are as follows:

	June 30, 2017		December 31, 2016	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Assets eligible for amortization:				
Customer lists	$ 4,288	$ (2,517)	$ 3,933	$ (2,342)
Patents	72	(10)	72	(8)
Non-compete agreements	332	(273)	261	(261)
Software	234	(234)	234	(234)
Other	500	(175)	500	(158)
Unamortized intangible assets:				
Goodwill[1]	12,796	(227)	11,817	(227)
Total intangible assets	$ 18,222	$ (3,436)	$ 16,817	$ (3,230)

[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 two and five years; software over three years; and other intangible assets over fifteen years. Amortization of intangible assets amounted to $207,000 and $204,000 for the six-month periods ended June 30, 2017 and 2016, respectively. Estimated annual amortization of intangibles is as follows: $427,000 in 2017, $442,000 in 2018, $412,000 in 2019, and $406,000 in each of 2020 and 2021.

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 and six months ended June 30, 2017 and 2016. The calculations of basic and diluted earnings per share are as follows:

(In thousands except share and per share data)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Basic				
Net income	$ 6,513	$ 5,869	$ 12,820	$ 11,702
Weighted-average common shares outstanding	11,153,260	11,134,559	11,145,996	11,184,058
Basic earnings per share	$ .58	$ .53	$ 1.15	$ 1.05
Diluted				
Net income	$ 6,513	$ 5,869	$ 12,820	$ 11,702
Weighted-average common shares outstanding	11,153,260	11,134,559	11,145,996	11,184,058
Effect of dilutive restricted stock and stock appreciation rights	168,241	153,459	167,460	153,379
Weighted-average common shares outstanding assuming dilution	11,321,501	11,288,018	11,313,456	11,337,437
Diluted earnings per share	$ .58	$ .52	$ 1.13	$ 1.03

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 17, 2016, 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 0 and 111,241 shares during the three-month periods and 0 and 187,123 shares for the six-month periods ended June 30, 2017 and 2016, respectively. As of June 30, 2017, 500,000 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, 2016. 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
Three Months Ended June 30, 2017				
Fee revenue and other income:				
Income from customers	$ 26,749	$ 6,913	$	$ 33,662
Intersegment income (expense)	3,049	383	(3,432)	
Net income	3,932	2,581		6,513
Goodwill	12,433	136		12,569
Other intangible assets, net	2,217			2,217
Total assets	863,562	742,659	(12,939)	1,593,282
Three Months Ended June 30, 2016				
Fee revenue and other income				
Income from customers	$ 24,436	$ 6,527	$	$ 30,963
Intersegment income (expense)	2,815	403	(3,218)	
Net income	3,478	2,391		5,869
Goodwill	11,454	136		11,590
Other intangible assets, net	2,201			2,201
Total assets	777,312	753,333	(9,461)	1,521,184
Six Months Ended June 30, 2017				
Fee revenue and other income:				
Income from customers	$ 52,395	$ 13,557	$	$ 65,952
Intersegment income (expense)	6,013	744	(6,757)	
Net income	7,755	5,065		12,820
Goodwill	12,433	136		12,569
Other intangible assets, net	2,217			2,217
Total assets	863,562	742,659	(12,939)	1,593,282
Six Months Ended June 30, 2016				
Fee revenue and other income:				
Income from customers	$ 47,994	$ 13,738	$	$ 61,732
Intersegment income (expense)	6,073	779	(6,852)	
Net income	6,425	5,277		11,702
Goodwill	11,454	136		11,590
Other intangible assets, net	2,201			2,201
Total assets	777,312	753,333	(9,461)	1,521,184

Note 6 Loans by Type

A summary of loan categories is as follows:

(In thousands)	June 30, 2017	December 31, 2016
Commercial and industrial	$ 225,627	$ 214,767
Real estate		
Commercial:		
Mortgage	94,367	104,779
Construction	8,482	6,325
Church, church-related:		
Mortgage	325,906	321,168
Construction	12,214	11,152
Industrial revenue bonds	5,007	6,639
Other	80	36
Total loans	$ 671,683	$ 664,866

The following table presents the aging of loans by loan categories at June 30, 2017 and December 31, 2016:

	Performing			Nonperforming		
(In thousands)	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
June 30, 2017						
Commercial and industrial	$ 225,627	$	$	$	$	$ 225,627
Real estate						
Commercial:						
Mortgage	94,148				219	94,367
Construction	8,482					8,482
Church, church-related:						
Mortgage	325,906					325,906
Construction	12,214					12,214
Industrial revenue bonds	5,007					5,007
Other	80					80
Total	$ 671,464	$	$	$	$ 219	$ 671,683
December 31, 2016						
Commercial and industrial	$ 214,767	$	$	$	$	$ 214,767
Real estate						
Commercial:						
Mortgage	104,534				245	104,779
Construction	6,325					6,325
Church, church-related:						
Mortgage	321,168					321,168
Construction	11,152					11,152
Industrial revenue bonds	6,639					6,639
Other	24	12				36
Total	$ 664,609	$ 12	$	$	$ 245	$ 664,866

The following table presents the credit exposure of the loan portfolio by internally credit grade as of June 30, 2017 and December 31, 2016:

(In thousands)	Loans Subject to Normal Monitoring[1]	Performing Loans Subject to Special Monitoring[2]	Nonperforming Loans Subject to Special Monitoring[2]	Total Loans
June 30, 2017				
Commercial and industrial	$ 223,968	$ 1,659	$	$ 225,627
Real estate				
Commercial:				
Mortgage	93,422	726	219	94,367
Construction	8,482			8,482
Church, church-related:				
Mortgage	325,822	84		325,906
Construction	12,214			12,214
Industrial Revenue Bonds	5,007			5,007
Other	80			80
Total	$ 668,995	$ 2,469	$ 219	$ 671,683
December 31, 2016				
Commercial and industrial	$ 213,024	$ 1,743	$	$ 214,767
Real estate				
Commercial:				
Mortgage	103,778	756	245	104,779
Construction	6,325			6,325
Church, church-related:				
Mortgage	318,030	3,138		321,168
Construction	11,152			11,152
Industrial revenue bonds	6,639			6,639
Other	36			36
Total	$ 658,984	$ 5,637	$ 245	$ 664,866

[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 June 30, 2017 and December 31, 2016, impaired loans were evaluated using the expected cash flow method. There were no loans delinquent 90 days or more and still accruing interest at June 30, 2017 and December 31, 2016. There were no loans classified as troubled debt restructuring at June 30, 2017 and December 31, 2016.

There were no foreclosed loans recorded as other real estate owned as of June 30, 2017, and December 31, 2016.

The following table presents the recorded investment and unpaid principal balance for impaired loans at June 30, 2017 and December 31, 2016:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
June 30, 2017			
Commercial and industrial:			
Nonaccrual	$	$	$
Real estate			
Commercial Mortgage:			
Nonaccrual	219	219	
Church Mortgage:			
Nonaccrual			
Total impaired loans	$ 219	$ 219	$
December 31, 2016			
Commercial and industrial:			
Nonaccrual	$	$	$
Real estate			
Commercial Mortgage:			
Nonaccrual	245	245	
Church Mortgage:			
Nonaccrual			
Total impaired loans	$ 245	$ 245	$

A summary of the activity in the allowance for loan losses from December 31, 2016 to June 30, 2017 is as follows:

(In thousands)	December 31, 2016	Charge-Offs	Recoveries	Provision	June 30, 2017
Commercial and industrial	$ 3,261	$	$ 21	$ 144	$ 3,426
Real estate					
Commercial:					
Mortgage	1,662			(164)	1,498
Construction	47			16	63
Church, church-related:					
Mortgage	4,027			61	4,088
Construction	85			8	93
Industrial Revenue Bonds	101			(25)	76
Other	992			(40)	952
Total	$ 10,175	$	$ 21	$	$ 10,196

A summary of the activity in the allowance for loan losses from December 31, 2015 to June 30, 2016 is as follows:

(In thousands)	December 31, 2015	Charge-Offs	Recoveries	Provision	June 30, 2016
Commercial and industrial	$ 3,083	$	$ 37	$ 497	$ 3,617
Real estate					
Commercial:					
Mortgage	2,803			(1,113)	1,690
Construction	9			96	105
Church, church-related:					
Mortgage	4,082			34	4,116
Construction	217			(30)	187
Industrial Revenue Bonds	320			(34)	286
Other	1,121			(450)	671
Total	$ 11,635	$	$ 37	$ (1,000)	$ 10,672

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 June 30, 2017 and December 31, 2016, 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 June 30, 2017, the balance of unused loan commitments, standby and commercial letters of credit were $65,583,000, $13,977,000, and $2,759,000, 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 June 30, 2017:

	Amount of Commitment Expiration per Period				
		Less than	**1-3**	**3-5**	**Over 5**
(In thousands)	**Total**	**1 Year**	**Years**	**Years**	**Years**
Operating lease commitments	$ 5,589	$ 1,448	$ 2,036	$ 1,656	$ 449
Time deposits	52,653	47,759	2,319	2,575	
Total	$ 58,242	$ 49,207	$ 4,355	$ 4,231	$ 449

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 may issue shares out of treasury stock for these awards. During the six months ended June 30, 2017, 22,545 restricted shares, 23,038 performance-based restricted shares, and 0 SARs were granted under the Omnibus Plan.

Restricted Stock

Restricted shares granted prior to April 16, 2013 were 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 June 30, 2017, the total unrecognized compensation expense related to non-vested restricted shares was $2,217,000, and the related weighted-average period over which it is expected to be recognized is approximately 1.0 year.

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

	Six Months Ended June 30, 2017	
	Shares	Fair Value
Balance at December 31, 2016	73,840	$ 51.03
Granted	22,545	$ 65.42
Vested	(26,545)	$ 52.34
Balance at June 30, 2017	69,840	$ 55.18

Performance-Based Restricted Stock

On February 2, 2017, the Company granted three-year performance based restricted stock (PBRS) awards which are contingent upon the achievement of pre-established financial goals over the period from January 1, 2017 through December 31, 2019. The PBRS awards cliff vest on the three-year anniversary of their grant date at levels ranging from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the three-year performance period. The target number of PBRS shares granted was 23,038 with a grant date fair value of $65.12 per share. The 2017 expense related to this grant is currently estimated to be $458,000 and is based on the grant date fair value and the achievement of 100% of the target financial goals. The estimated expense for 2017 and each future period through the vesting date is subject to prospective adjustment based upon changes in the expected achievement of the financial goals.

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 June 30, 2017, all compensation expense has been recognized and all granted SARs are vested. Following is a summary of the activity of the Company s SARs program for the six-month period ended June 30, 2017:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term Years	Aggregate Intrinsic Value *(In thousands)*
Outstanding at December 31, 2016	237,468	$ 38.22	5.73	$ 3,201
Exercised	(15,547)	40.60		
Outstanding at June 30, 2017	221,921	38.05	4.71	6,122
Exercisable at June 30, 2017	221,921	$ 38.05	4.71	$ 6,122

Note 9 Defined Pension Plans

The Company has a noncontributory defined-benefit pension plan, which covers most of its employees. Effective December 31, 2016, the Plan was closed to all new participants. 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 2017	Actual 2016
Service cost benefits earned during the year	$ 3,805	$ 3,559
Interest cost on projected benefit obligations	3,587	3,505
Expected return on plan assets	(4,680)	(4,734)
Net amortization and deferral	1,328	1,259
Net periodic pension cost	$ 4,040	$ 3,589

Pension costs recorded to expense were $1,017,000 and $882,000 for the three-month periods ended June 30, 2017 and 2016, respectively and $2,037,000 and $1,759,000 for the six-month periods ended June 30, 2017 and 2016, respectively. Pension costs increased in 2017 due to a decrease in the discount rate and expected return on plan assets assumptions and the use of the updated mortality tables. The Company made no contribution to the plan during the six-month period ended June 30, 2017 and is evaluating the amount of additional contributions, if any, in the remainder of 2017.

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 2016 and an estimate for 2017:

(In thousands)	Estimated 2017	Actual 2016
Service cost benefits earned during the year	$ 143	$ 133
Interest cost on projected benefit obligation	361	367
Net amortization	323	295
Net periodic pension cost	$ 827	$ 795

Pension costs recorded to expense were $209,000 and $202,000 for the three-month periods ended June 30, 2017 and 2016, respectively, and were $418,000 and $403,000 for the six-month periods ended June 30, 2017 and 2016, respectively.

Note 10 Income Taxes

As of June 30, 2017, the Company s unrecognized tax benefits were approximately $1,835,000, of which $1,416,000 would, if recognized, affect the Company s effective tax rate. As of December 31, 2016, the Company s unrecognized tax benefits were approximately $1,623,000, of which $1,225,000 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 $253,000 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 $142,000 and $108,000 of gross interest accrued as of June 30, 2017 and December 31, 2016, respectively. There were no penalties for unrecognized tax benefits accrued at June 30, 2017 and December 31, 2016.

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 2013 through 2015 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2012 through 2015.

On January 1, 2017, the Company adopted ASU No. 2016-09 *Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The adoption of this new accounting pronouncement resulted in a $35,000 and $278,000 reduction in income tax expense for the three-month and six-month periods ending June 30, 2017, respectively.

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:

	June 30, 2017			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	
				Fair
(In thousands)	Cost	Gains	Losses	Value
State and political subdivisions	$			