CASS INFORMATION SYSTEMS INC
Form 10-Q
August 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

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, 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

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)

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 July 26, 2016: Common stock, par value $.50 per share 11,172,333 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 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)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$ 7,963	$ 9,015
Interest-bearing deposits in other financial institutions	141,572	176,405
Federal funds sold and other short-term investments	124,598	67,752
Cash and cash equivalents	274,133	253,172
Securities available-for-sale, at fair value	368,041	375,696
Loans	698,134	659,055
Less: Allowance for loan losses	10,672	11,635
Loans, net	687,462	647,420
Premises and equipment, net	20,688	19,648
Investment in bank-owned life insurance	16,191	15,933
Payments in excess of funding	117,200	105,526
Goodwill	11,590	11,590
Other intangible assets, net	2,201	2,405
Other assets	23,678	24,116
Total assets	$ 1,521,184	$ 1,455,506
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 195,636	$ 181,823
Interest-bearing	435,359	464,661
Total deposits	630,995	646,484
Accounts and drafts payable	650,988	577,259
Other liabilities	28,939	24,385
Total liabilities	1,310,922	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 June 30, 2016 and December 31, 2015	5,966	5,966
Additional paid-in capital	125,915	126,290
Retained earnings	110,749	103,994
Common shares in treasury, at cost (761,290 shares at June 30, 2016 and 598,875 shares at December 31, 2015)	(30,631)	(22,208)
Accumulated other comprehensive loss	(1,737)	(6,664)
Total shareholders equity	210,262	207,378
Total liabilities and shareholders equity	$ 1,521,184	$ 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 June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Fee Revenue and Other Income:				
Information services payment and processing revenue	$ 20,880	$ 19,699	$ 40,425	$ 39,117
Bank service fees	289	299	647	600
Gains on sales of securities	79	690	387	1,639
Other	209	150	503	314
Total fee revenue and other income	21,457	20,838	41,962	41,670
Interest Income:				
Interest and fees on loans	7,316	7,356	14,447	14,442
Interest and dividends on securities:				
Taxable	21	12	33	15
Exempt from federal income taxes	2,437	2,322	4,831	4,625
Interest on federal funds sold and other short-term investments	236	113	476	273
Total interest income	10,010	9,803	19,787	19,355
Interest Expense:				
Interest on deposits	504	521	1,017	1,112
Net interest income	9,506	9,282	18,770	18,243
Provision for loan losses			(1,000)	
Net interest income after provision for loan losses	9,506	9,282	19,770	18,243
Total net revenue	30,963	30,120	61,732	59,913
Operating Expense:				
Salaries and employee benefits	18,102	17,543	35,948	34,869
Occupancy	866	856	1,700	1,693
Equipment	1,110	1,070	2,165	2,141
Amortization of intangible assets	102	102	204	203
Other operating expense	2,879	3,069	5,958	6,042
Total operating expense	23,059	22,640	45,975	44,948
Income before income tax expense	7,904	7,480	15,757	14,965
Income tax expense	2,035	1,932	4,055	3,878
Net income	$ 5,869	$ 5,548	$ 11,702	$ 11,087
Basic earnings per share	$ .53	$ .49	$ 1.05	$ .97
Diluted earnings per share	.52	.48	1.03	.96

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,	
	2016	2015	2016	2015
Comprehensive income:				
Net income	$ 5,869	$ 5,548	$ 11,702	$ 11,087
Other comprehensive income:				
Net unrealized gain (loss) on securities available-for-sale	4,538	(5,068)	8,212	(3,572)
Tax effect	(1,686)	1,884	(3,051)	1,327
Reclassification adjustments for gains included in net income	(79)	(690)	(387)	(1,639)
Tax effect	29	242	143	574
Foreign currency translation adjustments	(35)	(7)	11	(71)
Total comprehensive income	$ 8,636	$ 1,909	$ 16,630	$ 7,706

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, 2016	Six Months Ended June 30, 2015
Cash Flows From Operating Activities:		
Net income	$ 11,702	$ 11,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,613	4,214
Net gains on sales of securities	(387)	(1,639)
Stock-based compensation expense	985	1,031
Provision for loan losses	(1,000)	
Increase (decrease) in income tax benefit	16	(1,911)
Increase (decrease) in income tax liability	1,325	(284)
Increase in pension liability	2,010	2,419
Other operating activities, net	(1,512)	2,102
Net cash provided by operating activities	17,752	17,019
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	21,491	65,952
Proceeds from maturities of securities available-for-sale	19,609	21,460
Purchase of securities available-for-sale	(28,053)	(85,264)
Net increase in loans	(39,042)	(5,813)
Increase in payments in excess of funding	(11,674)	(283)
Purchases of premises and equipment, net	(2,631)	(3,384)
Net cash used in investing activities	(40,300)	(7,332)
Cash Flows From Financing Activities:		
Net increase in noninterest-bearing demand deposits	13,813	3,016
Net decrease in interest-bearing demand and savings deposits	(27,575)	(56,514)
Net decrease in time deposits	(1,728)	(9,291)
Net increase (decrease) in accounts and drafts payable	73,729	(70,896)
Cash dividends paid	(4,947)	(4,812)
Purchase of common shares for treasury	(9,217)	(6,128)
Other financing activities, net	(566)	(786)
Net cash provided by (used in) financing activities	43,509	(145,411)
Net increase (decrease) in cash and cash equivalents	20,961	(135,724)
Cash and cash equivalents at beginning of period	253,172	294,335
Cash and cash equivalents at end of period	$ 274,133	$ 158,611
Supplemental information:		
Cash paid for interest	$ 1,009	$ 1,114
Cash paid for income taxes	2,787	3,634

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:

	June 30, 2016		December 31, 2015	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Assets eligible for amortization:				
Customer lists	$ 3,933	(2,182)	$ 3,933	$ (2,023)
Patents	72	(6)	72	(4)
Non-compete agreements	261	(235)	261	(209)
Software	234	(234)	234	(234)
Other	500	(142)	500	(125)
Unamortized intangible assets:				
Goodwill[1]	11,817	(227)	11,817	(227)
Total intangible assets	$ 16,817	$ (3,026)	$ 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 $204,000 and $203,000 for the six-month periods ended June 30, 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 and six months ended June 30, 2016 and 2015. The calculations of basic and diluted earnings per share are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands except share and per share data)	**2016**	**2015**	**2016**	**2015**
Basic				
Net income	$ 5,869	$ 5,548	$ 11,702	$ 11,087
Weighted-average common shares outstanding	11,134,559	11,388,907	11,184,058	11,414,489
Basic earnings per share	$ .53	$ .49	$ 1.05	$ .97
Diluted				
Net income	$ 5,869	$ 5,548	$ 11,702	$ 11,087
Weighted-average common shares outstanding	11,134,559	11,388,907	11,184,058	11,414,489
Effect of dilutive restricted stock and stock appreciation rights	153,459	163,898	153,379	162,705
Weighted-average common shares outstanding assuming dilution	11,288,018	11,552,805	11,337,437	11,577,194
Diluted earnings per share	$ .52	$ .48	$ 1.03	$ .96

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 111,241 and 55,297 shares during the three-month periods and 187,123 and 124,585 for the six-month periods ended June 30, 2016 and 2015, respectively. As of June 30, 2016, 301,156 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
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
Three Months Ended June 30, 2015				
Fee revenue and other income				
Income from customers	$ 24,152	$ 5,968	$	$ 30,120
Intersegment income (expense)	2,350	433	(2,783)	
Net income	3,591	1,957		5,548
Goodwill	11,454	136		11,590
Other intangible assets, net	2,597			2,597
Total assets	709,754	675,777	(18,651)	1,366,880
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
Six Months Ended June 30, 2015				
Fee revenue and other income				
Income from customers	$ 48,426	$ 11,487	$	$ 59,913
Intersegment income (expense)	4,544	856	(5,400)	
Net income	7,407	3,680		11,087
Goodwill	11,454	136		11,590
Other intangible assets, net	2,597			2,597
Total assets	709,754	675,777	(18,651)	1,366,880

Note 6 Loans by Type

A summary of loan categories is as follows:

(In thousands)	June 30, 2016	December 31, 2015
Commercial and industrial	$ 225,657	$ 193,430
Real estate		
Commercial:		
Mortgage	104,355	108,836
Construction	13,997	1,182
Church, church-related:		
Mortgage	311,012	306,728
Construction	24,842	28,957
Industrial Revenue Bonds	18,204	19,831
Other	67	91
Total loans	$ 698,134	$ 659,055

The following table presents the aging of loans by loan categories at June 30, 2016 and December 31, 2015:

	Performing			Nonperforming		
(In thousands)	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
June 30, 2016						
Commercial and industrial	$ 225,657	$	$	$	$	$ 225,657
Real estate						
Commercial:						
Mortgage	104,080				275	104,355
Construction	13,997					13,997
Church, church-related:						
Mortgage	309,936	989			87	311,012
Construction	24,842					24,842
Industrial Revenue Bonds	18,204					18,204
Other	67					67
Total	$ 696,783	$ 989	$	$	$ 362	$ 698,134
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 credit grade as of June 30, 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
June 30, 2016				
Commercial and industrial	$ 223,288	$ 2,369	$	$ 225,657
Real estate				
Commercial:				
Mortgage	102,978	1,102	275	104,355
Construction	13,997			13,997
Church, church-related:				
Mortgage	303,534	7,391	87	311,012
Construction	24,842			24,842
Industrial Revenue Bonds	18,204			18,204
Other	67			67
Total	$ 686,910	$ 10,862	$ 362	$ 698,134
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 June 30, 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 June 30, 2016 and December 31, 2015. There were no loans classified as troubled debt restructuring at June 30, 2016 and December 31, 2015.

There were no foreclosed loans recorded as other real estate owned as of June 30, 2016, and December 31, 2015.

The following table presents the recorded investment and unpaid principal balance for impaired loans at June 30, 2016 and December 31, 2015:

(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance for Loan Losses**
June 30, 2016			
Commercial and industrial:			
Nonaccrual	$	$	$
Real estate			
Commercial Mortgage:			
Nonaccrual	275	275	
Church Mortgage:			
Nonaccrual	87	87	87
Total impaired loans	$ 362	$ 362	$ 87
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 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

A summary of the activity in the allowance for loan losses from December 31, 2014 to June 30, 2015 is as follows:

(In thousands)	December 31, 2014	Charge-Offs	Recoveries	Provision	June 30, 2015
Commercial and industrial	$ 3,515	$	$ 7	$ 78	$ 3,600
Real estate					
Commercial:					
Mortgage	3,060			(57)	3,003
Construction					
Church, church-related:					
Mortgage	4,016		1	52	4,069
Construction	140			20	160
Industrial Revenue Bonds	394			(27)	367
Other	769			(66)	703
Total	$ 11,894	$	$ 8	$	$ 11,902

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, 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. The balance of unused loan commitments, standby and commercial letters of credit were $23,093,000, $15,036,000, and $2,056,000 at June 30, 2016 and were $11,755,000, $11,581,000, and $1,857,000 at December 31, 2015, 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, 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	$ 6,475	$ 1,421	$ 2,322	$ 1,676	$ 1,056
Time deposits	59,972	55,110	2,709	2,153	
Total	$ 66,447	$ 56,531	$ 5,031	$ 3,829	$ 1,056

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 six months ended June 30, 2016, 34,925 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 June 30, 2016, the total unrecognized compensation expense related to non-vested restricted shares was $2,591,000, and the related weighted-average period over which it is expected to be recognized is approximately 1.0 years.

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

	Six Months Ended June 30, 2016 Shares	Fair Value
Balance at December 31, 2015	69,041	$ 51.33
Granted	34,925	$ 49.95
Vested	(29,268)	$ 50.93
Balance at June 30, 2016	74,698	$ 50.59

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, 2016, the total unrecognized compensation expense was $129,000, and the related weighted-average period over which it is expected to be recognized is 0.6 years. Following is a summary of the activity of the Company s SARs program for the six-month period ended June 30, 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	(5,803)	$ 31.96		
Outstanding at June 30, 2016	301,520	$ 36.66	5.49	4,536
Exercisable at June 30, 2016	289,356	$ 35.61	5.40	$ 4,657

Following is a summary of the activity of the non-vested SARs during the six-month period ended June 30, 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 June 30, 2016	12,164	$ 61.64

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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 for 2015 and an estimate for 2016:

(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 and deferral	1,200	1,542
Net periodic pension cost	$ 3,473	$ 3,652

Pension costs recorded to expense were $882,000 and $977,000 for the three-month periods ended June 30, 2016 and 2015, respectively, and totaled $1,759,000 and $1,968,000 for the six-month periods ended June 30, 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 six-month period ended June 30, 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 $202,000 and $286,000 for the three-month periods ended June 30, 2016 and 2015, respectively, and were $403,000 and $571,000 for the six-month periods ended June 30, 2016 and 2015, respectively.

Note 10 Income Taxes

As of June 30, 2016, the Company s unrecognized tax benefits were approximately $1,326,000, of which $964,000 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 $72,000 and $54,000 of gross interest accrued as of June 30, 2016 and December 31, 2015, respectively. There were no penalties for unrecognized tax benefits accrued at June 30, 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:

	June 30, 2016			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 339,803	$ 20,362	$	$ 360,165
Certificates of deposit	7,876			7,876
Total	$ 347,679	$ 20,362	$	$ 368,041

	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

The fair values of securities with unrealized losses are as follows:

	June 30, 2016					
	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	$ 2,503	$	$	$	$ 2,503	$
Certificates of deposit						
Total	$ 2,503	$	$	$	$ 2,503	$

	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

There were four securities, or less than 1% of the total (none greater than 12 months) in an unrealized loss position as of June 30, 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. All unrealized losses were reviewed to determine whether the losses were other than temporary. Management believes that all unrealized losses are temporary since they were market driven, and it is more likely than not that the Company will not be required to sell prior to recovery of the amortized basis.

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.

	June 30, 2016	
(In thousands)	Amortized Cost	Fair Value
Due in 1 year or less	$ 40,517	$ 40,998
Due after 1 year through 5 years	53,112	55,288
Due after 5 years through 10 years	134,465	144,119
Due after 10 years	119,585	127,636
Total	$ 347,679	$ 368,041

Proceeds from sales of investment securities classified as available for sale were $2,452,000 and $20,754,000 for the three months ended June 30, 2016 and 2015, respectively, and were $21,491,000 and $65,952,000 for the six months ended June 30, 2016 and 2015, respectively. Gross realized gains were $79,000 and $690,000 for the three months ended June 30, 2016 and 2015, respectively, and were $387,000 and $1,639,000 for the six months ended June 30, 2016 and 2015, respectively. There was one security totaling $3,750,000 pledged to secure public deposits and for other purposes at June 30, 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:

	June 30, 2016		December 31, 2015	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Balance sheet assets:				
Cash and cash equivalents	$ 274,133	$ 274,133	$ 253,172	$ 253,172
Investment securities	368,041	368,041	375,696	375,696
Loans, net	687,462	688,697	647,420	649,161
Accrued interest receivable	6,345	6,345	6,647	6,647
Total	$ 1,335,981	$ 1,337,216	$ 1,282,935	$ 1,284,676
Balance sheet liabilities:				
Deposits	$ 630,995	$ 631,360	$ 646,484	$ 646,892
Accounts and drafts payable	650,988	650,988	577,259	577,259
Accrued interest payable	43	43	35	35
Total	$ 1,282,026	$ 1,282,391	$ 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 six months ended June 30, 2016 and 2015. No financial instruments are measured using Level 3 inputs for the six months ended June 30, 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 June 30, 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 environmental 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, 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 prepared the consolidated financial statements in this report in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). In preparing the consolidated financial statements, management makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates have been generally accurate in the past, have been consistent and have not required any material changes. There can be no assurances that actual results will not differ from those estimates. Certain accounting policies that require significant management estimates and are deemed critical to the Company s results of operations or financial position have been discussed with the Audit Committee of the Board of Directors and are described below.

Allowance for Loan Losses. The Company performs periodic and systematic detailed reviews of its loan portfolio to assess overall collectability. The level of the allowance for loan losses reflects management s estimate of the collectability of the loan portfolio. Although these estimates are based on established methodologies for determining allowance requirements, actual results can differ significantly from estimated results. These policies affect both segments of the Company. The impact and associated risks related to these policies on the Company s business operations are discussed in the Provision and Allowance for Loan Losses section of this report. The Company s estimates have been materially accurate in the past, and accordingly, the Company expects to continue to utilize the present processes.

Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in the Company s financial statements or tax returns such as the realization of deferred tax assets or changes in tax laws or interpretations thereof. In addition, the Company is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other taxing authorities. In accordance with FASB ASC 740, Income Taxes, the Company has unrecognized tax benefits related to tax positions taken or expected to be taken. See Note 10 to the unaudited consolidated financial statements contained herein.

Pension Plans. The amounts recognized in the unaudited consolidated financial statements related to pension plans are determined from actuarial valuations. Inherent in these valuations are assumptions, including expected return on plan assets, discount rates at which the liabilities could be settled at December 31, 2015, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 10 to the consolidated financial statements filed with the Company s Annual Report on Form 10-K for the year ended December 31, 2015. Pursuant to FASB ASC 715, Compensation Retirement Benefits, the Company has recognized the funded status of its defined benefit postretirement plan in its balance sheet and has recognized changes in that funded status through comprehensive income. The funded status is measured as the difference between the fair value of the plan assets and the projected benefit obligation as of the date of its fiscal year-end.

Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three-month period ended June 30, 2016 (Second Quarter of 2016) compared to the three-month period ended June 30, 2015 (Second Quarter of 2015) and the six-month period ended June 30, 2016 (First Half of 2016) compared to the six-month period ended June 30, 2015 (First Half of 2015). The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes and with the statistical information and financial data appearing in this report, as well as in the Company s 2015 Annual Report on Form 10-K. Results of operations for the Second Quarter and First Half of 2016 are not necessarily indicative of the results to be attained for any other period.

Net Income

The following table summarizes the Company s operating results:

	Second Quarter of			First Half of		
(In thousands except per share data)	**2016**	**2015**	**% Change**	**2016**	**2015**	**% Change**
Net income	$ 5,869	$ 5,548	5.8	$ 11,702	$ 11,087	5.5
Diluted earnings per share	$ .52	$ .48	8.3	$ 1.03	$ .96	7.3
Return on average assets	1.59%	1.58%		1.60%	1.56%	
Return on average equity	11.44%	11.27%		11.41%	11.29%	

Fee Revenue and Other Income

The Company s fee revenue is derived mainly from transportation and facility payment and processing fees. As the Company provides its processing and payment services, it is compensated by service fees which are typically calculated on a per-item basis and by the accounts and drafts payable balances generated in the payment process which can be used to generate interest income. Processing volumes, fee revenue, and other income were as follows:

	Second Quarter of			First Half of		
(In thousands)	**2016**	**2015**	**% Change**	**2016**	**2015**	**% Change**
Transportation invoice transaction volume	8,776	8,969	(2.2)%	16,888	17,094	(1.2)%
Transportation invoice dollar volume	$ 5,800,675	$ 6,541,917	(11.3)%	$ 11,243,007	$ 12,598,628	(10.8)%
Expense management transaction volume*	5,667	5,021	12.9%	10,955	10,062	8.9%
Expense management dollar volume*	$ 2,775,639	$ 2,755,930	0.7%	$ 5,581,132	$ 5,739,120	(2.8)%
Payment and processing revenue	$ 20,880	$ 19,699	6.0%	$ 40,425	$ 39,117	3.3%

*Includes energy, telecom and waste

Second Quarter of 2016 compared to Second Quarter of 2015:

In the transportation group, new accounts boosted transaction volume, but multiple factors more than offset the benefits of that growth. The foremost impediment was declining activity from existing customers, especially those involved in oil and gas production. Transportation dollar volume was also retarded by lower fuel prices which reduced average invoice amounts. The decrease in dollar volume lowered fees from carrier services. The expense management group had 12.9% growth in transaction volume, the result of highly focused and successful marketing efforts that generated a number of new customers. Expense management dollar volume was also up for the quarter.

There were gains of $79,000 on sales of securities in the Second Quarter of 2016, compared to $690,000 in the Second Quarter of 2015.

First Half of 2016 compared to First Half of 2015:

Transportation transaction and dollar volumes as well as expense management transaction volumes fluctuated for the same reasons as the Second Quarter. Expense management dollar volume decreased due to a change in the mix of its customer base.

There were $387,000 gains on sales of securities in the First Half of 2016, compared to $1,639,000 in the First Half of 2015.

Net Interest Income

Net interest income is the difference between interest earned on loans, investments, and other earning assets and interest expense on deposits and other interest-bearing liabilities. Net interest income is a significant source of the Company s revenues. The following table summarizes the changes in tax-equivalent net interest income and related factors:

	Second Quarter of			First Half of		
(In thousands)	**2016**	**2015**	**% Change**	**2016**	**2016**	**% Change**
Average earnings assets	$ 1,289,339	$ 1,209,959	6.6%	$ 1,275,824	$ 1,235,878	3.2%
Average interest-bearing liabilities	426,287	401,354	6.2%	425,834	427,545	(0.4)%
Net interest income*	10,896	10,617	2.6%	21,528	20,903	3.0%
Net interest margin*	3.40%	3.52%		3.39%	3.41%	
Yield on earning assets*	3.56%	3.69%		3.55%	3.59%	
Rate on interest-bearing liabilities	.48%	.52%		.48%	.52%	

*Presented on a tax-equivalent basis assuming a tax rate of 35%.

Second Quarter of 2016 compared to Second Quarter of 2015:

Second Quarter of 2016 average earning assets increased $79,380,000, or 6.6%, compared to the same period in the prior year (see discussion in the following paragraphs).

Average federal funds sold and other short-term investments increased $26,856,000, or 29.0%, average investment securities increased $28,123,000, or 8.9%, and interest bearing deposits in other financial institutions increased $15,601,000, or 14.4%, for the Second Quarter of 2016 as compared to the Second Quarter of 2015. This was due to an increase in deposits (see discussion in following paragraph) and accounts and drafts payable balances.

Total average interest-bearing deposits for the Second Quarter of 2016 increased $24,933,000, or 6.2%, compared to the Second Quarter of 2015. Average interest-bearing demand deposits increased $33,233,000, or 10.6%, for the Second Quarter of 2016. This was partially offset by a decrease in time deposits of $11,388,000 or 15.7%.

Net interest margin and yield on earning assets decreased due to a less favorable mix of earning assets in the Second Quarter of 2016. However, the 6.6% increase in the volume of earning assets more than offset the decrease in yield and resulted in a 2.6% increase in net interest income.

First Half of 2016 compared to First Half of 2015:

First Half of 2016 average earning assets increased $39,946,000, or 3.2%, compared to the same period in the prior year (see discussion in the following paragraphs).

Average investment securities increased $29,904,000, or 9.5%, for the First Half of 2016 as compared to the First Half of 2015 as the Company took advantage of market opportunities and an increase in non-interest bearing deposits.

Total average interest-bearing deposits for the First Half of 2016 remained relatively stable compared to the First Half of 2015. For the First Half of 2016, time deposits decreased $13,689,000, or 18.3%, which was offset by an increase in interest bearing demand of $9,555,000, or 2.8%.

Net interest margin and yield on earning assets decreased slightly, however, the 3.2% increase in the volume of earning assets more than offset the slight decrease in yield and resulted in a 3.0% increase in net interest income.

For more information on the changes in net interest income, please refer to the tables that follow.

Distribution of Assets, Liabilities and Shareholders Equity; Interest Rate and Interest Differential

The following tables show the condensed average balance sheets for each of the periods reported, the tax-equivalent interest income and expense on each category of interest-earning assets and interest-bearing liabilities, and the average yield on such categories of interest-earning assets and the average rates paid on such categories of interest-bearing liabilities for each of the periods reported.

(In thousands)	Second Quarter of 2016 Average Balance	Second Quarter of 2016 Interest Income/ Expense	Second Quarter of 2016 Yield/ Rate	Second Quarter of 2015 Average Balance	Second Quarter of 2015 Interest Income/ Expense	Second Quarter of 2015 Yield/ Rate
Assets[1]						
Earning assets						
Loans[2, 3]:						
Taxable	$ 674,227	$ 7,173	4.28%	$ 665,788	$ 7,199	4.34%
Tax-exempt[4]	18,521	221	4.80	22,028	242	4.41
Investment securities[5]:						
Taxable	1,196	10	3.36	1,189	10	3.37
Tax-exempt[4]	344,248	3,748	4.38	316,132	3,572	4.53
Certificates of deposit	7,618	12	.63	3,750	2	.21
Interest-bearing deposits in other financial institutions	124,045	154	.50	108,444	84	.31
Federal funds sold and other short-term investments	119,484	82	.28	92,628	29	.13
Total earning assets	1,289,339	11,400	3.56	1,209,959	11,138	3.69
Non-earning assets						
Cash and due from banks	11,481			13,227		
Premises and equipment, net	20,496			18,223		
Bank-owned life insurance	16,110			15,602		
Goodwill and other intangibles	13,851			14,237		
Other assets	147,701			148,015		
Allowance for loan losses	(10,649)			(11,901)		
Total assets	$ 1,488,329			$ 1,407,362		
Liabilities and Shareholders Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 347,598	$ 345	.40%	$ 314,365	$ 335	.43%
Savings deposits	17,634	21	.48	14,535	16	.44
Time deposits >= $100	21,676	66	1.22	25,032	81	1.30
Other time deposits	39,379	72	.74	47,411	89	.75
Federal funds purchased				11		
Total interest-bearing deposits	426,287	504	.48	401,354	521	.52
Non-interest bearing liabilities						
Demand deposits	187,668			155,350		
Accounts and drafts payable	641,013			624,987		
Other liabilities	27,069			28,225		
Total liabilities	1,282,037			1,209,916		
Shareholders equity	206,292			197,446		
Total liabilities and shareholders equity	$ 1,488,329			$ 1,407,362		
Net interest income		$ 10,896			$ 10,617	
Net interest margin			3.40%			3.52%
Interest spread			3.08			3.17

1. Balances shown are daily averages.
2. For purposes of these computations, nonaccrual loans are included in the average loan amounts outstanding. Interest on nonaccrual loans is recorded when received as discussed further in Note 1 to the Company s 2015 consolidated financial statements, filed with the Company s 2015 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $93,000 and $170,000 for the Second Quarter of 2016 and 2015, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $1,390,000 and $1,135,000 for the Second Quarter of 2016 and 2015, respectively.
5. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

(In thousands)	First Half of 2016 Average Balance	First Half of 2016 Interest Income/ Expense	First Half of 2016 Yield/ Rate	First Half of 2015 Average Balance	First Half of 2015 Interest Income/ Expense	First Half of 2015 Yield/ Rate
Assets[1]						
Earning assets						
Loans[2, 3]:						
Taxable	$ 659,782	$ 14,157	4.31%	$ 655,913	$ 14,126	4.34 %
Tax-exempt[4]	18,929	447	4.75	22,434	486	4.37
Investment securities[5]:						
Taxable	1,193	10	1.69	1,146	11	1.94
Tax-exempt[4]	343,430	7,432	4.35	313,573	7,115	4.58
Certificates of deposit	7,265	23	.64	3,750	4	.22
Interest-bearing deposits in other financial institutions	130,540	323	.50	142,888	210	.30
Federal funds sold and other short-term investments	114,685	153	.27	96,174	63	.13
Total earning assets	1,275,824	22,545	3.55	1,235,878	22,015	3.59
Non-earning assets						
Cash and due from banks	11,523			13,148		
Premises and equipment, net	20,167			17,865		
Bank-owned life insurance	16,045			15,541		
Goodwill and other intangibles	13,902			14,274		
Other assets	141,804			148,843		
Allowance for loan losses	(11,137)			(11,898)		
Total assets	$ 1,468,128			$ 1,433,651		
Liabilities and Shareholders Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 346,326	$ 695	.40%	$ 336,771	$ 723	.43 %
Savings deposits	18,290	44	.48	15,861	35	.44
Time deposits >= $100	22,520	133	1.19	25,954	162	1.26
Other time deposits	38,698	145	.75	48,953	192	.79
Federal funds purchased				6		
Total interest-bearing deposits	425,834	1,017	.48	427,545	1,112	.52
Non-interest bearing liabilities						
Demand deposits	184,129			158,784		
Accounts and drafts payable	626,508			621,294		
Other liabilities	25,468			27,960		
Total liabilities	1,261,939			1,235,583		
Shareholders equity	206,189			198,068		
Total liabilities and shareholders equity	$ 1,468,128			$ 1,433,651		
Net interest income		$ 21,528			$ 20,903	
Net interest margin			3.39%			3.41 %
Interest spread			3.07			3.07

1. Balances shown are daily averages.
2. For purposes of these computations, nonaccrual loans are included in the average loan amounts outstanding. Interest on nonaccrual loans is recorded when received as discussed further in Note 1 to the Company s 2015 consolidated financial statements, filed with the Company s 2015 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $235,000 and $229,000 for the First Half of 2016 and 2015, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $2,758,000 and $2,660,000 for the First Half of 2016 and 2015, respectively.
5. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

Analysis of Net Interest Income Changes

The following tables present the changes in interest income and expense between periods due to changes in volume and interest rates. That portion of the change in interest attributable to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of the change in each.

	Second Quarter of 2016 Over Second Quarter of 2015		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1, 2]:			
Taxable	$ 81	$ (107)	$ (26)
Tax-exempt[3]	(41)	20	(21)
Investment securities:			
Taxable			
Tax-exempt[3]	302	(126)	176
Certificates of deposit	3	7	10
Interest-bearing deposits in other financial institutions	11	59	70
Federal funds sold and other short-term investments	10	43	53
Total interest income	366	(104)	262
Interest expense on:			
Interest-bearing demand deposits	33	(23)	10
Savings deposits	4	1	5
Time deposits >=$100	(11)	(4)	(15)
Other time deposits	(15)	(2)	(17)
Total interest expense	11	(28)	(17)
Net interest income	$ 355	$ (76)	$ 279

1. Average balances include nonaccrual loans.
2. Interest income includes net loan fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%.

	First Half of 2016 Over First Half of 2015		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1, 2]:			
Taxable	$ 102	$ (71)	$ 31
Tax-exempt[3]	(80)	41	(39)
Investment securities:			
Taxable		(1)	(1)
Tax-exempt[3]	672	(355)	317
Certificates of deposit	6	13	19
Interest-bearing deposits in other financial institutions	(20)	133	113
Federal funds sold and other short-term investments	15	75	90
Total interest income	695	(165)	530
Interest expense on:			
Interest-bearing demand deposits	21	(49)	(28)
Savings deposits	6	3	9
Time deposits >=$100	(20)	(9)	(29)
Other time deposits	(40)	(7)	(47)
Total interest expense	(33)	(62)	(95)
Net interest income	$ 728	$ (103)	$ 625

1. Average balances include nonaccrual loans.
2. Interest income includes net loan fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%.

Provision and Allowance for Loan Losses (ALLL)

A significant determinant of the Company s operating results can be the provision for loan losses. Provision for loan losses were $0 during the Second Quarter of 2016 and the Second Quarter of 2015. Due to the improved assessment of the overall quality of the Company s loan portfolio, primarily due to the payoff of a large nonperforming loan, a negative loan loss provision of ($1,000,000) was recorded during the First Half of 2016. There was no loan loss provision recorded in the First Half of 2015. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. Net loan recoveries were $35,000 and $4,000 during the Second Quarter of 2016 and the Second Quarter of 2015, respectively. Net loan recoveries were $37,000 in the First Half of 2016 and $8,000 during the First Half of 2015, respectively.

The ALLL at June 30, 2016 was $10,672,000 and at December 31, 2015 was $11,635,000. The ratio of ALLL to total loans outstanding at June 30, 2016 was 1.53% compared to 1.77% at December 31, 2015. Nonperforming loans were $362,000, or .05%, of total loans at June 30, 2016 compared to $3,135,000, or .48%, of total loans at December 31, 2015. These loans, which are also considered impaired, consisted of two nonaccrual loans at June 30, 2016. Total nonaccrual loans decreased $2,773,000 from December 31, 2015 to June 30, 2016, primarily due to the payoff of two loans.

The ALLL has been established and is maintained to absorb reasonably estimated and probable losses in the loan portfolio. An ongoing assessment is performed to determine if the balance is adequate. Charges or credits are made to expense to cover any deficiency or reduce any excess, as required. The current methodology consists of two components: 1) estimated credit losses on individually evaluated loans that are determined to be impaired in accordance with FASB ASC 310 Allowance for Credit Losses, and 2) estimated credit losses inherent in the remainder of the loan portfolio in accordance with FASB ASC 450, Contingencies. Estimated credit losses is an estimate of the current amount of loans that is probable the Company will be unable to collect according to the original terms.

For loans that are individually evaluated, the Company uses two impairment measurement methods: 1) the present value of expected future cash flows and 2) collateral value. For the remainder of the portfolio, the Company groups loans with similar risk characteristics into eight segments and applies historical loss rates to each segment based on a five fiscal-year look-back period. In addition, qualitative factors including credit concentration risk, national and local economic conditions, nature and volume of loan portfolio, legal and regulatory factors, downturns in specific industries including losses in collateral value, trends in credit quality at the Company and in the banking industry and trends in risk-rating agencies are also considered.

The Company also utilizes ratio analysis to evaluate the overall reasonableness of the ALLL compared to its peers and required levels of regulatory capital. Federal and state agencies review the Company s methodology for maintaining the ALLL. These agencies may require the Company to adjust the ALLL based on their judgments and interpretations about information available to them at the time of their examinations.

Summary of Asset Quality

The following table presents information on the Company s provision for loan losses and analysis of the ALLL:

	Second Quarter of		**First Half of**	
(In thousands)	**2016**	**2015**	**2016**	**2015**
Allowance at beginning of period	$ 10,637	$ 11,898	$ 11,635	$ 11,894
Provision charged to expense			(1,000)	
Loans charged off				
Recoveries on loans previously charged off	35	4	37	8
Net recoveries	35	4	37	8
Allowance at end of period	$ 10,672	$ 11,902	$ 10,672	$ 11,902
Loans outstanding:				
Average	$ 692,748	$ 687,816	$ 678,711	$ 678,347
June 30	698,134	675,167	698,134	675,167
Ratio of ALLL to loans outstanding:				
Average	1.54%	1.73 %	1.57%	1.75 %
June 30	1.53%	1.76 %	1.53%	1.76 %
Impaired loans:				
Nonaccrual loans	$ 362	$ 3,177	$ 362	$ 3,177
Loans past due 90 days or more				
Troubled debt restructurings				

Total impaired loans	$	362	$	3,177	$	362	$	3,177
Foreclosed assets	$				$			
Impaired loans as percentage of average loans		.05%		.46 %		.05%		.47 %

The Bank had no property carried as other real estate owned as of June 30, 2016 or December 31, 2015.

Operating Expenses

Total operating expenses for the Second Quarter of 2016 were up 1.9%, or $419,000, compared to the Second Quarter of 2015 and were up $1,027,000 for the First Half of 2016 compared to the First Half of 2015.

Salaries and benefits expense for the Second Quarter of 2016 increased $559,000 compared to the Second Quarter of 2015 and increased $1,079,000 to $35,948,000 for the First Half of 2016 compared to the First Half of 2015 due to strategic investment in staff and technology to win and support new business, annual merit increases, and higher health insurance expense. This was offset by a decrease in retirement plan expense related to the use of new mortality tables and an increase in the discount rate.

Equipment expense for the Second Quarter of 2016 increased $40,000, or 3.7%, compared to the Second Quarter of 2015 and $24,000, or 1.1%, for the First Half of 2016 from the First Half of 2015.

Other operating expenses for the Second Quarter of 2016 decreased $190,000, or 6.2%, compared to the Second Quarter of 2015 due to a decrease in postage and supply expense. Other operating expenses decreased $84,000 for the First Half of 2016 compared to the First Half of 2015 due to lower legal fees and postage and supply expense.

Income tax expense for the Second Quarter of 2016 increased $103,000 compared to the Second Quarter of 2015 and increased $177,000 for the First Half of 2016 compared to the First Half of 2015. The effective tax rate was 25.7% and 25.8% for the Second Quarters of 2016 and 2015, respectively, and was 25.7% and 25.9% for the First Halves of 2016 and 2015, respectively.

Financial Condition

Total assets at June 30, 2016 were $1,521,184,000, an increase of $65,678,000, or 4.5%, from December 31, 2015. The most significant changes in asset balances during this period were an increase of $39,079,000 in loans and an increase of $20,961,000 in cash and cash equivalents. Changes in cash and cash equivalents reflect the Company s daily liquidity position and are affected by the changes in the other asset balances and changes in deposit and accounts and drafts payable balances.

Total liabilities at June 30, 2016 were $1,310,922,000, an increase of $62,974,000, or 5.0%, from December 31, 2015. Accounts and drafts payable at June 30, 2016 were $650,988,000, an increase of $73,729,000, or 12.8%. Total deposits decreased $15,489,000, or 2.4%, from December 31, 2015. Total shareholders equity at June 30, 2016 was $210,262,000, a $2,884,000, or 1.4%, increase from December 31, 2015.

Accounts and drafts payable will fluctuate from period-end to period-end due to the payment processing cycle, which results in lower balances on days when payments clear and higher balances on days when payments are issued. For this reason, average balances are a more meaningful measure of accounts and drafts payable (for average balances refer to the tables under the Distribution of Assets, Liabilities and Shareholders Equity; Interest Rate and Interest Differential section of this report).

The increase in total shareholders equity of $2,884,000 resulted primarily from net income of $11,702,000 and a decrease of $4,927,000 in accumulated other comprehensive loss. These were offset by an increase in common shares in treasury of $8,423,000 as a result of share repurchase activity and dividends paid of $4,947,000.

Liquidity and Capital Resources

The balance of liquid assets consists of cash and cash equivalents, which include cash and due from banks, interest-bearing deposits in other financial institutions, federal funds sold and other short-term investments was $274,133,000 at June 30, 2016, an increase of $20,961,000, or 8.3%, from December 31, 2015. At June 30, 2016, these assets represented 18.0% of total assets. These funds are the Company s and its subsidiaries primary source of liquidity to meet future expected and unexpected loan demand, depositor withdrawals or reductions in accounts and drafts payable.

Secondary sources of liquidity include the investment portfolio and borrowing lines. Total investment in securities was $368,041,000 at June 30, 2016, a decrease of $7,655,000 from December 31, 2015. These assets represented 24.2% of total assets at June 30, 2016. Of this total, 98% were state and political subdivision securities. Of the total portfolio, 11.1% mature in one year or less, 15.0% mature in one to five years, and 73.9% mature in five or more years.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $78,000,000 at the following banks: Bank of America, $10,000,000; US Bank, $20,000,000; Wells Fargo Bank, $15,000,000; Frost National Bank, $10,000,000; PNC Bank, $12,000,000; UMB Bank, $5,000,000; and JPM Chase Bank, $6,000,000. The Bank also has secured lines of credit with the Federal Home Loan Bank of $179,049,000 collateralized by commercial mortgage loans. The Company also has secured lines of credit with UMB Bank of $50,000,000 and First Tennessee Bank of $50,000,000 collateralized by state and political subdivision securities. There were no amounts outstanding under any line of credit as of June 30, 2016 or December 31, 2015.

The deposits of the Company s banking subsidiary have historically been stable, consisting of a sizable volume of core deposits related to customers that utilize other commercial products of the Bank. The accounts and drafts payable generated by the Company has also historically been a stable source of funds. The Company is part of the Certificate of Deposit Account Registry Service (CDARS) and Insured Cash Sweep (ICS) deposit placement programs. Time deposits include $37,413,000 of CDARS deposits and interest-bearing demand deposits include $75,298,000 of ICS deposits. These programs offer the Bank s customers the ability to maximize Federal Deposit Insurance Corporation (FDIC) insurance coverage. The Company uses these programs to retain or attract deposits from existing customers.

Net cash flows provided by operating activities were $17,752,000 for the First Half of 2016, compared with $17,019,000 for the First Half of 2015, an increase of $733,000. Net cash flows from investing and financing activities fluctuate greatly as the Company actively manages its investment and loan portfolios and customer activity influences changes in deposit and accounts and drafts payable balances. Other causes for the changes in these account balances are discussed earlier in this report. Due to the daily fluctuations in these account balances, the analysis of changes in average balances, also discussed earlier in this report, can be more indicative of underlying activity than the period-end balances used in the statements of cash flows. Management anticipates that cash and cash equivalents, maturing investments and cash from operations will continue to be sufficient to fund the Company s operations and capital expenditures in 2016, which are estimated to range from $5 million to $7 million.

The Company faces market risk to the extent that its net interest income and fair market value of equity are affected by changes in market interest rates. For information regarding the market risk of the Company s financial instruments, see Item 3, Quantitative and Qualitative Disclosures about Market Risk.

There are several trends and uncertainties that may impact the Company s ability to generate revenues and income at the levels that it has in the past. In addition, these trends and uncertainties may impact available liquidity. Those that could significantly impact the Company include the general levels of interest rates, business activity, and energy costs as well as new business opportunities available to the Company.

As a financial institution, a significant source of the Company s earnings is generated from net interest income. Therefore, the prevailing interest rate environment is important to the Company s performance. A major portion of the Company s funding sources are the non-interest bearing accounts and drafts payable generated from its payment and information processing services. Accordingly, higher levels of interest rates will generally allow the Company to earn more net interest income. Conversely, a lower interest rate environment will generally tend to depress net interest income. The Company actively manages its balance sheet in an effort to maximize net interest income as the interest rate environment changes. This balance sheet management impacts the mix of earning assets maintained by the Company at any point in time. For example, in the lower interest rate environment currently faced by the Company, short-term, relatively lower rate liquid investments are reduced in favor of longer-term relatively higher yielding investments and loans.

The overall level of economic activity can have a significant impact on the Company s ability to generate revenues and income, as the volume and size of customer invoices processed may increase or decrease. Higher levels of economic activity increase both fee income (as more invoices are processed) and balances of accounts and drafts payable.

The relative level of energy costs can impact the Company s earnings and available liquidity. Lower levels of energy costs will tend to decrease transportation and energy invoice amounts resulting in a corresponding decrease in accounts and drafts payable. Decreases in accounts and drafts payable generate lower interest income.

New business opportunities are an important component of the Company s strategy to grow earnings and improve performance. Generating new customers allows the Company to leverage existing systems and facilities and grow revenues faster than expenses.

The Basel III Capital Rules require FDIC insured depository institutions to meet and maintain several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The FDIC also requires a minimum leverage ratio of 3%, defined as the ratio of Tier 1 capital less purchased mortgage serving rights to total assets, for banking organizations deemed the strongest and most highly rated by banking regulators. A higher minimum leverage ratio is required of less highly-rated banking organizations.

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Common equity Tier 1 capital is generally defined as common stockholders equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements. Also included in Tier 2 capital is the allowance for loan losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions like Cass, that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. The calculation of all types of regulatory capital is subject to deductions and adjustments specified in applicable regulations.

In addition to establishing the minimum regulatory capital requirements, the Basel III Capital Rules limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

The Company and the Bank continue to exceed all regulatory capital requirements, as evidenced by the following capital amounts and ratios:

	June 30, 2016		December 31, 2015	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 209,594	21.32%	$ 212,717	23.31%
Cass Commercial Bank	105,551	16.07%	99,872	16.90%
Common Equity Tier I Capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 198,922	20.24%	$ 201,312	22.06%
Cass Commercial Bank	97,747	14.88%	92,470	15.65%
Tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 198,922	20.24%	$ 201,312	22.06%
Cass Commercial Bank	97,747	14.88%	92,470	15.65%
Tier I capital (to average assets)				
Cass Information Systems, Inc.	$ 198,922	13.37%	$ 201,312	13.88%
Cass Commercial Bank	97,747	13.36%	92,470	13.15%

Inflation

The Company s assets and liabilities are primarily monetary, consisting of cash, cash equivalents, securities, loans, payables and deposits. Monetary assets and liabilities are those that can be converted into a fixed number of dollars. The Company s consolidated balance sheet reflects a net positive monetary position (monetary assets exceed monetary liabilities). During periods of inflation, the holding of a net positive monetary position will result in an overall decline in the purchasing power of a company. Management believes that replacement costs of equipment, furniture, and leasehold improvements will not materially affect operations. The rate of inflation does affect certain expenses, such as those for employee compensation, which may not be readily recoverable in the price of the Company s services.

Impact of New and Not Yet Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 *Revenue from Contracts with Customers*. The ASU supersedes revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance identifies specific steps that entities should apply in order to achieve this principle. Under the ASU, the amendments are effective for interim and annual periods beginning January 1, 2018 and must be applied retrospectively. The impact of the adoption of this ASU is currently being evaluated but is not expected to have a material impact on the Company s consolidated financial statements or results of operations.

In February 2016, the FASB issued ASU No. 2016-02 *Leases (ASC Topic 842)*. The ASU improves financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet the new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The impact of the adoption of this ASU is currently being evaluated but is not expected to have a material impact on the Company s consolidated financial statements or results of operations.

In June 2016, the FASB issued ASU No. 2016-13 - *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The ASU requires measurement and recognition of expected credit losses for financial assets held. Under this standard, it will be required to hold an allowance equal to the expected life-of-loan losses on the loan portfolio. The standard is effective for fiscal periods beginning after December 15, 2019. The impact of the adoption of this ASU is currently being evaluated.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As described in the Company s Annual Report on Form 10-K for the year ended December 31, 2015, the Company manages its interest rate risk through measurement techniques that include gap analysis and a simulation model. As part of the risk management process, asset/liability management policies are established and monitored by management. The policy objective is to limit the change in annualized net interest income to 15.0% from an immediate and sustained parallel change in interest rates of 200 basis points. Based on the Company s most recent evaluation, management does not believe the Company s risk position at June 30, 2016 has changed materially from that at December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

The Company s management, under the supervision and with the participation of the principal executive officer and the principal financial officer, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15e and 15d-15e under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report and concluded that, as of such date, these controls and procedures were effective.

There were no changes in the Second Quarter of 2016 in the Company s internal control over financial reporting identified by the Company s principal executive officer and principal financial officer in connection with their evaluation that materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

PART II. OTHER INFORMATION

ITEM 1. **LEGAL PROCEEDINGS**

The Company is the subject of various pending or threatened legal actions and proceedings, including those that arise in the ordinary course of business. Management believes the outcome of all such proceedings will not have a material effect on the businesses or financial conditions of the Company or its subsidiaries.

ITEM 1A. **RISK FACTORS**

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2015, a description of certain risks and uncertainties that could affect the Company s business, future performance or financial condition (the Risk Factors). There are no material changes to the Risk Factors as disclosed in the Company s 2015 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended June 30, 2016, the Company repurchased a total of 111,241 shares of its common stock pursuant to its treasury stock buyback program, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2016 April 30, 2016	38,409	$49.46	38,409	373,988
May 1, 2016 May 31, 2016	50,946	$48.33	50,946	323,042
June 1, 2016 June 30, 2016	21,886	$49.41	21,886	301,156
Total	111,241	$48.94	111,241	301,156

1. All repurchases made during the quarter ended June 30, 2016 were made pursuant to the treasury stock buyback program, which was authorized by the Board of Directors on October 17, 2011 and announced by the Company on October 20, 2011. The program, as modified by the Board of Directors on October 20, 2014, provided that the Company may repurchase up to an aggregate of 500,000 shares of common stock and has no expiration date. The program was further modified by the Board of Directors on October 19, 2015 to restore the aggregate number of shares available for repurchase to 500,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company s Board of Directors implemented in the Second Quarter of 2016.

ITEM 6. EXHIBITS

Exhibit 3.1 Restated Articles of Incorporation of Registrant, incorporated by reference to Exhibit 4.1 to Form S-8 Registration Statement No. 333-44499, filed with the SEC on January 20, 1998.

Exhibit 3.2 Amendment to Restated Articles of Incorporation, incorporated by reference to Exhibit 3.1 to the current report on Form 8-K, filed with the SEC on April 19, 2013.

Exhibit 3.3 Articles of Merger of Cass Commercial Corporation, incorporated by reference to Exhibit 3.1 to the quarterly report on Form 10-Q for the quarter ended September 30, 2006.

Exhibit 3.4 Second Amended and Restated Bylaws of Registrant, as amended effective July 18, 2016, incorporated by reference to Exhibit 3.1 to the current report on Form 8-K, filed with the SEC on July 21, 2016.

Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.INS XBRL Instance Document.

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document.

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CASS INFORMATION SYSTEMS, INC.

DATE:	August 2, 2016	By	/s/ Eric H. Brunngraber Eric H. Brunngraber Chairman, President and Chief Executive Officer (Principal Executive Officer)
DATE:	August 2, 2016	By	/s/ P. Stephen Appelbaum P. Stephen Appelbaum Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)