CASS INFORMATION SYSTEMS INC
Form 10-Q
August 03, 2015

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, 2015______

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 30, 2015: Common stock, par value $.50 per share 11,420,692 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 2014 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, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$ 13,216	$ 11,307
Interest-bearing deposits in other financial institutions	105,672	200,966
Federal funds sold and other short-term investments	39,723	82,062
Cash and cash equivalents	158,611	294,335
Securities available-for-sale, at fair value	347,820	356,141
Loans	675,167	669,346
Less: Allowance for loan losses	11,902	11,894
Loans, net	663,265	657,452
Premises and equipment, net	18,827	16,909
Investment in bank-owned life insurance	15,678	15,429
Payments in excess of funding	120,510	120,227
Goodwill	11,590	11,590
Other intangible assets, net	2,597	2,762
Other assets	27,982	25,886
Total assets	$ 1,366,880	$ 1,500,731
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 162,015	$ 158,999
Interest-bearing	393,395	459,200
Total deposits	555,410	618,199
Accounts and drafts payable	584,532	655,428
Other liabilities	29,495	26,672
Total liabilities	1,169,437	1,300,299
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, 2015 and December 31, 2014	5,966	5,966
Additional paid-in capital	125,416	126,169
Retained earnings	96,910	90,635
Common shares in treasury, at cost (510,455 shares at June 30, 2015 and 428,572 shares at December 31, 2014)	(17,837)	(12,707)
Accumulated other comprehensive loss	(13,012)	(9,631)
Total shareholders equity	197,443	200,432
Total liabilities and shareholders equity	$ 1,366,880	$ 1,500,731

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, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Fee Revenue and Other Income:				
Information services payment and processing revenue	$ 19,699	$ 19,554	$ 39,117	$ 37,951
Bank service fees	299	271	600	556
Gains on sales of securities	690		1,639	
Other	150	127	314	1,020
Total fee revenue and other income	20,838	19,952	41,670	39,527
Interest Income:				
Interest and fees on loans	7,356	7,475	14,442	14,780
Interest and dividends on securities:				
Taxable	12	9	15	14
Exempt from federal income taxes	2,322	2,352	4,625	4,662
Interest on federal funds sold and other short-term investments	113	139	273	291
Total interest income	9,803	9,975	19,355	19,747
Interest Expense:				
Interest on deposits	521	628	1,112	1,253
Net interest income	9,282	9,347	18,243	18,494
Provision for loan losses				
Net interest income after provision for loan losses	9,282	9,347	18,243	18,494
Total net revenue	30,120	29,299	59,913	58,021
Operating Expense:				
Salaries and employee benefits	17,543	16,464	34,869	32,651
Occupancy	856	756	1,693	1,562
Equipment	1,070	1,121	2,141	2,147
Amortization of intangible assets	102	121	203	241
Other operating expense	3,069	2,844	6,042	5,730
Total operating expense	22,640	21,306	44,948	42,331
Income before income tax expense	7,480	7,993	14,965	15,690
Income tax expense	1,932	1,958	3,878	3,844
Net income	$ 5,548	$ 6,035	$ 11,087	$ 11,846
Basic earnings per share	$ .49	$ .52	$ .97	$ 1.03
Diluted earnings per share	.48	.52	.96	1.02

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, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Comprehensive income:				
Net income	$ 5,548	$ 6,035	$ 11,087	$ 11,846
Other comprehensive income:				
Net unrealized gain (loss) on securities available-for-sale	(5,068)	3,395	(3,572)	7,084
Tax effect	1,884	(1,261)	1,327	(2,632)
Reclassification adjustments for gains included in net income	(690)		(1,639)	
Tax effect	242		574	
Foreign currency translation adjustments	(7)	(8)	(71)	(13)
Total comprehensive income	$ 1,909	$ 8,161	$ 7,706	$ 16,285

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, 2015	Six Months Ended June 30, 2014
Cash Flows From Operating Activities:		
Net income	$ 11,087	$ 11,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,214	4,051
Net gains on sales of securities	(1,639)	
Stock-based compensation expense	1,031	1,031
(Increase) in income tax benefit	(1,911)	
(Decrease) increase in income tax liability	(284)	923
Increase in pension liability	2,419	356
Other operating activities, net	2,102	395
Net cash provided by operating activities	17,019	18,602
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	65,952	
Proceeds from maturities of securities available-for-sale	21,460	8,290
Purchase of securities available-for-sale	(85,264)	(13,362)
Net increase in loans	(5,813)	(13,352)
Increase in payments in excess of funding	(283)	(46,627)
Purchases of premises and equipment, net	(3,384)	(2,948)
Net cash used in investing activities	(7,332)	(67,999)
Cash Flows From Financing Activities:		
Net increase in noninterest-bearing demand deposits	3,016	3,823
Net decrease in interest-bearing demand and savings deposits	(56,514)	(21,153)
Net decrease in time deposits	(9,291)	(13,655)
Net (decrease) increase in accounts and drafts payable	(70,896)	41,905
Cash dividends paid	(4,812)	(4,612)
Purchase of common shares for treasury	(6,128)	
Other financing activities, net	(786)	(450)
Net cash (used in) provided by financing activities	(145,411)	5,858
Net decrease in cash and cash equivalents	(135,724)	(43,539)
Cash and cash equivalents at beginning of period	294,335	225,262
Cash and cash equivalents at end of period	$ 158,611	$ 181,723
Supplemental information:		
Cash paid for interest	$ 1,114	$ 1,103
Cash paid for income taxes	3,634	2,737

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, 2014.

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, 2015		December 31, 2014	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Assets eligible for amortization:				
Customer lists	$ 3,933	(1,864)	$ 3,933	$ (1,705)
Patents	60	(2)	23	(1)
Non-compete agreements	261	(183)	261	(157)
Software	234	(234)	234	(234)
Other	500	(108)	500	(92)
Unamortized intangible assets:				
Goodwill[1]	11,817	(227)	11,817	(227)
Total intangible assets	$ 16,805	$ (2,618)	$ 16,768	$ (2,416)

[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 $203,000 and $241,000 for the six-month periods ended June 30, 2015 and 2014, respectively. Estimated future amortization of intangibles is as follows: $406,000 in 2015, $407,000 in 2016, $355,000 in each of 2017, 2018, and 2019.

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 six months ended June 30, 2015 and 2014. 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)		**2015**		**2014**		**2015**		**2014**
Basic								
Net income	$	5,548	$	6,035	$	11,087	$	11,846
Weighted-average common shares outstanding		11,388,907		11,489,423		11,414,489		11,483,801
Basic earnings per share	$	.49	$	.52	$	.97	$	1.03
Diluted								
Net income	$	5,548	$	6,035	$	11,087	$	11,846
Weighted-average common shares outstanding		11,388,907		11,489,423		11,414,489		11,483,801
Effect of dilutive restricted stock and stock appreciation rights		163,898		169,724		162,705		182,146
Weighted-average common shares outstanding assuming dilution		11,552,805		11,659,147		11,577,194		11,665,947
Diluted earnings per share	$	.48	$	.52	$	.96	$	1.02

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. The Company repurchased 55,297 and 0 shares during the three-month periods and 124,585 and 0 for the six-month periods ended June 30, 2015 and 2014, respectively. As of June 30, 2015, 355,455 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, 2014. 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, 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
Three Months Ended June 30, 2014				
Fee revenue and other income				
Income from customers	$ 23,737	$ 5,562	$	$ 29,299
Intersegment income (expense)	2,160	374	(2,534)	
Net income	4,280	1,755		6,035
Goodwill	11,454	136		11,590
Other intangible assets, net	2,981			2,981
Total assets	709,693	663,546	(21,528)	1,351,711
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
Six Months Ended June 30, 2014				
Fee revenue and other income				
Income from customers	$ 46,952	$ 11,069	$	$ 58,021
Intersegment income (expense)	4,302	730	(5,032)	
Net income	8,380	3,466		11,846
Goodwill	11,454	136		11,590
Other intangible assets, net	2,981			2,981
Total assets	709,693	663,546	(21,528)	1,351,711

Note 6 Loans by Type

A summary of loan categories is as follows:

(In thousands)	June 30, 2015	December 31, 2014
Commercial and industrial	$ 208,566	$ 203,350
Real estate		
Commercial:		
Mortgage	115,338	117,754
Construction		
Church, church-related:		
Mortgage	308,236	305,887
Construction	21,267	18,612
Industrial Revenue Bonds	21,723	23,348
Other	37	395
Total loans	$ 675,167	$ 669,346

The following table presents the aging of loans by loan categories at June 30, 2015 and December 31, 2014:

	Performing			Nonperforming		
(In thousands)	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
June 30, 2015						
Commercial and industrial	$ 208,566	$	$	$	$	$ 208,566
Real estate						
Commercial:						
Mortgage	112,276				3,062	115,338
Construction						
Church, church-related:						
Mortgage	308,122				114	308,236
Construction	21,267					21,267
Industrial Revenue Bonds	21,723					21,723
Other	37					37
Total	$ 671,991	$	$	$	$ 3,176	$ 675,167
December 31, 2014						
Commercial and industrial	$ 203,350	$	$	$	$	$ 203,350
Real estate						
Commercial:						
Mortgage	117,393				361	117,754
Construction						
Church, church-related:						
Mortgage	305,760				127	305,887
Construction	18,612					18,612
Industrial Revenue Bonds	23,348					23,348
Other	395					395
Total	$ 668,858	$	$	$	$ 488	$ 669,346

The following table presents the credit exposure of the loan portfolio as of June 30, 2015 and December 31, 2014:

(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, 2015				
Commercial and industrial	$ 205,153	$ 3,413	$	$ 208,566
Real estate				
Commercial:				
Mortgage	101,487	10,789	3,062	115,338
Construction				
Church, church-related:				
Mortgage	303,498	4,624	114	308,236
Construction	21,267			21,267
Industrial Revenue Bonds	21,723			21,723
Other	37			37
Total	$ 653,165	$ 18,826	$ 3,176	$ 675,167
December 31, 2014				
Commercial and industrial	$ 199,837	$ 3,513	$	$ 203,350
Real estate				

Commercial:				
Mortgage	103,097	14,296	361	117,754
Construction				
Church, church-related:				
Mortgage	304,219	1,541	127	305,887
Construction	18,612			18,612
Industrial Revenue Bonds	23,348			23,348
Other	395			395
Total	$ 649,508	$ 19,350	$ 488	$ 669,346

[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, 2015 and December 31, 2014, all impaired loans were evaluated based on the fair value of the collateral. 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, 2015 and December 31, 2014. There were no loans classified as troubled debt restructuring at June 30, 2015 and December 31, 2014.

There were no foreclosed loans recorded as other real estate owned (included in other assets) as of June 30, 2015, and December 31, 2014.

The following table presents the recorded investment and unpaid principal balance for impaired loans at June 30, 2015 and December 31, 2014:

(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance for Loan Losses**
June 30, 2015			
Commercial and industrial:			
Nonaccrual	$	$	$
Real estate			
Commercial Mortgage:			
Nonaccrual	3,062	3,062	1,127
Church Mortgage:			
Nonaccrual	114	114	114
Total impaired loans	$ 3,176	$ 3,176	$ 1,241
December 31, 2014			
Commercial and industrial:			
Nonaccrual	$	$	$
Real estate			
Commercial Mortgage:			
Nonaccrual	361	361	
Church Mortgage:			
Nonaccrual	127	127	127
Total impaired loans	$ 488	$ 488	$ 127

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

A summary of the activity in the allowance for loan losses from December 31, 2013 to June 30, 2014 is as follows:

(In thousands)	December 31, 2013	Charge-Offs	Recoveries	Provision	June 30, 2014
Commercial and industrial	$ 3,036	$ 3	$ 30	$ 18	$ 3,081
Real estate					
Commercial:					
Mortgage	3,946		221	335	4,502
Construction	151			(8)	143
Church, church-related:					
Mortgage	4,354	76	2	(384)	3,896
Construction	124			49	173
Industrial Revenue Bonds	68			(11)	57
Other				1	1
Total	$ 11,679	$ 79	$ 253	$	$ 11,853

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, 2015 and December 31, 2014, 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 $8,297,000, $11,735,000, and $1,542,000 at June 30, 2015 and were $19,066,000, $12,693,000, and $2,571,000 at December 31, 2014, 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, 2015:

	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	$ 6,834	$ 1,321	$ 2,350	$ 1,459	$ 1,704
Time deposits	70,484	56,742	12,690	1,052	
Total	$ 77,318	$ 58,063	$ 15,040	$ 2,511	$ 1,704

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, 2015, 41,518 restricted shares and 0 SARs were granted under the Omnibus Plan.

Restricted Stock

Restricted shares granted prior to April 16, 2013 are amortized to expense over a three-year vesting period. Beginning on April 16, 2013, restricted shares granted to Company employees are amortized to expense over a three-year vesting period whereas restricted shares granted to members of the Board of Directors are amortized to expense over a one-year service period, with the exception of those shares granted in lieu of cash payments for retainer fees which are expensed in the period earned. As of June 30, 2015, the total unrecognized compensation expense related to non-vested restricted shares was $2,480,000, and the related weighted-average period over which it is expected to be recognized is approximately 1.1 years.

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

	Six Months Ended June 30, 2015	
	Shares	**Fair Value**
Balance at December 31, 2014	51,161	$ 48.13
Granted	41,518	$ 51.04
Vested	(24,644)	$ 44.18
Forfeits	(262)	$ 52.63
Balance at June 30, 2015	67,773	$ 51.33

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, 2015, the total unrecognized compensation expense was $529,000, and the related weighted-average period over which it is expected to be recognized is 0.7 years. Following is a summary of the activity of the Company s SARs program for the six-month period ended June 30, 2015:

	Shares	**Weighted-Average Exercise Price**	**Average Remaining Contractual Term Years**	**Aggregate Intrinsic Value *(In thousands)***
Outstanding at December 31, 2014	353,955	$ 35.52	6.77	$ 6,277
Exercised	(37,834)	$ 28.56		
Forfeits	(1,204)	$ 53.96		
Outstanding at June 30, 2015	314,917	$ 36.28	6.45	6,279
Exercisable at June 30, 2015	262,410	$ 33.30	6.11	$ 6,014

Following is a summary of the activity of the non-vested SARs during the six-month period ended June 30, 2015:

	Shares	**Weighted-Average Grant Date Fair Value**
Non-vested at December 31, 2014	124,982	$ 45.85
Vested	(71,514)	$ 41.87
Forfeits	(961)	$ 52.02
Non-vested at June 30, 2015	52,507	$ 51.17

The Company uses the Black-Scholes pricing model to determine the fair value of the SARs at the date of grant. Following are the assumptions used to estimate the per-share fair value of SARs granted:

	Six Months Ended June 30,	
	2015	**2014**
Risk-free interest rate	N/A	2.38%
Expected life	N/A	7 yrs.
Expected volatility	N/A	28.11%
Expected dividend yield	N/A	1.30%

The risk-free interest rate is based on the zero-coupon U.S. Treasury yield for the period equal to the expected life of the SARs at the time of the grant. The expected life was derived using the historical exercise activity. The Company uses historical volatility for a period equal to the expected life of the rights using average monthly closing market prices of the Company s stock as reported on The Nasdaq Global Market. The expected dividend yield is based on the Company s current rate of annual dividends.

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 2014 and an estimate for 2015:

	Estimated	**Actual**
(In thousands)	**2015**	**2014**
Service cost benefits earned during the year	$ 3,977	$ 3,003
Interest cost on projected benefit obligations	3,217	3,037
Expected return on plan assets	(4,863)	(4,711)
Net amortization and deferral	1,605	244
Net periodic pension cost	$ 3,936	$ 1,573

Pension costs recorded to expense were $977,000 and $410,000 for the three-month periods ended June 30, 2015 and 2014, respectively, and totaled $1,968,000 and $820,000 for the six-month periods ended June 30, 2015 and 2014, respectively. Pension costs increased significantly in 2015 due to a decrease 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, 2015 and is evaluating the amount of additional contributions, if any, in 2015.

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 2014 and an estimate for 2015:

	Estimated	**Actual**
(In thousands)	**2015**	**2014**
Service cost benefits earned during the year	$ 140	$ 136
Interest cost on projected benefit obligation	348	377
Net amortization	654	431
Net periodic pension cost	$ 1,142	$ 944

Pension costs recorded to expense were $286,000 and $236,000 for the three-month periods ended June 30, 2015 and 2014, respectively, and were $571,000 and $472,000 for the six-month periods ended June 30, 2015 and 2014, respectively.

Note 10 Income Taxes

As of June 30, 2015, the Company s unrecognized tax benefits were approximately $1,266,000, of which $933,000 would, if recognized, affect the Company s effective tax rate. As of December 31, 2014, the Company s unrecognized tax benefits were approximately $1,117,000, of which $819,000 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 $210,000 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 $62,000 and $45,000 of gross interest accrued as of June 30, 2015 and December 31, 2014, respectively. There were no penalties for unrecognized tax benefits accrued at June 30, 2015 and December 31, 2014.

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 2011 through 2013 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 2013.

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, 2015			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 335,414	$ 9,858	$ 1,202	$ 344,070
Certificates of deposit	3,750			3,750
Total	$ 339,164	$ 9,858	$ 1,202	$ 347,820

	December 31, 2014			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 338,469	$ 14,120	$ 198	$ 352,391
Certificates of deposit	3,750			3,750
Total	$ 342,219	$ 14,120	$ 198	$ 356,141

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

	June 30, 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	$ 103,552	$ 1,164	$ 1,195	$ 38	$ 104,747	$ 1,202
Certificates of deposit						
Total	$ 103,552	$ 1,164	$ 1,195	$ 38	$ 104,747	$ 1,202

	December 31, 2014					
	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	$ 8,700	$ 15	$ 13,833	$ 183	$ 22,533	$ 198
Certificates of deposit						
Total	$ 8,700	$ 15	$ 13,833	$ 183	$ 22,533	$ 198

There were 87 securities, or 25% of the total (one greater than 12 months), in an unrealized loss position as of June 30, 2015. There were 20 securities, or 6% of the total (12 greater than 12 months), in an unrealized loss position as of December 31, 2014. 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, 2015	
(In thousands)	Amortized Cost	Fair Value
Due in 1 year or less	$ 23,893	$ 24,055
Due after 1 year through 5 years	88,356	92,275
Due after 5 years through 10 years	130,452	134,615
Due after 10 years	96,463	96,875
Total	$ 339,164	$ 347,820

Proceeds from sales of investment securities classified as available for sale were $20,754,000 and $0 for the three months ended June 30, 2015 and 2014, respectively, and were $65,952,000 and $0 for the six months ended June 30, 2015 and 2014, respectively. Gross realized gains were $690 and $0 for the three months ended June 30, 2015 and 2014, respectively, and were $1,639 and $0 for the six months ended June 30, 2015 and 2014, respectively. There was one security totaling $3,750,000 pledged to secure public deposits and for other purposes at June 30, 2015.

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, 2015		December 31, 2014	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	$ 158,611	$ 158,611	$ 294,335	$ 294,335
Investment securities	347,820	347,820	356,141	356,141
Loans, net	663,265	670,353	657,452	663,247
Accrued interest receivable	5,951	5,951	6,521	6,521
Total	$ 1,175,647	$ 1,182,735	$ 1,314,449	$ 1,320,244
Balance sheet liabilities:				
Deposits	$ 555,410	$ 555,823	$ 618,199	$ 618,199
Accounts and drafts payable	584,532	584,532	655,428	655,428
Accrued interest payable	55	55	57	57
Total	$ 1,139,997	$ 1,140,410	$ 1,273,684	$ 1,273,684

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, 2015 and 2014. No financial instruments are measured using Level 3 inputs for the six months ended June 30, 2015 and 2014.

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, 2015, 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 transportation invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays energy invoices, which include electricity and gas as well as waste and other facility related expenses. Cass is also in the telecommunications expense management market which includes bill processing and expense management solutions. Cass extracts, stores, and presents information from transportation, energy, telecommunication and waste invoices, assisting its customers transportation, energy, waste 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, through Cass Commercial Bank, its St. Louis, Missouri-based bank subsidiary (the Bank), also provides commercial banking services in the St. Louis metropolitan area and has loan production offices in Southern California and Colorado Springs, Colorado. 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 transportation, energy, telecommunication and waste 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 2014 Annual Report on Form 10-K, a decline in the general level of interest rates can have a negative 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.

Investment in Debt Securities. The Company classifies its debt marketable securities as available-for-sale. Securities classified as available-for-sale are carried at fair value. Unrealized gains and losses, net of the related tax effect, are excluded from earnings and reported in accumulated other comprehensive income, a component of shareholders equity. A decline in the fair value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. To determine whether impairment is other than temporary, the Company considers guidance provided in FASB ASC Topic 320, Investments Debt and Equity Securities . When determining whether a debt security is other-than-temporarily impaired, the Company assesses whether it has the intent to sell the security and whether it is more likely than not that the Company will be required to sell prior to recovery of the amortized cost basis. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in value subsequent to period-end and forecasted performance of the investee.

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, 2014, 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, 2014. 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, 2015 (Second Quarter of 2015) compared to the three-month period ended June 30, 2014 (Second Quarter of 2014) and the six-month period ended June 30, 2015 (First Half of 2015) compared to the six-month period ended June 30, 2014 (First Half of 2014). 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 2014 Annual Report on Form 10-K. Results of operations for the Second Quarter of 2015 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)	**2015**	**2014**	**% Change**	**2015**	**2014**	**% Change**
Net income	$ 5,548	$ 6,035	(8.1)	$ 11,087	$ 11,846	(6.4)
Diluted earnings per share	$ .48	$ .52	(7.7)	$ .96	$ 1.02	(5.9)
Return on average assets	1.58%	1.73%		1.56%	1.72%	
Return on average equity	11.27%	12.22%		11.29%	12.24%	

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)	**2015**	**2014**	**% Change**	**2015**	**2014**	**% Change**
Transportation invoice transaction volume	8,969	8,874	1.0%	17,094	16,633	2.8%
Transportation invoice dollar volume	$ 6,541,917	$ 6,664,922	(1.8)%	$ 12,598,628	$ 12,557,493	0.3%
Expense management transaction volume*	5,021	5,181	(3.1)%	10,062	10,276	(2.1)%
Expense management dollar volume*	$ 2,755,930	$ 3,060,418	(9.9)%	$ 5,739,120	$ 6,334,971	(9.4)%
Payment and processing revenue	$ 19,699	$ 19,554	0.7%	$ 39,117	$ 37,951	3.1%

*Includes energy, telecom and waste

Second Quarter of 2015 compared to Second Quarter of 2014:

Transportation transaction volume increased due to new business; however, the growth was reduced by a decline in activity from existing customers, especially those in the oil and gas production sector. Expense management transaction and dollar volume declined as on-going competitor consolidation in the energy sector affected client retention.

Bank service fees were slightly higher. There were gains of $690,000 on sales of securities in the Second Quarter of 2015, compared to $0 in the Second Quarter of 2014.

First Half of 2015 compared to First Half of 2014:

Transportation transaction and dollar volumes as well as expense management transaction and dollar volumes fluctuated for the same reasons as the Second Quarter.

There were $1,639,000 gains on sales of securities in the First Half of 2015, compared to $0 in the First Half of 2014.

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)	**2015**	**2014**	**% Change**	**2015**	**2014**	**% Change**
Average earnings assets	$ 1,209,959	$ 1,220,326	(.8)%	$ 1,235,878	$ 1,227,932	.6%
Average interest-bearing liabilities	401,354	417,641	(3.9)%	427,545	419,810	1.8%
Net interest income*	10,617	10,636	(.2)%	20,903	21,048	(.7)%
Net interest margin*	3.52%	3.50%		3.41%	3.46%	
Yield on earning assets*	3.69%	3.70%		3.59%	3.66%	
Rate on interest-bearing liabilities	.52%	.60%		.52%	.60%	

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

Second Quarter of 2015 compared to Second Quarter of 2014:

Second Quarter of 2015 average earning assets decreased $10,367,000, or less than 1.0%, compared to the same period in the prior year (see discussion in the following paragraphs). The yield on earning assets decreased slightly and the rate on interest-bearing liabilities also decreased causing the tax equivalent net interest margin to increase slightly.

Total average loans increased $16,902,000, or 2.5%, for the Second Quarter of 2015 as compared to the Second Quarter of 2014. Average investment securities increased $2,376,000, or less than 1.0%, for the Second Quarter of 2015.

Total average interest-bearing deposits for the Second Quarter of 2015 decreased $16,287,000, or 3.9%, compared to the Second Quarter of 2014. Average accounts and drafts payable decreased $10,862,000, or 1.7%, for the Second Quarter of 2015.

First Half of 2015 compared to First Half of 2014:

First Half of 2015 average earning assets increased $7,946,000, or less than 1.0%, compared to the same period in the prior year (see following discussion). The yield on earning assets and the tax equivalent net interest margin both decreased in 2015 as the general level of interest rates remained low.

Total average loans increased $18,592,000 for the First Half of 2015 as compared to the First Half of 2014. Average investment securities increased $2,392,000, or less than 1.0%, as the Company took advantage of market opportunities.

Total average interest-bearing deposits for the First Half of 2015 increased $7,735,000, or 1.8%, to $427,545,000 compared to the First Half of 2014. Average accounts and drafts payable decreased $2,260,000, or less than 1.0%, to $621,294,000.

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 2015 Average Balance	Interest Income/ Expense	Yield/ Rate	Second Quarter of 2014 Average Balance	Interest Income/ Expense	Yield/ Rate
Assets[1]						
Earning assets						
Loans[2, 3]:						
Taxable	$ 665,788	$ 7,199	4.34%	$ 662,504	$ 7,423	4.49%
Tax-exempt[4]	22,028	242	4.41	8,410	74	3.53
Investment securities[5]:						
Taxable	1,189	10	3.37	1,097	9	3.29
Tax-exempt[4]	316,132	3,572	4.53	313,848	3,619	4.63
Certificates of deposit	3,750	2	.21	3,750		
Interest-bearing deposits in other financial institutions	108,444	84	.31	117,023	97	.33
Federal funds sold and other short-term investments	92,628	29	.13	113,694	42	.15
Total earning assets	1,209,959	11,138	3.69	1,220,326	11,264	3.70
Non-earning assets						
Cash and due from banks	13,227			11,722		
Premises and equipment, net	18,223			14,030		
Bank-owned life insurance	15,602			15,221		
Goodwill and other intangibles	14,237			14,642		
Other assets	148,015			134,296		
Allowance for loan losses	(11,901)			(11,850)		
Total assets	$ 1,407,362			$ 1,398,387		
Liabilities and Shareholders Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 314,365	$ 335	.43%	$ 312,458	$ 406	.52%
Savings deposits	14,535	16	.44	14,367	19	.53
Time deposits >= $100	25,032	81	1.30	29,035	83	1.15
Other time deposits	47,411	89	.75	61,770	120	.78
Federal Funds purchased	11			11		
Total interest-bearing deposits	401,354	521	.52	417,641	628	.60
Non-interest bearing liabilities						
Demand deposits	155,350			136,457		
Accounts and drafts payable	624,987			635,849		
Other liabilities	28,225			10,390		
Total liabilities	1,209,916			1,200,337		
Shareholders equity	197,446			198,050		
Total liabilities and shareholders equity	$ 1,407,362			$ 1,398,387		
Net interest income		$ 10,617			$ 10,636	
Net interest margin			3.52%			3.50%
Interest spread			3.17			3.10

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 2014 consolidated financial statements, filed with the Company s 2014 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $170,000 and $62,000 for the Second Quarter of 2015 and 2014, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $1,335,000 and $1,289,000 for the Second Quarter of 2015 and 2014, 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.

	First Half of 2015			First Half of 2014		
(In thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets[1]						
Earning assets						
Loans[2, 3]:						
Taxable	$ 655,913	$ 14,126	4.34%	$ 651,117	$ 14,686	4.55%
Tax-exempt[4]	22,434	486	4.37	8,638	138	3.22
Investment securities[5]:						
Taxable	1,146	11	1.94	1,091	11	2.03
Tax-exempt[4]	313,573	7,115	4.58	311,236	7,172	4.65
Certificates of deposit	3,750	4	.22	3,750	3	.16
Interest-bearing deposits in other financial institutions	142,888	210	.30	134,114	211	.32
Federal funds sold and other short-term investments	96,174	63	.13	117,986	80	.14
Total earning assets	1,235,878	22,015	3.59	1,227,932	22,301	3.66
Non-earning assets						
Cash and due from banks	13,148			11,845		
Premises and equipment, net	17,865			13,704		
Bank-owned life insurance	15,541			15,294		
Goodwill and other intangibles	14,274			14,703		
Other assets	148,843			120,045		
Allowance for loan losses	(11,898)			(11,810)		
Total assets	$ 1,433,651			$ 1,391,713		
Liabilities and Shareholders Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 336,771	$ 723	.43%	$ 308,609	$ 786	.51%
Savings deposits	15,861	35	.44	15,393	42	.55
Time deposits >= $100	25,954	162	1.26	32,968	172	1.05
Other time deposits	48,953	192	.79	62,834	253	.81
Federal Funds purchased	6			6		
Total interest-bearing deposits	427,545	1,112	.52	419,810	1,253	.60
Non-interest bearing liabilities						
Demand deposits	158,784			143,271		
Accounts and drafts payable	621,294			623,554		
Other liabilities	27,960			9,929		
Total liabilities	1,235,583			1,196,564		
Shareholders equity	198,068					