

CASS INFORMATION SYSTEMS INC
Form 10-Q
August 07, 2018
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, 2018

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

(State or other jurisdiction of incorporation or organization)

12444 Powerscourt Drive, Suite 550

St. Louis, Missouri

(Address of principal executive offices)

(314) 506-5500

(Registrant's telephone number, including area code)

43-1265338

(I.R.S. Employer Identification No.)

63131

(Zip 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 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 No

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company Emerging Growth Company

(Do not check if a smaller reporting company)

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

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

Yes No

The number of shares outstanding of the registrant's only class of common stock as of July 27, 2018: Common stock, par value \$.50 per share – 12,294,422 shares outstanding.

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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 2017 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, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and due from banks	\$ 13,064	\$ 17,422
Interest-bearing deposits in other financial institutions	111,244	152,056
Federal funds sold and other short-term investments	1,895	58,632
Cash and cash equivalents	126,203	228,110
Securities available-for-sale, at fair value	440,863	470,523
Loans	714,861	686,231
Less: Allowance for loan losses	10,215	10,205
Loans, net	704,646	676,026
Premises and equipment, net	22,466	21,586
Investment in bank-owned life insurance	17,155	16,927
Payments in excess of funding	153,836	139,103
Goodwill	12,569	12,569
Other intangible assets, net	1,775	1,996
Other assets	90,792	90,369
Total assets	\$ 1,570,305	\$ 1,657,209
Liabilities and Shareholders' Equity		
<u>Liabilities:</u>		
Deposits:		
Noninterest-bearing	\$ 265,356	\$ 281,541
Interest-bearing	360,381	396,547
Total deposits	625,737	678,088
Accounts and drafts payable	673,704	715,888
Other liabilities	44,251	38,145
Total liabilities	1,343,692	1,432,121
<u>Shareholders' Equity:</u>		
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 13,047,997 shares issued at June 30, 2018 and December 31, 2017	6,524	6,524
Additional paid-in capital	204,687	204,631
Retained earnings	68,771	59,314
Common shares in treasury, at cost (754,435 shares at June 30, 2018 and 760,962 shares at December 31, 2017)	(32,243)	(32,061)
Accumulated other comprehensive loss	(21,126)	(13,320)
Total shareholders' equity	226,613	225,088
Total liabilities and shareholders' equity	\$ 1,570,305	\$ 1,657,209
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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Fee Revenue and Other Income:				
Information services payment and processing revenue	\$25,221	\$23,282	\$50,048	\$45,571
Bank service fees	359	389	694	671
Losses on sales of securities	(55)	-	(42)	-
Other	115	129	314	329
Total fee revenue and other income	25,640	23,800	51,014	46,571
Interest Income:				
Interest and fees on loans	7,923	7,104	15,465	14,057
Interest and dividends on securities:				
Taxable	489	84	810	161
Exempt from federal income taxes	2,332	2,659	4,897	5,260
Interest on federal funds sold and other short-term investments	769	485	1,629	853
Total interest income	11,513	10,332	22,801	20,331
Interest Expense:				
Interest on deposits	794	470	1,473	950
Net interest income	10,719	9,862	21,328	19,381
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	10,719	9,862	21,328	19,381
Total net revenue	36,359	33,662	72,342	65,952
Operating Expense:				
Personnel	21,589	19,162	41,971	37,961
Occupancy	925	889	1,779	1,731
Equipment	1,408	1,200	2,716	2,504
Amortization of intangible assets	111	108	221	207
Other operating expense	3,430	3,542	6,958	6,816
Total operating expense	27,463	24,901	53,645	49,219
Income before income tax expense	8,896	8,761	18,697	16,733
Income tax expense	1,387	2,248	3,096	3,913
Net income	\$7,509	\$6,513	\$15,601	\$12,820
Basic earnings per share	\$.61	\$.53	\$1.27	\$1.05
Diluted earnings per share	.60	.52	1.25	1.03

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in Thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Comprehensive Income:				
Net income	\$ 7,509	\$ 6,513	\$ 15,601	\$ 12,820
Other comprehensive income:				
Net unrealized (loss) gain on securities available-for-sale	(420)	5,832	(10,194)	8,345
Tax effect	100	(2,167)	2,426	(3,100)
Reclassification adjustments for losses included in net income	55	–	42	–
Tax effect	(13)	–	(10)	–
Foreign currency translation adjustments	(109)	94	(70)	102
Total comprehensive income	\$ 7,122	\$ 10,272	\$ 7,795	\$ 18,167
See accompanying notes to unaudited consolidated financial statements.				

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CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in Thousands)

	Six Months Ended	
	June 30,	
	2018	2017
Cash Flows From Operating Activities:		
Net income	\$ 15,601	\$ 12,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,822	5,471
Net losses on sales of securities	42	-
Stock-based compensation expense	1,477	1,097
Increase in income tax liability	1,637	748
Increase in pension liability	2,463	2,310
Decrease in accounts receivable	3,473	793
Other operating activities, net	(5,419)	(1,771)
Net cash provided by operating activities	25,096	21,468
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	58,520	-
Proceeds from maturities of securities available-for-sale	17,374	25,694
Purchase of securities available-for-sale	(60,108)	(62,279)
Net increase in loans	(28,620)	(6,796)
Increase in payments in excess of funding	(14,733)	(6,088)
Purchases of premises and equipment, net	(2,800)	(1,935)
Net cash used in investing activities	(30,367)	(51,404)
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(16,185)	(12,714)
Net decrease in interest-bearing demand and savings deposits	(40,588)	(1,077)
Net increase (decrease) in time deposits	4,422	(3,131)
Net (decrease) increase in accounts and drafts payable	(36,538)	87,116
Cash dividends paid	(6,144)	(5,151)
Purchase of common shares for treasury	(1,408)	-
Other financing activities, net	(195)	(790)
Net cash (used in) provided by financing activities	(96,636)	64,253
Net (decrease) increase in cash and cash equivalents	(101,907)	34,317
Cash and cash equivalents at beginning of period	228,110	266,743
Cash and cash equivalents at end of period	\$ 126,203	\$ 301,060
Supplemental information:		
Cash paid for interest	\$ 1,459	\$ 956
Cash paid for income taxes	1,445	3,152
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. All share and per share data have been restated to give effect to the 10% stock dividend issued on December 15, 2017. Certain amounts in prior-period financial statements have been reclassified to conform to the current period's presentation. 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, 2017.

On January 1, 2018, the Company adopted accounting standard ASC 606, Revenue from Contracts with Customers, and selected the modified retrospective transition method. The adoption of this new standard did not impact the Company's results of operations or balance sheet and there was no cumulative effect of initially applying this new revenue standard to the opening balance of retained earnings. Since interest income on loans and securities are both excluded from this topic, a significant portion of the Company's revenues are not subject to the new guidance. The services that fall within the scope of ASC 606 are presented within fee revenue and other income in the Consolidated Statements of Income and are recognized as revenue as the obligation to the customer is satisfied. Services within the scope of ASC 606 include transportation and facility payment and processing fees, bank service fees, and other real estate owned ("OREO").

Invoice processing and payment fees – The Company earns fees on a per-item basis for the services rendered on behalf of customers. Fees are earned over the course of a month, representing the period over which the performance obligation is satisfied.

Bank service fees – Revenue from service fees consists of service charges and fees on deposit accounts under depository agreements with customers to provide access to deposited funds and, when applicable, pay interest on deposits. Service charges on deposit accounts are primarily all charges that are recognized on a monthly basis representing the period over which the performance obligation is satisfied.

OREO – The Company currently does not have any OREO and has not in recent years. Net gains or losses would be recorded when other real estate is sold to a third party and substantially all of the consideration for the transfer of property is received.

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.

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Details of the Company's intangible assets are as follows:

<i>(In thousands)</i>	June 30, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Assets eligible for amortization:				
Customer lists	\$ 4,288	\$ (2,887)	\$ 4,288	\$ (2,702)
Patents	72	(14)	72	(12)
Non-compete agreements	332	(308)	332	(291)
Software	234	(234)	234	(234)
Other	500	(208)	500	(191)
Unamortized intangible assets:				
Goodwill ¹	12,796	(227)	12,796	(227)
Total intangible assets	\$ 18,222	\$ (3,878)	\$ 18,222	\$ (3,657)

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

The customer lists are amortized over seven and ten years; the patents over 18 years; the non-compete agreements over two and five years; software over three years; and other intangible assets over 15 years. Amortization of intangible assets amounted to \$221,000 and \$207,000 for the six-month periods ended June 30, 2018 and 2017, respectively. Estimated annual amortization of intangibles is as follows: \$442,000 in 2018, \$412,000 in 2019, \$406,000 in each of 2020 and 2021, and \$88,000 in 2022.

Note 3 – Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. There were no anti-dilutive shares in the three and six months ended June 30, 2018 and 2017. The calculations of basic and diluted earnings per share are as follows:

<i>(In thousands except share and per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic				
Net income	\$ 7,509	\$ 6,513	\$ 15,601	\$ 12,820
Weighted-average common shares outstanding	12,239,901	12,268,481	12,236,478	12,260,515
Basic earnings per share	\$.61	\$.53	\$ 1.27	\$ 1.05
Diluted				
Net income	\$ 7,509	\$ 6,513	\$ 15,601	\$ 12,820
Weighted-average common shares outstanding	12,239,901	12,268,481	12,236,478	12,260,515
Effect of dilutive restricted stock and stock appreciation rights	205,281	181,009	197,227	180,180
Weighted-average common shares outstanding assuming dilution	12,445,182	12,449,490	12,433,705	12,440,695
Diluted earnings per share	\$.60	\$.52	\$ 1.25	\$ 1.03

Note 4 – Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 500,000 shares of the Company's common stock. As restored by the Board of Directors on October 24, 2017, 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 6,000 and 0 shares during the three-month periods and 15,547 and 0 shares for the six-month periods ended June 30, 2018 and 2017, respectively. As of June 30, 2018, 484,453 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 and processing 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 as well as supporting the banking needs of the Information Services segment.

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, 2017. Management evaluates segment performance based on tax-equivalized (as defined in the footnote to the chart on the following table) pre-tax income after allocations for corporate expenses. 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.

Funding sources represent average balances and deposits generated by Information Services and Banking Services and there is no allocation methodology used. Segment interest income is a function of the relative share of average funding sources generated by each segment multiplied by the following rates:

Information Services – one or more fixed rates depending upon the specific characteristics of the funding source, and

Banking Services – a variable rate that is based upon the overall performance of the Company's earning assets.

Any difference between total segment interest income and overall total Company interest income is included in Corporate, Eliminations, and Other.

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

<i>(In thousands)</i>	Information Services	Banking Services	Corporate, Eliminations and Other	Total
<i>Three Months Ended June 30, 2018</i>				
Fee income from customers	\$ 25,262	\$ 318	\$ 60	\$ 25,640
Interest income*	5,334	5,735	1,068	12,137
Interest expense	-	794	-	794
Intersegment income (expense)	-	486	(486)	-
Tax-equivalized pre-tax income*	6,068	2,851	601	9,520
Goodwill	12,433	136	-	12,569
Other intangible assets, net	1,775	-	-	1,775
Total Assets	807,571	806,560	(43,826)	1,570,305
Funding Sources	617,287	553,237	-	1,170,524
<i>Three Months Ended June 30, 2017</i>				
Fee income from customers	\$ 23,321	\$ 355	\$ 124	\$ 23,800
Interest income*	5,043	5,823	916	11,782
Interest expense	-	470	-	470
Intersegment income (expense)	-	323	(323)	-
Tax-equivalized pre-tax income*	6,360	3,286	565	10,211
Goodwill	12,433	136	-	12,569
Other intangible assets, net	2,217	-	-	2,217
Total Assets	863,562	742,659	(12,939)	1,593,282
Funding Sources	594,102	579,705	-	1,173,807
<i>Six Months Ended June 30, 2018</i>				
Fee income from customers	\$ 50,134	\$ 694	\$ 186	\$ 51,014
Interest income*	10,850	11,486	1,777	24,113
Interest expense	-	1,473	-	1,473
Intersegment income (expense)	-	948	(948)	-
Tax-equivalized pre-tax income*	12,802	6,276	930	20,008
Goodwill	12,433	136	-	12,569
Other intangible assets, net	1,775	-	-	1,775
Total Assets	807,571	806,560	(43,826)	1,570,305
Funding Sources	631,022	574,419	-	1,205,441
<i>Six Months Ended June 30, 2017</i>				
Fee income from customers	\$ 45,645	\$ 679	\$ 247	\$ 46,571
Interest income*	9,772	11,708	1,722	23,202
Interest expense	-	950	-	950
Intersegment income (expense)	-	623	(623)	-
Tax-equivalized pre-tax income*	11,816	6,742	1,046	19,604
Goodwill	12,433	136	-	12,569
Other intangible assets, net	2,217	-	-	2,217
Total Assets	863,562	742,659	(12,939)	1,593,282
Funding Sources	579,321	589,823	-	1,169,144

* Presented on a tax-equivalent basis assuming a tax rate of 21% for 2018 and 35% for 2017. The tax-equivalent adjustment was approximately \$624,000 and \$1,450,000 for the Second Quarter of 2018 and 2017, respectively, and \$1,311,000 and \$2,871,000 for the First Half of 2018 and 2017, respectively.

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Note 6 – Loans by Type

A summary of loan categories is as follows:

<i>(In thousands)</i>	June 30, 2018	December 31, 2017
Commercial and industrial	\$ 257,236	\$ 236,394
Real estate		
Commercial:		
Mortgage	88,887	94,675
Construction	21,347	9,359
Church, church-related:		
Mortgage	310,402	316,073
Construction	35,212	25,948
Industrial revenue bonds	1,739	3,374
Other	38	408
Total loans	\$ 714,861	\$ 686,231

The following table presents the aging of loans by loan categories at June 30, 2018 and December 31, 2017:

<i>(In thousands)</i>	Performing			Nonperforming 90 Days and Non- accrual		Total Loans
	Current	30-59 Days	60-89 Days	Over	accrual	
<i>June 30, 2018</i>						
Commercial and industrial	\$ 257,236	\$ —	\$ —	\$ —	\$ —	\$ 257,236
Real estate						
Commercial:						
Mortgage	88,887	—	—	—	—	88,887
Construction	21,347	—	—	—	—	21,347
Church, church-related:						
Mortgage	310,402	—	—	—	—	310,402
Construction	35,212	—	—	—	—	35,212
Industrial revenue bonds	1,739	—	—	—	—	1,739
Other	38	—	—	—	—	38
Total	\$ 714,861	\$ —	\$ —	\$ —	\$ —	\$ 714,861
<i>December 31, 2017</i>						
Commercial and industrial	\$ 236,394	\$ —	\$ —	\$ —	\$ —	\$ 236,394
Real estate						
Commercial:						
Mortgage	94,675	—	—	—	—	94,675
Construction	9,359	—	—	—	—	9,359
Church, church-related:						
Mortgage	316,073	—	—	—	—	316,073
Construction	25,948	—	—	—	—	25,948
Industrial revenue bonds	3,374	—	—	—	—	3,374
Other	408	—	—	—	—	408
Total	\$ 686,231	\$ —	\$ —	\$ —	\$ —	\$ 686,231

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The following table presents the credit exposure of the loan portfolio by internal credit grade as of June 30, 2018 and December 31, 2017:

	Loans	Performing	Nonperforming	Total
	Subject to Normal	Loans Subject to Special	Loans Subject to Special	
(In thousands)	Monitoring ¹	Monitoring ²	Monitoring ²	Loans
<i>June 30, 2018</i>				
Commercial and industrial	\$ 256,231	\$ 1,005	\$ —	\$ 257,236
Real estate				
Commercial:				
Mortgage	88,715	172	—	88,887
Construction	21,347	—	—	21,347
Church, church-related:				
Mortgage	310,315	87	—	310,402
Construction	35,212	—	—	35,212
Industrial revenue bonds	1,739	—	—	1,739
Other	38	—	—	38
Total	\$ 713,597	\$ 1,264	\$ —	\$ 714,861
<i>December 31, 2017</i>				
Commercial and industrial	\$ 234,271	\$ 2,123	\$ —	\$ 236,394
Real estate				
Commercial:				
Mortgage	93,788	887	—	94,675
Construction	9,359	—	—	9,359
Church, church-related:				
Mortgage	316,042	31	—	316,073
Construction	25,948	—	—	25,948
Industrial revenue bonds	3,374	—	—	3,374
Other	408	—	—	408
Total	\$ 683,190	\$ 3,041	\$ —	\$ 686,231

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

²Loans 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." There were no impaired loans, loans delinquent 90 days or more and still accruing, or loans classified as troubled debt restructuring at June 30, 2018 and December 31, 2017.

There were no foreclosed loans recorded as other real estate owned as of June 30, 2018 and December 31, 2017.

A summary of the activity in the allowance for loan losses from December 31, 2017 to June 30, 2018 is as follows:

	December	Charge-			June 30,
	31, 2017	Offs	Recoveries	Provision	2018
(In thousands)	\$ 3,652	\$ —	\$ 10	\$ 311	\$ 3,973
Commercial and industrial					
Real estate					
Commercial:					
Mortgage	1,394	—	—	(80)	1,314
Construction	70	—	—	90	160
Church, church-related:					
Mortgage	3,962	—	—	(71)	3,891
Construction	196	—	—	68	264
Industrial revenue bonds	52	—	—	(25)	27
Other	879	—	—	(293)	586
Total	\$ 10,205	\$ —	\$ 10	\$ —	\$ 10,215

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

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

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, 2018 and December 31, 2017, no amounts have been accrued for any estimated losses for these instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company or its subsidiaries to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At June 30, 2018, the balance of unused loan commitments, standby and commercial letters of credit were \$65,586,000, \$13,088,000, and \$3,836,000, respectively. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. Commitments to extend credit and letters of credit are subject to the same underwriting standards as those financial instruments included on the consolidated balance sheets. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held varies, but is generally accounts receivable, inventory, residential or income-producing commercial property or equipment. In the event of nonperformance, the Company or its subsidiaries may obtain and liquidate the collateral to recover amounts paid under guarantees on these financial instruments.

The following table summarizes contractual cash obligations of the Company related to operating lease commitments and time deposits at June 30, 2018:

<i>(In thousands)</i>	Amount of Commitment Expiration per Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating lease commitments	\$ 10,420	\$ 1,603	\$ 3,517	\$ 2,744	\$ 2,556
Time deposits	56,920	46,227	8,235	2,458	—
Total	\$ 67,340	\$ 47,830	\$ 11,752	\$ 5,202	\$ 2,556

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

Note 8 – Stock-Based Compensation

The Amended and Restated Omnibus Stock and Performance Compensation Plan (the “Omnibus Plan”) permits the issuance of up to 1,500,000 shares of the Company’s common stock in the form of stock options, stock appreciation rights (“SARs”), restricted stock, restricted stock units and performance awards. The Company may issue shares out of treasury stock for these awards. During the six months ended June 30, 2018, 27,037 restricted shares, 28,388 performance-based restricted shares, and 0 SARs were granted under the Omnibus Plan.

Restricted Stock

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. Beginning on February 2, 2017, restricted shares granted to Company employees are amortized to expense over the three-year cliff vesting period. As of June 30, 2018, the total unrecognized compensation expense related to non-vested restricted shares was \$2,082,000, and the related weighted-average period over which it is expected to be recognized is approximately 1.07 years.

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

	Six Months Ended June 30, 2018	
	Shares	Fair Value
Balance at December 31, 2017	78,166	\$ 50.30
Granted	27,037	59.27
Vested	(23,758)	46.83
Balance at June 30, 2018	81,445	\$ 54.29

Performance-Based Restricted Stock

In February of 2017, the Company granted three-year performance based restricted stock (“PBRS”) awards which are contingent upon the Company’s achievement of pre-established financial goals over the period from January 1, 2017 through December 31, 2019. The PBRS awards cliff vest on the three year anniversary of their grant date at levels ranging from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the three-year performance period. The aggregate target number of PBRS shares granted was 25,342 with an average grant date fair value of \$59.20 per share. The 2018 expense related to these grants is currently estimated to be \$690,000 and is based on the grant date fair value of the awards and the Company’s achievement of 132% of the target financial goals. The estimated expense for 2018 and each future period through the vesting date is subject to prospective adjustment based upon changes in the expected achievement of the financial goals.

In February of 2018, the Company granted three-year PBRS awards which are contingent upon the Company’s achievement of pre-established financial goals over the period from January 1, 2018 through December 31, 2020. The PBRS awards cliff vest on the three year anniversary of their grant date at levels ranging from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the three-year performance period. The aggregate target number of PBRS shares granted was 28,388 with an average grant date fair value of \$58.35 per share. The 2018 expense related to these grants is currently estimated to be \$729,000 and is based on the grant date fair value of the awards and the Company’s achievement of 144% of the target financial goals. The estimated expense for 2018 and each future period through the vesting date is subject to prospective adjustment based upon changes in the expected achievement of the financial goals.

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SARs

There were no SARs granted and no expense recognized during the six months ended June 30, 2018. Following is a summary of the activity of the Company's SARs program for the six-month period ended June 30, 2018:

	Weighted- Average Exercise	Average Remaining Contractual	Aggregate Intrinsic Value
&nbs			