

CASS INFORMATION SYSTEMS INC  
Form 10-Q  
November 02, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

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)

**43-1265338**  
(I.R.S. Employer Identification No.)

**13001 Hollenberg Drive**  
**Bridgeton, Missouri**  
(Address of principal executive offices)

**63044**  
(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

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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	<input checked="" type="checkbox"/>
	Non-Accelerated Filer	Smaller Reporting Company	<input type="checkbox"/>

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

Yes	No	<input checked="" type="checkbox"/>
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The number of shares outstanding of registrant's only class of stock as of October 26, 2012: Common stock, par value \$.50 per share 10,397,885 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 the section Part I, Item 1A, "Risk Factors" of the Company's 2011 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)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 9,667	\$ 12,579
Interest-bearing deposits in other financial institutions	124,039	123,551
Federal funds sold and other short-term investments	86,100	99,832
Cash and cash equivalents	219,806	235,962
Securities available-for-sale, at fair value	367,519	310,612
Loans	681,174	671,565
Less: Allowance for loan losses	12,321	12,954
Loans, net	668,853	658,611
Premises and equipment, net	9,326	9,587
Investment in bank-owned life insurance	14,774	14,375
Payments in excess of funding	74,031	61,378
Goodwill	11,590	7,471
Other intangible assets, net	3,905	161
Other assets	21,431	21,144
Total assets	\$ 1,391,235	\$ 1,319,301
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 140,677	\$ 131,956
Interest-bearing	407,657	416,412
Total deposits	548,334	548,368
Accounts and drafts payable	648,944	595,201
Other liabilities	19,382	15,184
Total liabilities	1,216,660	1,158,753
<b>Shareholders' Equity:</b>		
Preferred stock, par value \$.50 per share; 2,000,000 shares authorized and no shares issued		
Common Stock, par value \$.50 per share; 20,000,000 shares authorized and 10,890,163 shares issued at September 30, 2012 and December 31, 2011	5,445	5,445
Additional paid-in capital	80,973	80,971
Retained earnings	102,517	89,853
Common shares in treasury, at cost (492,278 shares at September 30, 2012 and 532,233 shares at December 31, 2011)	(12,241)	(12,968)
Accumulated other comprehensive loss	(2,119)	(2,753)
Total shareholders' equity	174,575	160,548
Total liabilities and shareholders' equity	\$ 1,391,235	\$ 1,319,301

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Fee Revenue and Other Income:</b>				
Information services payment and processing revenue	\$ 16,600	\$ 15,806	\$ 49,712	\$ 45,372
Bank service fees	299	302	908	1,036
Gains on sales of securities	267		2,401	48
Other	135	339	400	606
Total fee revenue and other income	17,301	16,447	53,421	47,062
<b>Interest Income:</b>				
Interest and fees on loans	8,819	9,827	26,721	30,209
Interest and dividends on securities:				
Taxable	16	6	39	24
Exempt from federal income taxes	2,435	2,475	7,388	7,450
Interest on federal funds sold and other short-term investments	125	186	366	510
Total interest income	11,395	12,494	34,514	38,193
<b>Interest Expense:</b>				
Interest on deposits	785	1,060	2,383	3,391
Net interest income	10,610	11,434	32,131	34,802
Provision for loan losses		550	800	1,850
Net interest income after provision for loan losses	10,610	10,884	31,331	32,952
Total net revenue	27,911	27,331	84,752	80,014
<b>Operating Expense:</b>				
Salaries and employee benefits	15,919	14,425	46,978	42,277
Occupancy	497	581	1,588	1,786
Equipment	879	886	2,626	2,581
Amortization of intangible assets	147	26	433	80
Other operating	2,487	2,995	8,885	8,958
Total operating expense	19,929	18,913	60,510	55,682
Income before income tax expense	7,982	8,418	24,242	24,332
Income tax expense	1,890	2,358	6,280	6,814
Net Income	\$ 6,092	\$ 6,060	\$ 17,962	\$ 17,518
Basic earnings per share	.59	.59	1.74	1.70
Diluted earnings per share	.58	.58	1.71	1.68

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)  
(Dollars in Thousands)

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Comprehensive income:</b>				
Net income	\$ 6,092	\$ 6,060	\$ 17,962	\$ 17,518
Other comprehensive income:				
Net unrealized gain on securities available-for-sale, net of tax	1,763	3,778	2,212	4,783
Reclassification adjustments for gains included in net income, net of tax	(173)		(1,560)	(31)
Foreign currency translation adjustments	10		(18)	
<b>Total comprehensive income</b>	<b>\$ 7,692</b>	<b>\$ 9,838</b>	<b>\$ 18,596</b>	<b>\$ 22,270</b>

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)  
(Dollars in Thousands)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 17,962	\$ 17,518
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,940	3,295
Gains on sales of securities	(2,401)	(48)
Provision for loan losses	800	1,850
Stock-based compensation expense	1,050	1,043
Increase in income tax liability	1,194	531
Increase in pension liability	624	286
Other operating activities, net	826	(1,447)
Net cash provided by operating activities	24,995	23,028
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of securities available-for-sale	33,234	5,405
Proceeds from maturities of securities available-for-sale	6,920	10,185
Purchase of securities available-for-sale	(96,704)	(19,974)
Net (increase) decrease in loans	(11,042)	15,517
Increase in payments in excess of funding	(12,653)	(30,222)
Purchases of premises and equipment, net	(1,198)	(1,765)
Acquisition of waste expense management service company's assets	(7,798)	
Net cash used in investing activities	(89,241)	(20,854)
<b>Cash Flows From Financing Activities:</b>		
Net increase in noninterest-bearing demand deposits	8,721	12,883
Net (decrease) increase in interest-bearing demand and savings deposits	(6,413)	31,804
Net decrease in time deposits	(2,342)	(13,485)
Net increase in accounts and drafts payable	53,743	167,132
Cash dividends paid	(5,298)	(4,519)
Distribution of stock awards, net	(321)	(249)
Other financing activities, net		114
Net cash provided by financing activities	48,090	193,680
Net (decrease) increase in cash and cash equivalents	(16,156)	195,854
Cash and cash equivalents at beginning of period	235,962	138,929
Cash and cash equivalents at end of period	\$ 219,806	\$ 334,783
<b>Supplemental information:</b>		
Cash paid for interest	\$ 2,401	\$ 3,386
Cash paid for income taxes	4,966	6,211

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, 2011. 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, 2011.

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, which requires that intangibles with indefinite useful lives be tested annually for impairment and those with finite useful lives be amortized over their useful lives.

In January 2012, the Company acquired the assets of Waste Reduction Consultants, Inc. (WRC), and recorded intangible assets of \$3,183,000 for the customer list, \$261,000 for two non-compete agreements and software of \$234,000.

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

<i>(In thousands)</i>	September 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Assets eligible for amortization:				
Customer lists	\$ 3,933	\$ (908)	\$ 750	\$ (589)
Non-compete agreements	261	(39)	750	(39)
Software	234	(59)	750	(59)
Other	500	(17)	750	(17)
Unamortized intangible assets:				
Goodwill	11,817	(227)	7,698	(227)
Total intangible assets	\$ 16,745	\$ (1,250)	\$ 8,448	\$ (816)

The customer lists are amortized over seven and ten years; the non-compete agreements over five years; software over three years and other intangible assets over 15 years. Amortization of intangible assets amounted to \$433,000 and \$80,000 for the nine-month periods ended September 30, 2012 and 2011, respectively. Estimated amortization of intangibles over the next five years is as follows: \$581,000 in 2012, \$535,000 in 2013, \$482,000 in 2014 and \$404,000 in 2015 and 2016.



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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-month and nine-month periods ended September 30, 2012 and 2011. 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Basic</b>				
Net income	\$ 6,092	\$ 6,060	\$ 17,962	\$ 17,518
Weighted-average common shares outstanding	10,345,497	10,299,213	10,337,401	10,296,131
Basic earnings per share	\$ .59	\$ .59	\$ 1.74	\$ 1.70
<b>Diluted</b>				
Net income	\$ 6,092	\$ 6,060	\$ 17,962	\$ 17,518
Weighted-average common shares outstanding	10,345,497	10,299,213	10,337,401	10,296,131
Effect of dilutive restricted stock, stock options and stock appreciation rights	161,363	126,585	162,680	136,090
Weighted-average common shares outstanding assuming dilution	10,506,860	10,425,798	10,500,081	10,432,221
Diluted earnings per share	\$ .58	\$ .58	\$ 1.71	\$ 1.68

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 330,000 shares of the Company's common stock. The Company did not repurchase any shares during the nine-month periods ended September 30, 2012 and 2011. As of September 30, 2012, 330,000 shares remained available for repurchase under the program. Repurchases are 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 freight, utility, telecommunication and environmental invoice processing and payment services primarily 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, 2011. 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 North America, 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 there is no allocation methodology used. Loans are sold by Banking Services to Information Services to create liquidity when the loan-to-deposit ratio of the Company's bank subsidiary, Cass Commercial Bank (the Bank) is greater than 100%. Segment interest from customers is the actual interest earned on the loans owned by Information Services and Banking Services, respectively.



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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 September 30, 2012</i>				
Total Net Revenues:				
Revenue from customers	\$ 21,727	\$ 6,184	\$	\$ 27,911
Intersegment revenue	2,842	408	(3,250)	
Net income	5,889	2,367	(2,164)	6,092
Goodwill	11,454	136		11,590
Other intangible assets, net	3,905			3,905
Total assets	774,476	634,564	(17,805)	1,391,235
<i>Three Months Ended September 30, 2011</i>				
Total Net Revenues:				
Revenue from customers	\$ 21,414	\$ 5,917	\$	\$ 27,331
Intersegment revenue	2,539	466	(3,005)	
Net income	3,968	2,092		6,060
Goodwill	7,335	136		7,471
Other intangible assets, net	187			187
Total assets	794,998	623,706	(13,046)	1,405,658
<i>Nine Months Ended September 30, 2012</i>				
Total Net Revenues:				
Revenue from customers	\$ 66,448	\$ 18,304	\$	\$ 84,752
Intersegment revenue	8,126	1,251	(9,377)	
Net income	17,437	6,611	(6,086)	17,962
Goodwill	11,454	136		11,590
Other intangible assets, net	3,905			3,905
Total assets	774,476	634,564	(17,805)	1,391,235
<i>Nine Months Ended September 30, 2011</i>				
Total Net Revenues:				
Revenue from customers	\$ 61,950	\$ 18,064	\$	\$ 80,014
Intersegment revenue	7,638	1,407	(9,045)	
Net income	11,230	6,288		17,518
Goodwill	7,335	136		7,471
Other intangible assets, net	187			187
Total assets	794,998	623,706	(13,046)	1,405,658

Note 6 Loans by Type

A summary of loan categories is as follows:

<i>(In thousands)</i>	September 30, 2012	December 31, 2011
Commercial and industrial	\$ 158,050	\$ 136,916
Real estate		
Commercial:		
Mortgage	138,088	140,848
Construction	10,133	9,067
Church, church-related:		
Mortgage	360,013	347,726
Construction	14,748	36,497
Other	142	511
Total loans	\$ 681,174	\$ 671,565



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The following table presents the aging of loans by loan categories at September 30, 2012 and December 31, 2011:

<i>(In thousands)</i>	Performing			Nonperforming 90 Days and Over		Total Loans
	Current	30-59 Days	60-89 Days	Non Accrual		
<i>September 30, 2012</i>						
Commercial and industrial	\$ 158,009	\$	\$	\$	41	\$ 158,050
Real estate						
Commercial:						
Mortgage	133,417	19			4,652	138,088
Construction	10,133					10,133
Church, church-related:						
Mortgage	358,629	1,184			200	360,013
Construction	14,748					14,748
Other	142					142
Total	\$ 675,078	\$ 1,203	\$	\$	\$ 4,893	\$ 681,174
<i>December 31, 2011</i>						
Commercial and industrial	\$ 136,850	\$	\$ 10	\$	\$ 56	\$ 136,916
Real estate						
Commercial:						
Mortgage	139,249	137		29	1,433	140,848
Construction	9,067					9,067
Church, church-related:						
Mortgage	347,506				220	347,726
Construction	36,497					36,497
Other	511					511
Total	\$ 669,680	\$ 137	\$ 10	\$ 29	\$ 1,709	\$ 671,565

The following table presents the credit exposure of the loan portfolio by internally assigned credit grade as of September 30, 2012 and December 31, 2011:

<i>(In thousands)</i>	Loans	Performing Loans	Nonperforming Loans	Total Loans
	Subject to Normal Monitoring <sup>1</sup>	Subject to Special Monitoring <sup>2</sup>	Subject to Special Monitoring <sup>2</sup>	
<i>September 30, 2012</i>				
Commercial and industrial	\$ 153,816	\$ 4,193	\$ 41	\$ 158,050
Real estate				
Commercial:				
Mortgage	126,473	6,963	4,652	138,088
Construction	10,133			10,133
Church, church-related:				
Mortgage	357,594	2,219	200	360,013
Construction	14,748			14,748
Other	142			142