

CASS INFORMATION SYSTEMS INC  
Form 10-Q  
August 05, 2010

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, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-20827

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CASS INFORMATION SYSTEMS, INC.  
(Exact name of registrant as specified in its charter)

Missouri  
(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  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).

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Yes  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

Non-Accelerated Filer       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

The number of shares outstanding of registrant's only class of stock as of August 3, 2010: Common stock, par value \$.50 per share – 9,394,547 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 2009 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, unless otherwise required by applicable rules.

## 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, 2010 (Unaudited)	December 31, 2009
<b>Assets</b>		
Cash and due from banks	\$ 8,140	\$ 5,763
Interest-bearing deposits in other financial institutions	26,040	33,426
Federal funds sold and other short-term investments	119,505	40,105
Cash and cash equivalents	153,685	79,294
Securities available-for-sale, at fair value	232,626	224,597
Loans	680,701	641,957
Less: Allowance for loan losses	10,161	8,284
Loans, net	670,540	633,673
Premises and equipment, net	9,868	10,451
Investment in bank-owned life insurance	13,917	13,644
Payments in excess of funding	34,800	22,637
Goodwill	7,471	7,471
Other intangible assets, net	321	375
Other assets	21,940	20,839
<b>Total assets</b>	<b>\$ 1,145,168</b>	<b>\$ 1,012,981</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 109,691	\$ 113,151
Interest-bearing	354,743	324,725
Total deposits	464,434	437,876
Accounts and drafts payable	527,278	430,251
Short-term borrowings	19	26
Other liabilities	15,829	15,260
<b>Total liabilities</b>	<b>1,007,560</b>	<b>883,413</b>
<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 9,949,324 shares issued at June 30, 2010 and December 31, 2009	4,975	4,975
Additional paid-in capital	46,052	45,696
Retained earnings	99,421	92,401
Common shares in treasury, at cost (554,777 shares at June 30, 2010 and 564,119 shares at December 31, 2009)	(13,167)	(13,323)

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Accumulated other comprehensive income (loss)	327	(181)
Total shareholders' equity	137,608	129,568
Total liabilities and shareholders' equity	\$ 1,145,168	\$ 1,012,981

See accompanying notes to unaudited consolidated financial statements.

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CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(Dollars in Thousands except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Fee Revenue and Other Income:</b>				
Information services payment and processing revenue	\$ 13,533	\$ 12,036	\$ 26,278	\$ 23,980
Bank service fees	298	341	639	745
Gains on sales of securities	—	83	—	202
Other	137	138	276	273
Total fee revenue and other income	13,968	12,598	27,193	25,200
<b>Interest Income:</b>				
Interest and fees on loans	9,871	8,919	19,298	17,536
<b>Interest and dividends on securities:</b>				
Taxable	11	16	25	18
Exempt from federal income taxes	2,151	1,761	4,249	3,619
Interest on federal funds sold and other short-term investments	98	28	187	44
Total interest income	12,131	10,724	23,759	21,217
<b>Interest Expense:</b>				
Interest on deposits	1,199	1,235	2,375	2,169
Interest on short-term borrowings	—	5	—	23
Interest on subordinated convertible debentures	—	40	—	79
Total interest expense	1,199	1,280	2,375	2,271
Net interest income	10,932	9,444	21,384	18,946
Provision for loan losses	1,150	300	2,050	700
Net interest income after provision for loan losses	9,782	9,144	19,334	18,246
Total net revenue	23,750	21,742	46,527	43,446
<b>Operating Expense:</b>				
Salaries and employee benefits	12,683	12,730	25,173	25,179
Occupancy	611	571	1,183	1,186
Equipment	916	833	1,814	1,674
Amortization of intangible assets	27	70	54	140
Other operating	2,613	2,593	4,823	4,908
Total operating expense	16,850	16,797	33,047	33,087
Income before income tax expense	6,900	4,945	13,480	10,359
Income tax expense	2,000	1,284	3,831	2,775
Net Income	\$ 4,900	\$ 3,661	\$ 9,649	\$ 7,584
Basic Earnings Per Share	.52	.40	1.03	.83
Diluted Earnings Per Share	.52	.39	1.02	.81

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,	
	2010	2009
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 9,649	\$ 7,584
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	2,068	2,044
Gains on sales of securities	—	(202)
Provision for loan losses	2,050	700
Stock-based compensation expense	746	886
Decrease in income tax liability	(1,500)	(831)
Increase in pension liability	397	442
Other operating activities, net	24	1,672
Net cash provided by operating activities	13,434	12,295
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of securities available-for-sale	—	14,591
Proceeds from maturities of securities available-for-sale	1,175	5,655
Purchase of securities available-for-sale	(9,324)	(2,877)
Net increase in loans	(38,917)	(18,969)
(Increase) decrease in payments in excess of funding	(12,163)	2,942
Purchases of premises and equipment, net	(529)	(548)
Net cash (used in) provided by investing activities	(59,758)	794
<b>Cash Flows From Financing Activities:</b>		
Net decrease in noninterest-bearing demand deposits	(3,460)	(2,690)
Net (decrease) increase in interest-bearing demand and savings deposits	(10,912)	22,011
Net increase in time deposits	40,930	64,298
Net increase (decrease) in accounts and drafts payable	97,027	(41,829)
Net decrease in short-term borrowings	(7)	(296)
Cash dividends paid	(2,629)	(2,397)
Distribution of stock awards, net	(251)	—
Other financing activities, net	17	18
Net cash provided by financing activities	120,715	39,115
Net increase in cash and cash equivalents	74,391	52,204
Cash and cash equivalents at beginning of period	79,294	29,485
Cash and cash equivalents at end of period	\$ 153,685	\$ 81,689
<b>Supplemental information:</b>		
Cash paid for interest	\$ 2,340	\$ 2,043
Cash paid for income taxes	5,350	3,642

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. Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity. 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, 2009.

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

(In thousands)	June 30, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Assets eligible for amortization:</b>				
Software	\$ 862	\$ (862)	\$ 862	\$ (862)
Customer List	750	(429)	750	(375)
<b>Total</b>	<b>1,612</b>	<b>(1,291)</b>	<b>1,612</b>	<b>(1,237)</b>
<b>Unamortized intangible assets:</b>				
Goodwill	7,698	(227)	7,698	(227)
<b>Total unamortized intangibles</b>	<b>7,698</b>	<b>(227)</b>	<b>7,698</b>	<b>(227)</b>
<b>Total intangible assets</b>	<b>\$ 9,310</b>	<b>\$ (1,518)</b>	<b>\$ 9,310</b>	<b>\$ (1,464)</b>

Software is amortized over four to five years and the customer list is amortized over seven years. Amortization of intangible assets amounted to \$54,000 and \$140,000 for the six-month periods ended June 30, 2010 and 2009, respectively. Estimated amortization of intangibles over the next five years is as follows: \$107,000 in 2010, 2011 and 2012, \$54,000 in 2013 and \$0 in 2014.

Note 3 - Equity Investments in Non-Marketable Securities

Non-marketable equity investments in low-income housing projects are included in other assets on the Company's consolidated balance sheets. The total balance of these investments at June 30, 2010 and December 31, 2009 were \$477,000 and \$520,000, respectively.

Note 4 – 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, adjusted for the net income effect of the interest expense on the outstanding convertible debentures, 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 antidilutive shares in the three-month and six-month periods ended June 30, 2010 and 2009. The calculations of basic and diluted earnings per share are as follows:

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(In thousands except share and per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Basic</b>				
Net income	\$ 4,900	\$ 3,661	\$ 9,649	\$ 7,584
Weighted-average common shares outstanding	9,334,847	9,140,944	9,331,789	9,138,150
<b>Diluted</b>				
Basic earnings per share	\$ .52	\$ .40	\$ 1.03	\$ .83
<b>Basic net income</b>				
Basic net income	\$ 4,900	\$ 3,661	\$ 9,649	\$ 7,584
Net income effect of 5.33% convertible debentures	—	21	—	41
Diluted net income	4,900	3,682	9,649	7,625
<b>Weighted-average common shares outstanding assuming dilution</b>				
Weighted-average common shares outstanding	9,334,847	9,140,944	9,331,789	9,138,150
Effect of dilutive restricted stock, stock options and stock appreciation rights	107,759	141,168	100,165	115,671
Effect of convertible debentures	—	153,630	—	153,630
Weighted-average common shares outstanding assuming dilution	9,442,606	9,435,742	9,431,954	9,407,451
Diluted earnings per share	\$ .52	\$ .39	\$ 1.02	\$ .81

Note 5 – Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 300,000 shares of the Company's Common Stock. The Company did not repurchase any shares during the six-month periods ended June 30, 2010 and 2009. As of June 30, 2010, 180,000 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 6 - Comprehensive Income

For the three and six-month periods ended June 30, 2010 and 2009, unrealized gains and losses on securities available-for-sale and reclassification adjustments for gains included in net income were the Company's other comprehensive income components. Comprehensive income is summarized as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net income	\$ 4,900	\$ 3,661	\$ 9,649	\$ 7,584
<b>Other comprehensive income:</b>				
Reclassification adjustments for gains included in net income, net of tax	—	(54)	—	(131)
Net unrealized (loss) gain on securities available-for-sale, net of tax	(813)	(855)	508	3,873

Total comprehensive income	\$	4,087	\$	2,752	\$	10,157	\$	11,326
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Note 7 – 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.

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The Information Services segment provides freight, utility and telecommunication 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, 2009. 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.

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.

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
<b>Three Months Ended June 30, 2010</b>				
<b>Total Revenues:</b>				
Revenue from customers	\$ 18,551	\$ 5,199	\$ —	\$ 23,750
Intersegment revenue	1,984	413	(2,397)	—
Net income	3,353	1,547	—	4,900
Total assets	630,555	521,226	(6,613)	1,145,168
Goodwill	7,335	136	—	7,471
Other intangible assets, net	321	—	—	321
<b>Three Months Ended June 30, 2009</b>				
<b>Total Revenues:</b>				
Revenue from customers	\$ 16,991	\$ 4,751	\$ —	\$ 21,742
Intersegment revenue	1,732	389	(2,121)	—
Net income	2,431	1,230	—	3,661
Total assets	531,935	410,090	(3,467)	938,558
Goodwill	7,335	136	—	7,471
Other intangible assets, net	457	—	—	457
<b>Six Months Ended June 30, 2010</b>				
<b>Total Revenues:</b>				
Revenue from customers				