

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

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, 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**  
(State or other jurisdiction of incorporation or organization)

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

**12444 Powerscourt Drive, Suite 550**  
**St. Louis, Missouri**  
(Address of principal executive offices)

**63131**  
(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).

Yes            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  X

Non-Accelerated Filer \_\_\_\_\_

Smaller Reporting Company \_\_\_\_\_

(Do not check if a 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
<b>Assets</b>		
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
<b>Loans</b>		
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
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
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
<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; 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,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Fee Revenue and Other Income:</b>				
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
<b>Interest Income:</b>				
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
<b>Interest Expense:</b>				
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
<b>Operating Expense:</b>				
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,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Comprehensive income:</b>				
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)
<b>Total comprehensive income</b>	<b>\$ 1,909</b>	<b>\$ 8,161</b>	<b>\$ 7,706</b>	<b>\$ 16,285</b>

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	
	2015	June 30, 2014
<b>Cash Flows From Operating Activities:</b>		
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
<b>Cash Flows From Investing Activities:</b>		
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)
<b>Cash Flows From Financing Activities:</b>		
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 treas		