

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
Assets		
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
Liabilities and Shareholders' Equity		
<u>Liabilities:</u>		
<u>Deposits:</u>		
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
<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; 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
Fee Revenue and Other Income:				
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
Interest Income:				
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
Interest Expense:				
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
Operating Expense:				
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>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Comprehensive income:				
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)	
Total comprehensive income	\$ 7,692	\$ 9,838	\$ 18,596	\$ 22,270

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)
(Dollars in Thousands)

	Nine Months Ended	
	September 30,	
	2012	2011
Cash Flows From Operating Activities:		
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
Cash Flows From Investing Activities:		
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)
Cash Flows From Financing Activities:		
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
Supplemental information:		