

CASS INFORMATION SYSTEMS INC

Form 10-Q

November 02, 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 September 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

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

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 October 28, 2015: Common stock, par value \$.50 per share 11,341,370 shares outstanding.

-1-

---

## TABLE OF CONTENTS

<b>PART I Financial Information</b>		
Item 1.	FINANCIAL STATEMENTS	
	Consolidated Balance Sheets	
	September 30, 2015 (unaudited) and December 31, 2014	3
	Consolidated Statements of Income	
	Three and nine months ended September 30, 2015 and 2014 (unaudited)	4
	Consolidated Statements of Comprehensive Income	
	Three and nine months ended September 30, 2015 and 2014 (unaudited)	5
	Consolidated Statements of Cash Flows	
	Nine months ended September 30, 2015 and 2014 (unaudited)	6
	Notes to Consolidated Financial Statements (unaudited)	7
Item 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	16
Item 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	28
Item 4.	CONTROLS AND PROCEDURES	28
<b>PART II Other Information</b> Items 1. - 6.		28
	SIGNATURES	30

**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)

	September 30, 2015 (Unaudited)	December 31, 2014
<b>Assets</b>		
Cash and due from banks	\$ 11,932	\$ 11,307
Interest-bearing deposits in other financial institutions	128,798	200,966
Federal funds sold and other short-term investments	85,352	82,062
Cash and cash equivalents	226,082	294,335
Securities available-for-sale, at fair value	363,153	356,141
<b>Loans</b>	<b>670,842</b>	<b>669,346</b>
Less: Allowance for loan losses	11,882	11,894
Loans, net	658,960	657,452
Premises and equipment, net	18,997	16,909
Investment in bank-owned life insurance	15,806	15,429
Payments in excess of funding	108,859	120,227
Goodwill	11,590	11,590
Other intangible assets, net	2,507	2,762
Other assets	27,566	25,886
<b>Total assets</b>	<b>\$ 1,433,520</b>	<b>\$ 1,500,731</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 172,937	\$ 158,999
Interest-bearing	404,535	459,200
Total deposits	577,472	618,199
Accounts and drafts payable	625,230	655,428
Other liabilities	31,375	26,672
<b>Total liabilities</b>	<b>1,234,077</b>	<b>1,300,299</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; 40,000,000 shares authorized and 11,931,147 shares issued at September 30, 2015 and December 31, 2014	5,966	5,966
Additional paid-in capital	125,933	126,169
Retained earnings	100,399	90,635
Common shares in treasury, at cost (578,182 shares at September 30, 2015 and 428,572 shares at December 31, 2014)	(21,121)	(12,707)
Accumulated other comprehensive loss	(11,734)	(9,631)
<b>Total shareholders' equity</b>	<b>199,443</b>	<b>200,432</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,433,520</b>	<b>\$ 1,500,731</b>

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,	
	2015	2014	2015	2014
<b>Fee Revenue and Other Income:</b>				
Information services payment and processing revenue	\$ 19,781	\$ 19,743	\$ 58,898	\$ 57,694
Bank service fees	308	279	908	835
Gains on sales of securities	1,271	23	2,910	23
Other	154	178	468	1,198
Total fee revenue and other income	21,514	20,223	63,184	59,750
<b>Interest Income:</b>				
Interest and fees on loans	7,086	7,486	21,528	22,266
Interest and dividends on securities:				
Taxable	5	3	20	17
Exempt from federal income taxes	2,371	2,353	6,996	7,015
Interest on federal funds sold and other short-term investments	119	149	392	440
Total interest income	9,581	9,991	28,936	29,738
<b>Interest Expense:</b>				
Interest on deposits	498	604	1,610	1,857
Net interest income	9,083	9,387	27,326	27,881
Provision for loan losses				
Net interest income after provision for loan losses	9,083	9,387	27,326	27,881
Total net revenue	30,597	29,610	90,510	87,631
<b>Operating Expense:</b>				
Salaries and employee benefits	17,761	16,515	52,630	49,166
Occupancy	872	783	2,565	2,345
Equipment	1,067	945	3,208	3,092
Amortization of intangible assets	103	121	306	362
Other operating expense	2,831	2,832	8,873	8,562
Total operating expense	22,634	21,196	67,582	63,527
Income before income tax expense	7,963	8,414	22,928	24,104
Income tax expense	2,083	2,013	5,961	5,857
Net income	\$ 5,880	\$ 6,401	\$ 16,967	\$ 18,247
Basic earnings per share	\$ .52	\$ .56	\$ 1.49	\$ 1.59
Diluted earnings per share	.51	.55	1.47	1.57

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Comprehensive income:</b>				
Net income	\$ 5,880	\$ 6,401	\$ 16,967	\$ 18,247
Other comprehensive income:				
Net unrealized gain (loss) on securities available-for-sale	3,301	801	(327)	7,885
Tax effect	(1,226)	(297)	122	(2,929)
Reclassification adjustments for gains included in net income	(1,271)	(23)	(2,910)	(23)
Tax effect	472	8	1,081	8
Foreign currency translation adjustments	2	(66)	(69)	(79)
<b>Total comprehensive income</b>	<b>\$ 7,158</b>	<b>\$ 6,824</b>	<b>\$ 14,864</b>	<b>\$ 23,109</b>

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,	
	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 16,967	\$ 18,247
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,476	6,036
Net gains on sales of securities	(2,910)	(23)
Stock-based compensation expense	1,543	1,536
(Increase) decrease in income tax benefit	(1,156)	140
Increase in income tax liability	1,513	293
Increase in pension liability	3,626	1,710
Other operating activities, net	(254)	506
Net cash provided by operating activities	25,805	28,445
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of securities available-for-sale	99,347	587
Proceeds from maturities of securities available-for-sale	31,390	8,790
Purchase of securities available-for-sale	(142,014)	(27,302)
Net increase in loans	(1,508)	(25,224)
Decrease (increase) in payments in excess of funding	11,368	(63,559)
Purchases of premises and equipment, net	(4,320)	(4,676)
Net cash used in investing activities	(5,737)	(111,384)
<b>Cash Flows From Financing Activities:</b>		
Net increase (decrease) in noninterest-bearing demand deposits	13,938	(4,443)
Net (decrease) increase in interest-bearing demand and savings deposits	(41,054)	22,878
Net decrease in time deposits	(13,611)	(15,567)
Net (decrease) increase in accounts and drafts payable	(30,198)	101,734
Cash dividends paid	(7,203)	(6,917)
Purchase of common shares for treasury	(9,426)	(911)
Other financing activities, net	(767)	(435)
Net cash (used in) provided by financing activities	(88,321)	96,339
Net (decrease) increase in cash and cash equivalents	(68,253)	13,400
Cash and cash equivalents at beginning of period	294,335	225,262
Cash and cash equivalents at end of period	\$ 226,082	\$ 238,662
<b>Supplemental information:</b>		
Cash paid for interest	\$ 3,313	\$ 1,871
Cash paid for income taxes	4,501	5,252

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. 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, 2014.

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.

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

<i>(In thousands)</i>	September 30, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Assets eligible for amortization:</b>				
Customer lists	\$ 3,933	\$ (1,944)	\$ 3,933	\$ (1,705)
Patents	72	(3)	23	(1)
Non-compete agreements	261	(196)	261	(157)
Software	234	(234)	234	(234)
Other	500	(116)	500	(92)
<b>Unamortized intangible assets:</b>				
Goodwill <sup>1</sup>	11,817	(227)	11,817	(227)
<b>Total intangible assets</b>	<b>\$ 16,817</b>	<b>\$ (2,720)</b>	<b>\$ 16,768</b>	<b>\$ (2,416)</b>

<sup>1</sup>Amortization 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 five years; software over three years; and other intangible assets over fifteen years. Amortization of intangible assets amounted to \$306,000 and \$362,000 for the nine-month periods ended September 30, 2015 and 2014, respectively. Estimated future amortization of intangibles is as follows: \$408,000 in 2016, and \$356,000 in each of 2017, 2018, 2019 and 2020.

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 nine months ended September 30, 2015 and 2014. 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,	
	2015	2014	2015	2014
<b>Basic</b>				
Net income	\$ 5,880	\$ 6,401	\$ 16,967	\$ 18,247
Weighted-average common shares outstanding	11,329,002	11,480,981	11,385,680	11,482,850
Basic earnings per share	\$ .52	\$ .56	\$ 1.49	\$ 1.59

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

Diluted								
Net income	\$	5,880	\$	6,401	\$	16,967	\$	18,247
Weighted-average common shares outstanding		11,329,002		11,480,981		11,385,680		11,482,850
Effect of dilutive restricted stock and stock appreciation rights		158,177		151,711		161,005		171,890
Weighted-average common shares outstanding assuming dilution		11,487,179		11,632,692		11,546,685		11,654,740
Diluted earnings per share	\$	.51	\$	.55	\$	1.47	\$	1.57

-7-

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

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. The Company repurchased 68,105 and 19,542 shares during the three-month periods and 192,690 and 19,542 for the nine-month periods ended September 30, 2015 and 2014, respectively. As of September 30, 2015, 287,350 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. On October 19, 2015, the Company's Board of Directors restored the repurchase program to 500,000 shares.

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 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.

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, 2014. 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, the United States, 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 Banking Services and there is no allocation methodology used. Segment interest from customers is the actual interest earned on the loans owned by Information Services and Banking Services, respectively.

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, 2015</i>				
Fee revenue and other income:				
Income from customers	\$ 24,694	\$ 5,903	\$	\$ 30,597
Intersegment income (expense)	2,310	410	(2,720)	
Net income	3,961	1,919		5,880
Goodwill	11,454	136		11,590
Other intangible assets, net	2,507			2,507
Total assets	751,264	713,173	(30,917)	1,433,520
<i>Three Months Ended September 30, 2014</i>				
Fee revenue and other income:				
Income from customers	\$ 23,840	\$ 5,770	\$	\$ 29,610
Intersegment income (expense)	2,391	370	(2,761)	
Net income	4,392	2,009		6,401
Goodwill	11,454	136		11,590
Other intangible assets, net	2,883			2,883
Total assets	772,847	690,718	(13,392)	1,450,173
<i>Nine Months Ended September 30, 2015</i>				
Fee revenue and other income:				
Income from customers	\$ 73,120	\$ 17,390	\$	\$ 90,510
Intersegment income (expense)	6,854	1,266	(8,120)	
Net income	11,368	5,599		16,967
Goodwill	11,454	136		11,590
Other intangible assets, net	2,507			2,507

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

Total assets	751,264	713,173	(30,917)	1,433,520
<i>Nine Months Ended September 30, 2014</i>				
Fee revenue and other income				
Income from customers	\$ 70,792	\$ 16,839	\$	\$ 87,631
Intersegment income (expense)	6,693	1,100	(7,793)	
Net income	12,772	5,475		18,247
Goodwill	11,454	136		11,590
Other intangible assets, net	2,883			2,883
Total assets	772,847	690,718	(13,392)	1,450,173

## Note 6 Loans by Type

A summary of loan categories is as follows:

<i>(In thousands)</i>	September 30, 2015	December 31, 2014
Commercial and industrial	\$ 195,175	\$ 203,350
Real estate		
Commercial:		
Mortgage	119,751	117,754
Construction	71	
Church, church-related:		
Mortgage	314,822	305,887
Construction	20,077	18,612
Industrial Revenue Bonds	20,911	23,348
Other	35	395
<b>Total loans</b>	<b>\$ 670,842</b>	<b>\$ 669,346</b>

The following table presents the aging of loans by loan categories at September 30, 2015 and December 31, 2014:

<i>(In thousands)</i>	Performing			Nonperforming		Total Loans
	Current	30-59 Days	60-89 Days	90 Days and Over	Non- accrual	
<i>September 30, 2015</i>						
Commercial and industrial	\$ 195,175					\$ 195,175
Real estate						
Commercial:						
Mortgage	116,704				3,047	119,751
Construction	71					71
Church, church-related:						
Mortgage	314,714				108	314,822
Construction	20,077					20,077
Industrial Revenue Bonds	20,911					20,911
Other	35					35
<b>Total</b>	<b>\$ 667,687</b>				<b>\$ 3,155</b>	<b>\$ 670,842</b>
<i>December 31, 2014</i>						
Commercial and industrial	\$ 203,350					\$ 203,350
Real estate						
Commercial:						
Mortgage	117,393				361	117,754
Construction						
Church, church-related:						
Mortgage	305,760				127	305,887
Construction	18,612					18,612
Industrial Revenue Bonds	23,348					23,348
Other	395					395
<b>Total</b>	<b>\$ 668,858</b>				<b>\$ 488</b>	<b>\$ 669,346</b>

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

The following table presents the credit exposure of the loan portfolio as of September 30, 2015 and December 31, 2014:

<i>(In thousands)</i>	<b>Loans Subject to Normal Monitoring<sup>1</sup></b>	<b>Performing Loans Subject to Special Monitoring<sup>2</sup></b>	<b>Nonperforming Loans Subject to Special Monitoring<sup>2</sup></b>	<b>Total Loans</b>
<i>September 30, 2015</i>				
Commercial and industrial	\$ 192,135	\$ 3,040	\$	\$ 195,175
Real estate				
Commercial:				
Mortgage	107,985	8,719	3,047	119,751
Construction	71			71
Church, church-related:				
Mortgage	310,145	4,569	108	314,822
Construction	20,077			20,077
Industrial Revenue Bonds	20,911			20,911
Other	35			35
Total	\$ 651,359	\$ 16,328	\$ 3,155	\$ 670,842
<i>December 31, 2014</i>				
Commercial and industrial	\$ 199,837	\$ 3,513	\$	\$ 203,350
Real estate				
Commercial:				
Mortgage	103,097	14,296	361	117,754
Construction				
Church, church-related:				
Mortgage	304,219	1,541	127	305,887
Construction	18,612			18,612
Industrial Revenue Bonds	23,348			23,348
Other	395			395
Total	\$ 649,508	\$ 19,350	\$ 488	\$ 669,346

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

<sup>2</sup> Loans 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. At September 30, 2015 and December 31, 2014, all impaired loans were evaluated based on the fair value of the collateral. The fair value of the collateral is based upon an observable market price or current appraised value and therefore, the Company classifies these assets as nonrecurring Level 3. There were no loans delinquent 90 days or more and still accruing interest at September 30, 2015 and December 31, 2014. There were no loans classified as troubled debt restructuring at September 30, 2015 and December 31, 2014.

There were no foreclosed loans recorded as other real estate owned (included in other assets) as of September 30, 2015, and December 31, 2014.

The following table presents the recorded investment and unpaid principal balance for impaired loans at September 30, 2015 and December 31, 2014:

<i>(In thousands)</i>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance for Loan Losses</b>
<i>September 30, 2015</i>			
Commercial and industrial:			

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

Nonaccrual	\$	\$	\$
<b>Real estate</b>			
Commercial Mortgage:			
Nonaccrual	3,047	3,047	1,127
Church Mortgage:			
Nonaccrual	108	108	108
<b>Total impaired loans</b>	<b>\$ 3,155</b>	<b>\$ 3,155</b>	<b>\$ 1,235</b>
<i>December 31, 2014</i>			
<b>Commercial and industrial:</b>			
Nonaccrual	\$	\$	\$
<b>Real estate</b>			
Commercial Mortgage:			
Nonaccrual	361	361	
Church Mortgage:			
Nonaccrual	127	127	127
<b>Total impaired loans</b>	<b>\$ 488</b>	<b>\$ 488</b>	<b>\$ 127</b>

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

A summary of the activity in the allowance for loan losses from December 31, 2014 to September 30, 2015 is as follows:

<i>(In thousands)</i>	December 31, 2014	Charge- Offs	Recoveries	Provision	September 30, 2015
Commercial and industrial	\$ 3,515	\$ 30	\$ 10	\$ (133)	\$ 3,362
Real estate					
Commercial:					
Mortgage	3,060		5	(3)	3,062
Construction				1	1
Church, church-related:					
Mortgage	4,016		2	127	4,145
Construction	140			10	150
Industrial Revenue Bonds	394			(50)	344
Other	769		1	48	818
<b>Total</b>	<b>\$ 11,894</b>	<b>\$ 30</b>	<b>\$ 18</b>	<b>\$ 0</b>	<b>\$ 11,882</b>

A summary of the activity in the allowance for loan losses from December 31, 2013 to September 30, 2014 is as follows:

<i>(In thousands)</i>	December 31, 2013	Charge- Offs	Recoveries	Provision	September 30, 2014
Commercial and industrial	\$ 3,036	\$ 3	\$ 34	\$ 230	\$ 3,297
Real estate					
Commercial:					
Mortgage	3,946		222	235	4,403
Construction	151			(151)	
Church, church-related:					
Mortgage	4,354	76	3	(494)	3,787
Construction	124			45	169
Industrial Revenue Bonds	68			133	201
Other				2	2
<b>Total</b>	<b>\$ 11,679</b>	<b>\$ 79</b>	<b>\$ 259</b>	<b>\$</b>	<b>\$ 11,859</b>

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 September 30, 2015 and December 31, 2014, 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. The balance of unused loan commitments, standby and commercial letters of credit were \$5,588,000, \$11,590,000, and \$1,405,000 at September 30, 2015 and were \$19,066,000, \$12,693,000, and \$2,571,000 at December 31, 2014, 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 September 30, 2015:

<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	\$ 8,613	\$ 1,362	\$ 2,711	\$ 2,091	\$ 2,449
Time deposits	66,164	57,655	6,264	2,245	
Total	\$ 74,777	\$ 59,017	\$ 8,975	\$ 4,336	\$ 2,449

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 issues shares out of treasury stock for these awards. During the nine months ended September 30, 2015, 41,896 restricted shares and 0 SARs were granted under the Omnibus Plan.

#### Restricted Stock

Restricted shares granted prior to April 16, 2013 are amortized to expense over a three-year vesting period. 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. As of September 30, 2015, the total unrecognized compensation expense related to non-vested restricted shares was \$2,100,000, and the related weighted-average period over which it is expected to be recognized is approximately .9 years.

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

	Nine Months Ended September 30, 2015	
	Shares	Fair Value
Balance at December 31, 2014	51,161	\$ 48.13
Granted	41,896	\$ 51.02
Vested	(24,644)	\$ 44.18
Forfeits	(262)	\$ 52.63
Balance at September 30, 2015	68,151	\$ 51.32



SARs

SARs vest over a three-year period, with one-third of the shares vesting and becoming exercisable each year on the anniversary date of the grant, and they expire 10 years from the original grant date. As of September 30, 2015, the total unrecognized compensation expense was \$397,000, and the related weighted-average period over which it is expected to be recognized is 0.5 years. Following is a summary of the activity of the Company's SARs program for the nine-month period ended September 30, 2015:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term Years	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2014	353,955	\$ 35.52	6.77	\$ 6,277
Exercised	(37,834)	\$ 28.56		
Forfeits	(1,204)	\$ 53.96		
Outstanding at September 30, 2015	314,917	\$ 36.28	6.19	\$ 4,046
Exercisable at September 30, 2015	262,410	\$ 33.30	5.85	\$ 4,153

Following is a summary of the activity of the non-vested SARs during the nine-month period ended September 30, 2015:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2014	124,982	\$ 45.85
Vested	(71,514)	\$ 41.87
Forfeits	(961)	\$ 52.02
Non-vested at September 30, 2015	52,507	\$ 51.17

The Company uses the Black-Scholes pricing model to determine the fair value of the SARs at the date of grant. Following are the assumptions used to estimate the per-share fair value of SARs granted:

	Nine Months Ended September 30,	
	2015	2014
Risk-free interest rate	N/A	2.38%
Expected life	N/A	7 yrs.
Expected volatility	N/A	28.11%
Expected dividend yield	N/A	1.30%

The risk-free interest rate is based on the zero-coupon U.S. Treasury yield for the period equal to the expected life of the SARs at the time of the grant. The expected life was derived using the historical exercise activity. The Company uses historical volatility for a period equal to the expected life of the rights using average monthly closing market prices of the Company's stock as reported on The Nasdaq Global Market. The expected dividend yield is based on the Company's current rate of annual dividends.

Note 9 Defined Pension Plans

The Company has a noncontributory defined-benefit pension plan, which covers most of its employees. The Company accrues and makes contributions designed to fund normal service costs on a current basis using the projected unit credit with service proration method to amortize prior service costs arising from improvements in pension benefits and qualifying service prior to the establishment of the plan over a period of approximately 30 years. Disclosure information is based on a measurement date of December 31 of the corresponding year. The following table represents the components of the net periodic pension costs for 2014 and an estimate for 2015:

Estimated Actual

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

*(In thousands)*

	<b>2015</b>	<b>2014</b>
Service cost benefits earned during the year	\$ 3,977	\$ 3,003
Interest cost on projected benefit obligations	3,217	3,037
Expected return on plan assets	(4,863)	(4,711)
Net amortization and deferral	1,605	244
Net periodic pension cost	\$ 3,936	\$ 1,573

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

Pension costs recorded to expense were \$1,010,000 and \$360,000 for the three-month periods ended September 30, 2015 and 2014, respectively, and totaled \$2,978,000 and \$1,180,000 for the nine-month periods ended September 30, 2015 and 2014, respectively. Pension costs increased significantly in 2015 due to a decrease in the discount rate assumption and the use of the updated mortality tables. The Company made no contribution to the plan during the nine-month period ended September 30, 2015 and is evaluating the amount of additional contributions, if any, in 2015.

In addition to the above funded benefit plan, the Company has an unfunded supplemental executive retirement plan which covers key executives of the Company. This is a noncontributory plan in which the Company and its subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as its defined benefit plan. The following table represents the components of the net periodic pension costs for 2014 and an estimate for 2015:

<i>(In thousands)</i>	Estimated 2015	Actual 2014
Service cost benefits earned during the year	\$ 140	\$ 136
Interest cost on projected benefit obligation	348	377
Net amortization	654	431
Net periodic pension cost	\$ 1,142	\$ 944

Pension costs recorded to expense were \$286,000 and \$236,000 for the three-month periods ended September 30, 2015 and 2014, respectively, and were \$857,000 and \$708,000 for the nine-month periods ended September 30, 2015 and 2014, respectively.

Note 10 Income Taxes

As of September 30, 2015, the Company's unrecognized tax benefits were approximately \$1,305,000, of which \$952,000 would, if recognized, affect the Company's effective tax rate. As of December 31, 2014, the Company's unrecognized tax benefits were approximately \$1,117,000, of which \$819,000 would, if recognized, affect the Company's effective tax rate. During the next 12 months, the Company may realize a reduction of its unrecognized tax benefits of approximately \$210,000 due to the lapse of federal and state statutes of limitations.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company had \$71,000 and \$45,000 of gross interest accrued as of September 30, 2015 and December 31, 2014, respectively. There were no penalties for unrecognized tax benefits accrued at September 30, 2015 and December 31, 2014.

The Company is subject to income tax in the U.S. federal jurisdiction and numerous state jurisdictions. U.S. federal income tax returns for tax years 2011 through 2014 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2011 through 2014.

Note 11 Investment in Securities

Investment securities available-for-sale are recorded at fair value on a recurring basis. The Company's investment securities available-for-sale are measured at fair value using Level 2 valuations. The market evaluation utilizes several sources which include observable inputs rather than significant unobservable inputs and therefore fall into the Level 2 category. The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investment securities are summarized as follows:

<i>(In thousands)</i>	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 347,721	\$ 10,762	\$ 76	\$ 358,407
Certificates of deposit	4,746			4,746
Total	\$ 352,467	\$ 10,762	\$ 76	\$ 363,153

<i>(In thousands)</i>	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 338,469	\$ 14,120	\$ 198	\$ 352,391

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

Certificates of deposit		3,750			3,750	
Total	\$	342,219	\$	14,120	\$ 198	\$ 356,141

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

The fair values of securities with unrealized losses are as follows:

<i>(In thousands)</i>	September 30, 2015					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
State and political subdivisions	\$ 19,339	\$ 57	\$ 1,206	\$ 19	\$ 20,545	\$ 76
Certificates of deposit						
Total	\$ 19,339	\$ 57	\$ 1,206	\$ 19	\$ 20,545	\$ 76

<i>(In thousands)</i>	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
State and political subdivisions	\$ 8,700	\$ 15	\$ 13,833	\$ 183	\$ 22,533	\$ 198
Certificates of deposit						
Total	\$ 8,700	\$ 15	\$ 13,833	\$ 183	\$ 22,533	\$ 198

There were 16 securities, or 5% of the total (one greater than 12 months), in an unrealized loss position as of September 30, 2015. There were 20 securities, or 6% of the total (12 greater than 12 months), in an unrealized loss position as of December 31, 2014. All unrealized losses were reviewed to determine whether the losses were other than temporary. Management believes that all unrealized losses are temporary since they were market driven, and it is more likely than not that the Company will not be required to sell prior to recovery of the amortized basis.

The amortized cost and fair value of investment securities by contractual maturity are shown in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

<i>(In thousands)</i>	September 30, 2015	
	Amortized	
	Cost	Fair Value
Due in 1 year or less	\$ 24,170	\$ 24,432
Due after 1 year through 5 years	77,390	80,845
Due after 5 years through 10 years	139,950	145,190
Due after 10 years	110,957	112,686
Total	\$ 352,467	\$ 363,153

Proceeds from sales of investment securities classified as available for sale were \$33,395,000 and \$587,000 for the three months ended September 30, 2015 and 2014, respectively, and were \$99,347,000 and \$587,000 for the nine months ended September 30, 2015 and 2014, respectively. Gross realized gains were \$1,271,000 and \$23,000 for the three months ended September 30, 2015 and 2014, respectively, and were \$2,910,000 and \$23,000 for the nine months ended September 30, 2015 and 2014, respectively. There was one security totaling \$3,750,000 pledged to secure public deposits and for other purposes at September 30, 2015.

Note 12 Fair Value of Financial Instruments

Following is a summary of the carrying amounts and fair values of the Company's financial instruments:

<i>(In thousands)</i>	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Balance sheet assets:			
Cash and cash equivalents	\$ 226,082	\$ 226,082	\$ 294,335	\$ 294,335
Investment securities	363,153	363,153	356,141	356,141
Loans, net	658,960	660,647	657,452	663,247

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

Accrued interest receivable		5,361	5,361	6,521	6,521
Total	\$	1,253,556	\$ 1,255,243	\$ 1,314,449	\$ 1,320,244
<b>Balance sheet liabilities:</b>					
Deposits	\$	577,472	\$ 577,472	\$ 618,199	\$ 618,199
Accounts and drafts payable		625,230	625,230	655,428	655,428
Accrued interest payable		53	53	57	57
Total	\$	1,202,755	\$ 1,202,755	\$ 1,273,684	\$ 1,273,684



The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

**Cash and Cash Equivalents** The carrying amount approximates fair value.

**Investment in Securities** The fair value is measured on a recurring basis using Level 2 valuations. Refer to Note 11, Investment in Securities, for fair value and unrealized gains and losses by investment type.

**Loans** The fair value is estimated using present values of future cash flows discounted at risk-adjusted interest rates for each loan category designated by management and is therefore a Level 3 valuation. Management believes that the risk factor embedded in the interest rates along with the allowance for loan losses result in a fair valuation.

Impaired loans are valued using the fair value of the collateral which is based upon an observable market price or a current appraised value and therefore, the fair value is a nonrecurring Level 3 valuation.

**Accrued Interest Receivable** The carrying amount approximates fair value.

**Deposits** The fair value of demand deposits, savings deposits and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities and therefore, is a Level 2 valuation. The fair value estimates above do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market or the benefit derived from the customer relationship inherent in existing deposits.

**Accounts and Drafts Payable** The carrying amount approximates fair value.

**Accrued Interest** The carrying amount approximates fair value.

There were no transfers between Levels 1 and 2 of the fair value hierarchy for the nine months ended September 30, 2015 and 2014. No financial instruments are measured using Level 3 inputs for the nine months ended September 30, 2015 and 2014.

#### Note 13 Subsequent Events

In accordance with FASB ASC 855, Subsequent Events, the Company has evaluated subsequent events after the consolidated balance sheet date of September 30, 2015, and there were no events identified that would require additional disclosures to prevent the Company's unaudited consolidated financial statements from being misleading.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS ITEM 2. OF OPERATIONS

### Overview

Cass provides payment and information processing services to large manufacturing, distribution and retail enterprises from its offices/locations in St. Louis, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina, Wellington, Kansas, Jacksonville, Florida, and Breda, Netherlands. The Company's services include transportation invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays energy invoices, which include electricity and gas as well as waste and other facility related expenses. Cass is also in the telecommunications expense management market which includes bill processing and expense management solutions. Cass extracts, stores, and presents information from transportation, energy, telecommunication and waste invoices, assisting its customers' transportation, energy, waste and information technology managers in making decisions that will enable them to improve operating performance. The Company receives data from multiple sources, electronic and otherwise, and processes the data to accomplish the specific operating requirements of its customers. It then provides the data in a central repository for access and archiving. The data is finally transformed into information through the Company's databases that allow client interaction as required and provide Internet-based tools for analytical processing. The Company, through Cass Commercial Bank, its St. Louis, Missouri-based bank subsidiary (the Bank), also provides commercial banking services in the St. Louis metropolitan area and has loan production offices in Southern California and Colorado Springs, Colorado. In addition to supporting the Company's payment operations, the Bank provides banking services to its target markets, which include

privately-owned businesses and churches and church-related ministries.

The specific payment and information processing services provided to each customer are developed individually to meet each customer's requirements, which can vary greatly. In addition, the degree of automation such as electronic data interchange, imaging, work flow, and web-based solutions varies greatly among customers and industries. These factors combine so that pricing varies greatly among the customer base. In general, however, Cass is compensated for its processing services through service fees and investment of account balances generated during the payment process. The amount, type, and calculation of service fees vary greatly by service offering, but generally follow the volume of transactions processed. Interest income from the balances generated during the payment processing cycle is affected by the amount of time Cass holds the funds prior to payment and the dollar volume processed. Both the number of transactions processed and the dollar volume processed are therefore key metrics followed by management. Other factors will also influence revenue and profitability, such as changes in the general level of interest rates, which have a significant effect on net interest income. The funds generated by these processing activities are invested in overnight investments, investment grade securities, and loans generated by the Bank. The Bank earns most of its revenue from net interest income, or the difference between the interest earned on its loans and investments and the interest paid on its deposits and other borrowings. The Bank also assesses fees on other services such as cash management services.

Industry-wide factors that impact the Company include the willingness of large corporations to outsource key business functions such as transportation, energy, telecommunication and waste payment and audit. The benefits that can be achieved by outsourcing transaction processing, and the management information generated by Cass systems can be influenced by factors such as the competitive pressures within industries to improve profitability, the general level of transportation costs, deregulation of energy costs, and consolidation of telecommunication providers. Economic factors that impact the Company include the general level of economic activity that can affect the volume and size of invoices processed, the ability to hire and retain qualified staff, and the growth and quality of the loan portfolio. The general level of interest rates also has a significant effect on the revenue of the Company. As discussed in greater detail in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in the Company's 2014 Annual Report on Form 10-K, a decline in the general level of interest rates can have a negative impact on net interest income.

Currently, management views Cass' major opportunity as the continued expansion of its payment and information processing service offerings and customer base. Management intends to accomplish this by maintaining the Company's leadership position in applied technology, which when combined with the security and processing controls of the Bank, makes Cass unique in the industry.

#### **Critical Accounting Policies**

The Company has prepared the consolidated financial statements in this report in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). In preparing the consolidated financial statements, management makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates have been generally accurate in the past, have been consistent and have not required any material changes. There can be no assurances that actual results will not differ from those estimates. Certain accounting policies that require significant management estimates and are deemed critical to the Company's results of operations or financial position have been discussed with the Audit Committee of the Board of Directors and are described below.

*Investment in Debt Securities.* The Company classifies its debt marketable securities as available-for-sale. Securities classified as available-for-sale are carried at fair value. Unrealized gains and losses, net of the related tax effect, are excluded from earnings and reported in accumulated other comprehensive income, a component of shareholders' equity. A decline in the fair value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. To determine whether impairment is other than temporary, the Company considers guidance provided in FASB ASC Topic 320, Investments - Debt and Equity Securities. When determining whether a debt security is other-than-temporarily impaired, the Company assesses whether it has the intent to sell the security and whether it is more likely than not that the Company will be required to sell prior to recovery of the amortized cost basis. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in value subsequent to period-end and forecasted performance of the investee.

*Allowance for Loan Losses.* The Company performs periodic and systematic detailed reviews of its loan portfolio to assess overall collectability. The level of the allowance for loan losses reflects management's estimate of the collectability of the loan portfolio. Although these estimates are based on established methodologies for determining allowance requirements, actual results can differ significantly from estimated results. These policies affect both segments of the Company. The impact and associated risks related to these policies on the Company's business operations are discussed in the Provision and Allowance for Loan Losses section of this report. The Company's estimates have been materially accurate in the past, and accordingly, the Company expects to continue to utilize the present processes.

*Income Taxes.* The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in the Company's financial statements or tax returns such as the realization of deferred tax assets or changes in tax laws or interpretations thereof. In addition, the Company is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other taxing authorities. In accordance with FASB ASC 740, Income Taxes, the Company has unrecognized tax benefits related to tax positions taken or expected to be taken. See Note 10 to the unaudited consolidated financial statements contained herein.

*Pension Plans.* The amounts recognized in the unaudited consolidated financial statements related to pension plans are determined from actuarial valuations. Inherent in these valuations are assumptions, including expected return on plan assets, discount rates at which the liabilities could be settled at December 31, 2014, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 10 to the consolidated financial statements filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Pursuant to FASB ASC 715, Compensation - Retirement Benefits, the Company has recognized the funded status of its defined benefit postretirement plan in its balance sheet and has recognized changes in that funded status through comprehensive income. The funded status is measured as the difference between the fair value of the plan assets and the projected benefit obligation as of the date of its fiscal year-end.

## Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three-month period ended September 30, 2015 ( Third Quarter of 2015 ) compared to the three-month period ended September 30, 2014 ( Third Quarter of 2014 ) and the nine-month period ended September 30, 2015 ( Nine Months Ended 2015 ) compared to the nine-month period ended September 30, 2014 ( Nine Months Ended 2014 ). The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes and with the statistical information and financial data appearing in this report, as well as in the Company's 2014 Annual Report on Form 10-K. Results of operations for the Third Quarter of 2015 are not necessarily indicative of the results to be attained for any other period.

## Net Income

The following table summarizes the Company's operating results:

<i>(In thousands except per share data)</i>	Third Quarter of			Nine Months Ended		
	2015	2014	% Change	2015	2014	% Change
Net income	\$ 5,880	\$ 6,401	(8.1%)	\$ 16,967	\$ 18,247	(7.0%)
Diluted earnings per share	\$ .51	\$ .55	(7.3%)	\$ 1.47	\$ 1.57	(6.4%)
Return on average assets	1.63%	1.76%		1.58%	1.73%	
Return on average equity	11.86%	12.50%		11.48%	12.33%	

**Fee Revenue and Other Income**

The Company's fee revenue is derived mainly from transportation and facility payment and processing fees. As the Company provides its processing and payment services, it is compensated by service fees which are typically calculated on a per-item basis and by the accounts and drafts payable balances generated in the payment process which can be used to generate interest income. Processing volumes, fee revenue, and other income were as follows:

<i>(In thousands)</i>	Third Quarter of			Nine Months Ended		
	2015	2014	% Change	2015	2014	% Change
Transportation invoice transaction volume	8,626	8,856	(2.6%)	25,720	25,489	.9%
Transportation invoice dollar volume	\$ 6,140,747	\$ 6,725,524	(8.7%)	\$ 18,739,375	\$ 19,283,017	(2.8%)
Expense management transaction volume*	5,202	5,188	.3%	15,264	15,464	(1.3%)
Expense management dollar volume*	\$ 3,162,787	\$ 3,250,130	(2.7%)	\$ 8,901,907	\$ 9,585,101	(7.1%)
Payment and processing revenue	\$ 19,781	\$ 19,743	.2%	\$ 58,898	\$ 57,694	2.1%

\*Includes energy, telecom and waste

Third Quarter of 2015 compared to Third Quarter of 2014:

In the transportation group, transaction volume increased due to new business but the benefits of that growth were more than off-set by a decline in activity from existing customers, especially those involved in oil and gas production. In addition, transportation dollar volume declined as lower fuel prices reduced average invoice amounts. Expense management dollar volume declined as competitor consolidation in the market offset the Company's success in growing new accounts.

Bank service fees were slightly higher. There were gains of \$1,271,000 on sales of securities in the Third Quarter of 2015, compared to \$23,000 in the Third Quarter of 2014.

Nine Months Ended 2015 compared to Nine Months Ended 2014:

Transportation transaction and dollar volumes as well as expense management transaction and dollar volumes fluctuated for the same reasons as the Third Quarter.

There were \$2,910,000 gains on sales of securities in the Nine Months Ended 2015, compared to \$23,000 in the Nine Months Ended 2014.

**Net Interest Income**

Net interest income is the difference between interest earned on loans, investments, and other earning assets and interest expense on deposits and other interest-bearing liabilities. Net interest income is a significant source of the Company's revenues. The following table summarizes the changes in tax-equivalent net interest income and related factors:

<i>(In thousands)</i>	Third Quarter of			Nine Months Ended		
	2015	2014	% Change	2015	2014	% Change
Average earnings assets	\$ 1,234,469	\$ 1,243,375	(0.7%)	\$ 1,235,403	\$ 1,233,136	0.2%
Average interest-bearing liabilities	396,230	425,016	(6.8%)	416,992	421,565	(1.1%)
Net interest income*	10,444	10,742	(2.8%)	31,347	31,790	(1.4%)
Net interest margin*	3.36%	3.43%		3.39%	3.45%	
Yield on earning assets*	3.52%	3.62%		3.57%	3.65%	
Rate on interest-bearing liabilities	.50%	.56%		.52%	.59%	

## Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

\*Presented on a tax-equivalent basis assuming a tax rate of 35%.

Third Quarter of 2015 compared to Third Quarter of 2014:

Third Quarter of 2015 average earning assets decreased \$8,906,000, or less than 1.0%, compared to the same period in the prior year (see discussion in the following paragraphs). The yield on earning assets decreased slightly and the rate on interest-bearing liabilities also decreased causing the tax equivalent net interest margin to increase slightly.

-19-

---

Total average loans increased \$1,437,000, or less than 1.0%, for the Third Quarter of 2015 as compared to the Third Quarter of 2014. Average investment securities increased \$15,638,000, or 4.9%, for the Third Quarter of 2015.

Total average interest-bearing deposits for the Third Quarter of 2015 decreased \$28,786,000, or 6.8%, compared to the Third Quarter of 2014. Average accounts and drafts payable decreased \$18,217,000, or 2.7%, for the Third Quarter of 2015.

Nine Months Ended 2015 compared to Nine Months Ended 2014:

Nine Months Ended 2015 average earning assets increased \$2,267,000, or less than 1.0%, compared to the same period in the prior year (see following discussion). The yield on earning assets and the tax equivalent net interest margin both decreased in 2015 as the general level of interest rates remained low.

Total average loans increased \$12,811,000 for the Nine Months Ended 2015 as compared to the Nine Months Ended 2014. Average investment securities increased \$6,855,000, or 2.2%, as the Company took advantage of market opportunities.

Total average interest-bearing deposits for the Nine Months Ended 2015 decreased \$4,573,000, or 1.1%, to \$416,992,000 compared to the Nine Months Ended 2014. Average accounts and drafts payable decreased \$7,637,000, or 1.2%, to \$629,033,000.

For more information on the changes in net interest income, please refer to the tables that follow.

**Distribution of Assets, Liabilities and Shareholders Equity; Interest Rate and Interest Differential**

The following tables show the condensed average balance sheets for each of the periods reported, the tax-equivalent interest income and expense on each category of interest-earning assets and interest-bearing liabilities, and the average yield on such categories of interest-earning assets and the average rates paid on such categories of interest-bearing liabilities for each of the periods reported.

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

(In thousands)	Third Quarter of 2015			Third Quarter of 2014		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
<b>Assets<sup>1</sup></b>						
Earning assets						
Loans <sup>2, 3</sup> :						
Taxable	\$ 645,269	\$ 6,931	4.26%	\$ 642,559	\$ 7,324	4.52%
Tax-exempt <sup>4</sup>	21,220	239	4.47	22,493	249	4.39
Investment securities <sup>5</sup> :						
Taxable	1,189	1	.33	1,097		
Tax-exempt <sup>4</sup>	333,333	3,648	4.34	317,787	3,621	4.52
Certificates of deposit	3,963	4	.40	3,750	3	.32
Interest-bearing deposits in other financial institutions	106,714	80	.30	120,865	99	.32
Federal funds sold and other short-term investments	122,781	39	.13	134,824	50	.15
Total earning assets	1,234,469	10,942	3.52	1,243,375	11,346	3.62
Non-earning assets						
Cash and due from banks	14,007			11,620		
Premises and equipment, net	18,960			15,279		
Bank-owned life insurance	15,725			15,242		
Goodwill and other intangibles	14,150			14,545		
Other assets	142,730			154,738		
Allowance for loan losses	(11,905)			(11,857)		
Total assets	\$ 1,428,136			\$ 1,442,942		
<b>Liabilities and Shareholders Equity</b>						
Interest-bearing liabilities						
Interest-bearing demand deposits	\$ 315,755	\$ 329	.41%	\$ 324,540	\$ 395	.48%
Savings deposits	13,225	15	.45	15,824	19	.48
Time deposits >= \$100	24,559	76	1.23	26,160	80	1.21
Other time deposits	42,680	78	.73	58,492	110	.75
Federal Funds purchased	11					
Total interest-bearing deposits	396,230	498	.50	425,016	604	.56
Non-interest bearing liabilities						
Demand deposits	160,666			140,633		
Accounts and drafts payable	644,258			662,475		
Other liabilities	30,228			11,600		
Total liabilities	1,231,382			1,239,724		
Shareholders equity	196,754			203,218		
Total liabilities and shareholders equity	\$ 1,428,136			\$ 1,442,942		
Net interest income		\$ 10,444			\$ 10,742	
Net interest margin			3.36%			3.43%
Interest spread			3.02			3.06

- Balances shown are daily averages.
- For purposes of these computations, nonaccrual loans are included in the average loan amounts outstanding. Interest on nonaccrual loans is recorded when received as discussed further in Note 1 to the Company's 2014 consolidated financial statements, filed with the Company's 2014 Annual Report on Form 10-K.
- Interest income on loans includes net loan fees of \$73,000 and \$67,000 for the Third Quarter of 2015 and 2014, respectively.
- Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately \$1,361,000 and \$1,355,000 for the Third Quarter of 2015 and 2014, respectively.
- For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.



Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

(In thousands)	Nine Months Ended 2015			Nine Months Ended 2014		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
<b>Assets<sup>1</sup></b>						
Earning assets						
Loans <sup>2, 3</sup> :						
Taxable	\$ 652,326	\$ 21,057	4.32%	\$ 648,233	\$ 22,022	4.54%
Tax-exempt <sup>4</sup>	22,025	725	4.40	13,307	375	3.77
Investment securities <sup>5</sup> :						
Taxable	1,160	12	1.38	1,093	11	1.35
Tax-exempt <sup>4</sup>	320,232	10,763	4.49	313,444	10,793	4.60
Certificates of deposit	3,822	8	.28	3,750	6	.21
Interest-bearing deposits in other financial institutions	130,697	290	.30	129,649	310	.32
Federal funds sold and other short-term investments	105,141	102	.13	123,660	130	.14
Total earning assets	1,235,403	32,957	3.57	1,233,136	33,647	3.65
Non-earning assets						
Cash and due from banks	13,438			11,769		
Premises and equipment, net	18,234			14,235		
Bank-owned life insurance	15,603			15,276		
Goodwill and other intangibles	14,232			14,650		
Other assets	146,784			131,737		
Allowance for loan losses	(11,901)			(11,826)		
Total assets	\$ 1,431,793			\$ 1,408,977		
<b>Liabilities and Shareholders Equity</b>						
Interest-bearing liabilities						
Interest-bearing demand deposits	\$ 329,689	\$ 1,052	.43%	\$ 313,978	\$ 1,181	.50%
Savings deposits	14,973	50	.45	15,538	61	.52
Time deposits >= \$100	25,484	238	1.25	30,674	252	1.10
Other time deposits	46,839	270	.77	61,371	363	.79
Federal Funds purchased	7			4		
Total interest-bearing deposits	416,992	1,610	.52	421,565	1,857	.59
Non-interest bearing liabilities						
Demand deposits	159,418			142,382		
Accounts and drafts payable	629,033			636,670		
Other liabilities	28,724			10,492		
Total liabilities	1,234,167			1,211,109		
Shareholders equity	197,626			197,868		
Total liabilities and shareholders equity	\$ 1,431,793			\$ 1,408,977		
Net interest income		\$ 31,347			\$ 31,790	
Net interest margin			3.39%			3.45%
Interest spread			3.05			3.06

- Balances shown are daily averages.
- For purposes of these computations, nonaccrual loans are included in the average loan amounts outstanding. Interest on nonaccrual loans is recorded when received as discussed further in Note 1 to the Company's 2014 consolidated financial statements, filed with the Company's 2014 Annual Report on Form 10-K.
- Interest income on loans includes net loan fees of \$302,000 and \$179,000 for the Nine Months Ended 2015 and 2014, respectively.
- Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately \$4,021,000 and \$3,909,000 for the Nine Months Ended 2015 and 2014, respectively.
- For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

**Analysis of Net Interest Income Changes**

The following tables present the changes in interest income and expense between periods due to changes in volume and interest rates. That portion of the change in interest attributable to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of the change in each.

<i>(In thousands)</i>	Third Quarter of 2015 Over Third Quarter of 2014		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans <sup>1, 2</sup> :			
Taxable	\$ 31	\$ (424)	\$ (393)
Tax-exempt <sup>3</sup>	(14)	4	(10)
Investment securities:			
Taxable		1	1
Tax-exempt <sup>3</sup>	173	(146)	27
Certificates of deposit		1	1
Interest-bearing deposits in other financial institutions	(11)	(8)	(19)
Federal funds sold and other short-term investments	(4)	(7)	(11)
Total interest income	175	(579)	(404)
Interest expense on:			
Interest-bearing demand deposits	(10)	(56)	(66)
Savings deposits	(3)	(1)	(4)
Time deposits >=\$100	(5)	1	(4)
Other time deposits	(29)	(3)	(32)
Total interest expense	(47)	(59)	(106)
Net interest income	\$ 222	\$ (520)	\$ (298)

1. Average balances include nonaccrual loans.
2. Interest income includes net loan fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%.

<i>(In thousands)</i>	Nine Months Ended 2015 Over Nine Months Ended 2014		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans <sup>1, 2</sup> :			
Taxable	\$ 138	\$ (1,103)	\$ (965)
Tax-exempt <sup>3</sup>	279	71	350
Investment securities:			
Taxable	1		1
Tax-exempt <sup>3</sup>	231	(261)	(30)
Certificates of deposit		2	2
Interest-bearing deposits in other financial institutions	2	(22)	(20)
Federal funds sold and other short-term investments	(18)	(10)	(28)
Total interest income	633	(1,323)	(690)
Interest expense on:			
Interest-bearing demand deposits	57	(186)	(129)
Savings deposits	(2)	(9)	(11)
Time deposits >=\$100	(46)	32	(14)
Other time deposits	(84)	(9)	(93)
Total interest expense	(75)	(172)	(247)
Net interest income	\$ 708	\$ (1,151)	\$ (443)

1. Average balances include nonaccrual loans.
2. Interest income includes net loan fees.

3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%.

**Provision and Allowance for Loan Losses ( ALLL )**

A significant determinant of the Company's operating results is the provision for loan losses. Provision for loan losses were \$0 during the Third Quarter of 2015 and the Third Quarter of 2014. During the Nine Months Ended 2015 and the Nine Months Ended 2014, the provision for loan losses were also \$0. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. Net loan charge-offs were \$20,000 and net loan recoveries were \$6,000 during the Third Quarter of 2015 and the Third Quarter of 2014, respectively. Net loan charge-offs were \$12,000 in the Nine Months Ended 2015 and net loan recoveries were \$180,000 during the Nine Months Ended 2014, respectively.

## Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

The ALLL at September 30, 2015 was \$11,882,000 and at December 31, 2014 was \$11,894,000. The ratio of ALLL to total loans outstanding at September 30, 2015 was 1.77% compared to 1.78% at December 31, 2014. Nonperforming loans were \$3,155,000, or .47%, of total loans at September 30, 2015 compared to \$488,000, or .07%, of total loans at December 31, 2014. These loans, which are also considered impaired, consisted of three nonaccrual loans at September 30, 2015. Total nonaccrual loans increased \$2,667,000 from December 31, 2014 to September 30, 2015, primarily due to the addition of one loan.

The ALLL has been established and is maintained to absorb reasonably estimated and probable losses in the loan portfolio. An ongoing assessment is performed to determine if the balance is adequate. Charges or credits are made to expense to cover any deficiency or reduce any excess, as required. The current methodology consists of two components: 1) estimated credit losses on individually evaluated loans that are determined to be impaired in accordance with FASB ASC 310 Allowance for Credit Losses, and 2) estimated credit losses inherent in the remainder of the loan portfolio in accordance with FASB ASC 450, Contingencies. Estimated credit losses is an estimate of the current amount of loans that is probable the Company will be unable to collect according to the original terms.

For loans that are individually evaluated, the Company uses two impairment measurement methods: 1) the present value of expected future cash flows and 2) collateral value. For the remainder of the portfolio, the Company groups loans with similar risk characteristics into eight segments and applies historical loss rates to each segment based on a three fiscal-year look-back period. The historical look-back calculation is additionally risk-weighted with the emphasis on the most-recent charge-off activity. In addition, qualitative factors including credit concentration risk, national and local economic conditions, nature and volume of loan portfolio, legal and regulatory factors, downturns in specific industries including losses in collateral value, trends in credit quality at the Company and in the banking industry and trends in risk-rating agencies are also considered.

The Company also utilizes ratio analysis to evaluate the overall reasonableness of the ALLL compared to its peers and required levels of regulatory capital. Federal and state agencies review the Company's methodology for maintaining the ALLL. These agencies may require the Company to adjust the ALLL based on their judgments and interpretations about information available to them at the time of their examinations.

### Summary of Asset Quality

The following table presents information on the Company's provision for loan losses and analysis of the ALLL:

<i>(In thousands)</i>	<b>Third Quarter of</b>		<b>Nine Months Ended</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Allowance at beginning of period	\$ 11,902	\$ 11,853	\$ 11,894	\$ 11,679
Provision charged to expense				
Loans charged off	(30)		(30)	(79)
Recoveries on loans previously charged off	10	6	18	259
Net (charge-offs) recoveries	(20)	6	(12)	180
Allowance at end of period	\$ 11,882	\$ 11,859	\$ 11,882	\$ 11,859
Loans outstanding:				
Average	\$ 666,489	\$ 665,052	\$ 674,351	\$ 661,540
September 30	670,842	677,581	670,842	677,581
Ratio of ALLL to loans outstanding:				
Average	1.78%	1.78%	1.76%	1.79%
September 30	1.77	1.75	1.77	1.75
Impaired loans:				
Nonaccrual loans	\$ 3,155	\$ 1,477	\$ 3,155	\$ 1,477
Loans past due 90 days or more				
Troubled debt restructurings				
Total impaired loans	\$ 3,155	\$ 1,477	\$ 3,155	\$ 1,477
Foreclosed assets	\$		\$	
Impaired loans as percentage of average loans	.47%	.22%	.47%	.22%

The Bank had no property carried as other real estate owned as of September 30, 2015 or December 31, 2014.

## Operating Expenses

Total operating expenses for the Third Quarter of 2015 were up 6.8%, or \$1,438,000, compared to the Third Quarter of 2014 and were up \$4,055,000 for the Nine Months Ended 2015 compared to the Nine Months Ended 2014.

Salaries and benefits expense for the Third Quarter of 2015 increased \$1,246,000 compared to the Third Quarter of 2014 and increased \$3,464,000 to \$52,630,000 for the Nine Months Ended 2015 compared to the Nine Months Ended 2014 due to strategic investment in staff and technology to win and support new business, higher health insurance costs, increased retirement plan expense, and annual merit salary increases.

Occupancy expense for the Third Quarter of 2015 increased \$89,000 to \$872,000 compared to the Third Quarter of 2014 and increased \$220,000, or 9.4%, for the Nine Months Ended 2015 from the Nine Months Ended 2014 due to the expansion of the Company's operating facilities for its transportation and waste management operations.

Equipment expense for the Third Quarter of 2015 increased \$122,000, or 12.9%, compared to the Third Quarter of 2014 and increased \$116,000, or 3.8%, for the Nine Months Ended 2015 from the Nine Months Ended 2014.

Amortization of intangible assets decreased \$18,000 in the Third Quarter of 2015 as compared to the prior year period and decreased \$56,000 for the Nine Months Ended 2015 from the Nine Months Ended 2014.

Other operating expenses for the Third Quarter of 2015 decreased \$1,000, compared to the Third Quarter of 2014. Other operating expense increased \$311,000 for the Nine Months Ended 2015 compared to the Nine Months Ended 2014 primarily due to higher legal expenses and outside service fees.

Income tax expense for the Third Quarter of 2015 increased \$70,000 compared to the Third Quarter of 2014 and increased \$104,000 for the Nine Months Ended 2015 compared to the Nine Months Ended 2014. The effective tax rate was 26.2% and 23.9% for the Third Quarters of 2015 and 2014, respectively, and was 26.0% and 24.3% for the Nine Months Ended 2015 and 2014, respectively.

## Financial Condition

Total assets at September 30, 2015 were \$1,433,520,000, a decrease of \$67,211,000, or 4.5%, from December 31, 2014. The most significant changes in asset balances during this period were a decrease of \$72,168,000 in interest-bearing deposits in other financial institutions. Changes in cash and cash equivalents reflect the Company's daily liquidity position and are affected by the changes in the other asset balances and changes in deposit and accounts and drafts payable balances.

Total liabilities at September 30, 2015 were \$1,234,077,000, a decrease of \$66,222,000, or 5.1%, from December 31, 2014. Interest-bearing deposits were \$404,535,000, a decrease of \$54,665,000, or 11.9%, from December 31, 2014. Accounts and drafts payable at September 30, 2015 were \$625,230,000, a decrease of \$30,198,000, or 4.6%, from December 31, 2014. Total shareholders' equity at September 30, 2015 was \$199,443,000, a \$989,000, or less than 1.0% decrease from December 31, 2014.

Accounts and drafts payable will fluctuate from period-end to period-end due to the payment processing cycle, which results in lower balances on days when checks clear and higher balances on days when checks are issued. For this reason, average balances are a more meaningful measure of accounts and drafts payable (for average balances refer to the tables under the Distribution of Assets, Liabilities and Shareholders Equity; Interest Rate and Interest Differential section of this report).

The decrease in total shareholders' equity of \$989,000 resulted primarily from net income of \$16,967,000 offset by an increase in common shares in treasury of \$8,414,000, an increase of \$2,103,000 in accumulated other comprehensive loss and dividends paid of \$7,203,000.

## Liquidity and Capital Resources

The balance of liquid assets consists of cash and cash equivalents, which include cash and due from banks, interest-bearing deposits in other financial institutions, federal funds sold and other short-term investments was \$226,082,000 at September 30, 2015, a decrease of \$68,253,000, or 23.2%, from December 31, 2014. At September 30, 2015, these assets represented 15.8% of total assets. These funds are the Company's and its subsidiaries' primary source of liquidity to meet future expected and unexpected loan demand, depositor withdrawals or reductions in accounts and drafts payable.



Secondary sources of liquidity include the investment portfolio and borrowing lines. Total investment in securities was \$363,153,000 at September 30, 2015, an increase of \$7,012,000 from December 31, 2014. These assets represented 25.3% of total assets at September 30, 2015. Of this total, 99% were state and political subdivision securities. Of the total portfolio, 6.7% mature in one year or less, 22.3% mature in one to five years, and 71.0% mature in five or more years.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of \$88,000,000 at the following banks: Bank of America, \$20,000,000; US Bank, \$20,000,000; Wells Fargo Bank, \$15,000,000; Frost National Bank, \$10,000,000; PNC Bank, \$12,000,000; UMB Bank, \$5,000,000; and JPM Chase Bank, \$6,000,000. The Bank also had secured lines of credit with the Federal Home Loan Bank of \$174,155,000 collateralized by commercial mortgage loans. The Company also has secured lines of credit of \$50,000,000 with UMB Bank and \$50,000,000 with First Tennessee Bank collateralized by state and political subdivision securities. There were no amounts outstanding under any line of credit as of September 30, 2015 or December 31, 2014.

The deposits of the Company's banking subsidiary have historically been stable, consisting of a sizable volume of core deposits related to customers that utilize other commercial products of the Bank. The accounts and drafts payable generated by the Company has also historically been a stable source of funds. The Company is part of the Certificate of Deposit Account Registry Service ( CDARS ) and Insured Cash Sweep ( ICS ) deposit placement programs. Time deposits include \$40,358,000 of CDARS deposits and interest-bearing demand deposits include \$74,245,000 of ICS deposits. These programs offer the Bank's customers the ability to maximize Federal Deposit Insurance Corporation ( FDIC ) insurance coverage. The Company uses these programs to retain or attract deposits from existing customers.

Net cash flows provided by operating activities were \$25,805,000 for the Nine Months Ended 2015, compared with \$28,445,000 for the Nine Months ended 2014, a decrease of \$2,640,000. Net cash flows from investing and financing activities fluctuate greatly as the Company actively manages its investment and loan portfolios and customer activity influences changes in deposit and accounts and drafts payable balances. Other causes for the changes in these account balances are discussed earlier in this report. Due to the daily fluctuations in these account balances, the analysis of changes in average balances, also discussed earlier in this report, can be more indicative of underlying activity than the period-end balances used in the statements of cash flows. Management anticipates that cash and cash equivalents, maturing investments and cash from operations will continue to be sufficient to fund the Company's operations and capital expenditures in 2015, which are estimated to range from \$5 million to \$7 million.

The Company faces market risk to the extent that its net interest income and fair market value of equity are affected by changes in market interest rates. For information regarding the market risk of the Company's financial instruments, see Item 3, Quantitative and Qualitative Disclosures about Market Risk.

There are several trends and uncertainties that may impact the Company's ability to generate revenues and income at the levels that it has in the past. In addition, these trends and uncertainties may impact available liquidity. Those that could significantly impact the Company include the general levels of interest rates, business activity, and energy costs as well as new business opportunities available to the Company.

As a financial institution, a significant source of the Company's earnings is generated from net interest income. Therefore, the prevailing interest rate environment is important to the Company's performance. A major portion of the Company's funding sources are the non-interest bearing accounts and drafts payable generated from its payment and information processing services. Accordingly, higher levels of interest rates will generally allow the Company to earn more net interest income. Conversely, a lower interest rate environment will generally tend to depress net interest income. The Company actively manages its balance sheet in an effort to maximize net interest income as the interest rate environment changes. This balance sheet management impacts the mix of earning assets maintained by the Company at any point in time. For example, in the lower interest rate environment currently faced by the Company, short-term, relatively lower rate liquid investments are reduced in favor of longer-term relatively higher yielding investments and loans.

The overall level of economic activity can have a significant impact on the Company's ability to generate revenues and income, as the volume and size of customer invoices processed may increase or decrease. Higher levels of economic activity increase both fee income (as more invoices are processed) and balances of accounts and drafts payable.

The relative level of energy costs can impact the Company's earnings and available liquidity. Higher levels of energy costs will tend to increase transportation and energy invoice amounts resulting in a corresponding increase in accounts and drafts payable. Increases in accounts and drafts payable generate higher interest income and improve liquidity.

## Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

New business opportunities are an important component of the Company's strategy to grow earnings and improve performance. Generating new customers allows the Company to leverage existing systems and facilities and grow revenues faster than expenses.

Risk-based capital guidelines require the Company to meet a minimum total capital ratio of 8.0%, of which at least 6.0% must consist of Tier 1 capital. Tier 1 capital generally consists of (a) common shareholders' equity (excluding the unrealized market value adjustments on the available-for-sale securities), (b) qualifying perpetual preferred stock and related surplus subject to certain limitations specified by the FDIC, (c) minority interests in the equity accounts of consolidated subsidiaries less (d) goodwill, (e) mortgage servicing rights within certain limits, and (f) any other intangible assets and investments in subsidiaries that the FDIC determines should be deducted from Tier 1 capital. The FDIC also requires a minimum leverage ratio of 3.0%, defined as the ratio of Tier 1 capital less purchased mortgage servicing rights to total assets, for banking organizations deemed the strongest and most highly rated by banking regulators. A higher minimum leverage ratio is required of less highly-rated banking organizations. Total capital, a measure of capital adequacy, includes Tier 1 capital, ALLL, and debt considered equity for regulatory capital purposes.

The Company and the Bank continue to exceed all regulatory capital requirements, as evidenced by the following capital amounts and ratios:

<i>(Dollars in thousands)</i>	September 30, 2015		December 31, 2014	
	Amount	Ratio	Amount	Ratio
<b>Total capital (to risk-weighted assets)</b>				
Cass Information Systems, Inc.	\$ 210,101	22.51%	\$ 207,468	21.91%
Cass Commercial Bank	97,020	16.48%	91,249	15.88%
<b>Common Equity Tier I Capital (to risk-weighted assets)</b>				
Cass Information Systems, Inc.	\$ 198,434	21.26%	\$ 195,630	20.66%
Cass Commercial Bank	89,648	15.23%	84,049	14.62%
<b>Tier I capital (to risk-weighted assets)</b>				
Cass Information Systems, Inc.	\$ 198,434	21.26%	\$ 195,630	20.66%
Cass Commercial Bank	89,648	15.23%	84,049	14.62%
<b>Tier I capital (to average assets)</b>				
Cass Information Systems, Inc.	\$ 198,434	14.02%	\$ 195,630	13.42%
Cass Commercial Bank	89,648	13.25%	84,049	11.94%

Effective July 2, 2013, the Federal Reserve Board approved final rules known as the Basel III Capital Rules that substantially revise the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank. The Basel III Capital Rules implement aspects of the Basel III capital framework agreed upon by the Basel Committee and incorporates changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Among other things, the Basel III Capital Rules establish stricter capital requirements and calculation standards, as well as more restrictive risk weightings for certain loans and facilities. The Basel III Capital Rules were effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period) and had no material impact on the Company's consolidated financial statements.

### **Inflation**

The Company's assets and liabilities are primarily monetary, consisting of cash, cash equivalents, securities, loans, payables and deposits. Monetary assets and liabilities are those that can be converted into a fixed number of dollars. The Company's consolidated balance sheet reflects a net positive monetary position (monetary assets exceed monetary liabilities). During periods of inflation, the holding of a net positive monetary position will result in an overall decline in the purchasing power of a company. Management believes that replacement costs of equipment, furniture, and leasehold improvements will not materially affect operations. The rate of inflation does affect certain expenses, such as those for employee compensation, which may not be readily recoverable in the price of the Company's services.

### **Impact of New and Not Yet Adopted Accounting Pronouncements**

The new accounting pronouncements are not applicable to the Company and/or do not materially impact the Company.



**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As described in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, the Company manages its interest rate risk through measurement techniques that include gap analysis and a simulation model. As part of the risk management process, asset/liability management policies are established and monitored by management. The policy objective is to limit the change in annualized net interest income to 15.0% from an immediate and sustained parallel change in interest rates of 200 basis points. Based on the Company's most recent evaluation, management does not believe the Company's risk position at September 30, 2015 has changed materially from that at December 31, 2014.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's management, under the supervision and with the participation of the principal executive officer and the principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15e and 15d-15e under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report and concluded that, as of such date, these controls and procedures were effective.

There were no changes in the Third Quarter of 2015 in the Company's internal control over financial reporting identified by the Company's principal executive officer and principal financial officer in connection with their evaluation that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The Company is the subject of various pending or threatened legal actions and proceedings, including those that arise in the ordinary course of business. Management believes the outcome of all such proceedings will not have a material effect on the businesses or financial conditions of the Company or its subsidiaries.

**ITEM 1A. RISK FACTORS**

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2014, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the Risk Factors). There are no material changes to the Risk Factors as disclosed in the Company's 2014 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three months ended September 30, 2015, the Company repurchased a total of 68,105 shares of its common stock pursuant to its treasury stock buyback program, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>1</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2015				355,455
July 31, 2015				
August 1, 2015				
August 31, 2015	32,409	\$ 47.96	32,409	323,046
September 1, 2015				
September 30, 2015	35,696	\$ 48.85	35,696	287,350
Total	68,105	\$ 48.83	68,105	287,350

- All repurchases made during the quarter ended September 30, 2015 were made pursuant to the treasury stock buyback program, which was authorized by the Board of Directors on October 17, 2011 and announced by the Company on October 20, 2011. The program, as modified by the Board of Directors on October 20, 2014, provided that the Company may repurchase up to an aggregate of 500,000 shares of common stock and had no expiration date. The program was further modified by the Board of Directors on October 19, 2015 to restore the

Edgar Filing: CASS INFORMATION SYSTEMS INC - Form 10-Q

aggregate number of shares available for repurchase to 500,000.

-28-

---

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors implemented in the Third Quarter of 2015.

**ITEM 6. EXHIBITS**

Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.INS XBRL Instance Document.

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document.

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CASS INFORMATION SYSTEMS, INC.

DATE: November 2, 2015

By */s/ Eric H. Brunngraber*  
Eric H. Brunngraber  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

DATE: November 2, 2015

By */s/ P. Stephen Appelbaum*  
P. Stephen Appelbaum  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

-30-

---