

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one)

Large Accelerated Filer _____

Accelerated Filer X

Non-Accelerated Filer _____

Smaller Reporting Company _____

(Do not check if a smaller reporting company)

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

Yes

No

X

The number of shares outstanding of the registrant's only class of common stock as of October 28, 2015: Common stock, par value \$.50 per share 11,341,370 shares outstanding.

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Forward-looking Statements - Factors That May Affect Future Results

This report may contain or incorporate by reference forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and other factors beyond our control, which may cause future performance to be materially different from expected performance summarized in the forward-looking statements. These risks, uncertainties and other factors are discussed in Part I, Item 1A, Risk Factors of the Company's 2014 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except Share and Per Share Data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
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
Loans	670,842	669,346
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
Total assets	\$ 1,433,520	\$ 1,500,731
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
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
Total liabilities	1,234,077	1,300,299
Shareholders' Equity:		
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)
Total shareholders' equity	199,443	200,432
Total liabilities and shareholders' equity	\$ 1,433,520	\$ 1,500,731

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)

(Dollars in Thousands except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Fee Revenue and Other Income:				
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
Interest Income:				
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
Interest Expense:				
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
Operating Expense:				
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
Comprehensive income:				
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)
Total comprehensive income	\$ 7,158	\$ 6,824	\$ 14,864	\$ 23,109

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	
	2015	September 30, 2014
Cash Flows From Operating Activities:		
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
Cash Flows From Investing Activities:		
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)
Cash Flows From Financing Activities:		
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)