

CASS INFORMATION SYSTEMS INC

Form 10-Q

November 02, 2016

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, 2016

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 **X** No _____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes **X** No _____

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.

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(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 26, 2016: Common stock, par value \$.50 per share 11,176,204 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 2015 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, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	\$ 13,437	\$ 9,015
Interest-bearing deposits in other financial institutions	117,789	176,405
Federal funds sold and other short-term investments	171,877	67,752
Cash and cash equivalents	303,103	253,172
Securities available-for-sale, at fair value	382,671	375,696
 Loans	 684,874	 659,055
Less: Allowance for loan losses	10,673	11,635
Loans, net	674,201	647,420
Premises and equipment, net	20,776	19,648
Investment in bank-owned life insurance	16,319	15,933
Payments in excess of funding	111,334	105,526
Goodwill	11,590	11,590
Other intangible assets, net	2,099	2,405
Other assets	25,560	24,116
Total assets	\$ 1,547,653	\$ 1,455,506
 Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 202,384	\$ 181,823
Interest-bearing	421,629	464,661
Total deposits	624,013	646,484
Accounts and drafts payable	682,762	577,259
Other liabilities	28,566	24,385
Total liabilities	1,335,341	1,248,128
 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, 2016 and December 31, 2015	5,966	5,966
Additional paid-in capital	126,016	126,290
Retained earnings	114,513	103,994
Common shares in treasury, at cost (755,405 shares at September 30, 2016 and 598,875 shares at December 31, 2015)	(30,460)	(22,208)
Accumulated other comprehensive loss	(3,723)	(6,664)
Total shareholders' equity	212,312	207,378
Total liabilities and shareholders' equity	\$ 1,547,653	\$ 1,455,506

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,	
	2016	2015	2016	2015
Fee Revenue and Other Income:				
Information services payment and processing revenue	\$ 21,737	\$ 19,781	\$ 62,162	\$ 58,898
Bank service fees	284	308	931	908
Gains on sales of securities		1,271	387	2,910
Other	127	154	630	468
Total fee revenue and other income	22,148	21,514	64,110	63,184
Interest Income:				
Interest and fees on loans	7,264	7,086	21,711	21,528
Interest and dividends on securities:				
Taxable	36	5	69	20
Exempt from federal income taxes	2,386	2,371	7,217	6,996
Interest on federal funds sold and other short-term investments	299	119	775	392
Total interest income	9,985	9,581	29,772	28,936
Interest Expense:				
Interest on deposits	505	498	1,522	1,610
Net interest income	9,480	9,083	28,250	27,326
Provision for loan losses			(1,000)	
Net interest income after provision for loan losses	9,480	9,083	29,250	27,326
Total net revenue	31,628	30,597	93,360	90,510
Operating Expense:				
Personnel	18,319	17,761	54,267	52,630
Occupancy	860	872	2,560	2,565
Equipment	1,124	1,067	3,289	3,208
Amortization of intangible assets	101	103	305	306
Other operating expense	3,147	2,831	9,105	8,873
Total operating expense	23,551	22,634	69,526	67,582
Income before income tax expense	8,077	7,963	23,834	22,928
Income tax expense	1,855	2,083	5,910	5,961
Net income	\$ 6,222	\$ 5,880	\$ 17,924	\$ 16,967
Basic earnings per share	\$.56	\$.52	\$ 1.61	\$ 1.49
Diluted earnings per share	.55	.51	1.58	1.47

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,	
	2016	2015	2016	2015
Comprehensive income:				
Net income	\$ 6,222	\$ 5,880	\$ 17,924	\$ 16,967
Other comprehensive income:				
Net unrealized gain (loss) on securities available-for-sale	(3,176)	3,301	5,036	(327)
Tax effect	1,180	(1,226)	(1,871)	122
Reclassification adjustments for gains included in net income		(1,271)	(387)	(2,910)
Tax effect		472	143	1,081
Foreign currency translation adjustments	9	2	20	(69)
Total comprehensive income	\$ 4,235	\$ 7,158	\$ 20,865	\$ 14,864

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,	
	2016	2015
Cash Flows From Operating Activities:		
Net income	\$ 17,924	\$ 16,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,964	6,476
Net gains on sales of securities	(387)	(2,910)
Stock-based compensation expense	1,471	1,543
Provision for loan losses	(1,000)	
Increase in income tax benefit	(121)	(1,156)
Increase in income tax liability	973	1,513
Increase in pension liability	3,102	3,626
Other operating activities, net	(3,311)	(254)
Net cash provided by operating activities	25,615	25,805
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	21,491	99,347
Proceeds from maturities of securities available-for-sale	29,970	31,390
Purchase of securities available-for-sale	(57,637)	(142,014)
Net increase in loans	(25,781)	(1,508)
Net (increase) decrease in payments in excess of funding	(5,808)	11,368
Purchases of premises and equipment, net	(3,549)	(4,320)
Net cash used in investing activities	(41,314)	(5,737)
Cash Flows From Financing Activities:		
Net increase in noninterest-bearing demand deposits	20,561	13,938
Net decrease in interest-bearing demand and savings deposits	(37,855)	(4