

CASS INFORMATION SYSTEMS INC
Form 10-Q
August 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

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

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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

Non-Accelerated Filer
(Do not check if a smaller reporting company)

Smaller Reporting Company

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

Yes

No

X

The number of shares outstanding of the registrant's only class of common stock as of July 30, 2014: Common stock, par value \$.50 per share 11,535,430 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 2013 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except Share and Per Share Data)

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	\$ 19,790	\$ 11,283
Interest-bearing deposits in other financial institutions	108,102	160,316
Federal funds sold and other short-term investments	53,831	53,663
Cash and cash equivalents	181,723	225,262
Securities available-for-sale, at fair value	327,469	317,767
Loans	665,703	652,177
Less: Allowance for loan losses	11,853	11,679
Loans, net	653,850	640,498
Premises and equipment, net	14,823	13,231
Investment in bank-owned life insurance	15,299	15,437
Payments in excess of funding	124,277	77,650
Goodwill	11,590	11,590
Other intangible assets, net	2,981	3,222
Other assets	19,699	21,363
Total assets	\$ 1,351,711	\$ 1,326,020
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 147,664	\$ 143,841
Interest-bearing	403,847	438,655
Total deposits	551,511	582,496
Accounts and drafts payable	585,858	543,953
Other liabilities	11,661	9,144
Total liabilities	1,149,030	1,135,593
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 June 30, 2014 and December 31, 2013	5,966	5,966
Additional paid-in capital	125,646	125,062
Retained earnings	83,173	75,939
Common shares in treasury, at cost (395,717 shares at June 30, 2014 and 409,667 shares at December 31, 2013)	(10,983)	(10,980)
Accumulated other comprehensive loss	(1,121)	(5,560)
Total shareholders' equity	202,681	190,427
Total liabilities and shareholders' equity	\$ 1,351,711	\$ 1,326,020

See accompanying notes to unaudited consolidated financial statements.

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

(Dollars in Thousands except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Fee Revenue and Other Income:				
Information services payment and processing revenue	\$ 19,554	\$ 17,448	\$ 37,951	\$ 34,024
Bank service fees	271	302	556	606
Gains on sales of securities		1,684		3,137
Other	127	133	1,020	265
Total fee revenue and other income	19,952	19,567	39,527	38,032
Interest Income:				
Interest and fees on loans	7,475	8,343	14,780	16,758
Interest and dividends on securities:				
Taxable	9	18	14	29
Exempt from federal income taxes	2,352	2,141	4,662	4,474
Interest on federal funds sold and other short-term investments	139	121	291	218
Total interest income	9,975	10,623	19,747	21,479
Interest Expense:				
Interest on deposits	628	694	1,253	1,381
Net interest income	9,347	9,929	18,494	20,098
Provision for loan losses		300		500
Net interest income after provision for loan losses	9,347	9,629	18,494	19,598
Total net revenue	29,299	29,196	58,021	57,630
Operating Expense:				
Salaries and employee benefits	16,464	16,280	32,651	32,538
Occupancy	756	735	1,562	1,344
Equipment	1,121	923	2,147	1,831
Amortization of intangible assets	121	147	241	294
Other operating expense	2,844	2,932	5,730	5,399
Total operating expense	21,306	21,017	42,331	41,406
Income before income tax expense	7,993	8,179	15,690	16,224
Income tax expense	1,958	2,106	3,844	4,119
Net income	\$ 6,035	\$ 6,073	\$ 11,846	\$ 12,105
Basic earnings per share	\$.52	\$.53	\$ 1.03	\$ 1.06
Diluted earnings per share	.52	.52	1.02	1.04

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)
(Dollars In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Comprehensive income:				
Net income	\$ 6,035	\$ 6,073	\$ 11,846	\$ 12,105
Other comprehensive income:				
Net unrealized gain (loss) on securities available-for-sale	3,395	(7,895)	7,084	(9,192)
Tax effect	(1,261)	2,933	(2,632)	3,415
Reclassification adjustments for gains included in net income		(1,685)		(3,137)
Tax effect		591		1,098
Foreign currency translation adjustments	(8)	25	(13)	(23)
Total comprehensive income	\$ 8,161	\$ 42	\$ 16,285	\$ 4,266

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)
(Dollars in Thousands)

	Six Months Ended	
	2014	June 30, 2013
Cash Flows From Operating Activities:		
Net income	\$ 11,846	\$ 12,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,051	3,275
Net gains on sales of securities	(3,137)	(3,137)
Stock-based compensation expense	1,031	918
Provision for loan losses	500	500
Increase in income tax liability	923	1,109
Increase in pension liability	356	1,253
Other operating activities, net	395	(1,459)
Net cash provided by operating activities	18,602	14,564
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale		63,660
Proceeds from maturities of securities available-for-sale	8,290	6,803
Purchase of securities available-for-sale	(13,362)	(16,030)
Net (increase) decrease in loans	(13,352)	16,406
Increase in payments in excess of funding	(46,627)	(10,451)
Purchases of premises and equipment, net	(2,948)	(2,284)
Net cash (used in) provided by investing activities	(67,999)	58,104
Cash Flows From Financing Activities:		
Net increase (decrease) in noninterest-bearing demand deposits	3,823	(8,237)
Net decrease in interest-bearing demand and savings deposits	(21,153)	(9,519)
Net decrease in time deposits	(13,655)	(4,943)
Net increase in accounts and drafts payable	41,905	83,309
Cash dividends paid	(4,612)	(4,135)
Distribution of stock awards, net	(450)	(378)
Net cash provided by financing activities	5,858	56,097
Net (decrease) increase in cash and cash equivalents	(43,539)	128,765
Cash and cash equivalents at beginning of period	225,262	141,088
Cash and cash equivalents at end of period	\$ 181,723	\$ 269,853
Supplemental information:		
Cash paid for interest	\$ 1,103	\$ 1,398
Cash paid for income taxes	2,737	2,991

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, 2013.

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>	June 30, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Assets eligible for amortization:				
Customer lists	\$ 3,933	\$ (1,546)	\$ 3,933	\$ (1,387)
Non-compete agreements	261	(131)	261	(105)
Software	234	(195)	234	(156)
Other	500	(75)	500	(58)
Unamortized intangible assets:				
Goodwill ¹	11,817	(227)	11,817	(227)
Total intangible assets	\$ 16,745	\$ (2,174)	\$ 16,745	\$ (1,933)

¹ Amortization through December 31, 2001 prior to adoption of FASB ASC 350.

The customer lists are amortized over seven and ten 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 \$241,000 and \$294,000 for the six-month periods ended June 30, 2014 and 2013, respectively. Estimated future amortization of intangibles is as follows: \$482,000 in 2014, \$404,000 in 2015, \$404,000 in 2016 and \$352,000 in each of 2017 and 2018.

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 six months ended June 30, 2014 and 2013. 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic				
Net income	\$ 6,035	\$ 6,073	\$ 11,846	\$ 12,105
Weighted-average common shares outstanding	11,489,423	11,428,984	11,483,801	11,425,525
Basic earnings per share	\$.52	\$.53	\$ 1.03	\$ 1.06
Diluted				

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Net income	\$	6,035	\$	6,073	\$	11,846	\$	12,105
Weighted-average common shares outstanding		11,489,423		11,428,984		11,483,801		11,425,525
Effect of dilutive restricted stock and stock appreciation rights		169,724		187,403		182,146		181,169
Weighted-average common shares outstanding assuming dilution		11,659,147		11,616,387		11,665,947		11,606,694
Diluted earnings per share	\$.52	\$.52	\$	1.02	\$	1.04

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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 363,000 shares of the Company's common stock. The Company did not repurchase any shares during the six-month periods ended June 30, 2014 and 2013. As of June 30, 2014, 363,000 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.

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, 2013. 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 June 30, 2014</i>				
Fee revenue and other income:				
Income from customers	\$ 23,737	\$ 5,562	\$	\$ 29,299
Intersegment income (expense)	2,160	374	(2,534)	
Net income	4,280	1,755		6,035
Goodwill	11,454	136		11,590
Other intangible assets, net	2,981			2,981
Total assets	709,693	663,546	(21,528)	1,351,711
<i>Three Months Ended June 30, 2013</i>				
Fee revenue and other income:				
Income from customers	\$ 23,309	\$ 5,887	\$	\$ 29,196
Intersegment income (expense)	2,279	386	(2,665)	
Net income	4,166	1,868	39	6,073
Goodwill	11,454	136		11,590
Other intangible assets, net	3,463			3,463
Total assets	720,841	641,114	(13,421)	1,348,534
<i>Six Months Ended June 30, 2014</i>				
Fee revenue and other income:				
Income from customers	\$ 46,952	\$ 11,069	\$	\$ 58,021
Intersegment income (expense)	4,302	730	(5,032)	
Net income	8,380	3,466		11,846
Goodwill	11,454	136		11,590
Other intangible assets, net	2,981			2,981
Total assets	709,693	663,546	(21,528)	1,351,711

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Six Months Ended June 30, 2013

Fee revenue and other income				
Income from customers	\$ 45,769	\$ 11,861	\$	\$ 57,630
Intersegment income (expense)	4,845	769	(5,614)	
Net income	7,859	4,120	126	12,105
Goodwill	11,454	136		11,590
Other intangible assets, net	3,463			3,463
Total assets	720,841	641,114	(13,421)	1,348,534

Note 6 Loans by Type

A summary of loan categories is as follows:

<i>(In thousands)</i>	June 30, 2014	December 31, 2013
Commercial and industrial	\$ 202,255	\$ 171,304
Real estate		
Commercial:		
Mortgage	120,536	128,358
Construction	6,712	6,632
Church, church-related:		
Mortgage	313,793	326,832
Construction	14,061	9,817
Industrial Revenue Bond	8,266	9,167
Other	80	67
Total loans	\$ 665,703	\$ 652,177

The following table presents the aging of loans by loan categories at June 30, 2014 and December 31, 2013:

<i>(In thousands)</i>	Performing			Nonperforming		Total Loans
	Current	30-59 Days	60-89 Days	90 Days and Over	Non- accrual	
<i>June 30, 2014</i>						
Commercial and industrial	\$ 202,255	\$	\$	\$	\$	\$ 202,255
Real estate						
Commercial:						
Mortgage	120,168	█	█	█	368	120,536
Construction	6,712					6,712
Church, church-related:						
Mortgage	312,642				1,151	313,793
Construction	14,061	█	█	█	█	14,061
Industrial Revenue Bond	8,266					8,266
Other	80	█	█	█	█	80
Total	\$ 664,184	\$	\$	\$	\$ 1,519	\$ 665,703
<i>December 31, 2013</i>						
Commercial and industrial	\$ 171,293	\$	\$	\$	\$ 11	\$ 171,304
Real estate						
Commercial:						
Mortgage	127,879	█	█	█	479	128,358
Construction	6,632					6,632
Church, church-related:						
Mortgage	325,091	434			1,307	326,832
Construction	9,817	█				