

CASS INFORMATION SYSTEMS INC
Form 10-Q
August 07, 2018
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 June 30, 2018

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)

12444 Powerscourt Drive, Suite 550

St. Louis, Missouri

(Address of principal executive offices)

(314) 506-5500

(Registrant's telephone number, including area code)

43-1265338

(I.R.S. Employer Identification No.)

63131

(Zip 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

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company Emerging Growth Company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. _____

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

Yes No

The number of shares outstanding of the registrant's only class of common stock as of July 27, 2018: Common stock, par value \$.50 per share – 12,294,422 shares outstanding.

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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 2017 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, 2018 (Unaudited)	December 31, 2017
Assets		
Cash and due from banks	\$ 13,064	\$ 17,422
Interest-bearing deposits in other financial institutions	111,244	152,056
Federal funds sold and other short-term investments	1,895	58,632
Cash and cash equivalents	126,203	228,110
Securities available-for-sale, at fair value	440,863	470,523
Loans	714,861	686,231
Less: Allowance for loan losses	10,215	10,205
Loans, net	704,646	676,026
Premises and equipment, net	22,466	21,586
Investment in bank-owned life insurance	17,155	16,927
Payments in excess of funding	153,836	139,103
Goodwill	12,569	12,569
Other intangible assets, net	1,775	1,996
Other assets	90,792	90,369
Total assets	\$ 1,570,305	\$ 1,657,209
Liabilities and Shareholders' Equity		
<u>Liabilities:</u>		
Deposits:		
Noninterest-bearing	\$ 265,356	\$ 281,541
Interest-bearing	360,381	396,547
Total deposits	625,737	678,088
Accounts and drafts payable	673,704	715,888
Other liabilities	44,251	38,145
Total liabilities	1,343,692	1,432,121
<u>Shareholders' Equity:</u>		
Preferred stock, par value \$.50 per share; 2,000,000 shares authorized and no shares issued	-	-
Common stock, par value \$.50 per share; 40,000,000 shares authorized and 13,047,997 shares issued at June 30, 2018 and December 31, 2017	6,524	6,524
Additional paid-in capital	204,687	204,631
Retained earnings	68,771	59,314
Common shares in treasury, at cost (754,435 shares at June 30, 2018 and 760,962 shares at December 31, 2017)	(32,243)	(32,061)
Accumulated other comprehensive loss	(21,126)	(13,320)
Total shareholders' equity	226,613	225,088
Total liabilities and shareholders' equity	\$ 1,570,305	\$ 1,657,209
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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Fee Revenue and Other Income:				
Information services payment and processing revenue	\$25,221	\$23,282	\$50,048	\$45,571
Bank service fees	359	389	694	671
Losses on sales of securities	(55)	-	(42)	-
Other	115	129	314	329
Total fee revenue and other income	25,640	23,800	51,014	46,571
Interest Income:				
Interest and fees on loans	7,923	7,104	15,465	14,057
Interest and dividends on securities:				
Taxable	489	84	810	161
Exempt from federal income taxes	2,332	2,659	4,897	5,260
Interest on federal funds sold and other short-term investments	769	485	1,629	853
Total interest income	11,513	10,332	22,801	20,331
Interest Expense:				
Interest on deposits	794	470	1,473	950
Net interest income	10,719	9,862	21,328	19,381
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	10,719	9,862	21,328	19,381
Total net revenue	36,359	33,662	72,342	65,952
Operating Expense:				
Personnel	21,589	19,162	41,971	37,961
Occupancy	925	889	1,779	1,731
Equipment	1,408	1,200	2,716	2,504
Amortization of intangible assets	111	108	221	207
Other operating expense	3,430	3,542	6,958	6,816
Total operating expense	27,463	24,901	53,645	49,219
Income before income tax expense	8,896	8,761	18,697	16,733
Income tax expense	1,387	2,248	3,096	3,913
Net income	\$7,509	\$6,513	\$15,601	\$12,820
Basic earnings per share	\$.61	\$.53	\$1.27	\$1.05
Diluted earnings per share	.60	.52	1.25	1.03

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Comprehensive Income:				
Net income	\$ 7,509	\$ 6,513	\$ 15,601	\$ 12,820
Other comprehensive income:				
Net unrealized (loss) gain on securities available-for-sale	(420)	5,832	(10,194)	8,345
Tax effect	100	(2,167)	2,426	(3,100)
Reclassification adjustments for losses included in net income	55	–	42	–
Tax effect	(13)	–	(10)	–
Foreign currency translation adjustments	(109)	94	(70)	102
Total comprehensive income	\$ 7,122	\$ 10,272	\$ 7,795	\$ 18,167
See accompanying notes to unaudited consolidated financial statements.				

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

(Unaudited)

(Dollars in Thousands)

	Six Months Ended	
	June 30,	
	2018	2017
Cash Flows From Operating Activities:		
Net income	\$ 15,601	\$ 12,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,822	5,471
Net losses on sales of securities	42	–
Stock-based compensation expense	1,477	1,097
Increase in income tax liability	1,637	748
Increase in pension liability	2,463	2,310
Decrease in accounts receivable	3,473	793
Other operating activities, net		