CASS INFORMATION SYSTEMS INC
Form 10-Q
August 08, 2007

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, 2007

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. 2-80070

CASS INFORMATION SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Missouri	43-1265338
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identif
13001 Hollenberg Drive Bridgeton, Missouri	63044
(Address of principal executive offices)	(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

(Check one) Large Accelerated Filer _____ Accelerated Filer X Non-Accele

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 registrant's only class of stock as of July 27, 2007: Common stock, par value $.50 per share - 8,371,189 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. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and other factors which may cause future performance to vary from expected performance summarized in the forward-looking statements, including those set forth in this paragraph and in the "Risk Factors" section of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission. Important factors that could cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by those statements include, but are not limited to: the failure to successfully execute our corporate plan, the loss of key personnel or inability to attract additional qualified personnel, the loss of key customers, increased competition, the inability to remain current with rapid technological change, risks related to acquisitions, risks associated with business cycles and fluctuations in interest rates, utility and system interruptions or processing errors, rules and regulations governing financial institutions and changes in such rules and regulations, credit risk related to borrowers' ability to repay loans, concentration of loans to certain segments such as commercial enterprises, churches and borrowers in the St. Louis area which creates risks associated with adverse factors that may affect these groups and volatility of the price of our common stock. 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
(Unaudited)
(Dollars in Thousands except Share and Per Share Data)

	June 30 2007	D
Assets		
Cash and due from banks	$ 22,475	$
Federal funds sold and other short-term investments	198,098	
Cash and cash equivalents	220,573	
Securities available-for-sale, at fair value	132,589	
Loans	521,007	
Less: Allowance for loan losses	6,843	
Loans, net	514,164	
Premises and equipment, net	12,843	
Investment in bank-owned life insurance	12,278	
Payments in excess of funding	16,145	
Goodwill	7,471	
Other intangible assets, net	1,016	
Other assets	18,529	
Total assets	$ 935,608	$
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 87,534	$
Interest-bearing	179,674	
Total deposits	267,208	
Accounts and drafts payable	560,732	
Short-term borrowings	181	
Subordinated convertible debentures	3,700	
Liabilities related to discontinued operations	--	
Other liabilities	14,342	
Total liabilities	846,163	
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; 20,000,000 shares authorized and 9,112,484 shares issued at June 30, 2007 and December 31, 2006, respectively	4,556	
Additional paid-in capital	17,321	
Retained earnings	87,972	
Common shares in treasury, at cost (741,295 shares at June 30, 2007 and 784,773 shares at December 31, 2006)	(16,131)	
Accumulated other comprehensive loss	(4,273)	
Total shareholders' equity	89,445	
Total liabilities and shareholders' equity	$ 935,608	$

See accompanying notes to unaudited consolidated financial statements.

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CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in Thousands except Per Share Data)

	Three Months Ended June 30	
	2007	2006
Fee Revenue and Other Income:		
Information services payment and processing revenue	$ 11,399	$ 9,806
Bank service fees	428	348
Other	224	200
Total fee revenue and other income	12,051	10,354
Interest Income:		
Interest and fees on loans	9,327	9,056
Interest and dividends on securities:		
Taxable	226	272
Exempt from federal income taxes	1,050	638
Interest on federal funds sold and other short-term investments	1,679	1,408
Total interest income	12,282	11,374
Interest Expense:		
Interest on deposits	1,965	1,464
Interest on short-term borrowings and other	23	1
Interest on subordinated convertible debentures	49	49
Total interest expense	2,037	1,514

Net interest income	10,245	9,860
Provision for loan losses	225	150
Net interest income after provision for loan losses	10,020	9,710
Operating Expense:		
Salaries and employee benefits	11,896	10,267
Occupancy	532	485
Equipment	877	743
Amortization of intangible assets	70	43
Other operating expense	2,557	2,746
Total operating expense	15,932	14,284
Income before taxes and discontinued operations	6,139	5,780
Income tax expense	1,947	2,056
Net income from continuing operations	4,192	3,724
Loss from discontinued operations before income tax expense	--	(325
Income tax benefit	--	(136
Net loss from discontinued operations	--	(189
Net Income	$ 4,192	$ 3,535
Basic Earnings Per Share:		
From continuing operations	$ .51	$ .45
From discontinued operations	--	(.02
Basic earnings per share	.51	.43
Diluted Earnings Per Share:		
From continuing operations	$ .49	$ .43
From discontinued operations	--	(.02
Diluted earnings per share	.49	.41

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 June 3
	2007
Cash Flows From Operating Activities:	
Net income from continuing operations	$ 8,378

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,388	
Provision for loan losses	450	
Stock-based compensation expense	319	
Deferred income tax expense (benefit)	986	
Increase in income tax liability	251	
Increase in pension liability	958	
Other operating activities, net	575	
Operating activities of discontinued operations	--	
Net cash provided by operating activities	13,305	
Cash Flows From Investing Activities:		
Proceeds from maturities of securities available-for-sale	35,000	
Purchase of securities available-for-sale	(66,994)	
Net increase in loans	(17,081)	
Increase in payments in excess of funding	(6,812)	
Purchases of premises and equipment, net	(1,044)	
Net cash used in investing activities	(56,931)	
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(19,053)	
Net decrease in interest-bearing demand and savings deposits	(6,925)	
Net increase in time deposits	3,291	
Net increase in accounts and drafts payable	92,339	
Net increase in short-term borrowings	--	
Cash proceeds from exercise of stock options	16	
Tax benefit on stock awards	36	
Cash dividends paid	(2,009)	
Purchase of common shares for treasury	--	
Net cash provided by (used in) financing activities	67,695	
Net increase in cash and cash equivalents	24,069	
Cash and cash equivalents at beginning of period	196,504	
Cash and cash equivalents at end of period	$ 220,573	$
Supplemental information:		
Cash paid for interest	$ 3,964	$
Cash paid for income taxes	2,757	

See accompanying notes to unaudited consolidated financial statements.

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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. Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity. The Company's bank subsidiary sold the assets of Government e-Management Solutions, Inc. ("GEMS"), its wholly owned subsidiary, on December 30, 2005. The assets, liabilities and results of operations of GEMS were presented in the 2006 consolidated financial statements as discontinued operations. There was no discontinued operations activity in the six-month period ended June 30, 2007. The Company issued a 50% stock dividend on September 15, 2006 and the share and per share information have been restated for all periods presented in the accompanying consolidated financial statements. 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, 2006.

Note 2 - Intangible Assets

The Company accounts for intangible assets in accordance with Statement of Financial Accounting Standard ("SFAS") 142, "Goodwill and Other Intangible Assets," 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. Intangible assets for the periods ended June 30, 2007 and December 31, 2006 are as follows:

	June 30, 2007		December 31, 2006	
(In Thousands) Amortized intangible assets:	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	A Am
Software	$ 862	$ (489)	$ 862	$
Customer List	750	(107)	750	
Total	1,612	(596)	1,612	
Unamortized intangible assets:				
Goodwill	7,698	(227)*	7,698	
Total unamortized intangibles	7,698	(227)	7,698	
Total intangible assets	$ 9,310	$ (823)	$ 9,310	$

*Amortization through December 31, 2001 prior to adoption of SFAS 142.

Software is amortized over four to five years and the customer list is amortized over seven years. Amortization of intangible assets amounted to $140,000 and $86,000 for the six-month periods ended June 30, 2007 and 2006, respectively. Estimated amortization of intangibles over the next five years is as follows: $301,000 in 2007, $280,000 in 2008, $222,000 in 2009, and $107,000 in 2010 and in 2011.

Note 3 - Equity Investments in Non-Marketable Securities

Non-marketable equity investments in low-income housing projects are included in other assets on the Company's consolidated balance sheets. The total balance of these investments at June 30, 2007 was $ 288,000.

Note 4 - 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, adjusted for the net income effect of the interest expense on the outstanding convertible debentures, by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. The calculations of basic and diluted earnings per share for the periods ended June 30, 2007 and 2006 are as follows:

	Three Months Ended June 30	
(Dollars in Thousands except Per Share data)	2007	2006
Basic		
Net income from continuing operations	$ 4,192	$ 3,724
Net loss from discontinued operations	--	(189
Net income	$ 4,192	$ 3,535
Weighted-average common shares outstanding	8,314,355	8,307,912
Basic earnings per share from continuing operations	$ .51	$ .45
Basic earnings per share from discontinued operations	--	(.02
Basic earnings per share	$ .51	$ .43
Diluted		
Net income from continuing operations	$ 4,192	$ 3,724
Net income effect of 5.33% convertible debentures	27	27
Net income from continuing operations	4,219	3,751
Net loss from discontinued operations	--	(189
Net income	$ 4,219	$ 3,562
Weighted-average common shares outstanding	8,314,355	8,307,913
Effect of dilutive stock options and awards	102,867	71,481
Effect of 5.33% convertible debentures	172,717	172,717
Weighted-average common shares outstanding assuming dilution	8,589,939	8,552,111
Diluted earnings per share from continuing operations		

	$ .49	$ .43
Diluted earnings per share from discontinued operations	--	(.02
Diluted earnings per share	$ .49	$ .41

Share and per share data for 2006 in the schedule above have been restated for the 50% stock dividend issued on September 15, 2006.

Note 5 - Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 150,000 shares of the Company's Common Stock. The Company did not repurchase any shares during the six-month period ended June 30, 2007 and repurchased 20,000 shares in the comparable period in 2006. As of June 30, 2007, 120,000 shares remained available for repurchase under the program. Repurchases are made in the open market or through negotiated transactions from time to time depending on market conditions.

Note 6 - Comprehensive Income

For the six-month periods ended June 30, 2007 and 2006, unrealized gains and losses on debt and equity securities available-for-sale were the Company's only other comprehensive income component. Comprehensive income for the three and six month periods ended June 30, 2007 and 2006 is summarized as follows:

	Three Months Ended June 30	
(In Thousands)	2007	2006
Net income from continuing operations	$ 4,192	$ 3,724
Other comprehensive income:		
Net unrealized loss on securities available-for-sale, net of tax	(1,170)	(584)
Total comprehensive income from continuing operations	$ 3,022	$ 3,140

Note 7 - 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 freight, utility and telecommunication 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, 2006. 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 market value. Information for prior periods has been restated to reflect changes in the composition of the Company's segments.

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.

Summarized information about the Company's operations in each industry segment for the three and six-month periods ended June 30, 2007 and 2006, is as follows:

(In Thousands)	Information Services	Banking Services	Corporate, Eliminations and Other
Quarter Ended June 30, 2007			
Total Revenues:			
Revenue from customers	$ 18,337	$ 3,734	$ --
Intersegment revenue	485	405	(890)
Net income from continuing operations	3,439	753	--
Total assets	626,443	324,033	(14,868)
Goodwill	7,335	136	--
Other intangible assets, net	1,016	--	--
Assets related to discontinued operations	--	--	--
Quarter Ended June 30, 2006			
Total Revenues:			
Revenue from customers	$ 16,051	$ 4,013	$ --
Intersegment revenue	481	358	(839)
Net income from continuing operations	2,669	1,055	--
Total assets	509,191	315,683	1,848
Goodwill	4,262	136	--
Other intangible assets, net	849	--	--
Assets related to discontinued operations	--	--	400
Six Months Ended June 30, 2007			
Total Revenues:			
Revenue from customers	$ 36,079	$ 7,615	$ --
Intersegment revenue	972	754	(1,726)
Net income from continuing operations	6,633	1,745	--
Total assets	626,443	324,033	(14,868)
Goodwill	7,335	136	--
Other intangible assets, net	1,016	--	--
Assets related to discontinued operations	--	--	--
Six Months Ended June 30, 2006			
Total Revenues:			
Revenue from customers	$ 31,876	$ 8,145	$ --
Intersegment revenue	887	712	(1,599)

Net income from continuing operations	5,430	2,246	--
Total assets	509,191	315,683	1,848

Goodwill	4,262	136	--
Other intangible assets, net	849	--	--
Assets related to discontinued operations	--	--	400

Note 8 - Loans by Type

(In Thousands)	June 30, 2007	December 31,
Commercial and industrial	$ 116,524	$ 113,162
Real estate: (Commercial and church)		
Mortgage	368,469	352,044
Construction	29,072	29,779
Industrial revenue bonds	5,685	6,293
Other	1,257	2,847
Total loans	$ 521,007	$ 504,125

Note 9 - 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 and capital 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 June 30, 2007, 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. At June 30, 2007 the balance of unused loan commitments, standby and commercial letters of credit were $24,276,000, $5,797,000 and $3,159,000, 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 balances 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 its guarantees on these financial instruments.

The following table summarizes contractual cash obligations of the Company related to operating lease commitments, time deposits and convertible subordinated debentures at June 30, 2007:

		Amount of Commitment Expiration pe		
(Dollars in Thousands)	Total	Less than 1 Year	1-3 Years	3 Ye
Operating lease commitments	$ 4,124	$ 711	$ 1,128	$
Time deposits	92,088	87,486	3,153	
Convertible subordinated debentures*	3,700	--	--	
Total	$ 99,912	$ 88,197	$ 4,281	$

* Includes principal payments only.

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 10 - Stock-Based Compensation

On April 16, 2007, the Company's shareholders approved the 2007 Omnibus Incentive Stock Plan ("the Omnibus Plan") to provide incentive opportunities for key employees and non-employee directors and to align the personal financial interests of such individuals with those of the Company's shareholders. The Omnibus Plan permits the issuance of up to 800,000 shares of the Company's common stock in the form of stock options, stock appreciation rights, restricted stock, restricted stock units and performance awards. As of June 30, 2007, no awards have been granted under the Omnibus Plan.

The Company also continues to maintain its other stock-based incentive plans, which permit the awards of up to 259,875 shares of restricted common stock and the granting of options to acquire up to 1,039,000 shares of common stock. Restricted shares are amortized to expense over the three-year vesting period. Options currently vest and expire over a period not to exceed seven years. The plans authorize the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code, options that do not qualify (non-statutory stock options) and grants of restricted shares of common stock. The Company issues shares out of treasury stock for restricted shares and option exercises.

As of June 30, 2007, the total unrecognized compensation expense related to non-vested stock awards was $1,508,000 and the related weighted-average period over which it is expected to be recognized is approximately 2.5 years. Changes in restricted shares outstanding were as follows:

	Shares	Fair Value
Balance at December 31, 2006	22,481	22.88
Granted	39,520	37.30
Vested	(5,416)	18.64
Forfeited	--	--
Balance at March 31, 2007	56,585	33.36
Granted	3,600	34.03
Vested	(4,911)	22.53
Forfeited	(600)	29.94
Balance at June 30, 2007	54,674	34.41

As of June 30, 2007, the total unrecognized compensation expense related to non-vested stock options was $118,000 and the related weighted-average period over which it is expected to be recognized is approximately 4.4 years.

There were no stock options granted during the six-month period ended June 30, 2007. Following are the assumptions used to estimate the fair value of option grants during the six-month period ended June 30, 2006:

	Six Months Ended June 30	
	2007	2006
Risk-free interest rate	-	4.37%
Expected life	-	7 yrs.
Expected volatility	-	5.00%
Expected dividend yield	-	1.88%

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 options 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 options using average monthly closing market prices of the Company's stock. The expected dividend yield is determined based on the Company's current rate of annual dividends.

Under the treasury stock method, outstanding stock options are dilutive when the average market price of the Company's common stock, when combined with the effect of any unamortized compensation expense, exceeds the option price during a period. In addition, proceeds from the assumed exercise of dilutive options along with the related tax benefit are assumed to be used to repurchase common shares at the average market price of such stock during the period.

Anti-dilutive shares are those option shares with exercise prices in excess of the current market value.

A summary of the Company's stock option program for the three and six-month periods ended June 30, 2007 is shown below.

	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2006	87,805	$ 15.40
Granted	--	--
Exercised	(258)	15.96
Forfeited or expired	--	--
Outstanding at March 31, 2007	87,547	15.40
Granted	--	--
Exercised	(700)	16.89
Forfeited or expired	--	--
Outstanding at June 30, 2007	86,847	15.39
Exercisable at June 30, 2207	16,777	$ 11.27

The total intrinsic value of options exercised was $16,000 and $1,623,000 for the six-month periods ended June 30, 2007 and 2006, respectively.

A summary of the activity of the non-vested options during the three and six-month periods ended June 30, 2007 is shown below.

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2006	85,406	$ 2.38
Granted	--	--
Vested	(15,336)	1.75
Forfeited	--	--
Nonvested at March 31, 2007	70,070	2.52
Granted	--	--
Vested	--	--
Forfeited	--	--
Nonvested at June 30, 2007	70,070	$ 2.52

Note 11 - 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 2006 and an estimate for 2007:

(In Thousands)	Estimated 2007	Actual 2006
Service cost - benefits earned during the year	$ 1,622	$ 1,554
Interest cost on projected benefit obligation	1,771	1,565
Expected return on plan assets	(1,865)	(1,603
Net amortization	197	270
Net periodic pension cost	$ 1,725	$ 1,786

Pension costs recorded to expense were $429,000 and $415,000 for the three-month periods ended June 30, 2007 and 2006, respectively and were $832,000 and $753,000 for the six-month periods ended June 30, 2007 and 2006, respectively. The Company has not made any contribution to the plan during the six-month period ended June 30, 2007, but expects to contribute at least $1,800,000 in 2007.

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 2006 and an estimate for 2007:

(In Thousands)	Estimated 2007	Actual 2006
Service cost - benefits earned during the year	$ 44	$ 43
Interest cost on projected benefit obligation	233	150
Net amortization	249	111

Net periodic pension cost	$ 526	$ 304

Pension costs recorded to expense were $141,000 and $47,000 for the three-month periods ended June 30, 2007 and 2006, respectively, and were $227,000 and $95,000 for the six-month periods ended June 30, 2007 and 2006, respectively.

Note 12 - Income Taxes

The Company adopted FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes" effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes in financial statements and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken.

The Company had unrecognized tax benefits of approximately $655,000 as of January 1, 2007. The total amount of federal and state unrecognized tax benefits at January 1, 2007 that, if recognized, would affect the effective tax rate was $488,000, net of federal tax benefit. There have been no significant changes to the unrecognized tax benefits during the three and six month periods ended June 30, 2007. The Company expects a reduction of $31,000 in unrecognized tax benefits during the remaining six-month period ending December 31, 2007 as a result of the lapse of federal and state statutes of limitations.

Interest and penalties were immaterial at the date of adoption. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The amount of interest recognized during the three and six-month periods ended June 30, 2007 was immaterial.

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 2003 and 2006 remain subject to examination by the Internal Revenue Service ("IRS"). In addition, the Company is subject to state tax examinations for the tax years 2003 through 2006.

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

Overview

Cass Information Systems, Inc. provides payment and information processing services to large manufacturing, distribution and retail enterprises from its processing centers in St. Louis, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina and Wellington, Kansas. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays utility invoices, which includes electricity, gas and telecommunications expenses and is a provider of telecom expense management solutions. Cass extracts, stores and presents information from freight, utility and telecommunication invoices, assisting its customers' transportation, energy 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 also, through Cass Commercial Bank, its St. Louis, Missouri based bank subsidiary (the "Bank"), provides banking services in the St. Louis metropolitan area and Orange County, California. 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 ("EDI"), imaging, 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 account balances that are 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. The Bank also assesses fees on other services such as cash management services.

Industry-wide factors that impact the Company include the acceptance by large corporations of the outsourcing of key business functions such as freight, utility and telecommunication 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.

On July 7, 2006, the Company acquired 100% of the stock of NTransit, Inc., a company whose service provides auditing and expense management of parcel shipments. While this acquisition did not meet the Regulation S-X criteria of a significant business combination, it positioned the Company to expand its offerings in the specialized service and expertise in parcel shipping, which is a unique segment of the transportation industry that has experienced tremendous growth in recent years.

Currently, management views Cass' major opportunity and challenge 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 lead 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 all of the consolidated financial information in this report in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). In preparing the consolidated financial statements in accordance with U.S. GAAP, 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 our results of operations or financial position have been discussed with the Audit Committee of the Board of Directors and are described below.

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.

Impairment of Assets. The Company periodically evaluates certain long-term assets such as intangible assets including goodwill, foreclosed assets, internally developed software and investments in private equity securities for impairment. Generally, these assets are initially recorded at cost, and recognition of impairment is required when events and circumstances indicate that the carrying amounts of these assets will not be recoverable in the future. If impairment occurs, various methods of measuring impairment may be called for depending on the circumstances and type of asset, including quoted market prices, estimates based on similar assets, and estimates based on valuation techniques such as discounted projected cash flows. Assets held for sale are carried at the lower of cost or fair value less costs to sell. These policies affect both segments of the Company and require significant management assumptions and estimates that could result in materially different results if conditions or underlying circumstances change.

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, 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. Effective January 1, 2007, the Company adopted FIN No. 48, "Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109." FIN No. 48 provides guidance for the recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. See Note 12 to the financial statements.

Pension Plans. The amounts recognized in the consolidated financial statements related to pension 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, 2006, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 13 to the consolidated financial statements filed with the Company's annual report on Form 10-K for the year ended December 31, 2006. In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The funded status is measured as the difference between the fair value of the plan assets and the benefit obligation as of the date of its fiscal year-end. The Company recognized the required changes and disclosures in its consolidated 2006 financial statements.

Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three-month period ended June 30, 2007 ("Second Quarter of 2007") compared to the three-month period ended June 30, 2006 ("Second Quarter of 2006") and the six-month period ended June 30, 2007 ("First Half of 2007") compared to the six-month period ended June 30, 2006 ("First Half of 2006"). The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and with the statistical information and financial data appearing in this report as well as the Company's 2006 annual report on Form 10-K. Results of operations for the Second Quarter of 2007 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:

(Dollars in Thousands except Per Share Data)	Three Months Ended June 30 2007	2006	% Change	2007
Net income	$ 4,192	$ 3,535	18.6%	$ 8,378
Net income from continuing operations	$ 4,192	$ 3,724	12.6%	$ 8,378
Diluted earnings per share	$ .49	$ .41	19.5%	$ .98
Diluted earnings per share from continuing operations	$ .49	$ .43	14.0%	$ .98
Return on average assets	1.93%	1.75%	--	1.95%
Return on average equity	19.18%	18.22%	--	19.64%

Fee Revenue and Other Income from Continuing Operations

The Company's fee revenue is derived mainly from freight and utility processing and payment 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 related to fees and accounts and drafts payable for the three and six-month periods ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30			
(In Thousands)	2007	2006	% Change	
Freight Core Invoice Transaction Volume*	6,462	6,163	4.9%	12
Freight Invoice Dollar Volume	$ 3,684,047	$ 3,624,224	1.7%	$ 7,095
Utility Transaction Volume	2,271	1,593	42.6%	4
Utility Transaction Dollar Volume	$ 1,832,094	$ 1,275,735	43.6%	$ 3,606
Payment and Processing Fees	$ 11,399	$ 9,806	16.2%	$ 22

*Core invoices exclude parcel shipments.

Second Quarter of 2007 compared to Second Quarter of 2006:

Freight transaction volume and invoice dollar volume for the Second Quarter of 2007 increased slightly compared to the same period in 2006 despite the lack of growth in shipping activity in the United States, particularly in the large manufacturing segments. The increase in transaction and dollar volume from utility transactions increased primarily due to new customers as the growth of this division continues. The increase in utility transaction volume drove the increase in payment and processing fees.

Bank service fees increased $80,000 or 23% primarily due to higher commercial account fees and check processing volume. Other income increased $24,000 in the Second Quarter of 2007.

First Half of 2007 compared to First Half of 2006:

Freight and utility transaction volume and dollar volume increased for the First Half of 2007 compared to 2006 due to the same factors discussed above for the Second Quarter of 2007.

Bank service fees decreased $104,000 or 11%. This decrease was due primarily to a penalty charged for the early withdrawal of a certificate of deposit by one large customer in the first quarter of 2006. Other income increased $44,000 in the First Half of 2007.

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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 net interest income and related factors for the three and six-month periods ended June 30, 2007 and 2006:

(Dollars in Thousands)	Three Months Ended June 30 2007	2006	% Change	2007
Average earnings assets	$789,525	$737,204	7.1%	$784,601
Net interest income*	10,848	10,235	6.0%	21,363
Net interest margin*	5.51 %	5.57 %	--	5.49
Yield on earning assets*	6.55 %	6.39 %	--	6.53
Rate on interest bearing liabilities	4.35 %	3.42 %	--	4.32

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

Second Quarter of 2007 compared to Second Quarter of 2006:

The increase in net interest income was primarily due to an increase in earning assets and an increase in yields on earning assets that exceeded the counteracting effect of increases in rates paid on deposit accounts. The increase in earning assets was funded by an increase in accounts and drafts payable due to the increase in dollar volume processed. Yields on earning assets and rates paid on deposit accounts both increased as the general level of interest rates increased. However, as the balances of earning assets greatly exceed the balances of interest-bearing deposits, the net effect on net interest income was positive.

Total average loans increased $279,000, less than 1%, to $528,121,000. Total average investment in debt and equity securities increased $38,854,000 or 42% to $130,411,000 as the Company invested a portion of the increase in payables. Total average federal funds sold and other short-term investments increased $13,188,000 or 11% to $130,993,000. This increase provides additional liquidity to the Company. For more information on the changes in net interest income please refer to the tables that follow.

First Half of 2007 compared to First Half of 2006:

The increase in net interest income was primarily due to an increase in earning assets and an increase in yields on earning assets that exceeded the counteracting effect of increases in rates paid on deposit accounts. The increase in earning assets was funded by an increase in accounts and drafts payable due to the increase in dollar volume processed. Yields on earning assets and rates paid on deposit accounts both increased as the general level of interest rates increased. However, as the balances of earning assets greatly exceed the balances of interest-bearing deposits, the net effect on net interest income was positive.

Total average loans decreased $6,042,000 or 1% to $522,444,000. Total average investment in debt and equity securities increased $30,479,000 or 33% to $123,645,000 as the Company invested a portion of the increase in payables. Total average federal funds sold and other short-term investments increased $19,844,000 or 17% to $138,512,000. This increase provides additional liquidity to the Company. For more information on the changes in net interest income please refer to the tables that follow.

The Company is positively affected by increases in the level of interest rates due to the fact that its rate-sensitive assets significantly exceed its rate-sensitive liabilities. This is primarily due to the noninterest-bearing liabilities generated by the Company in the form of accounts and drafts payable. Changes in interest rates will affect some earning assets such as federal funds sold and floating rate loans immediately and some earning assets, such as fixed rate loans and municipal bonds, over time.

Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rate and Interest Differential

The following table shows 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.

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	Second Quarter 2007			Second Quarte	
(Dollars in Thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense
Assets (1)					
Earning assets:					
Loans (2,3):					
Taxable	$ 522,134	$ 9,256	7.11%	$ 522,277	$ 8,996
Tax-exempt (4)	5,987	108	7.24	5,565	91
Debt and equity securities (5):					
Taxable	19,041	226	4.76	25,336	272
Tax-exempt (4)	111,370	1,616	5.82	66,221	983
Federal funds sold and other short-term investments	130,993	1,679	5.14	117,805	1,407
Total earning assets	789,525	12,885	6.55	737,204	11,749
Nonearning assets:					
Cash and due from banks	25,305			27,790	
Premises and equipment, net	12,860			12,574	
Bank owned life insurance	12,193			11,700	
Goodwill and other intangibles	8,533			5,275	
Other assets	29,444			22,181	
Assets related to discontinued operations	--			365	
Allowance for loan losses	(6,908)			(6,227)	
Total assets	$ 870,952			$ 810,862	
Liabilities And Shareholders' Equity (1)					
Interest-bearing liabilities:					
Interest-bearing demand deposits	$64,394	$ 519	3.23%	$ 68,091	$ 382
Savings deposits	22,277	189	3.40	21,076	117
Time deposits of $100 or more	67,019	873	5.22	53,683	634
Other time deposits	30,401	384	5.05	30,849	331
Total interest-bearing deposits	184,091	1,965	4.28	173,699	1,464
Short-term borrowings & other	615	23	15.00	137	1
Subordinated debentures	3,700	49	5.31	3,700	49

Total interest-bearing liabilities	188,406	2,037	4.33	177,536	1,514
Noninterest-bearing liabilities:					
Demand deposits	94,461			97,863	
Accounts and drafts payable	487,201			448,731	
Other liabilities	13,213			8,564	
Liabilities related to discontinued operations	--			349	
Total liabilities	783,281			733,043	
Shareholders' equity	87,671			77,819	
Total liabilities and shareholders' equity	$870,952			$ 810,862	
Net interest income		$ 10,848			$ 10,235
Interest spread			2.22%		
Net interest margin			5.51		

1. Balances shown are daily averages.
2. 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 2006 Consolidated Financial Statements, filed with the Company's 2006 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $48,000 and $37,000 for the Second Quarter of 2007 and 2006, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $603,000 and $375,000 for the Second Quarter of 2007 and 2006, respectively.

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5. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

	First Half of 2007			First Half of	
(Dollars in Thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense
Assets (1)					
Earning assets:					
Loans (2,3):					
Taxable	$516,332	$18,173	7.10%	$ 523,194	$ 17,721
Tax-exempt (4)	6,112	220	7.26	5,292	180
Debt and equity securities (5):					
Taxable	19,791	469	4.78	26,983	537
Tax-exempt (4)	103,854	3,015	5.85	66,183	1,961
Federal funds sold and other short-term investments	138,512	3,534	5.15	118,668	2,680

Total earning assets	784,601	25,411	6.53	740,320	23,079
Nonearning assets:					
Cash and due from banks	25,387			28,342	
Premises and equipment, net	12,851			12,313	
Bank owned life insurance	12,131			11,644	
Goodwill and other intangibles	8,563			5,296	
Other assets	28,816			21,395	
Assets related to discontinued operations	--			150	
Allowance for loan losses	(6,790)			(6,241)	
Total assets	$ 865,559			$ 813,219	
Liabilities And Shareholders' Equity (1)					
Interest-bearing liabilities:					
Interest-bearing demand deposits	$64,530	$ 1,037	3.24%	$ 75,560	$ 853
Savings deposits	22,626	383	3.41	20,464	219
Time deposits of $100 or more	68,144	1,763	5.22	45,459	1,016
Other time deposits	29,941	742	5.00	31,419	639
Total interest-bearing deposits	185,241	3,925	4.27	172,902	2,727
Short-term borrowings & other	645	25	7.82	151	3
Subordinated debentures	3,700	98	5.34	3,700	98
Total interest-bearing liabilities	189,586	4,048	4.31	176,753	2,828
Noninterest-bearing liabilities:					
Demand deposits	95,379			99,389	
Accounts and drafts payable	481,810			452,240	
Other liabilities	12,746			7,020	
Liabilities related to discontinued operations	--			876	
Total liabilities	779,521			736,278	
Shareholders' equity	86,038			76,941	
Total liabilities and shareholders' equity	$865,559			$813,219	
Net interest income		$21,363			$ 20,251
Interest spread			2.22%		
Net interest margin			5.49		

1. Balances shown are daily averages.
2. 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 2006 Consolidated Financial Statements, filed with the Company's 2006 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $94,000 and $109,000 for the First Half of 2007 and 2006, respectively.

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4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $1,133,000 and $749,000 for the First Half of 2007 and 2006, respectively.
5. 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 table presents 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.

(In Thousands)	Secon 2007 Volume
Increase (decrease) in interest income:	
Loans (1,2):	
Taxable	$ (2) $
Tax-exempt (3)	7
Debt and equity securities:	
Taxable	(73)
Tax-exempt (3)	656
Federal funds sold and other short-term investments	164
Total interest income	752
Interest expense on:	
Interest-bearing demand deposits	(22)
Savings deposits	7
Time deposits of $100 or more	169
Other time deposits	(5)
Short-term borrowings & other	10
Subordinated debentures	--
Total interest expense	159
Net interest income	$ 593 $

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%.

(In Thousands)	Fir 2007 Volume
Increase (decrease) in interest income:	
Loans (1,2):	
Taxable	$ (234) $

Tax-exempt (3)	29
Debt and equity securities:	
Taxable	(159)
Tax-exempt (3)	1,094
Federal funds sold and other short-term investments	481
Total interest income	1,211
Interest expense on:	
Interest-bearing demand deposits	(138)
Savings deposits	25
Time deposits of $100 or more	568
Other time deposits	(31)
Short-term borrowings & other	17
Subordinated debentures	--
Total interest expense	441
Net interest income	$ 770

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

An important determinant of the Company's operating results is the provision for loan losses and the level of loans charged off. There was a $225,000 and $150,000 provision made for loan losses during the Second Quarter of 2007 and the Second Quarter of 2006, respectively. There was a $450,000 and $300,000 provision made for loan losses during the First Half of 2007 and the First Half of 2006, respectively. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. There were $204,000 and $51,000 of net loan charge-offs in the Second Quarter of 2007 and 2006, respectively. There were $199,000 of net loan charge-offs in the First Half of 2007 and $272,000 in the First Half 2006.

The allowance for loan losses at June 30, 2007 was $6,843,000 and at December 31, 2006 was $6,592,000. The ratio of allowance for loan losses to total loans outstanding at June 30, 2007 was 1.31% compared to 1.31% at December 31, 2006. Nonperforming loans were $2,855,000 or .55% of total loans at June 30, 2007 compared to $795,000 or .16% of total loans at December 31, 2006.

At June 30, 2007, nonperforming loans, which are also considered impaired, consisted of $2,855,000 in non-accrual loans as shown in the following table. This total consists of four loans, three of which relate to businesses that are for sale or are in process of liquidation. Nonperforming loans at December 31, 2006 consisted of $795,000 in non-accrual loans and relate to two of the same borrowers. In addition, a loan of $2,194,000 is for a building on which the Company is initiating foreclosure, offset by a charge-off of $285,000 for a loan on non-accrual as of December 31, 2006. Total nonperforming loans increased $1,273,000 from June 30, 2006 to June 30, 2007. This increase was primarily due to a commercial loan which is currently in the foreclosure process.

In addition to the nonperforming loans discussed above, at June 30, 2007, approximately $6,243,000 of loans not included in the table below were identified by management as having potential credit problems. They may also be classified for regulatory purposes. These loans are excluded from the table due to the fact they are current under the original terms of the loans, however circumstances have raised doubts as to the ability of the borrowers to comply with the current loan repayment terms. Included in this balance is $3,245,000 related to one borrower that was renegotiated several years ago and although current under the new terms of the contract, management believes, due to the financial condition of the borrower, there still remains risk as to the collectability of all amounts under the loan agreement. The remaining loans are closely monitored by management and have specific reserves established for the estimated loss exposure.

The allowance for loan losses has been established and is maintained to absorb probable losses in the loan portfolio. An ongoing assessment of risk of loss is performed to determine if the current balance of the allowance is adequate to cover probable losses in the portfolio. A charge or credit is made to expense to cover any deficiency or reduce any excess. The current methodology employed to determine the appropriate allowance consists of two components, specific and general. The Company develops specific valuation allowances on commercial, real estate, and construction loans based on individual review of these loans and an estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and collection options available. The general component relates to all other loans, which are evaluated based on loan grade. The loan grade assigned to each loan is typically evaluated on an annual basis, unless circumstances require interim evaluation. The Company assigns a reserve amount consistent with each loan's rating category. The reserve amount is based on derived loss experience over prescribed periods. In addition to the amounts derived from the loan grades, a portion is added to the general reserve to take into account other factors including national and local economic conditions, downturns in specific industries including loss in collateral value, trends in credit quality at the Company and the banking industry, and trends in risk rating changes. As part of their examination process, federal and state agencies review the Company's methodology for maintaining the allowance for loan losses and the balance in the account. These agencies may require the Company to increase the allowance for loan losses based on their judgments and interpretations about information available to them at the time of their examination.

Summary of Asset Quality

	Three Months Ended June 30		S
(Dollars in Thousands)	2007	2006	2
Allowance at beginning of period	$ 6,822	$ 6,213	$ 6
Provision charged to expense	225	150	
Loans charged off	285	54	
Recoveries on loans previously charged off	81	3	
Net loans charged-off (recovered)	204	51	

Allowance at end of period	$ 6,843	$ 6,312	$ 6
Loans outstanding:			
Average	$ 528,121	$ 527,842	$ 522
June 30	521,007	531,494	521
Ratio of allowance for loan losses to loans outstanding:			
Average	1.30%	1.20%	
June 30	1.31	1.19	
Nonperforming loans:			
Nonaccrual loans	$ 2,855	$ 1,582	$ 2
Loans past due 90 days or more	--	--	
Renegotiated loans	--	--	
Total non performing loans	$ 2,855	$ 1,582	$ 2
Foreclosed assets	--	--	
Nonperforming loans as percentage of average loans	.54%	.30%	

The Bank had no properties carried as other real estate owned as of June 30, 2007 and 2006 and December 31, 2006.

Operating Expense from Continuing Operations

Total operating expense for the Second Quarter of 2007 increased $1,648,000 or 12% to $15,932,000 compared to the Second Quarter of 2006 due primarily to expenses related to the 16% growth in processing activity. Total operating expense for the First Half of 2007 increased $3,112,000 or 11% to $31,265,000 compared to the First Half of 2006 due primarily to expenses related to the 16% growth in processing activity.

Salaries and benefits expense for the Second Quarter of 2007 increased $1,629,000 or 16% to $11,896,000 compared to the Second Quarter of 2006 and increased $2,898,000 or 14% to $23,435,000 for the First Half of 2007 compared to the First Half of 2006 primarily due to additional headcount to service new transaction business and an increase in bonuses related to the earnings increase over the comparable period last year.

Occupancy expense for the Second Quarter of 2007 increased $47,000 or 10% to $532,000 from the Second Quarter of 2006 and increased $82,000 or 9% from the First Half of 2006 compared to the First Half of 2007.

Equipment expense for the Second Quarter of 2007 increased $134,000 or 18% compared to the Second Quarter of 2006 due to additional depreciation on asset purchases and increased $293,000 or 21% from the First Half of 2006 compared to the First Half of 2007 due also to asset purchases and additional software licenses.

Amortization of intangible assets was $70,000 for the Second Quarter of 2007 compared to $43,000 in 2006 and $140,000 for the First Half of 2007 compared to $86,000 in 2006. The increases were related to the customer list acquired with the NTransit purchase in July 2006.

Other operating expense for the Second Quarter of 2007 decreased $189,000, or 7% compared to the Second Quarter of 2006 and decreased $215,000 from the First Half of 2006 compared to the First Half of 2007. The decreases were due to lower legal and outside services expenses.

Income tax expense for the Second Quarter of 2007 decreased $109,000 or 5% compared to the Second Quarter of 2006 and decreased $141,000 for the First Half of 2007 compared to the First Half of 2006. The effective tax rate was 31.7% and 35.6% for the Second Quarters of 2007 and 2006, respectively and was 32.6% and 35.3% for the Second Halves of 2007 and 2006, respectively. The decreases reflect the impact of the increase in tax-exempt securities.

Financial Condition

Total assets at June 30, 2007 were $935,608,000, an increase of $77,137,000, or 9% from December 31, 2006. The most significant changes in asset balances during this period were an increase of $28,589,000 or 17% in federal funds sold and other short-term investments and an increase of $29,840,000 in securities available for sale. Changes in federal funds sold and other short-term investments 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 draft payable balances.

Total liabilities at June 30, 2007 were $846,163,000, an increase of $71,613,000, or 9% from December 31, 2006. Total deposits at June 30, 2007 were $267,208,000, a decrease of $22,686,000 or 8% from December 31, 2006. Accounts and drafts payable at June 30, 2007 were $560,732,000, an increase of $92,339,000 or 20%. Total shareholders' equity at June 30, 2007 was $89,445,000, a $5,524,000 or 6.6% increase from December 31, 2006.

Deposits in the First Half of 2007 decreased as customers moved funds into other higher-yielding investments. 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 Stockholders' Equity; Interest Rate and Interest Differential" section of this report).

The increase in total shareholders' equity resulted from net income of $8,378,000, cash received on the exercise of stock options of $16,000, $36,000 tax benefit on stock and option awards, $319,000 from stock-based compensation expense and the FIN 48 tax adjustment of $87,000 offset by dividends paid of $2,009,000 ($.12 per share) and an increase in other comprehensive loss of $1,303,000.

Liquidity and Capital Resources

The balance of liquid assets consists of cash and cash equivalents, which include cash and due from banks, federal funds sold and money market funds, and was $220,573,000 at June 30, 2007, an increase of $24,069,000 or 12% from December 31, 2006. At June 30, 2007 these assets represented 24% 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 $132,589,000 at June 30, 2007, an increase of $29,840,000 from December 31, 2006. These assets represented 14% of total assets at June 30, 2007. Of this total, 86% were state and political subdivision securities, 12% were U.S. Treasury securities and 2% were U.S. government agencies. Of the total portfolio, 13% mature in one year, 29% mature in one to five years, and 58% mature in five or more years. During the Second Quarter of 2007 the Company did not sell any securities.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $29,000,000. Additionally, the Bank maintains a line of credit at unaffiliated financial institutions in the maximum amount of $54,913,000 collateralized by U.S. Treasury and agency securities and commercial and residential mortgage loans.

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.

Net cash flows provided by operating activities were $13,305,000 for the First Half of 2007 compared with $8,531,000 for the First Half of 2006. This increase is attributable to the increase in net income of $702,000, the increase in net income taxes deferred and payable of $1,043,000, the absence of a loss of $1,853,000 in operating activities related to discontinued operations and the other normal fluctuations in asset and liability accounts. 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 2007.

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".

Risk-based capital guidelines require the Company to meet a minimum total capital ratio of 8.0% of which at least 4.0% 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 Federal Deposit Insurance Corporation ("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, allowance for loan losses, 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 at June 30, 2007 and December 31, 2006:

June 30, 2007 (In Thousands)	Amount	R

Total capital (to risk-weighted assets)			
Cass Information Systems, Inc.	$	92,424	13
Cass Commercial Bank		41,769	14
Tier I capital (to risk-weighted assets)			
Cass Information Systems, Inc.	$	81,881	12
Cass Commercial Bank		38,249	13
Tier I capital (to average assets)			
Cass Information Systems, Inc.	$	81,881	9
Cass Commercial Bank		38,249	11

December 31, 2006 (In Thousands)		Amount	Ra
Total capital (to risk-weighted assets)			
Cass Information Systems, Inc.	$	85,205	13
Cass Commercial Bank		42,242	14
Tier I capital (to risk-weighted assets)			
Cass Information Systems, Inc.	$	74,913	11
Cass Commercial Bank		38,511	12
Tier I capital (to average assets)			
Cass Information Systems, Inc.	$	74,913	8
Cass Commercial Bank		38,511	11

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 Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes", an Interpretation of SFAS No. 109 "Accounting for Income Taxes". FASB Interpretation No. 48 clarifies the accounting for uncertainty in income taxes in financial statements and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The FASB Interpretation is effective for fiscal years beginning after December 15, 2006. The Company implemented FASB Interpretation No. 48 on January 1, 2007, which did not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur 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. The Company recognized the required changes and disclosures in its consolidated 2006 financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. This statement is effective for fiscal years ending after November 15, 2006. This bulletin did not have an impact on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the impact of SFAS No. 159 on its financial statements.

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, 2006, 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% 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 June 30, 2007 has changed materially from that at December 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that the information it is required to disclose in the reports it files with the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported to management, including the Chief Executive Officer and Principal Financial Officer, within the time periods specified in the rules of the SEC.

The Company's Chief Executive Officer and Principal Financial Officer have evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2007 and based on their evaluation, believe that, as of June 30, 2007, these controls and procedures were effective at the reasonable assurance level to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

There were no changes in the second quarter of 2007 in the Company's internal control over financial reporting identified by the Chief 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 and its subsidiaries are not involved in any pending proceedings other than ordinary routine litigation incidental to its businesses. Management believes none of these proceedings, if determined adversely, would have a material effect on the business 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, 2006, 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 2006 annual report on Form 10-K.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of the shareholders of Cass Information Systems, Inc. held on April 16, 2007, the following proposals were voted on and approved:

The following is a summary of votes cast. No broker non-votes were received.

Proposal to elect four directors for a term of three years ending 2010:

	For	Withheld Authority
Lawrence A. Collett	6,720,713	164,343
Wayne J. Grace	6,742,295	142,761

	For	Withheld Authority
James J. Lindemann	6,742,553	142,503
Andrew J. Signorelli	6,710,169	174,887

Proposal to elect one director for a term of two years ending 2009:

	For	Withheld Authority
John J. Gillis, Jr.	6,729,053	156,003

Proposal to approve the 2007 Omnibus Incentive Stock Plan:

For	Against	Abstain
5,238,068	163,960	107,615

Proposal to ratify KPMG LLP as independent registered public accounting firm for 2007:

For	Against	Abstain
6,834,308	15,995	34,755

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 since the filing of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007.

ITEM 6. EXHIBITS

Exhibit 10.1 2007 Omnibus Incentive Stock Plan.

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.

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: August 6, 2007 By /s/ Lawrence A. Collett

Lawrence A. Collett
Chairman and Chief Executive Officer

DATE: August 6, 2007 By /s/ P. Stephen Appelbaum

P. Stephen Appelbaum
Chief Financial Officer
(Principal Financial and Accounting Officer)