CASS INFORMATION SYSTEMS INC
Form 10-Q
May 09, 2008

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 March 31, 2008

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 Identification No.)
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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one)	Large Accelerated Filer	|_|	Accelerated Filer	|X|
	Non-Accelerated Filer (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 registrant's only class of stock as of May 2, 2008: Common stock, par value $.50 per share - 9,261,432 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 the section Part I, Item 1A, "Risk Factors" of the Company's 2007 Annual Report on Form 10-K, filed with the Securities and Exchange Commission. 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)

	March 31, 2008	December 31, 2007
Assets		
Cash and due from banks	$ 30,491	$ 26,719
Federal funds sold and other short-term investments	11,284	149,351
Cash and cash equivalents	41,775	176,070
Securities available-for-sale, at fair value	208,178	171,706
Loans	541,944	498,455
Less: Allowance for loan losses	6,257	6,280
Loans, net	535,687	492,175
Premises and equipment, net	12,513	12,771
Investment in bank-owned life insurance	12,678	12,544
Payments in excess of funding	20,309	11,664
Goodwill	7,471	7,471
Other intangible assets, net	807	877
Other assets	18,100	17,762
Total assets	$ 857,518	$ 903,040
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 86,322	$ 93,190
Interest-bearing	136,010	180,406
Total deposits	222,332	273,596
Accounts and drafts payable	515,743	513,734
Subordinated convertible debentures	3,605	3,688
Other liabilities	11,470	12,570
Total liabilities	753,150	803,588
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: 9,949,324 shares issued at March 31, 2008 and December 31, 2007	4,975	4,975
Additional paid-in capital	45,140	45,837
Retained earnings	69,598	66,690
Common shares in treasury, at cost (690,592 shares at March 31, 2008 and 740,642 shares at December 31, 2007)	(15,097)	(16,118)
Accumulated other comprehensive loss	(248)	(1,932)

Total shareholders' equity	104,368	99,452
Total liabilities and shareholders' equity	$ 857,518	$ 903,040

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)

	For The Three Months Ended March 31, 2008	2007
Fee Revenue and Other Income:		
Information services payment and processing revenue	$12,047	$11,249
Bank service fees	331	393
Other	233	221
Total fee revenue and other income	12,611	11,863
Interest Income:		
Interest and fees on loans	8,275	8,988
Interest and dividends on securities:		
Taxable	28	243
Exempt from federal income taxes	1,701	910
Interest on federal funds sold and other short-term investments	996	1,855
Total interest income	11,000	11,996
Interest Expense:		
Interest on deposits	1,185	1,960
Interest on short-term borrowings	--	2
Interest on subordinated convertible debentures	52	49
Total interest expense	1,237	2,011
Net interest income	9,763	9,985
Provision for loan losses	450	225
Net interest income after provision for loan losses	9,313	9,760
Operating Expense:		
Salaries and employee benefits	12,437	11,539
Occupancy	540	490
Equipment	824	812
Amortization of intangible assets	70	70

Other operating	2,489	2,422
Total operating expense	16,360	15,333
Income before income tax expense	5,564	6,290
Income tax expense	1,545	2,104
Net income	$ 4,019	$ 4,186
Basic earnings per share	$ .44	$ .45
Diluted earnings per share	.43	.45

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Thousands)

	For The Three Months Ended March 31,	
	2008	2007
Cash Flows From Operating Activities:		
Net income	$ 4,019	$ 4,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,036	645
Provision for loan losses	450	225
Stock-based compensation expense	227	139
Deferred income tax expense	9	986
(Decrease) increase in income tax liability	(1,258)	972
Increase in pension liability	494	479
Other operating activities, net	(1,528)	(1,430)
Net cash provided by operating activities	3,449	6,202
Cash Flows From Investing Activities:		
Proceeds from maturities of securities available-for-sale	4,106	17,000
Purchase of securities available-for-sale	(38,367)	(44,904)
Net increase in loans	(43,962)	(26,479)
Increase in payments in excess of funding	(8,645)	(3,192)
Purchases of premises and equipment, net	(329)	(248)
Net cash used in investing activities	(87,197)	(57,823)
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(6,868)	(15,806)
Net decrease in interest-bearing demand and savings deposits	(7,425)	(12,777)
Net (decrease) increase in time deposits	(36,971)	12,189
Net increase in accounts and drafts payable	2,009	15,619

Net decrease in short-term borrowings	(195)	(154)
Cash dividends paid	(1,111)	(1,005)
Other financing activities, net	14	37
Net cash used in financing activities	(50,547)	(1,897)
Net decrease in cash and cash equivalents	(134,295)	(53,518)
Cash and cash equivalents at beginning of period	176,070	196,504
Cash and cash equivalents at end of period	$ 41,775	$ 142,986
Supplemental information:		
Cash paid for interest	$ 1,425	$ 1,939
Cash paid for income taxes	736	186

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. Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity. The Company issued a 10% stock dividend on December 17, 2007 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, 2007.

Note 2 - Intangible Assets

The Company accounts for intangible assets in accordance with Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") 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 March 31, 2008 and December 31, 2007 are as follows:

	March 31, 2008		Dec
(In Thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carryin Amount

Assets eligible for amortization:			
Software	$ 862	$ (618)	$ 862
Customer List	750	(187)	750
Total	1,612	(805)	1,612
Unamortized intangible assets:			
Goodwill	7,698	(227)*	7,698
Total unamortized intangibles	7,698	(227)	7,698
Total intangible assets	$ 9,310	$(1,032)	$ 9,310

* Amortization through December 31, 2001 prior to adoption of SFAS No. 142.

Software is amortized over four to five years and the customer list is amortized over seven years. Amortization of intangible assets amounted to $70,000 for the three-month periods ended March 31, 2008 and 2007. Estimated amortization of intangibles over the next five years is as follows: $280,000 in 2008, $222,000 in 2009 and $107,000 in 2010, 2011 and 2012.

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 March 31, 2008 was $457,000.

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 March 31, 2008 and 2007 are as follows:

	Th
(Dollars in thousands, except per share data)	2008
Basic	
Net income	$ 4,01
Weighted-average common shares outstanding	9,174,41
Basic earnings per share	$ .4
Diluted	
Net income	$ 4,01
Net income effect of 5.33% convertible debentures	2

Net income	4,04
Weighted-average common shares outstanding	9,174,41
Effect of dilutive stock options and awards	108,02
Effect of 5.33% convertible debentures	185,13
Weighted-average common shares outstanding assuming dilution	9,467,57
Diluted earnings per share	$ .4

Share and per share data for 2007 in the schedule above have been restated for the 10% stock dividend issued on December 17, 2007.

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 300,000 shares of the Company's Common Stock. The Company did not repurchase any shares during the three-month periods ended March 31, 2008 and 2007. As of March 31, 2008, 300,000 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 three-month periods ended March 31, 2008 and 2007, unrealized gains and losses on securities available-for-sale were the Company's only other comprehensive income component. Comprehensive income for the three-month periods ended March 31, 2008 and 2007 is summarized as follows:

	Three Months Ended March 31,	
(In Thousands)	2008	2007
Net income	$ 4,019	$ 4,186
Other comprehensive income:		
Net unrealized gain (loss) on securities available-for-sale, net of tax	1,684	(133)
Total comprehensive income	$ 5,703	$ 4,053

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, 2007. 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.

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-month periods ended March 31, 2008 and 2007, is as follows:

(In Thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	Total
Quarter Ended March 31, 2008				
Total Revenues:				
Revenue from customers	$ 18,462	$ 3,462	$ --	$ 21,924
Intersegment revenue	1,234	206	(1,440)	--
Net income	3,456	563	--	4,019
Total assets	594,457	316,348	(53,287)	857,518
Goodwill	7,335	136	--	7,471
Other intangible assets, net	807	--	--	807
Quarter Ended March 31, 2007				
Total Revenues:				
Revenue from customers	$ 17,743	$ 3,880	$ --	$ 21,623
Intersegment revenue	487	348	(835)	--
Net income	3,194	992	--	4,186
Total assets	546,245	324,686	(9,245)	861,686
Goodwill	7,335	136	--	7,471
Other intangible assets, net	1,086	--	--	1,086

Note 8 - Loans by Type

(In Thousands)	March 31, 2008	December 31, 2007
Commercial and industrial	$124,185	$100,827
Mortgage	374,359	360,907
Construction	38,000	31,082
Industrial revenue bonds	4,062	4,149
Other	1,338	1,490
Total loans	$541,944	$498,455

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 March 31, 2008, 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 March 31, 2008, the balance of unused loan commitments, standby and commercial letters of credit were $27,315,000, $6,861,000 and $3,538,000, 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 balance 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.

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The following table summarizes contractual cash obligations of the Company related to operating lease commitments, time deposits and convertible subordinated debentures at March 31, 2008:

		Amount of Commitment Expiration per Perio			
(In Thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	O Y
Operating lease commitments	$ 3,592	$ 717	$ 951	$ 852	$
Time deposits	45,655	42,219	2,251	1,185	
Convertible subordinated debentures*	3,605	--	--	--	
Total	$52,852	$42,936	$ 3,202	$ 2,037	$

* 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

In 2007, the Board and the Company's shareholders approved the 2007 Omnibus Incentive Stock Plan (the "Omnibus Plan"). The Omnibus Plan permits the issuance of up to 880,000 shares of the Company's common stock in the form of stock options, stock appreciation rights, restricted stock, restricted stock units and performance awards. During the quarter ended March 31, 2008, 29,554 restricted stock shares and 109,755 stock appreciation rights were granted under the Omnibus Plan.

The Company also continues to maintain its other stock-based incentive plans for the restricted common stock previously awarded and the options previously issued and still outstanding. These plans have been superseded by the Omnibus Plan and accordingly, any available restricted stock and stock option grants not yet issued have been cancelled.

Restricted shares are amortized to expense over the three-year vesting period. As of March 31, 2008, the total unrecognized compensation expense related to non-vested common stock was $1,905,000 and the related weighted-average period over which it is expected to be recognized is approximately 1.4 years.

Changes in restricted shares outstanding were as follows:

	Shares	Fair Value
Balance at December 31, 2007	60,349	$31.28
Granted	29,554	28.41
Vested	(18,814)	30.41
Forfeited	--	--
Balance at March 31, 2008	71,089	$30.23

Stock options vest and expire over a period not to exceed seven years. The Company issues shares out of treasury stock for restricted shares and option exercises. There were no stock options granted under the old plan during the three-month periods ended March 31, 2008 and 2007. As of March 31, 2008, the total unrecognized compensation expense related to non-vested stock options was $94,000 and the related weighted-average period over which it is expected to be recognized is approximately 3.8 years.

A summary of the Company's stock option program for the three-month period ended March 31, 2008 is shown below.

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term Years	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2008	95,329	$ 13.99		
Granted	--	--		
Exercised	(24,116)	10.44		
Forfeited or expired	--	--		
Outstanding at March 31, 2008	71,213	15.19	3.31	$ 1,165
Exercisable at March 31, 2008	14,693	$ 11.53	2.31	$ 294

The total intrinsic value of options exercised was $509,000 and $5,000 for the three-month periods ended March 31, 2008 and 2007, respectively.

A summary of the activity of the non-vested stock options during the three-month period ended March 31, 2008 is shown below.

	Shares	Weighted- Average Grant Date Fair Value
Nonvested at January 1, 2008	77,076	$2.29
Granted	--	--
Vested	(20,556)	1.80
Forfeited	--	--
Nonvested at March 31, 2008	56,520	$2.46

There were 109,755 stock appreciation rights granted during the three-month period ended March 31, 2008. As of March 31, 2008, the total unrecognized compensation expense related to stock appreciation rights was $820,000 and the related weighted-average period over which it is expected to be recognized is 6.8 years. Following are the assumptions used to estimate the $7.65 per share fair value of stock appreciation rights granted during the three-month period ended March 31, 2008:

	Three Months Ended March 31, 2008
Risk-free interest rate	3.01%
Expected life	7 yrs.
Expected volatility	26.00%
Expected dividend yield	1.69%

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 rights using average monthly closing market prices of the Company's stock as reported on the Nasdaq Global Market. The expected dividend yield is based on the Company's current rate of annual dividends.

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 2007 and an estimate for 2008:

(In Thousands)	Estimated 2008	Actual 2007

Service cost - benefits earned during the year	$ 1,562	$ 1,622
Interest cost on projected benefit obligation	1,932	1,771
Expected return on plan assets	(2,110)	(1,865)
Net amortization	47	197
Net periodic pension cost	$ 1,431	$ 1,725

Pension costs recorded to expense were $358,000 and $403,000 for the three-month periods ended March 31, 2008 and 2007, respectively. The Company has not made any contribution to the plan during the three-month period ended March 31, 2008, but expects to contribute at least $1,800,000 in 2008.

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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 2007 and an estimate for 2008:

(In Thousands)	Estimated 2008	Actual 2007
Service cost - benefits earned during the year	$ 73	$ 44
Interest cost on projected benefit obligation	268	233
Net amortization	235	249
Net periodic pension cost	$ 576	$ 526

Pension costs recorded to expense were $147,000 and $86,000 for the three-month periods ended March 31, 2008 and 2007, respectively.

Note 12 - Income Taxes

The Company adopted Financial Accounting Standards Board ("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 $1,033,000 as of December 31, 2007. The total amount of federal and state unrecognized tax benefits at December 31, 2007 that, if recognized, would affect the effective tax rate was $806,000, net of federal tax benefit. There have been no material changes to the unrecognized tax benefits during the three months ended March 31, 2008. The Company may realize a reduction of its unrecognized tax benefits in the next twelve months due to a potential lapse of federal and state statutes of limitations. The amount of such a potential reduction is not material.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The amount of interest accrued for unrecognized tax benefits as of December 31, 2007 was immaterial and the amount of interest recognized during the three months ended March 31, 2008 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 2006 and 2007 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2004 through 2007.

Note 13 - Fair Value of Assets

Effective January 1, 2008, the Company adopted SFAS No. 157 "Fair Value Measurements" ("SFAS No. 157") and SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). In accordance with the FASB Staff Position 157-2, "Effective Date of SFAS No. 157," the Company has not applied the provisions of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities such as real estate owned and goodwill. The Company uses fair value measurements to determine fair value disclosures.

The following is a description of valuation methodologies used for assets recorded at fair value:

Investment Securities Available for Sale - Investment securities available-for-sale are recorded at fair value on a recurring basis. The Company's securities available-for sale are measured at fair value using Level 2 valuations. The market evaluation utilizes several sources which include observable inputs rather than "significant unobservable inputs" and therefore fall into the Level 2 category. The table below presents the balances of securities available-for-sale measured at fair value on a recurring basis:

	March 31, 2008
Treasury Securities	$ 1,996
State and Municipal Securities	206,182
	$ 208,178

Loans - The Company does not record loans at fair value on a recurring basis other than loans that are considered impaired. Once a loan is identified as impaired, management measures impairment in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." At March 31, 2008, all impaired loans were evaluated based on the fair value of the collateral. The fair value of the collateral is based upon an observable market price or current appraised value and therefore, the Company classifies these assets as nonrecurring Level 2. The total principal balance of impaired loans measured at fair value at March 31, 2008 was $1,947,000.

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, Orange County, California and other selected cities in the United States. 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, imaging, and web-based solutions varies greatly among customers and industries. These factors combine so that pricing varies 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 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.

Currently, management views Cass's major opportunity as the continued expansion of its payment and information processing service offering and customer base. While the current economic slow down may reduce the short-term growth rate, management remains optimistic about the long-term prospects for growth. With the recent significant drop in short-term interest rates, the major challenge faced by Cass is the prudent management of earning assets and interest bearing liabilities. Management actively monitors Cass's balance sheet and has already taken a number of actions to reduce the interest rate sensitivity of its earning assets and lower the cost of its interest bearing liabilities in an effort to mute the effect the lower interest rate environment has on Cass.

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, 2007, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 12 to the consolidated financial statements filed with the Company's annual report on Form 10-K for the year ended December 31, 2007. Pursuant to Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158"), the Company has recognized the funded status of its defined benefit postretirement plan in its statement of financial position and has recognized changes in that funded status 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.

Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three-month period ended March 31, 2008 ("First Quarter of 2008") compared to the three-month period ended March 31, 2007 ("First Quarter of 2007"). 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 2007 Annual Report on Form 10-K. Results of operations for the First Quarter of 2008 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:

	Three Months Ended March 31,		
(Dollars in thousands, except per share data)	2008	2007	% Chan
Net income	$ 4,019	$ 4,186	(4.0
Diluted earnings per share	$ .43	$ .45	(4.4
Return on average assets	1.84%	1.97%	--
Return on average equity	16.12%	20.12%	--

Fee Revenue and Other Income

The Company's fee revenue is derived mainly from freight and utility payment and processing 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 First Quarter of 2008 and First Quarter of 2007 were as follows:

(In Thousands)	Three Months Ended March 31 2008	2007	% Change
Freight Core Invoice Transaction Volume*	5,972	5,657	5.6%
Freight Invoice Dollar Volume	$3,857,573	$3,411,394	13.1%
Utility Transaction Volume	2,532	2,240	13.0%
Utility Transaction Dollar Volume	$2,235,890	$1,774,004	26.0%
Payment and Processing Revenue	$ 12,047	$ 11,249	7.1%

*Core invoices exclude parcel shipments.

Freight transaction volume and invoice dollar volume for the First Quarter of 2008 increased moderately compared to the same period in 2007 due to new customers. 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 revenue.

Bank service fees decreased $62,000 or 16%. This decrease was due primarily to a reduction in check processing volume. Other income increased $12,000 in the First Quarter of 2008.

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 First Quarter of 2008 and First Quarter of 2007:

(Dollars In Thousands)	Three Months Ended March 31, 2008	2007	Change
Average earning assets	$800,191	$779,623	2.6%
Net interest income*	10,704	10,515	1.8%
Net interest margin*	5.37%	5.47%	--
Yield on earning assets*	5.99%	6.52%	--
Rate on interest bearing liabilities	3.05%	4.29%	--

*Presented on a tax-equivalent basis assuming a tax rate of 35% in 2008 and 2007.

The increase in tax equivalent net interest income was due to a modest increase in average earning assets combined with a shift in the balances of earning assets from the relatively lower yielding federal funds sold and other short-term investments to longer term and relatively higher yielding non-taxable state and municipal securities. Yields on earning assets and rates paid on deposit accounts both decreased as the general level of interest rates decreased.

Total average loans decreased $12,513,000 or 2% to $504,192,000 for the First Quarter of 2008 as compared to the First Quarter of 2007. This decrease was attributable to the repayment of several commercial loans. Average investment in securities increased $61,786,000 or 53% to $178,590,000 and average federal funds sold and other short-term investments decreased $28,705,000 or 20% to $117,409,000 for the First Quarter of 2008 as compared to the First Quarter of 2007, as the Company redeployed assets in the face of a declining interest rate environment. Total average interest-bearing deposits for the First Quarter of 2008 declined $27,796,000 or 15% to $158,609,000 compared to the First Quarter of 2007, as higher cost time deposits were reduced to help counter the negative effects of the lower interest rates faced by the Company in the First Quarter of 2008. For more information on the changes in net interest income, please refer to the tables that follow.

The Company is negatively affected by decreases in the level of interest rates due to the fact that its rate-sensitive assets 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.

	First Quarter of 2008			
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Ave Bal
Assets (1)				
Earning assets:				
Loans (2,3):				
Taxable	$ 500,091	$ 8,228	6.60%	51
Tax-exempt (4)	4,101	72	7.04	
Securities (5):				
Taxable	3,670	28	3.06	2
Tax-exempt (4)	174,920	2,617	6.00	9
Federal funds sold and other short-term investments	117,409	996	3.40	14
Total earning assets	800,191	11,941	5.99	77
Nonearning assets:				
Cash and due from banks	22,111			2
Premises and equipment, net	12,660			1
Bank-owned life insurance	12,591			1
Goodwill and other intangibles, net	8,323			

Other assets	35,529			2
Allowance for loan losses	(6,341)			(
Total assets	$ 885,064			$ 86
Liabilities and Shareholders' Equity (1)				
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 75,927	$ 377	1.99%	$ 6
Savings deposits	19,001	96	2.03	2
Time deposits of $100 or more	40,298	438	4.36	6
Other time deposits	23,383	274	4.70	2
Total interest-bearing deposits	158,609	1,185	3.00	18
Short-term borrowings	71	0	0.00	
Subordinated Debentures	3,618	52	5.76	
Total interest-bearing liabilities	162,298	1,237	3.06	19
Noninterest-bearing liabilities:				
Demand deposits	87,462			9
Accounts and drafts payable	521,245			47
Other liabilities	12,929			1
Total liabilities	783,934			77
Shareholders' equity	101,130			8
Total liabilities and shareholders' equity	$ 885,064			$ 86
Net interest income		$ 10,704		
Net interest margin			5.37%	
Interest spread			2.93%	

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 2007 consolidated financial statements, filed with the Company's 2007 annual report on Form 10-K.
3. Interest income on loans includes net loan fees of $54,000 and $46,000 for the First Quarter of 2008 and 2007, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35% in 2007 and 2008. The tax-equivalent adjustment was approximately $941,000 and $530,000 for the First Quarter of 2008 and 2007, 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.

	First Quarter of 2008 Over 2007		
(In Thousands)	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans (1,2):			
Taxable	$ (158)	$ (530)	$ (688)
Tax-exempt (3)	(36)	(4)	(40)
Securities:			
Taxable	(149)	(66)	(215)
Tax-exempt (3)	1,192	26	1,218
Federal funds sold and other short-term investments	(316)	(544)	(860)
Total interest income	533	(1,118)	(585)
Interest expense on:			
Interest-bearing demand deposits	82	(223)	(141)
Savings deposits	(29)	(69)	(98)
Time deposits of $100 or more	(325)	(127)	(452)
Other time deposits	(68)	(16)	(84)
Short-term borrowings	(1)	(1)	(2)
Subordinated debentures	5	(2)	3
Total interest expense	$ (336)	$ (438)	$ (774)
Net interest income	$ 869	$ (680)	$ 189

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 2008 and 2007.

Provision and Allowance for Loan Losses

A significant determinant of the Company's operating results is the provision for loan losses and the amount of loans charged off. Provisions for loan losses of $450,000 and $225,000 were recorded during the First Quarter of 2008 and the First Quarter of 2007, respectively. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. There was $473,000 of net loan charge-offs in the First Quarter of 2008 and $5,000 of net loan recoveries in the First Quarter of 2007.

The allowance for loan losses at March 31, 2008 was $6,257,000 and at December 31, 2007 was $6,280,000. The ratio of allowance for loan losses to total loans outstanding at March 31, 2008 was 1.15% compared to 1.26% at December 31, 2007. Nonperforming loans were $2,443,000 or .45% of total loans at March 31, 2008 compared to $2,481,000 or .50% of total loans at December 31, 2007.

At March 31, 2008, nonperforming loans, which are also considered impaired, consisted of $1,947,000 in non-accrual loans as shown in the table below. This total consists of six loans that relate to businesses that are in bankruptcy, financial trouble or are in process of liquidation. Nonperforming loans at December 31, 2007 consisted of $1,985,000 in non-accrual loans and relate to five of the same borrowers. Total nonperforming loans increased $83,000 from March 31, 2007 to March 31, 2008. This increase was primarily due to the addition of four loans offset by two loan charge-offs.

In addition to the nonperforming loans discussed above, at March 31, 2008, approximately $4,370,000 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 $2,564,000 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 reserves established for the estimated loss exposure as part of the allowance analysis.

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

The following table presents information as of and for the First Quarter of 2008 and First Quarter of 2007 pertaining to the Company's provision for loan losses and analysis of the allowance for loan losses.

	First Quarter of	
(Dollars in Thousands)	2008	2007

Allowance at beginning of period	$ 6,280	$ 6,592
Provision charged to expense	450	225
Loans charged off	(491)	--
Recoveries on loans previously charged off	18	5
Net loan recoveries (charge-offs)	(473)	5
Allowance at end of period	$ 6,257	$ 6,822
Loans outstanding:		
Average	$ 504,192	$ 516,705
March 31	541,944	530,609
Ratio of allowance for loan losses to loans outstanding:		
Average	1.24%	1.32%
March 31	1.15%	1.29%
Nonperforming loans:		
Nonaccrual loans	1,947	$ 764
Loans past due 90 days or more	496	--
Renegotiated loans	--	--
Total non performing loans	$ 2,443	$ 764
Foreclosed assets	1,388	--
Nonperforming loans as a percent of average loans	.48%	.15%

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The Company had no sub-prime mortgage loans or residential development loans in its portfolio as of March 31, 2008. The Bank had one property carried as other real estate owned of $1,388,000, as of March 31, 2008 and December 31, 2007. The Bank had no properties carried as other real estate owned as of March 31, 2007.

Operating Expense

Total operating expense for the First Quarter of 2008 increased $1,027,000 or 7% to $16,360,000 compared to the First Quarter of 2007 due primarily to expenses related to the 7% growth in processing activity.

Salaries and benefits expense increased $898,000 or 8% to $12,437,000 in the First Quarter of 2008 compared with the First Quarter of 2007 primarily due to merit increases and additional headcount to service new transaction business.

Occupancy expense for the First Quarter of 2008 increased $50,000 or 10% to $540,000 from the First Quarter of 2007 primarily due to additional maintenance and repairs.

Equipment expense for the First Quarter of 2008 increased $12,000 or 1% compared to the First Quarter of 2007.

Amortization of intangible assets remained the same at $70,000 for the First Quarter of 2008 compared to the First Quarter of 2007.

Other operating expenses increased $67,000 to $2,489,000 for the First Quarter of 2008 compared to the First Quarter of 2007.

Income tax expense for the First Quarter of 2008 decreased $559,000 or 27% compared to the First Quarter of 2007. The effective tax rate for the First Quarter of 2008 declined to 27.8% compared with 33.4% in the First Quarter of 2007 primarily due to the increase in tax-exempt municipal securities held and related tax-exempt income.

Financial Condition

Total assets at March 31, 2008 decreased $45,522,000 or 5% from December 31, 2007. The most significant change in asset balances during this period was a decrease of $138,067,000 or 92% in federal funds sold and other short-term investments. Most of this decrease was offset by increases in longer term state and municipal securities and loans. This redeployment of assets was done to offset the negative impact the declining interest rate environment has on the Company.

Total liabilities at March 31, 2008 were $753,150,000, compared to the balance of $803,588,000 at December 31, 2007. Total deposits at March 31, 2008 were $222,332,000, a decrease of $51,264,000 or 19% compared to December 31, 2007 as higher cost time deposits were reduced to help counter the negative effects of the lower interest rate environment. Accounts and drafts payable at March 31, 2008 were $515,743,000, an increase of $2,009,000 or less than 1% compared to December 31, 2007. Total shareholders' equity at March 31, 2008 was $104,368,000, a $4,916,000 or 5% increase from December 31, 2007.

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 $4,019,000, $227,000 from stock-based compensation expense, other miscellaneous activity of $97,000, a decrease of $1,684,000 in other comprehensive loss, offset by dividends paid of $1,111,000 ($.12 per share).

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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 $41,775,000 at March 31, 2008, a decrease of $134,295,000 or 76% from December 31, 2007. At March 31, 2008, these assets represented 5% 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 $208,178,000 at March 31, 2008, an increase of $36,472,000 from December 31, 2007. These assets represented 24% of total assets at March 31, 2008. Of this total, 99% were state and political subdivision securities and 1% were U.S. Treasury securities. Of the total portfolio, 2% mature in one year, 22% mature in one to five years, and 76% mature in five or more years. During the First Quarter of 2008 the Company did not sell any securities.

The Bank has unsecured lines at correspondent banks to purchase federal funds up to a maximum of $39,000,000. Additionally, the Bank maintains a line of credit at unaffiliated financial institutions in the maximum amount of $61,995,000 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 $3,449,000 for the First Quarter of 2008 compared with $6,202,000 for the First Quarter of 2007. This decrease is attributable to the decrease in net income of $167,000, the net change in income taxes deferred and payable of $3,207,000 plus 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 2008.

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 March 31, 2008 and December 31, 2007:

March 31, 2008 (In Thousands)	Amount	Ratio
Total capital (to risk-weighted assets)		
Cass Information Systems, Inc.	$102,704	15.32%
Cass Commercial Bank	42,244	13.73
Tier I capital (to risk-weighted assets)		
Cass Information Systems, Inc.	$ 92,842	13.85%
Cass Commercial Bank	38,389	12.48

Tier I capital (to average assets)		
Cass Information Systems, Inc.	$ 92,842	10.59%
Cass Commercial Bank	38,389	12.14

December 31, 2007 (In Thousands)	Amount	Ratio
Total capital (to risk-weighted assets)		
Cass Information Systems, Inc.	$ 99,508	15.58%
Cass Commercial Bank	41,441	14.39
Tier I capital (to risk-weighted assets)		
Cass Information Systems, Inc.	$ 89,540	14.02%
Cass Commercial Bank	37,827	13.13
Tier I capital (to average assets)		
Cass Information Systems, Inc.	$ 89,540	9.76%
Cass Commercial Bank	37,827	11.46

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 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. The Company adopted this statement as of January 1, 2008 and there was no effect 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. The Company adopted this statement as of January 1, 2008 and there was no effect on the Company's consolidated 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, 2007, 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 March 31, 2008 has changed materially from that at December 31, 2007.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to provide reasonable assurance 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 March 31, 2008 and based on their evaluation, believe that, as of March 31, 2008, 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 first quarter of 2008 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, 2007, 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 2007 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

None

ITEM 5. OTHER INFORMATION

(a) None

(b) None

ITEM 6. EXHIBITS

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: May 9, 2008 By /s/ Lawrence A. Collett

Lawrence A. Collett
Chairman and Chief Executive Officer

DATE: May 9, 2008 By /s/ P. Stephen Appelbaum

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