

CASS INFORMATION SYSTEMS INC
Form 10-Q
May 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. **000-20827**

CASS INFORMATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction of incorporation or organization)

12444 Powerscourt Drive, Suite 550

St. Louis, Missouri

(Address of principal executive offices)

43-1265338

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

63131

(Zip Code)

(314) 506-5500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

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

Yes X No _____

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

Large Accelerated Filer _____

Accelerated Filer X

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Non-Accelerated Filer _____

Smaller Reporting Company _____

Emerging Growth Company _____

(Do not check if a smaller reporting company)

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

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

Yes _____ No X

The number of shares outstanding of the registrant's only class of common stock as of April 26, 2017: Common stock, par value \$.50 per share 11,195,785 shares outstanding.

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Forward-looking Statements - Factors That May Affect Future Results

This report may contain or incorporate by reference forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and other factors beyond our control, which may cause future performance to be materially different from expected performance summarized in the forward-looking statements. These risks, uncertainties and other factors are discussed in Part I, Item 1A, "Risk Factors" of the Company's 2016 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands except Share and Per Share Data)

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	\$ 11,505	\$ 11,814
Interest-bearing deposits in other financial institutions	80,590	136,852
Federal funds sold and other short-term investments	51,475	118,077
Cash and cash equivalents	143,570	266,743
Securities available-for-sale, at fair value	426,315	390,552
Loans	675,380	664,866
Less: Allowance for loan losses	10,191	10,175
Loans, net	665,189	654,691
Premises and equipment, net	21,094	21,086
Investment in bank-owned life insurance	16,568	16,445
Payments in excess of funding	121,775	105,347
Goodwill	11,590	11,590
Other intangible assets, net	2,971	1,997
Other assets	37,934	36,388
Total assets	\$ 1,447,006	\$ 1,504,839
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 195,860	\$ 214,656
Interest-bearing	382,496	407,305
Total deposits	578,356	621,961
Accounts and drafts payable	623,223	642,287
Other liabilities	32,297	32,556
Total liabilities	1,233,876	1,296,804
Shareholders' Equity:		
Preferred stock, par value \$.50 per share; 2,000,000 shares authorized and no shares issued		
Common stock, par value \$.50 per share; 40,000,000 shares authorized and 11,931,147 shares issued at March 31, 2017 and December 31, 2016	5,966	5,966
Additional paid-in capital	128,209	128,455
Retained earnings	122,095	118,363
Common shares in treasury, at cost (734,906 shares at March 31, 2017 and 742,681 shares at December 31, 2016)	(30,184)	(30,206)
Accumulated other comprehensive loss	(12,956)	(14,543)
Total shareholders' equity	213,130	208,035
Total liabilities and shareholders' equity	\$ 1,447,006	\$ 1,504,839

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)

(Dollars in Thousands except Per Share Data)

	Three Months Ended March 31,	
	2017	2016
Fee Revenue and Other Income:		
Information services payment and processing revenue	\$ 22,289	\$ 19,545
Bank service fees	282	358
Gains on sales of securities		308
Other	200	294
Total fee revenue and other income	22,771	20,505
Interest Income:		
Interest and fees on loans	6,953	7,131
Interest and dividends on securities:		
Taxable	77	12
Exempt from federal income taxes	2,601	2,394
Interest on federal funds sold and other short-term investments	368	240
Total interest income	9,999	9,777
Interest Expense:		
Interest on deposits	480	513
Net interest income	9,519	9,264
Provision for loan losses		(1,000)
Net interest income after provision for loan losses	9,519	10,264
Total net revenue	32,290	30,769
Operating Expense:		
Salaries and employee benefits	18,799	17,846
Occupancy	842	834
Equipment	1,304	1,055
Amortization of intangible assets	99	102
Other operating expense	3,274	3,079
Total operating expense	24,318	22,916
Income before income tax expense	7,972	7,853
Income tax expense	1,665	2,020
Net income	\$ 6,307	\$ 5,833
Basic earnings per share	\$.57	\$.52
Diluted earnings per share	.56	.51

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31,	
	2017	2016
Comprehensive income:		
Net income	\$ 6,307	\$ 5,833
Other comprehensive income:		
Net unrealized gain on securities available-for-sale	2,513	3,674
Tax effect	(933)	(1,365)
Reclassification adjustments for gains included in net income		(308)
Tax effect		114
Foreign currency translation adjustments	8	46
Total comprehensive income	\$ 7,895	\$ 7,994

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)
(Dollars in Thousands)

	Three Months Ended	
	2017	March 31, 2016
Cash Flows From Operating Activities:		
Net income	\$ 6,307	\$ 5,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,704	2,307
Net gains on sales of securities		(308)
Stock-based compensation expense	537	499
Provision for loan losses		(1,000)
Increase in income tax liability	467	378
Increase in pension liability	1,155	1,005
Other operating activities, net	(5,549)	(1,552)
Net cash provided by operating activities	5,621	7,162
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale		19,039
Proceeds from maturities of securities available-for-sale	17,623	10,865
Purchase of securities available-for-sale	(52,599)	(25,102)
Net increase in loans	(10,498)	(25,560)
Increase in payments in excess of funding	(16,428)	(5,139)
Purchases of premises and equipment, net	(887)	(1,082)
Net cash used in investing activities	(62,789)	(26,979)
Cash Flows From Financing Activities:		
Net (decrease) increase in noninterest-bearing demand deposits	(18,796)	2,458
Net decrease in interest-bearing demand and savings deposits	(24,994)	(44,046)
Net increase in time deposits	185	949
Net decrease in accounts and drafts payable	(19,064)	(40,534)
Cash dividends paid	(2,575)	(2,484)
Purchase of common shares for treasury		(3,772)
Other financing activities, net	(761)	(580)
Net cash used in financing activities	(66,005)	(88,009)
Net decrease in cash and cash equivalents	(123,173)	(107,826)
Cash and cash equivalents at beginning of period	266,743	253,172
Cash and cash equivalents at end of period	\$ 143,570	\$ 145,346
Supplemental information:		
Cash paid for interest	\$ 476	\$ 501
Cash paid for income taxes	1,198	1,671

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and related footnotes included in Cass Information System, Inc.'s (the Company or Cass) Annual Report on Form 10-K for the year ended December 31, 2016.

Note 2 Intangible Assets

The Company accounts for intangible assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, Goodwill and Other Intangible Assets, (FASB ASC 350), which requires that intangibles with indefinite useful lives be tested annually for impairment and those with finite useful lives be amortized over their useful lives.

In March 2017, the Company acquired Eftel Telecoms Ltd. (Eftel) and recorded intangible assets of \$1,074,000. Those intangible assets were estimated as \$974,000 for the customer list and \$100,000 for non-compete agreements. The amounts will be adjusted upon the completion of a valuation.

Details of the Company's intangible assets are as follows:

	March 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<i>(In thousands)</i>				
Assets eligible for amortization:				
Customer lists	\$ 4,907	\$ (2,429)	\$ 3,933	\$ (2,342)
Patent	72	(9)	72	(8)
Non-compete agreements	361	(263)	261	(261)
Software	234	(234)	234	(234)
Other	500	(167)	500	(158)
Unamortized intangible assets:				
Goodwill ¹				