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CASS INFORMATION SYSTEMS INC
Form 10-Q
November 06, 2008

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 September 30, 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
(State or other jurisdiction of
incorporation or organization)

43-1265338
(I.R.S. Employer
Identification No.)

13001 Hollenberg Drive
Bridgeton, Missouri
(Address of principal executive offices)

63044
(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 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
Non-Accelerated Filer 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

The number of shares outstanding of registrant's only class of stock as of

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November 3, 2008: Common stock, par value \$.50 per share - 9,168,782 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 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands except Share and Per Share Data)

	September 30 2008 (Unaudited)	December 31 2007
Assets		
Cash and due from banks	\$ 23,314	\$ 26,000
Federal funds sold and other short-term investments	82,135	149,000
Cash and cash equivalents	105,449	175,000
Securities available-for-sale, at fair value	201,305	171,000
Loans	575,118	498,000
Less: Allowance for loan losses	6,269	6,000
Loans, net	568,849	492,000
Premises and equipment, net	12,082	12,000
Investment in bank-owned life insurance	12,954	12,000
Payments in excess of funding	29,903	11,000
Goodwill	7,471	7,000
Other intangible assets, net	667	0
Other assets	18,299	17,000
Total assets	\$ 956,979	\$ 903,000
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 96,964	\$ 93,000
Interest-bearing	149,137	180,000
Total deposits	246,101	273,000
Accounts and drafts payable	588,663	513,000
Subordinated convertible debentures	3,219	3,000
Other liabilities	11,567	12,000
Total liabilities	849,550	801,000
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 9,949,324 shares issued at September 30, 2008 and December 31, 2007, respectively	4,975	4,000
Additional paid-in capital	45,544	45,000
Retained earnings	77,197	66,000
Common shares in treasury, at cost (787,774 shares at September 30, 2008 and 740,642 shares at December 31, 2007)	(18,556)	(16,000)
Accumulated other comprehensive loss	(1,731)	(1,000)
Total shareholders' equity	107,429	99,000

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Total liabilities and shareholders' equity	\$ 956,979	\$ 903
	=====	=====

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 September 30		
	2008	2007	2

Fee Revenue and Other Income:			
Information services payment and processing revenue	\$ 13,116	\$ 11,441	\$
Bank service fees	332	416	
Gain on sale of securities	209	--	
Other	236	213	
	-----	-----	-----
Total fee revenue and other income	13,893	12,070	
	-----	-----	-----
Interest Income:			
Interest and fees on loans	8,764	9,224	
Interest and dividends on securities:			
Taxable	13	212	
Exempt from federal income taxes	1,972	1,252	
Interest on federal funds sold and other short-term investments	466	2,030	
	-----	-----	-----
Total interest income	11,215	12,718	
	-----	-----	-----
Interest Expense:			
Interest on deposits	646	1,986	
Interest on short-term borrowings and other	--	7	
Interest on subordinated convertible debentures	46	50	
	-----	-----	-----
Total interest expense	692	2,043	
	-----	-----	-----
Net interest income	10,523	10,675	
Provision for loan losses	500	225	
	-----	-----	-----
Net interest income after provision for loan losses	10,023	10,450	
	-----	-----	-----
Operating Expense:			
Salaries and employee benefits	12,468	11,700	
Occupancy	576	550	
Equipment	825	876	
Amortization of intangible assets	70	70	

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Other operating expense	2,540	2,468	
	-----	-----	-----
Total operating expense	16,479	15,664	
	-----	-----	-----
Income before income tax expense	7,437	6,856	
Income tax expense	2,209	2,179	
	-----	-----	-----
Net Income	\$ 5,228	\$ 4,677	\$
	=====	=====	=====
Basic Earnings Per Share	.57	.51	
Diluted Earnings Per Share	.56	.50	

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)

	Nine Mont Septem

	2008
Cash Flows From Operating Activities:	
Net income	\$ 13,813
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	3,235
Gain on sale of investment securities	(209)
Provision for loan losses	1,600
Stock-based compensation expense	763
Deferred income tax (benefit) expense	(1,000)
Increase in income tax liability	1,230
(Decrease) increase in pension liability	(1,281)
Other operating activities, net	(669)

Net cash provided by operating activities	17,482

Cash Flows From Investing Activities:	
Proceeds from sales of securities available for sale	6,126
Proceeds from maturities of securities available-for-sale	8,106
Purchase of securities available-for-sale	(44,546)
Net increase in loans	(78,274)
Net increase in payments in excess of funding	(18,239)
Purchases of premises and equipment, net	(1,313)

Net cash used in investing activities	(128,140)

Cash Flows From Financing Activities:	
Net increase (decrease) in noninterest-bearing demand deposits	3,774

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Net increase (decrease) in interest-bearing demand and savings deposits	1,037
Net (decrease) increase in time deposits	(32,306)
Net increase in accounts and drafts payable	74,929
Net (decrease) increase in short-term borrowings	(128)
Cash dividends paid	(3,306)
Purchase of common shares for treasury	(3,984)
Other financing activities	21

Net cash provided by financing activities	40,037

Net decrease in cash and cash equivalents	(70,621)
Cash and cash equivalents at beginning of period	176,070

Cash and cash equivalents at end of period	\$ 105,449
	=====
Supplemental information:	
Cash paid for interest	\$ 3,015
Cash paid for income taxes	3,252
Transfer of loans to foreclosed assets	788

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 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 ("SFAS No. 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 September 30, 2008 and December 31, 2007 are as follows:

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	September 30, 2008		December 31, 2007	
(In Thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Assets eligible for amortization:				
Software	\$ 862	\$ (704)	\$ 862	\$ (704)
Customer List	750	(241)	750	(241)
Total	1,612	(945)	1,612	(945)
Unamortized intangible assets:				
Goodwill	7,698	(227) *	7,698	(227)
Total unamortized intangibles	7,698	(227)	7,698	(227)
Total intangible assets	\$ 9,310	\$ (1,172)	\$ 9,310	\$ (1,172)

* 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 \$210,000 for the nine-month periods ended September 30, 2008 and 2007. Estimated amortization of intangibles over the next five years is as follows: \$298,000 in 2008, \$222,000 in 2009, \$107,000 in 2010, 2011 and in 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 December 31, 2007 and September 30, 2008 was \$475,000 and \$422,000, respectively.

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 September 30, 2008 and 2007 are as follows:

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	Three Months Ended September 30	
(Dollars in Thousands except Per Share data)	2008	2007
Basic		
Net income	\$ 5,228	\$ 4,677

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Weighted-average common shares outstanding	9,136,098	9,147,961	

Basic earnings per share	\$.57	\$.51	\$

Diluted			

Net income	\$ 5,252	\$ 4,704	\$

Weighted-average common shares outstanding	9,136,098	9,147,961	
Effect of dilutive stock options and awards	108,443	113,279	
Effect of convertible debentures	174,958	189,989	

Weighted-average common shares outstanding assuming dilution	9,419,499	9,451,229	

Diluted earnings per share	\$.56	\$.50	\$

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 repurchased 0 and 120,000 shares during the three and nine-month periods ended September 30, 2008, respectively. The Company did not repurchase any shares during the nine-month period ended September 30, 2007. As of September 30, 2008, 180,000 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 and nine-month periods ended September 30, 2008 and 2007, unrealized gains and losses on debt and equity securities available-for-sale and reclassification adjustments for realized gains were the other comprehensive income components. Comprehensive income for the three and nine month periods ended September 30, 2008 and 2007 is summarized as follows:

(In Thousands)	Three Months Ended September 30		Ni 200
	2008	2007	
Net income	\$ 5,228	\$ 4,677	\$ 13,
Other comprehensive income:			
Less: Reclassification adjustments for gains included in net income, net of tax	136	--	
Add: Net unrealized gain (loss) on securities available-for-sale, net of tax	518	1,068	

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Total comprehensive income from continuing operations	\$	5,610	\$	5,745	\$	14,
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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.

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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. 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 nine-month periods ended September 30, 2008 and 2007, is as follows:

(In Thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	\$
<hr style="border-top: 1px dashed black;"/>				
Quarter Ended September 30, 2008				
Total Revenues:				
Revenue from customers	\$ 19,929	\$ 3,987	\$ --	\$
Intersegment revenue	1,545	230	(1,775)	
Net income	4,378	850	--	
Total assets	668,076	404,308	(115,405)	
Goodwill	7,335	136	--	
Other intangible assets, net	667	--	--	
Quarter Ended September 30, 2007				
Total Revenues:				
Revenue from customers	\$ 18,675	\$ 3,845	\$ --	\$
Intersegment revenue	474	387	(861)	
Net income	3,738	939	--	
Total assets	623,070	319,640	(9,550)	
Goodwill	7,335	136	--	
Other intangible assets, net	947	--	--	

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Nine Months Ended September 30, 2008

Total Revenues:							
Revenue from customers	\$	57,472	\$	11,086	\$	--	\$
Intersegment revenue		4,177		658		(4,835)	
Net income		11,747		2,066		--	
Total assets		668,076		404,308		(115,405)	
Goodwill		7,335		136		--	
Other intangible assets, net		667		--		--	

Nine Months Ended September 30, 2007

Total Revenues:							
Revenue from customers	\$	54,754	\$	11,460	\$	--	\$
Intersegment revenue		1,446		1,141		(2,587)	
Net income		10,370		2,685		--	
Total assets		623,070		319,640		(9,550)	
Goodwill		7,335		136		--	
Other intangible assets, net		947		--		--	

Note 8 - Loans by Type

(In Thousands)	September 30, 2008	December 31, 2007
Commercial and industrial	\$ 118,164	\$ 100,827
Real estate: (Commercial and church)		
Mortgage	400,520	360,907
Construction	51,327	31,082
Industrial revenue bonds	3,705	4,149
Other	1,402	1,490
Total loans	\$ 575,118	\$ 498,455

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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 December 31, 2007 and September 30, 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

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dates or other termination clauses and may require payment of a fee. At December 31, 2007 the balances of unused loan commitments, standby and commercial letters of credit were \$29,036,000, \$5,999,000 and \$4,147,000, respectively. At September 30, 2008 the balances of unused loan commitments, standby and commercial letters of credit were \$26,354,000, \$6,837,000 and \$3,332,000, 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.

The following table summarizes contractual cash obligations of the Company related to operating lease commitments, time deposits and convertible subordinated debentures at September 30, 2008.

(Dollars in Thousands)	Amount of Commitment Expiration per Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating lease commitments	\$ 3,352	\$ 695	\$ 968	\$ 814	\$ -
Time deposits	50,320	46,660	2,532	1,128	-
Convertible subordinated debentures*	3,219	--	--	--	3
Total	\$ 56,891	\$ 47,355	\$3,500	\$1,942	\$ 4

* 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 September 30, 2008 no restricted shares and no 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.

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As of September 30, 2008, the total unrecognized compensation expense related to non-vested common stock was \$1,503,000 and the related weighted-average period over which it is expected to be recognized is approximately 1.1 years.

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Changes in restricted shares outstanding were as follows:

	Nine Months Ended September 30	
	Shares	Fair Value
Balance at December 31, 2007	60,349	\$31.28
Granted	32,254	29.18
Vested	(23,709)	26.17
Forfeited	(330)	27.22
Balance at September 30, 2008	68,564	\$30.72

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 nine-month periods ended September 30, 2008 and 2007. As of September 30, 2008, the total unrecognized compensation expense related to non-vested stock options was \$79,000, and the related weighted-average period over which it is expected to be recognized is approximately 3.4 years.

A summary of the Company's stock option program for the nine-month period ended September 30, 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	(24,747)	10.57		
Forfeited or expired	-	-		
Outstanding at September 30, 2008	70,582	15.19	2.82	\$20,66
Exercisable at September 30, 2008	14,062	\$11.36	1.80	\$24.49

The total intrinsic value of options exercised was \$13,000 and \$0 for the three-month periods ended September 30, 2008 and 2007, respectively, and was \$522,000 and \$16,000 for the nine-month periods ended September 30, 2008 and 2007, respectively.

There was no non-vested option activity during the three-month period ended September 30, 2008. A summary of the activity of the non-vested options during the nine-month period ended September 30, 2008 is shown below.

Weighted-

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	Shares	Average Grant Date Fair Value
Nonvested at January 1, 2008	77,076	\$2.29
Granted	-	-
Vested	(20,556)	1.80
Forfeited	-	-
Nonvested at September 30, 2008	56,520	\$2.46

There were 0 and 109,755 stock appreciation rights granted during the three and nine-month periods ended September 30, 2008, respectively. As of September 30, 2008, the total unrecognized compensation expense related to stock appreciation rights was \$760,000 and the related weighted-average period over which it is expected to be recognized is 6.3 years. Following are the assumptions used to estimate the \$7.65 per share fair value of stock appreciation rights granted during the nine-month period ended September 30, 2008:

	Nine Months Ended September 30, 2008
Risk-free interest rate	3.01%
Expected life	7 yrs.
Expected volatility	26.00%
Expected dividend yield	1.69%

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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	\$ 1,523	\$ 1,622
Interest cost on projected benefit obligation	1,947	1,771
Expected return on plan assets	(2,108)	(1,865)
Net amortization	66	197

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Net periodic pension cost	\$ 1,428	\$ 1,725
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Pension costs recorded to expense were \$356,000 and \$431,000 for the three-month periods ended September 30, 2008 and 2007, respectively, and were \$1,071,000 and \$1,263,000 for the nine-month periods ended September 30, 2008 and 2007, respectively. The Company made a contribution of \$2,700,000 to the plan during the nine-month period ended September 30, 2008. Given the current turbulent market conditions, the Company will evaluate any additional contribution required in 2008 to assure the ongoing adequate funded status of the plan.

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	\$ 59	\$ 44
Interest cost on projected benefit obligation	267	233
Net amortization	170	249
Net periodic pension cost	\$ 496	\$ 526

Pension costs recorded to expense were \$87,000 and \$134,000 for the three-month periods ended September 30, 2008 and 2007, respectively, and were \$380,000 and \$361,000 for the nine-month periods ended September 30, 2008 and 2007, 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.

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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 significant changes to the unrecognized tax benefits during the three and nine month periods ended September 30, 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 and nine-month periods ended September 30, 2008 was

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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 Sales - 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:

(In Thousands)	September 30, 2008
Treasury Securities	\$ 1,997
State and Municipal Securities	199,308

Total	\$ 201,305
	=====

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 September 30, 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 September 30, 2008 was \$848,000.

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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

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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 ("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. Acquisition and merger activity involving our customers, business partners, and competitors can also impact the Company. 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' major opportunity as the continued expansion of its payment and information processing service offering and customer base. While the current turmoil in the credit markets and the related 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

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actively monitors Cass' 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 that the lower interest rate environment has on Cass.

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Recent Developments

The U. S. and global economies have experienced and are experiencing significant stress and disruptions in the financial sector. In response to the financial crisis, in October 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. In addition, the U.S. Treasury announced that it has been authorized to purchase equity stakes in U. S. financial institutions. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program"), the U.S. Treasury will make \$250 billion of capital available to U. S. financial institutions in the form of preferred stock.

Further, after receiving a recommendation from the boards of the Federal Deposit Insurance Corporation ("the FDIC") and the Federal Reserve System ("the Federal Reserve"), the U.S. Treasury signed the systemic risk exception to the FDIC Act, enabling the FDIC to temporarily provide a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies, as well as non-interest bearing transaction deposit accounts under a Temporary Liquidity Guarantee Program.

The Company is currently assessing its participation in both the TARP Capital Purchase Program and the Temporary Liquidity Guarantee Program.

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 and investments in private equity securities for impairment. Generally, these assets are initially recorded at cost, and recognition of impairment is required when

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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.

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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 September 30, 2008 ("Third Quarter of 2008") compared to the three-month period ended September 30, 2007 ("Third Quarter of 2007") and the nine-month period ended September 30, 2008 ("First Nine Months of 2008") compared to the nine-month period ended September 30, 2007 ("First Nine Months 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 Third Quarter of 2008 are not necessarily indicative of the results to be attained for any other period.

Net Income

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The following table summarizes the Company's operating results:

(Dollars in Thousands except Per Share Data)	Three Months Ended September 30			Nine Sep
	2008	2007	%	2008
			Change	
Net income	\$ 5,228	\$ 4,677	11.8%	\$ 13,813
Diluted earnings per share	\$.56	\$.50	12.0%	\$ 1.47
Return on average assets	2.16%	2.04%	--	2.02%
Return on average equity	19.90%	20.51%	--	17.86%

Fee Revenue and Other Income

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 nine-month periods ended September 30, 2008 and 2007 were as follows:

(In Thousands)	Three Months Ended September 30			Nine Sep
	2008	2007	%	2008
			Change	
Freight Core Invoice Transaction Volume*	6,772	5,976	13.3%	19,509
Freight Invoice Dollar Volume	\$ 4,936,507	\$ 3,669,117	34.5%	\$13,149,602
Utility Transaction Volume	2,702	2,361	14.4%	7,852
Utility Transaction Dollar Volume	\$ 2,633,438	\$ 2,081,529	26.5%	\$ 7,126,799
Payment and Processing Fees	\$ 13,116	\$ 11,441	14.6%	\$ 37,907

* Core invoices exclude parcel shipments.

Third Quarter of 2008 compared to Third Quarter of 2007:

Freight transaction volume and invoice dollar volume for the Third Quarter of 2008 increased compared to the same period in 2007. The increase in transaction and dollar volume was primarily due to new customers and growth in activity from existing customers. The dollar volume also increased due to higher average bills because of fuel surcharges.

Bank service fees decreased \$84,000 or 20% primarily due to the elimination of correspondent banking services which was completed in the fiscal quarter ended June 30, 2008. There were gains of \$209,000 on the sales of securities in the Third Quarter of 2008. Other income increased \$23,000 in the Third Quarter of 2008.

First Nine Months of 2008 compared to First Nine Months of 2007:

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Freight and utility transaction volume and dollar volume increased for the First Nine Months of 2008 compared to 2007 due to the same factors discussed above for the Third Quarter of 2008.

Bank service fees decreased \$229,000 or 19%. This decrease was due to a penalty charged for the early withdrawal of a certificate of deposit by one large customer in the first quarter of 2007 and to the elimination of correspondent banking discussed above. There were gains of \$209,000 on the sales of securities in the First Nine Months of 2008. Other income increased \$26,000 in the First Nine Months of 2008.

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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 nine-month periods ended September 30, 2008 and 2007:

(Dollars in Thousands)	Three Months Ended September 30			Nine Sep
	2008	2007	% Change	2008
Average earnings assets	\$864,685	\$827,757	4.5%	\$822,980
Net interest income*	11,608	11,385	2.0%	33,473
Net interest margin*	5.34%	5.46%	--	5.43%
Yield on earning assets*	5.66%	6.44%	--	5.86%
Rate on interest bearing liabilities	1.83%	4.26%	--	2.32%

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

Third Quarter of 2008 compared to Third Quarter of 2007:

The increase in tax equivalent net interest income was due to an 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 loans and 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 increased \$52,917,000 or 10%, to \$570,367,000. Total average investment in debt and equity securities increased \$54,939,000 or 37% to \$203,715,000 as the Company invested the increase in payables. Total average federal funds sold and other short-term investments decreased \$70,926,000 or 44% to \$90,603,000. For more information on the changes in net interest income

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please refer to the tables that follow.

First Nine Months of 2008 compared to First Nine Months of 2007:

The increase in tax equivalent net interest income was due to an 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 loans and 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 increased \$23,322,000 or 4% to \$544,083,000. Total average investment in debt and equity securities increased \$63,784,000 or 48% to \$195,898,000 as the Company invested the increase in payables. Total average federal funds sold and other short-term investments decreased \$63,270,000 or 43% to \$82,999,000. 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.

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	Third Quarter 2008			Thir
(Dollars in Thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance
=====				
Assets (1)				
Earning assets:				
Loans (2,3):				
Taxable	\$ 566,571	\$ 8,721	6.12%	\$ 511,826
Tax-exempt (4)	3,796	66	6.92	5,624
Debt and equity securities (5):				
Taxable	2,785	13	1.86	17,831
Tax-exempt (4)	200,930	3,034	6.01	130,945
Federal funds sold and other short-term investments	90,603	466	2.05	161,529

Total earning assets	864,685	12,300	5.66	827,755

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Nonearning assets:

Cash and due from banks	23,931	23,063
Premises and equipment, net	12,368	12,937
Bank owned life insurance	12,864	12,321
Goodwill and other intangibles	8,181	8,463
Other assets	47,275	30,960
Allowance for loan losses	(6,029)	(6,292)

Total assets	\$ 963,275	\$ 909,207
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Liabilities And Shareholders' Equity (1)

Interest-bearing liabilities:

Interest-bearing demand deposits	\$ 78,659	\$ 245	1.24%	\$ 67,696
Savings deposits	21,584	66	1.22	24,433
Time deposits of \$100 or more	28,399	204	2.86	65,596
Other time deposits	18,458	131	2.82	28,338

Total interest-bearing deposits	147,100	646	1.75	186,063
Short-term borrowings & other	103	0	0.00	611
Subordinated debentures	3,464	46	5.28	3,700

Total interest-bearing liabilities	150,667	692	1.83	190,374
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Noninterest-bearing liabilities:

Demand deposits	90,279	92,405
Accounts and drafts payable	604,491	521,989
Other liabilities	13,338	13,974

Total liabilities	858,775	818,742
Shareholders' equity	104,500	90,465
Total liabilities and shareholders' equity	\$ 963,275	\$ 909,207

Net interest income	\$ 11,608	
Interest spread		3.83%
Net interest margin		5.34

- Balances shown are daily averages.
- 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.
- Interest income on loans includes net loan fees of \$104,000 and \$56,000 for the Third Quarter of 2008 and 2007, respectively.
- Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately \$1,085,000 and \$710,000 for the Third Quarter of 2008 and 2007, respectively.
- For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

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(Dollars in Thousands)	First Nine Months of 2008			First N
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance
Assets (1)				
Earning assets:				
Loans (2,3):				
Taxable	\$540,134	\$ 25,436	6.29%	\$ 514,813
Tax-exempt (4)	3,949	207	7.00	5,948
Debt and equity securities (5):				
Taxable	3,103	63	2.71	19,130
Tax-exempt (4)	192,795	8,718	6.04	112,984
Federal funds sold and other short-term investments	82,999	1,691	2.72	146,269
Total earning assets	822,980	36,115	5.86	799,144
Nonearning assets:				
Cash and due from banks	22,903			24,604
Premises and equipment, net	12,584			12,880
Bank owned life insurance	12,728			12,195
Goodwill and other intangibles	8,252			8,529
Other assets	41,355			29,538
Allowance for loan losses	(6,192)			(6,622)
Total assets	\$ 914,610			\$ 880,268
Liabilities And Shareholders' Equity (1)				
Interest-bearing liabilities:				
Interest-bearing demand deposits	\$ 77,131	\$ 864	1.50%	\$ 65,597
Savings deposits	19,615	214	1.46	23,235
Time deposits of				
\$100 or more	32,185	876	3.64	67,285
Other time deposits	19,010	534	3.75	29,401
Total interest-bearing deposits	147,941	2,488	2.25	185,518
Short-term borrowings & other	431	13	4.03	301
Subordinated debentures	3,875	141	5.35	3,700
Total interest-bearing liabilities	152,247	2,642	2.32	189,519
Noninterest-bearing liabilities:				
Demand deposits	87,290			94,376
Accounts and drafts payable	559,109			495,350
Other liabilities	12,642			13,493
Total liabilities	811,288			792,738
Shareholders' equity	103,322			87,530
Total liabilities and shareholders' equity	\$ 914,610			\$ 880,268
Net interest income		\$ 33,473		
Interest spread			3.54%	
Net interest margin			5.43	

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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 \$222,000 and \$150,000 for the First Nine Months of 2008 and 2007, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately \$3,123,000 and \$1,842,000 for the First Nine Months 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.

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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)	Thir 2008
	Volume
<hr/>	
Increase (decrease) in interest income:	
Loans (1,2):	
Taxable	\$ 910
Tax-exempt (3)	(32)
Debt and equity securities:	
Taxable	(116)
Tax-exempt (3)	1,050
Federal funds sold and other short-term investments	(668)
<hr/>	
Total interest income	1,144
<hr/>	
Interest expense on:	
Interest-bearing demand deposits	78
Savings deposits	(22)
Time deposits of \$100 or more	(365)
Other time deposits	(102)
Short-term borrowings & other	(3)
Subordinated debentures	(3)
<hr/>	
Total interest expense	(417)
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Net interest income	\$ 1,561
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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)	First 2008	Volume
Increase (decrease) in interest income:		
Loans (1,2):		
Taxable	\$ 1,298	\$
Tax-exempt (3)	(105)	
Debt and equity securities:		
Taxable	(408)	
Tax-exempt (3)	3,604	
Federal funds sold and other short-term investments	(1,868)	
Total interest income	2,521	
Interest expense on:		
Interest-bearing demand deposits	243	
Savings deposits	(81)	
Time deposits of \$100 or more	(1,106)	
Other time deposits	(333)	
Short-term borrowings & other	10	
Subordinated debentures	7	
Total interest expense	(1,260)	
Net interest income	\$ 3,781	\$

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%.

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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 were provisions of \$500,000 and \$225,000 recorded for loan losses during the Third Quarter of 2008 and the Third Quarter of 2007, respectively. There were provisions of \$1,600,000 and \$675,000 recorded for loan losses during the First Nine Months of 2008 and the First Nine Months of 2007, respectively. The higher provisions were in part due to the growth in the loan portfolio. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. There were \$321,000 and \$1,023,000 of net loan charge-offs in the Third Quarter of 2008 and 2007, respectively. There were \$1,611,000 of net loan charge-offs in the First Nine Months of 2008 and \$1,222,000 in the First Nine Months 2007.

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The allowance for loan losses at September 30, 2008 was \$6,269,000 and at December 31, 2007 was \$6,280,000. The ratio of allowance for loan losses to total loans outstanding at September 30, 2008 was 1.09% compared to 1.26% at December 31, 2007. Nonperforming loans were \$1,732,000 or .30% of total loans at September 30, 2008 compared to \$2,481,000 or .50% as of December 31, 2007.

At September 30, 2008, nonperforming loans, which are also considered impaired, included nonaccrual loans of \$1,672,000 as shown in the following table. This total consists of seven loans to borrowers with businesses in financial trouble or in the process of liquidation. Nonperforming loans at December 31, 2007 included five nonaccrual loans of \$1,985,000, four of which are included in the September 30, 2008 total. One of those loans was charged off in the Second Quarter of 2008. Total nonperforming loans increased \$1,422,000 from September 30, 2007 to September 30, 2008. This increase was primarily due to the addition of five commercial loans to borrowers that are in financial trouble.

In addition to the nonperforming loans discussed above, at September 30, 2008, approximately \$1,118,000 of loans not included in the table below was 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. These 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 impaired 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, the general reserve also includes a 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.

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Summary of Asset Quality

Three Months Ended
September 30

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(Dollars in Thousands)	2008	2007	2007
Allowance at beginning of period	\$ 6,090	\$ 6,843	\$
Provision charged to expense	500	225	
Loans charged off	397	1,065	
Recoveries on loans previously charged off	76	42	
Net loans charged-off	321	1,023	
Allowance at end of period	\$ 6,269	\$ 6,045	\$
Loans outstanding:			
Average	\$570,367	\$517,450	\$54
September 30	575,118	511,207	57
Ratio of allowance for loan losses to loans outstanding:			
Average	1.10%	1.17%	
September 30	1.09	1.18	
Nonperforming loans:			
Nonaccrual loans	\$ 1,672	\$ 310	\$
Renegotiated loans	--	--	
Total non performing loans	\$ 1,672	\$ 310	\$
Foreclosed assets	2,177	1,300	
Nonperforming loans as percentage of average loans	.29%	.06%	
Accruing loans 90 days or more past due	\$ 60	\$ 1,902	\$

The Company had no sub-prime mortgage loans or residential development loans in its portfolio as of September 30, 2008. The Bank had two properties carried as other real estate owned of \$2,177,000 as of September 30, 2008. The Bank had one property carried as other real estate owned of \$1,388,000 and \$1,300,000 as of December 31, 2007 and September 30, 2007, respectively.

Operating Expense from Continuing Operations

Total operating expense for the Third Quarter of 2008 increased \$815,000 or 5% to \$16,479,000 compared to the Third Quarter of 2007 due primarily to expenses related to the growth in processing activity. Total operating expense for the First Nine Months of 2008 increased \$2,418,000 or 5% to \$49,347,000 compared to the First Nine Months of 2007 also due to expenses related to the growth in processing activity.

Salaries and benefits expense for the Third Quarter of 2008 increased \$768,000 or 7% to \$12,468,000 compared to the Third Quarter of 2007 and increased \$2,266,000 or 6% to \$37,401,000 for the First Nine Months of 2008 compared to the First Nine Months of 2007 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 Third Quarter of 2008 increased \$26,000 or 5% to \$576,000 from the Third Quarter of 2007 and increased \$104,000 or 7% from the First Nine Months of 2007 compared to the First Nine Months of 2008 primarily due to the rent on one additional payment processing facility.

Equipment expense for the Third Quarter of 2008 decreased \$51,000 or 6% compared

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to the Third Quarter of 2007 and decreased \$44,000 or 2% from the First Nine Months of 2007 compared to the First Nine Months of 2008 due to a reduction in computer equipment and system contact maintenance expense.

Amortization of intangible assets was \$70,000 for the Third Quarter of 2008 and in 2007 and \$210,000 for the First Nine Months of 2008 and 2007.

Other operating expense for the Third Quarter of 2008 increased \$72,000, or 3% compared to the Third Quarter of 2007 and increased \$92,000, or 1% from the First Nine Months of 2007 compared to the First Nine Months of 2008.

Income tax expense for the Third Quarter of 2008 increased \$30,000 or 1% compared to the Third Quarter of 2007 and decreased \$832,000 or 13% for the First Nine Months of 2008 compared to the First Nine Months of 2007. The effective tax rate was 29.7% and 31.8% for the Third Quarters of 2008 and 2007, respectively and was 28.1% and 32.3% for the First Nine Months of 2008 and 2007, respectively. The lower effective rates reflect the impact of the increase in tax-exempt securities.

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Financial Condition

Total assets at September 30, 2008 were \$956,979,000, an increase of \$53,939,000, or 6% from December 31, 2007. The most significant changes in asset balances during this period were a decrease of \$67,216,000 or 45% in federal funds sold and other short-term investments and increases of \$76,663,000 or 15% in loans and \$29,599,000 or 17% 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 drafts payable balances.

Total liabilities at September 30, 2008 were \$849,550,000, an increase of \$45,962,000, or 6% from December 31, 2007. Total deposits at September 30, 2008 were \$246,101,000, a decrease of \$27,495,000 or 10% from December 31, 2007. Accounts and drafts payable at September 30, 2008 were \$588,663,000, an increase of \$74,929,000 or 15%. Total shareholders' equity at September 30, 2008 was \$107,429,000, a \$7,977,000 or 8% 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 \$13,813,000, \$763,000 from stock-based compensation expense, \$470,000 related to the conversion of subordinated debentures, a decrease of \$201,000 in other comprehensive loss offset by dividends paid of \$3,306,000 (\$.12 per share), the repurchase of treasury shares of \$3,984,000, and other miscellaneous activity of \$20,000.

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 \$105,449,000 at September 30, 2008, a decrease of \$70,621,000 or 40% from December 31, 2007. At September 30, 2008 these assets represented 11% of total

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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 \$201,305,000 at September 30, 2008, an increase of \$29,599,000 from December 31, 2007. These assets represented 21% of total assets at September 30, 2008. Of this total, 99% were state and political subdivision securities and 1% was U.S. treasury securities. Of the total portfolio, 5% mature in one year, 22% mature in one to five years, and 73% mature in five or more years. During the Third Quarter of 2008 the Company sold securities with a market value of \$6,126,000.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of \$50,000,000. Additionally, the Bank maintains a line of credit at an unaffiliated financial institution in the maximum amount of \$78,387,000 collateralized by commercial 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 have also historically been a stable source of funds.

Net cash flows provided by operating activities were \$17,482,000 for the First Nine Months of 2008 compared with \$17,603,000 for the First Nine Months of 2007. This decrease is attributable to the decrease in pension liability of \$2,874,000 offset by the increase in net income of \$758,000, the decrease in deferred and current taxes of \$1,463,000, 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 2008.

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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

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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 September 30, 2008 and December 31, 2007:

September 30, 2008 (In Thousands)	Amount
<hr/>	
Total capital (to risk-weighted assets)	
Cass Information Systems, Inc.	\$ 107,013
Cass Commercial Bank	44,199
Tier I capital (to risk-weighted assets)	
Cass Information Systems, Inc.	\$ 97,525
Cass Commercial Bank	39,892
Tier I capital (to average assets)	
Cass Information Systems, Inc.	\$ 97,525
Cass Commercial Bank	39,892
<hr/>	

December 31, 2007 (In Thousands)	Amount
<hr/>	
Total capital (to risk-weighted assets)	
Cass Information Systems, Inc.	\$ 99,508
Cass Commercial Bank	41,441
Tier I capital (to risk-weighted assets)	
Cass Information Systems, Inc.	\$ 89,540
Cass Commercial Bank	37,827
Tier I capital (to average assets)	
Cass Information Systems, Inc.	\$ 89,540
Cass Commercial Bank	37,827
<hr/>	

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

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value measurements. The Company adopted this statement as of January 1, 2008 and there was no effect on the Company's consolidated financial statements.

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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 September 30, 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 September 30, 2008 and based on their evaluation, believe that, as of September 30, 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 third 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).

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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

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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

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. This repurchase plan was updated by the Board of Directors on January 22, 2008 and replaced the Company's previous plan under which 120,000 shares had remained available for repurchase. The stock repurchase program may be modified or discontinued at any time. There were no shares purchased during the three months ended September 30, 2008. There were 180,000 shares that may yet be purchased under the program as of September 30, 2008.

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.

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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.

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DATE: November 6, 2008

By /s/ Eric H. Brunngraber

Eric H. Brunngraber
President and Chief Executive Officer

DATE: November 6, 2008

By /s/ P. Stephen Appelbaum

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

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