CASS INFORMATION SYSTEMS INC
Form 10-Q
November 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

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FORM 10-Q

x	QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended September 30, 2011
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

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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)

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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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one)	Large Accelerated Filer	Accelerated Filer	X
	Non-Accelerated Filer	Smaller Reporting Company	

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

Yes No X

The number of shares outstanding of registrant's only class of stock as of November 1, 2011: Common stock, par value $.50 per share – 9,415,557 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 2010 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)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	$ 13,781	$ 12,277
Interest-bearing deposits in other financial institutions	120,229	67,299
Federal funds sold and other short-term investments	200,773	59,353
Cash and cash equivalents	334,783	138,929
Securities available-for-sale, at fair value	274,572	264,569
Loans	692,385	708,633
Less: Allowance for loan losses	13,010	11,891
Loans, net	679,375	696,742
Premises and equipment, net	9,907	9,617
Investment in bank-owned life insurance	14,241	14,191
Payments in excess of funding	63,831	33,609
Goodwill	7,471	7,471
Other intangible assets, net	187	268
Other assets	21,291	22,639
Total assets	$ 1,405,658	$ 1,188,035
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 125,980	$ 113,097
Interest-bearing	423,812	405,493
Total deposits	549,792	518,590
Accounts and drafts payable	683,239	516,107
Other liabilities	11,894	11,244
Total liabilities	1,244,925	1,045,941
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, 2011 and December 31, 2010	4,975	4,975
Additional paid-in capital	47,007	46,653
Retained earnings	120,262	107,263
Common shares in treasury, at cost (533,767 shares at September 30, 2011 and 561,533 shares at December 31, 2010)	(12,995)	(13,549)
Accumulated other comprehensive income (loss)	1,484	(3,248)

Total shareholders’ equity		160,733		142,094
Total liabilities and shareholders’ equity	$	1,405,658	$	1,188,035

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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Fee Revenue and Other Income:				
Information services payment and processing revenue	$ 15,806	$ 13,895	$ 45,372	$ 40,173
Bank service fees	302	367	1,036	1,006
Gains on sales of securities	—	—	48	—
Other	339	139	606	415
Total fee revenue and other income	16,447	14,401	47,062	41,594
Interest Income:				
Interest and fees on loans	9,827	10,182	30,209	29,480
Interest and dividends on securities:				
Taxable	6	3	24	28
Exempt from federal income taxes	2,475	2,154	7,450	6,403
Interest on federal funds sold and other short-term investments	186	150	510	337
Total interest income	12,494	12,489	38,193	36,248
Interest Expense:				
Interest on deposits	1,060	1,249	3,391	3,624
Net interest income	11,434	11,240	34,802	32,624
Provision for loan losses	550	950	1,850	3,000
Net interest income after provision for loan losses	10,884	10,290	32,952	29,624
Total net revenue	27,331	24,691	80,014	71,218
Operating Expense:				
Salaries and employee benefits	14,425	13,026	42,277	38,199
Occupancy	581	658	1,786	1,841
Equipment	886	887	2,581	2,701
Amortization of intangible assets	26	26	80	80
Other operating	2,995	2,501	8,958	7,324
Total operating expense	18,913	17,098	55,682	50,145
Income before income tax expense	8,418	7,593	24,332	21,073
Income tax expense	2,358	2,013	6,814	5,844
Net Income	$ 6,060	$ 5,580	$ 17,518	$ 15,229
Basic Earnings Per Share	.65	.60	1.87	1.63
Diluted Earnings Per Share	.64	.59	1.85	1.61

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 Months Ended September 30, 2011	2010
Cash Flows From Operating Activities:		
Net income	$ 17,518	$ 15,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,295	3,077
Gains on sales of securities	(48)	—
Provision for loan losses	1,850	3,000
Stock-based compensation expense	1,043	1,133
Increase (decrease) in income tax liability	531	(1,751)
Increase in pension liability	286	640
Other operating activities, net	(1,447)	355
Net cash provided by operating activities	23,028	21,683
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	5,405	—
Proceeds from maturities of securities available-for-sale	10,185	2,770
Purchase of securities available-for-sale	(19,974)	(11,548)
Net decrease (increase) in loans	15,517	(48,252)
Increase in payments in excess of funding	(30,222)	(17,474)
Purchases of premises and equipment, net	(1,765)	(890)
Net cash used in investing activities	(20,854)	(75,394)
Cash Flows From Financing Activities:		
Net increase in noninterest-bearing demand deposits	12,883	7,877
Net increase in interest-bearing demand and savings deposits	31,804	19,729
Net (decrease) increase in time deposits	(13,485)	35,777
Net increase in accounts and drafts payable	167,132	124,694
Cash dividends paid	(4,519)	(3,945)
Distribution of stock awards, net	(249)	(251)
Other financing activities, net	114	4
Net cash provided by financing activities	193,680	183,885
Net increase in cash and cash equivalents	195,854	130,174
Cash and cash equivalents at beginning of period	138,929	79,294
Cash and cash equivalents at end of period	$ 334,783	$ 209,468
Supplemental information:		
Cash paid for interest	$ 3,386	$ 3,568
Cash paid for income taxes	6,211	7,621

See accompanying notes to unaudited consolidated financial statements.

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

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation. 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, 2010.

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

	September 30, 2011		December 31, 2010	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Assets eligible for amortization:				
Customer List	$ 750	$ (563)	$ 750	$ (482)
Unamortized intangible assets:				
Goodwill	7,698	(227)	7,698	(227)
Total intangible assets	$ 8,448	$ (790)	$ 8,448	$ (709)

The customer list is amortized over seven years. Amortization of intangible assets amounted to $80,000 for both nine-month periods ended September 30, 2011 and 2010. Estimated annual amortization of intangibles is as follows: $107,000 in 2011 and 2012, $54,000 in 2013 and zero thereafter.

Note 3 – 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 by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. There were no anti-dilutive shares in the three-month and nine-month periods ended September 30, 2011 and 2010. The calculations of basic and diluted earnings per share are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands except share and per share data)	2011	2010	2011	2010
Basic				
Net income	$ 6,060	$ 5,580	$ 17,518	$ 15,229
Weighted-average common shares outstanding	9,362,921	9,338,006	9,360,119	9,333,884
Basic earnings per share	$ .65	$ .60	$ 1.87	$ 1.63
Diluted				
Net income	$ 6,060	$ 5,580	$ 17,518	$ 15,229
Weighted-average common shares outstanding	9,362,921	9,338,006	9,360,119	9,333,884
Effect of dilutive restricted stock, stock options and stock appreciation rights	115,077	116,960	123,718	105,825
Weighted-average common shares outstanding				

assuming dilution		9,477,998		9,454,966		9,483,837		9,439,709
Diluted earnings per share	$	.64	$	.59	$	1.85	$	1.61

Note 4 – Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 300,000 shares of the Company's common stock. The Company did not repurchase any shares during the nine-month periods ended September 30, 2011 and 2010. Repurchases are made in the open market or through negotiated transactions from time to time depending on market conditions.

Note 5 – Comprehensive Income

For the three and nine-month periods ended September 30, 2011 and 2010, unrealized gains and losses on securities available-for-sale and reclassification adjustments for gains included in net income were the Company's other comprehensive income components. Comprehensive income is summarized as follows:

(In thousands)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Net income	$ 6,060	$ 5,580	$ 17,518	$ 15,229
Other comprehensive income:				
Reclassification adjustments for gains included in net income, net of tax	—	—	(31)	—
Net unrealized gain on securities available-for-sale, net of tax	3,778	3,558	4,783	4,066
Total comprehensive income	$ 9,838	$ 9,138	$ 22,270	$ 19,295

Note 6 – Industry Segment Information

The services provided by the Company are classified into two reportable segments: Information Services and Banking Services. Each of these segments provides distinct services that are marketed through different channels. They are managed separately due to their unique service, processing and capital requirements.

The Information Services segment provides freight, utility and telecommunication invoice processing and payment services to large corporations. The Banking Services segment provides banking services primarily to privately-held businesses and churches.

The Company's accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. 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 fair value.

All revenue originates from and all long-lived assets are located within North America, and no revenue from any customer of any segment exceeds 10% of the Company's consolidated revenue.

Assets represent actual assets owned by Information Services and there is no allocation methodology used. Loans are sold by Banking Services to Information Services to create liquidity when the Bank's loan-to-deposit ratio is greater than 100%. Segment interest from customers is the actual interest earned on the loans owned by Information Services and Banking Services, respectively.

Summarized information about the Company's operations in each industry segment is as follows:

(In thousands)	Information Services	Banking Services	Corporate, Eliminations and other	Total
Three Months Ended September 30, 2011				
Total Net Revenues:				
Revenue from customers	$ 21,414	$ 5,917	$ —	$ 27,331
Intersegment revenue	2,539	466	(3,005)	—
Net income	3,968	2,092	—	6,060
Goodwill	7,335	136	—	7,471
Other intangible assets, net	187	—	—	187
Total assets	794,998	623,706	(13,046)	1,405,658
Three Months Ended September 30, 2010				
Total Net Revenues:				
Revenue from customers	$ 19,034	$ 5,657	$ —	$ 24,691
Intersegment revenue	2,326	416	(2,742)	—
Net income	3,776	1,804	—	5,580
Goodwill	7,335	136	—	7,471
Other intangible assets, net	295	—	—	295
Total assets	664,112	564,554	(11,237)	1,217,429
Nine Months Ended September 30, 2011				
Total Net Revenues:				
Revenue from customers	$ 61,950	$ 18,064	$ —	$ 80,014
Intersegment revenue	7,638	1,407	(9,045)	—
Net income	11,230	6,288	—	17,518
Goodwill	7,335	136	—	7,471
Other intangible assets, net	187	—	—	187
Total assets	794,998	623,706	(13,046)	1,405,658
Nine Months Ended September 30, 2010				
Total Net Revenues:				
Revenue from customers	$ 54,813	$ 16,405	$ —	$ 71,218
Intersegment revenue	6,585	1,209	(7,794)	—
Net income	10,033	5,196	—	15,229
Goodwill	7,335	136	—	7,471
Other intangible assets, net	295	—	—	295
Total assets	664,112	564,554	(11,237)	1,217,429

Note 7 – Loans by Type

The following tables present a summary of loan categories by segment and aging of loans by loan classification at September 30, 2011 and December 31, 2010:

(In thousands)	30-59 Days	60-89 Days	90 Days and Over	Total Past Due	Current	Total Loans
September 30, 2011						
Commercial and industrial	$ —	$ —	$ —	$ —	$ 151,808	$ 151,808
Real estate:						

Mortgage – Commercial	—	—	451	451	146,262	146,713
Mortgage – Church & related	—	25	—	25	346,340	346,365
Construction – Commercial	—	—	—	—	6,796	6,796
Construction – Church & related	—	—	—	—	39,497	39,497
Industrial revenue bonds	—	—	—	—	806	806
Other	—	—	—	—	400	400
Total	$ —	$ 25	$ 451	$ 476	$ 691,909	$ 692,385
December 31, 2010						
Commercial and industrial	$ 105	$ —	$ —	$ 105	$ 134,956	$ 135,061
Real estate:						
Mortgage – Commercial	145	—	490	635	150,566	151,201
Mortgage – Church & related	1,954	—	—	1,954	363,424	365,378
Construction – Commercial	—	—	—	—	18,434	18,434
Construction – Church & related	—	—	—	—	36,318	36,318
Industrial revenue bonds	—	—	—	—	1,014	1,014
Other	—	—	—	—	1,227	1,227
Total	$ 2,204	$ —	$ 490	$ 2,694	$ 705,939	$ 708,633

The following tables present the recorded investment and unpaid principal balance for impaired loans at September 30, 2011 and December 31, 2010:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
September 30, 2011			
Commercial and industrial:			
Nonaccrual	$ 442	$ 442	$ 430
Troubled debt restructurings continuing to accrue interest	87	87	45
Real estate – mortgage:			
Nonaccrual	1,483	1,483	65
Troubled debt restructurings continuing to accrue interest	4,396	4,396	766
Total impaired loans	$ 6,408	$ 6,408	$ 1,306
December 31, 2010			
Commercial and industrial:			
Nonaccrual	$ 46	$ 46	$ 4
Real estate – mortgage:			
Nonaccrual	519	519	116
Total impaired loans	$ 565	$ 565	$ 120

Impaired loans consist primarily of nonaccrual loans, loans greater than 90 days past due and still accruing interest, and troubled debt restructurings continuing to accrue interest. Management measures impairment in accordance with FASB ASC 310, “Allowance for Credit Losses.” At September 30, 2011 and December 31, 2010, 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. No loans were put on non-accrual that were modified within the last 12 months. There were no loans delinquent 90 days or more and still accruing interest at September 30, 2011 and December 31, 2010. At September 30, 2011 there were two loans totaling $4,483,000 classified as troubled debt restructurings, with a total pre-modification loan balance of $4,486,000. There were no troubled debt restructurings at December 31, 2010. There are two foreclosed loans with an aggregate book value of $1,910,000 which have been recorded as other real estate owned (included in other assets) as of September 30, 2011 and December 31, 2010.

The following table presents the credit exposure of the loan portfolio by internally assigned credit grade as of September 30, 2011 and December 31, 2010:

(In thousands)	Commercial and Industrial	Real Estate Mortgage	Real Estate Construction	Other	Total
September 30, 2011					
Loans subject to normal monitoring1	$ 148,118	$ 467,157	$ 46,293	$ 1,206	$ 662,774
Loans subject to special monitoring2:					
Performing	3,248	24,438	—	—	27,686
Nonperforming	442	1,483	—	—	1,925
Total	$ 151,808	$ 493,078	$ 46,293	$ 1,206	$ 692,385
December 31, 2010					
Loans subject to normal monitoring1	$ 130,148	$ 495,573	$ 54,752	$ 2,241	$ 682,714
Loans subject to special monitoring2:					

Performing	4,867	20,487	—	—	25,354
Nonperforming	46	519	—	—	565
Total	$ 135,061	$ 516,579	$ 54,752	$ 2,241	$ 708,633

1 Loans subject to normal monitoring involve borrowers of acceptable-to-strong credit quality and risk, who have the apparent ability to satisfy their loan obligations.

2 Loans subject to special monitoring possess some credit deficiency or potential weakness which requires a high level of management attention.

The following table provides information regarding the changes in the allowance for loan losses by segment from December 31, 2010 to September 30, 2011:

(In thousands)	December 31, 2010	Charge -Offs	Recoveries	Provision	September 30, 2011
Commercial and industrial	$ 2,728	$ 741	$ 37	$ 1,435	$ 3,459
Real estate - mortgage	8,491	28	1	535	8,999
Real estate - construction	656	—	—	(108)	548
Other	16	—	—	(12)	4
Total	$ 11,891	$ 769	$ 38	$ 1,850	$ 13,010

Note 8 – 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 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 September 30, 2011 and December 31, 2010, no amounts have been accrued for any estimated losses for these instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company or its subsidiaries to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At September 30, 2011, the balance of unused loan commitments, standby and commercial letters of credit were $9,263,000, $22,384,000 and $4,658,000, 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 and time deposits at September 30, 2011:

	Amount of Commitment Expiration per Period				
(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating lease commitments	$ 2,423	$ 595	$ 992	$ 514	$ 322
Time deposits	143,633	130,203	10,858	2,572	—
Total	$ 146,056	$ 130,798	$ 11,850	$ 3,086	$ 322

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 9 – 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 ("SARs"), restricted stock, restricted stock units and performance awards. The Company issues shares out of treasury stock for these awards. During the nine months ended September 30, 2011, 26,017 restricted shares and 75,016 SARs were granted under the Omnibus Plan.

The Company also maintains 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 Stock

Restricted shares are amortized to expense over the three-year vesting period. As of September 30, 2011, the total unrecognized compensation expense related to non-vested common stock was $1,095,000 and the related weighted-average period over which it is expected to be recognized is approximately 1.0 years.

Following is a summary of the activity of the restricted stock:

	Nine Months Ended September 30, 2011	
	Shares	Fair Value
Balance at December 31, 2010	50,271	$ 28.51
Granted	26,017	36.35
Vested	(28,580)	28.43
Balance at September 30, 2011	47,708	$ 32.84

Stock Options

Stock options vest and expire over a period not to exceed seven years. As of September 30, 2011, the total unrecognized compensation expense related to non-vested stock options was $17,000, and the related weighted-average period over which it is expected to be recognized is approximately 1.2 years. Following is a summary of the activity of the stock options during the nine-month period ended September 30, 2011:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term Years	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2010	36,628	$ 18.36	1.56	$ 717
Exercised	(6,584)	14.47		
Outstanding at September 30, 2011	30,044	19.21	1.03	$ 356
Exercisable at September 30, 2011	26,704	$ 19.03	1.00	$ 321

The total intrinsic value of options exercised was $156,000 and $60,000 for the nine-month periods ended September 30, 2011 and 2010, respectively. Following is a summary of the activity of the non-vested stock options during the nine-month period ended September 30, 2011:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2010	12,440	$ 2.94
Vested	(9,100)	2.93
Non-vested at September 30, 2011	3,340	$ 2.95

SARs

SARs vest over a three-year period, with one-third of the shares vesting and becoming exercisable each year on the anniversary date of the grant, and they expire 10 years from the original grant date. As of September 30, 2011, the total unrecognized compensation expense was $759,000 and the related weighted-average period over which it is expected to be recognized is 1.1 years. Following is a summary of the activity of the Company’s SARs program for the nine-month period ended September 30, 2011:

Weighted-Average Exercise	Average Remaining Contractual	Aggregate Intrinsic Value

	Shares	Price	Term Years	(In thousands)
Outstanding at December 31, 2010	241,755	$ 27.34	7.38	$ 2,562
Granted	75,016	36.24		
Exercised	(14,396)	12.20		
Outstanding at September 30, 2011	302,375	$ 29.55	7.68	$ 452
Exercisable at September 30, 2011	171,158	$ 27.47	3.91	$ 613

Following is a summary of the activity of the non-vested SARs during the nine-month period ended September 30, 2011:

	Shares	Weighted-Average Grant Date Fair Value	
Non-vested at December 31, 2010	141,201	$	27.18
Granted	75,016		36.24
Vested	(85,000)		27.36
Non-vested at September 30, 2011	131,217	$	32.28

The Company uses the Black-Scholes pricing model to determine the fair value of the SARs at the date of grant. Following are the assumptions used to estimate the per-share fair value of SARs granted:

	Nine Months Ended September 30,	
	2011	2010
Risk free interest rate	2.70%	3.33%
Expected life	7 yrs.	7 yrs.
Expected volatility	27.86%	30.00%
Expected dividend yield	1.77%	1.86%

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 SARs 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 10 – 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:

(In thousands)	Estimated 2011		Actual 2010	
Service cost – benefits earned during the year	$	2,073	$	1,771
Interest cost on projected benefit obligation		2,422		2,290
Expected return on plan assets		(3,314)		(2,440)
Net amortization		604		616
Net periodic pension cost	$	1,785	$	2,237

Pension costs recorded to expense related to the noncontributory defined benefit pension plan were $415,000 and $594,000 for the three-month periods ended September 30, 2011 and 2010, respectively, and totaled $1,347,000 and $1,678,000 for the nine-month periods ended September 30, 2011 and 2010, respectively. The Company made a contribution of $450,000 to the plan during the three-month period ended September 30, 2011, for a total of $1,350,000 for the nine-month period ended September 30, 2011 and expects to contribute at least an additional $450,000 in 2011.

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 2010 and an estimate for 2011:

(In thousands)	Estimated 2011	Actual 2010
Service cost – benefits earned during the year	$ 90	$ 78
Interest cost on projected benefit obligation	295	315
Net amortization	249	258
Net periodic pension cost	$ 634	$ 651

Pension costs recorded to expense related to the unfunded supplemental executive retirement plan were $159,000 and $158,000 for the three-month periods ended September 30, 2011 and 2010, respectively, and were $476,000 and $488,000 for the nine-month periods ended September 30, 2011 and 2010, respectively.

Note 11 – Income Taxes

As of September 30, 2011, the Company’s unrecognized tax benefits were approximately $2,090,000, of which $1,456,000 would, if recognized, affect the Company’s effective tax rate. As of December 31, 2010, the Company's unrecognized tax benefits were approximately $1,877,000, of which $1,465,000 would, if recognized, affect the Company's effective tax rate. During the next twelve months, the Company may realize a reduction of its unrecognized tax benefits of approximately $244,000 due to the lapse of federal and state statutes of limitations.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company had $149,000 and $106,000 of gross interest accrued as of September 30, 2011 and December 31, 2010, respectively. There were no penalties for unrecognized tax benefits accrued at September 30, 2011 and December 31, 2010.

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 2007 through 2010 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2006 through 2010.

Note 12 – Investment Securities Available for Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. The Company’s investment 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 falls into the Level 2 category. The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investment securities are summarized as follows:

	September 30, 2011			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 258,622	$ 16,069	$ 119	$ 274,572

	December 31, 2010			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 255,929	$ 9,829	$ 1,189	$ 264,569

The fair values of securities with unrealized losses are as follows:

	September 30, 2011					
	Less than 12 months		12 months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized

(In thousands)	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
State and political subdivisions	$ 15,900	$ 119	$ —	$ —	$ 15,900	$ 119

(In thousands)	December 31, 2010 Less than 12 months Estimated Fair Value	Unrealized Losses	12 months or more Estimated Fair Value	Unrealized Losses	Total Estimated Fair Value	Unrealized Losses
State and political subdivisions	$ 53,741	$ 1,189	$ —	$ —	$ 53,741	$ 1,189

There were 17 securities (none greater than 12 months) in an unrealized loss position as of September 30, 2011. There were 61 securities (none greater than 12 months) in an unrealized loss position as of December 31, 2010. All unrealized losses were reviewed to determine whether the losses were other than temporary. Management believes that all unrealized losses are temporary since they were market driven, and the Company has the ability and intent to hold these securities until recovery.

The amortized cost and fair value of investment securities by contractual maturity are shown in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

(In thousands)	September 30, 2011 Amortized Cost	Fair Value
Due in 1 year or less	$ 12,674	$ 12,852
Due after 1 year through 5 years	39,639	42,341
Due after 5 years through 10 years	97,522	106,439
Due after 10 years	108,787	112,940
Total	$ 258,622	$ 274,572

There were no securities pledged to secure public deposits and for other purposes at September 30, 2011.

Proceeds from sales of investment securities classified as available for sale were $0 for both the three months ended September 30, 2011 and 2010, and were $5,405,000 and $0 for the nine months ended September 30, 2011 and 2010, respectively. Gross realized gains were $0 for both the three months ended September 30, 2011 and 2010, and were $48,000 and $0 for the nine months ended September 30, 2011 and 2010, respectively.

Note 13 – Fair Value of Financial Instruments

Following is a summary of the carrying amounts and fair values of the Company’s financial instruments:

(In thousands)	September 30, 2011 Carrying Amount	Fair Value	December 31, 2010 Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	$ 334,783	$ 334,783	$ 138,929	$ 138,929
Investment securities	274,572	274,572	264,569	264,569
Loans, net	679,375	686,096	696,742	710,294
Accrued interest receivable	5,736	5,736	5,857	5,857
Total	$ 1,294,466	$ 1,301,187	$ 1,106,097	$ 1,119,649
Balance sheet liabilities:				
Deposits	$ 549,792	$ 549,792	$ 518,590	$ 518,590
Accounts and drafts payable	683,239	683,239	516,107	516,107
Short-term borrowings	—	—	9	9
Accrued interest payable	213	213	208	208
Total	$ 1,233,244	$ 1,233,244	$ 1,034,914	$ 1,034,914

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Other Short-term Instruments – For cash and cash equivalents, accrued interest receivable, accounts and drafts payable, short-term borrowings and accrued interest payable, the carrying amount is a reasonable estimate of fair value because of the demand nature or short maturities of these instruments.

Loans – The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits – The fair value of demand deposits, savings deposits and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates above do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market or the benefit derived from the customer relationship inherent in existing deposits.

Note 14 – Subsequent Events

On October 17, 2011, the Company's board of directors declared a 10% stock dividend payable December 15, 2011 to shareholders of record December 5, 2011. Shareholders will receive one additional share of Cass stock for each 10 shares owned. No fractional shares will be issued. Shareholders will receive cash for any fractional shares owned based on the share price reported by NASDAQ at the close of trading December 5, 2011.

The Company's board of directors also authorized the repurchase of up to 300,000 shares of the company's common stock pursuant to the company's treasury stock buyback program. Repurchases are made in the open market or through negotiated transactions from time to time, depending on market conditions.

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

Overview

Cass provides payment and information processing services to large manufacturing, distribution and retail enterprises from its locations in St. Louis, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina and Wellington, Kansas. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays utility invoices, which include 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 provides Internet-based tools for analytical processing. The Company also, through Cass Commercial Bank, its St. Louis, Missouri based bank subsidiary (the "Bank"), provides banking services in the St. Louis metropolitan area, Orange County, California and other selected cities in the United States. In addition to supporting the Company's payment operations, the Bank provides banking services to its target markets, which include privately-owned businesses and churches and church-related ministries.

The specific payment and information processing services provided to each customer are developed individually to meet each customer's requirements, which can vary greatly. In addition, the degree of automation such as electronic data interchange, imaging, and web-based solutions varies greatly among customers and industries. These factors combine so that pricing varies greatly among the customer base. In general, however, Cass is compensated for its processing services through service fees and investment of account balances 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 and other borrowings. The Bank also assesses fees on other services such as cash management services.

Industry-wide factors that impact the Company include the willingness of large corporations to outsource key business functions such as freight, utility and telecommunication payment and audit. The benefits that can be achieved by outsourcing transaction processing and the management information generated by Cass' systems can be influenced by factors such as the competitive pressures within industries to improve profitability, the general level of transportation costs, deregulation of energy costs and consolidation of telecommunication providers. Economic factors that impact the Company include the general level of economic activity that can affect the volume and size of invoices processed, the ability to hire and retain qualified staff, and the growth and quality of the loan portfolio. As lower levels of economic activity are encountered the number and total dollar amount of transactions processed by the Company may decline, thereby reducing fee revenue, interest income, and possibly liquidity. Conversely, improving economic conditions will tend to increase fee revenue, interest income and liquidity. The general level of interest rates also has a significant effect on the revenue of the Company. As discussed in greater detail in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in the Company's 2010 Annual Report on Form 10-K, a decline in the general level of interest rates can have a negative impact on net interest income.

Currently, management views Cass' major opportunity as the continued expansion of its payment and information processing service offering and customer base. Management intends to accomplish this by maintaining the Company's lead in applied technology, which when combined with the security and processing controls of the Bank, makes Cass unique in the industry.

Critical Accounting Policies

The Company has prepared the consolidated financial statements in this report in accordance with the FASB Accounting Standards Codification ("ASC"). In preparing the consolidated financial statements, 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. The Company's estimates have been materially accurate in the past, and accordingly, we expect to continue to utilize the present processes.

Impairment of Assets. The Company periodically evaluates certain long-term assets such as intangible assets including goodwill, foreclosed assets and assets held for sale for impairment. Generally, these assets are initially recorded at cost, and recognition of impairment is required when events and circumstances indicate that the carrying amounts of these assets will not be recoverable in the future. If impairment occurs, various methods of measuring impairment may be called for depending on the circumstances and type of asset, including quoted market prices, estimates based on similar assets, and estimates based on valuation techniques such as discounted projected cash flows. The Company had no impairment of goodwill and intangible assets for the three or nine-month periods ended September 30, 2011 or for the fiscal year ended December 31, 2010, and management does not anticipate any future impairment loss. Investment securities available-for-sale are measured at fair value as calculated by an independent research firm. The market evaluation utilizes several sources which include "observable inputs" rather than "significant unobservable inputs." 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 or 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. In accordance with FASB ASC 740, "Income Taxes," the Company has unrecognized tax benefits related to tax positions taken or expected to be taken. See Note 11 to the financial statements.

Pension Plans. The amounts recognized in the consolidated financial statements related to pension plans 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, 2010, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 10 to the consolidated financial statements filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes in the Company's long-term rate of return assumptions for the past three fiscal years ended December 31 and management believes they are not reasonably likely to change in the future. Pursuant to FASB ASC 715, "Compensation – Retirement Benefits," the Company has recognized the funded status of its defined benefit postretirement plan in its balance sheet 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 projected 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, 2011 (“Third Quarter of 2011”) compared to the three-month period ended September 30, 2010 (“Third Quarter of 2010”) and the nine-month period ended September 30, 2011 (“Nine Months Ended 2011”) compared to the nine-month period ended September 30, 2010 (“Nine Months Ended 2010”). 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 in the Company's 2010 Annual Report on Form 10-K. Results of operations for the Third Quarter of 2011 are not necessarily indicative of the results to be attained for any other period.

Net Income

The following table summarizes the Company’s operating results:

	Third Quarter of			Nine Months Ended		
(In thousands except per share data)	2011	2010	% Change	2011	2010	% Change
Net income	$ 6,060	$ 5,580	8.6%	$ 17,518	$ 15,229	15.0%
Diluted earnings per share	$ .64	$ .59	8.5%	$ 1.85	$ 1.61	14.9%
Return on average assets	1.79%	1.84%	—	1.83%	1.80%	—
Return on average equity	15.52%	15.72%	—	15.75%	15.03%	—

Fee Revenue and Other Income

The Company’s fee revenue is derived mainly from transportation 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 were as follows:

	Third Quarter of			Nine Months Ended		
(In thousands)	2011	2010	% Change	2011	2010	% Change
Transportation Invoice Volume*	7,672	6,886	11.4%	21,828	19,619	11.3%
Transportation Dollar Volume	$ 5,443,972	$ 4,534,235	20.1%	$ 15,273,046	$ 12,497,079	22.2%
Utility Transaction Volume	3,410	3,061	11.4%	10,108	9,161	10.3%
Utility Dollar Volume	$ 2,936,417	$ 2,878,647	2.0%	$ 8,184,747	$ 7,938,521	3.1%
Payment and Processing Fees	$ 15,806	$ 13,895	13.8%	$ 45,372	$ 40,173	12.9%

* Core invoices exclude parcel shipments.

Third Quarter of 2011 compared to Third Quarter of 2010:

Transportation and utility transaction volumes were both up 11%, and dollar volumes were up 20% and 2%, respectively, due to new business and improved activity for existing customers.

Bank service fees decreased $65,000, or 18%, due to a decrease in letter of credit and account analysis fees. There were no gains on sales of securities in the Third Quarter of 2011 or 2010.

Nine Months Ended 2011 compared to Nine Months Ended 2010:

Transportation and utility transaction volumes were up 11% and 10%, respectively, and dollar volumes were up 22% and 3%, respectively, due to new business and increased levels of activity for existing customers.

Bank service fees increased $30,000, or 3%, due to increased letter of credit fees and commission and exchange fees offset by a decrease in account analysis fees as more customers chose to pay for services with compensating balances rather than fees. There were $48,000 gains on sales of securities in the Nine Months Ended 2011. There were no securities gains for the nine months ended 2010.

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:

	Third Quarter of			Nine Months Ended		
(In thousands)	2011	2010	% Change	2011	2010	% Change
Average earning assets	$ 1,219,184	$ 1,102,218	10.6%	$ 1,172,182	$ 1,035,345	13.2%
Average interest-bearing liabilities	407,067	367,571	10.7%	403,902	342,063	18.1%
Net interest income*	12,768	12,405	2.9%	38,818	36,103	7.5%
Net interest margin*	4.15%	4.47%		4.43%	4.66%	
Yield on earning assets*	4.50%	4.91%		4.81%	5.13%	
Rate on interest-bearing liabilities	1.03%	1.35%		1.12%	1.42%	

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

Third Quarter of 2011 compared to Third Quarter of 2010:

Third Quarter 2011 average earning assets increased 11% compared to the same period in the prior year (see discussion in the following paragraphs). The yield on earning assets and the tax equivalent net interest margin both decreased in the Third Quarter of 2011 as the general level of interest rates declined; however, the significant increase in average earning assets caused net interest income to increase 3% on a tax equivalent basis.

Total average loans increased $9,437,000, or 1%, to $687,152,000 for the Third Quarter of 2011 as compared to the Third Quarter of 2010. Average investment securities increased $37,722,000, or 17%, to $257,154,000, as the Company took advantage of buying opportunities in the market.

Total average interest-bearing deposits for the Third Quarter of 2011 increased $39,560,000, or 11%, to $407,067,000 compared to the Third Quarter of 2010, primarily due to customers transferring funds from lower-yielding investments at other institutions. Average accounts and drafts payable increased $74,763,000, or 13%, as freight and utility payment processing activities increased.

Nine Months Ended 2011 compared to Nine Months Ended 2010:

Nine Months Ended 2011 average earning assets increased 13% compared to the same period in the prior year (see discussion in the following paragraphs). The yield on earning assets and the tax equivalent net interest margin both decreased in the Nine Months Ended 2011 as the general level of interest rates declined; however, the significant increase in average earning assets caused net interest income to increase 8% on a tax equivalent basis.

Total average loans increased $33,849,000, or 5%, to $701,016,000 for the Nine Months Ended 2011 as compared to the Nine Months Ended 2010. This increase was attributable to the continuing successful marketing efforts by the Company's lending staff. Average investment securities increased $40,684,000, or 19%, to $257,732,000, as the Company took advantage of buying opportunities in the market.

Total average interest-bearing deposits for the Nine Months Ended 2011 increased $61,877,000, or 18%, to $403,901,000 compared to the Nine Months Ended 2010, primarily due to customers transferring funds from lower-yielding investments at other institutions. Average accounts and drafts payable increased $63,210,000, or 12%, as freight and utility payment processing activities increased.

For more information on the changes in net interest income, please refer to the tables that follow.

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

The following tables show 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.

	Third Quarter of 2011			Third Quarter of 2010		
(In thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets1						
Earning assets						
Loans2, 3:						
Taxable	$ 686,324	$ 9,825	5.68%	$ 676,406	$ 10,173	5.97%
Tax-exempt4	828	4	1.92	1,309	14	4.24
Investment securities5:						
Taxable	1,029	5	1.93	928	3	1.28
Tax-exempt4	256,125	3,808	5.90	218,504	3,314	6.02
Interest-bearing deposits in other financial institutions	118,275	94	.32	45,982	42	.36
Federal funds sold and other short-term investments	156,603	92	.23	159,089	108	.27
Total earning assets	1,219,184	13,828	4.50	1,102,218	13,654	4.91
Non-earning assets						
Cash and due from banks	12,618			10,837		
Premise and equipment, net	9,897			9,839		
Bank owned life insurance	14,263			13,993		
Goodwill and other intangibles	7,674			7,781		
Other assets	94,032			68,351		
Allowance for loan losses	(13,295)			(10,316)		
Total assets	$ 1,344,373			$ 1,202,703		
Liabilities and Shareholders’ Equity1						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 239,288	$ 538	.89%	$ 183,806	$ 521	1.12%
Savings deposits	25,073	52	.82	29,252	83	1.13
Time deposits >= $100	52,080	171	1.30	53,591	207	1.53
Other time deposits	90,626	299	1.31	100,858	438	1.72
Total interest-bearing deposits	407,067	1,060	1.03	367,507	1,249	1.35
Short-term borrowings	—	—	—	64	—	—
Total interest bearing liabilities	407,067	1,060	1.03	367,571	1,249	1.35
Non-interest bearing liabilities						
Demand deposits	132,757			113,835		
Accounts and drafts payable	640,004			565,241		
Other liabilities	9,664			15,194		
Total liabilities	1,189,492			1,061,841		
Shareholders’ equity	154,881			140,862		
Total liabilities and						

shareholders' equity	$	1,344,373			$	1,202,703		
Net interest income			$	12,768			$	12,405
Net interest margin				4.15%				4.47%
Interest spread				3.47				3.56

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 2010 consolidated financial statements, filed with the Company's 2010 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $96,000 and $179,000 for the Third Quarter of 2011 and 2010, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $1,334,000 and $1,165,000 for the Third Quarter of 2011 and 2010, 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.

(In thousands)	Nine Months Ended September 30, 2011 Average Balance	Interest Income/ Expense	Yield/ Rate	Nine Months Ended September 30, 2010 Average Balance	Interest Income/ Expense	Yield/ Rate
Assets1						
Earning assets						
Loans2, 3:						
Taxable	$ 700,122	$ 30,199	5.77%	$ 665,009	$ 29,423	5.92%
Tax-exempt4	894	15	2.24	2,158	88	5.45
Investment securities5:						
Taxable	987	24	3.25	870	28	4.30
Tax-exempt4	256,745	11,461	5.97	216,178	9,851	6.09
Interest-bearing deposits in other financial institutions	89,572	242	.36	28,145	68	.32
Federal funds sold and other short-term investments	123,862	268	.29	122,985	269	.29
Total earning assets	1,172,182	42,209	4.81	1,035,345	39,727	5.13
Non-earning assets						
Cash and due from banks	12,283			10,220		
Premise and equipment, net	9,774			10,066		
Bank owned life insurance	14,302			13,854		
Goodwill and other intangibles	7,701			7,808		
Other assets	79,226			61,778		
Allowance for loan losses	(12,640)			(9,280)		
Total assets	$ 1,282,828			$ 1,129,791		
Liabilities and Shareholders' Equity1						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 225,929	$ 1,646	.97%	$ 172,057	$ 1,526	1.19%
Savings deposits	24,496	174	.95	26,087	227	1.16
Time deposits >= $100	52,906	532	1.34	53,089	626	1.58
Other time deposits	100,570	1,039	1.38	90,791	1,245	1.83
Total interest-bearing deposits	403,901	3,391	1.12	342,024	3,624	1.42
Short-term borrowings	1	—	—	39	—	—
Total interest bearing liabilities	403,902	3,391	1.12	342,063	3,624	1.42
Non-interest bearing liabilities						
Demand deposits	130,191			111,645		
Accounts and drafts payable	588,207			524,997		
Other liabilities	11,793			15,625		
Total liabilities	1,134,093			994,330		
Shareholders' equity	148,735			135,461		
Total liabilities and shareholders' equity	$ 1,282,828			$ 1,129,791		
Net interest income		$ 38,818			$ 36,103	
Net interest margin			4.43%			4.66%
Interest spread			3.69			3.71

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 2010 consolidated financial statements, filed with the Company’s 2010 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $474,000 and $345,000 for the Nine Months Ended 2011 and 2010, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $4,016,000 and $3,479,000 for the Nine Months Ended 2011 and 2010, respectively.
5. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

Analysis of Net Interest Income Changes

The following tables present 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.

	Third Quarter of 2011 Over Third Quarter of 2010		
(In thousands)	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans1, 2:			
Taxable	$ 147	$ (495)	$ (348)
Tax-exempt3	(4)	(6)	(10)
Investment securities:			
Taxable	—	2	2
Tax-exempt3	560	(66)	494
Interest-bearing deposits in other financial institutions	58	(6)	52
Federal funds sold and other short-term investments	(2)	(14)	(16)
Total interest income	759	(585)	174
Interest expense on:			
Interest-bearing demand deposits	138	(121)	17
Savings deposits	(11)	(20)	(31)
Time deposits of >=$100	(6)	(30)	(36)
Other time deposits	(41)	(98)	(139)
Total interest expense	80	(269)	(189)
Net interest income	$ 679	$ (316)	$ 363

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%.

	Nine Months Ended September 30, 2011 Over Nine Months Ended September 30, 2010		
(In thousands)	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans1, 2:			
Taxable	$ 1,527	$ (751)	$ 776
Tax-exempt3	(36)	(37)	(73)
Investment securities:			
Taxable	3	(7)	(4)
Tax-exempt3	1,815	(205)	1,610
Interest-bearing deposits in other financial institutions	165	9	174
Federal funds sold and other short-term investments	2	(3)	(1)
Total interest income	3,476	(994)	2,482
Interest expense on:			
Interest-bearing demand deposits	423	(303)	120
Savings deposits	(13)	(40)	(53)
Time deposits of >= $100	(2)	(92)	(94)
Other time deposits	124	(330)	(206)
Total interest expense	532	(765)	(233)
Net interest income	$ 2,944	$ (229)	$ 2,715

1. Average balances include nonaccrual loans.
2. Interest income includes net loan fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%.

Provision and Allowance for Loan Losses

A significant determinant of the Company's operating results is the provision for loan losses. There was a $550,000 and $950,000 provision for loan losses during the Third Quarter of 2011 and the Third Quarter of 2010, respectively. There was a $1,850,000 and $3,000,000 provision for loan losses during the Nine Months Ended 2011 and the Nine Months Ended 2010, respectively. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. There were net loan charge-offs of $768,000 in the Third Quarter of 2011 compared to $353,000 net charge-offs for the same period in 2010. There were $731,000 net loan charge-offs in the Nine Months Ended 2011 and $526,000 in net loan charge-offs in the Nine Months Ended 2010.

The allowance for loan losses at September 30, 2011 was $13,010,000 and at December 31, 2010 was $11,891,000. The ratio of allowance for loan losses to total loans outstanding at September 30, 2011 was 1.88% compared to 1.68% at December 31, 2010. Impaired loans were $6,408,000, or .93%, of total loans at September 30, 2011 compared to $565,000, or .08%, of total loans at December 31, 2010, and consisted of four nonaccrual loans to borrowers totaling $1,925,000 and two troubled debt restructurings totaling $4,483,000. Impaired loans at December 31, 2010 consisted of four non-accrual loans. Total impaired loans increased $5,373,000 from September 30, 2010 to September 30, 2011, primarily due to the deterioration in the financial condition of these borrowers.

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 allowances on commercial, 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 an allowance amount consistent with each loan's rating category. The allowance amount is based on derived loss experience over prescribed periods. In addition to the amounts derived from the loan grades, a portion is added to the general allowance 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 in 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 related balance. These agencies may require the Company to increase the allowance for loan losses based on their judgments and interpretations about information available to them at the time of their examination.

Summary of Asset Quality

The following table presents analysis of the Company's provision and allowance for loan losses:

	Third Quarter of		Nine Months Ended	
(In thousands)	2011	2010	2011	2010
Allowance at beginning of period	$ 13,228	$ 10,161	$ 11,891	$ 8,284
Provision charged to expense	550	950	1,850	3,000
Loans (charged off)/recovered:				
Loans charged off	(769)	(354)	(769)	(554)
Recoveries on loans previously charged off	1	1	38	28
Net loans recovered (charged off)	(768)	(353)	(731)	(526)
Allowance at end of period	$ 13,010	$ 10,758	$ 13,010	$ 10,758
Loans outstanding:				
Average	$ 687,152	$ 677,715	$ 701,016	$ 667,167
September 30	692,385	689,683	692,385	689,683
Ratio of allowance for loan losses to loans outstanding:				
Average	1.89%	1.59%	1.86%	1.61%
September 30	1.88	1.56	1.88	1.56
Impaired loans:				
Nonaccrual loans	$ 1,925	$ 1,035	$ 1,925	$ 1,035
Loans past due 90 days or more	—	—	—	—
Troubled debt restructurings	4,483	—	4,483	—
Total impaired loans	$ 6,408	$ 1,035	$ 6,408	$ 1,035
Foreclosed assets	1,910	1,910	1,910	1,910
Impaired loans as percentage of average loans	.93%	.15%	.91%	.16%

The Bank had two properties carried as other real estate owned of $1,910,000 as of September 30, 2011 and 2010.

Operating Expenses

Total operating expenses for the Third Quarter of 2011 were up 11%, or $1,815,000 compared to the Third Quarter of 2010. Total operating expenses for the Nine Months Ended 2011 were up 11%, or $5,537,000 from the Nine Months Ended 2010.

Salaries and benefits expense for the Third Quarter of 2011 increased $1,399,000 to $14,425,000 compared to the Third Quarter of 2010 and increased $4,078,000 to $42,277,000 for the Nine Months Ended 2011 compared to the Nine Months Ended 2010 to support the growth in business volume.

Occupancy expense for the Third Quarter of 2011 decreased $77,000, or 12%, to $581,000 from the Third Quarter of 2010 due to lower rent expenses and decreased $55,000, or 3%, from the Nine Months Ended 2010 also due to lower rent expenses.

Equipment expense for the Third Quarter of 2011 decreased $1,000 compared to the Third Quarter of 2010 and decreased $120,000, or 4%, from the Nine Months Ended 2010 due to decreased software license expenses.

Amortization of intangible assets was $26,000 for both the Third Quarter of 2011 and 2010, and $80,000 for both the Nine Months Ended 2011 and 2010.

Other operating expenses for the Third Quarter of 2011 increased $494,000, or 20%, compared to the Third Quarter of 2010. Primary increases were in professional and consulting fees. Other operating expense increased $1,634,000 for the Nine Months Ended 2011 compared to the Nine Months Ended 2010, due to increases in professional fees and outside services.

Income tax expense for the Third Quarter of 2011 increased $345,000, or 17%, compared to the Third Quarter of 2010 and increased $970,000 for the Nine Months Ended 2011 compared to the Nine Months Ended 2010. The effective tax rate was 28.0% and 26.5% for the Third Quarters of 2011 and 2010, respectively, and was 28.0% and 27.7% for the Nine Months Ended 2011 and 2010, respectively.

Financial Condition

Total assets at September 30, 2011 were $1,405,658,000, an increase of $217,623,000, or 18%, from December 31, 2010. The most significant changes in asset balances during this period were an increase of $52,930,000 in interest-bearing deposits in other financial institutions, an increase of $141,420,000 in federal funds sold and other short-term investments plus an increase of $30,222,000 in payments in excess of funding. 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, 2011 were $1,244,925,000, an increase of $198,984,000, or 19%, from December 31, 2010. Total deposits at September 30, 2011 were $549,792,000, an increase of $31,202,000, or 6%, from December 31, 2010. Accounts and drafts payable at September 30, 2011 were $683,239,000, an increase of $167,132,000, or 32%, from December 31, 2010. Total shareholders’ equity at September 30, 2011 was $160,733,000, an $18,639,000, or 13%, increase from December 31, 2010.

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 Shareholders’ Equity; Interest Rate and Interest Differential” section of this report).

The increase in total shareholders’ equity resulted from net income of $17,518,000, $1,043,000 from stock-based compensation expense, an increase in other comprehensive income of $4,732,000 offset by dividends paid of $4,519,000 ($.48 per share) and other miscellaneous activity of $135,000.

Liquidity and Capital Resources

The balance of liquid assets consists of cash and cash equivalents, which include cash and due from banks, interest-bearing deposits in other financial institutions, federal funds sold and money market funds, and was $334,783,000 at September 30, 2011, an increase of $195,854,000, or 141%, from December 31, 2010. At September 30, 2011, these assets represented 24% of total assets. These funds are the Company’s and its subsidiaries’ primary source of liquidity to meet future expected and unexpected loan demand, depositor withdrawals or reductions in accounts and drafts payable.

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Secondary sources of liquidity include the investment portfolio and borrowing lines. Total investment in securities was $274,572,000 at September 30, 2011, an increase of $10,003,000 from December 31, 2010. These assets represented 20% of total assets at September 30, 2011. Of this total, 100% were state and political subdivision securities. Of the total portfolio, 5% mature in one year, 15% mature in one to five years, and 80% mature in five or more years.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $88,000,000 at the following banks: Bank of America, $20,000,000; US Bank, $20,000,000; Wells Fargo Bank, $15,000,000; Frost National Bank, $10,000,000; PNC Bank, $12,000,000; UMB Bank, $5,000,000; and JPM Chase Bank, $6,000,000. The Company has a secured line of credit with the Federal Home Loan Bank of $126,696,000 collateralized by commercial mortgage loans. The Company also has a secured federal funds line of credit of $10,000,000 with the UMB Bank. There were no amounts outstanding under any line of credit as of September 30, 2011 or December 31, 2010.

The deposits of the Company's banking subsidiary have historically been stable, consisting of a sizable volume of core deposits related to customers that utilize other commercial products of the Bank. The accounts and drafts payable generated by the Company has also historically been a stable source of funds. The Company is part of the Certificate of Deposit Account Registry Service (“CDARS”). Time deposits include $86,590,000 of CDARS deposits which offer the Bank’s customers the ability to maximize FDIC insurance coverage. The Company uses this program to retain or attract deposits from existing customers.

Net cash flows provided by operating activities were $23,028,000 for the Nine Months Ended 2011, compared with $21,683,000 for the Nine Months Ended 2010, for an increase of $1,345,000. This increase is attributable to the increase in net income of $2,289,000, the increase in income tax liability of $2,282,000 offset by a lower provision for loan losses of $1,150,000, 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 2011, which are estimated to be less than $3,000,000.

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.”

There are several trends and uncertainties that may impact the Company’s ability to generate revenues and income at the levels that it has in the past. In addition, these trends and uncertainties may impact available liquidity. Those that could significantly impact the Company include the general levels of interest rates, business activity, and energy costs as well as new business opportunities available to the Company.

As a financial institution, a significant source of the Company’s earnings is generated from net interest income. Therefore, the prevailing interest rate environment is important to the Company’s performance. A major portion of the Company’s funding sources are the non-interest bearing accounts and drafts payable generated from its payment and information processing services. Accordingly, higher levels of interest rates will generally allow the Company to earn more net interest income. Conversely, a lower interest rate environment will generally tend to depress net interest income. The Company actively manages its balance sheet in an effort to maximize net interest income as the interest rate environment changes. This balance sheet management impacts the mix of earning assets maintained by the Company at any point in time. For example, in the lower interest rate environment currently faced by the Company, short-term relatively lower rate liquid investments are reduced in favor of longer term relatively higher yielding investments and loans.

The overall level of economic activity can have a significant impact on the Company’s ability to generate revenues and income, as the volume and size of customer invoices processed may increase or decrease. Higher levels of economic activity increase both fee income (as more invoices are processed) and balances of accounts and drafts payable.

The relative level of energy costs can impact the Company's earnings and available liquidity. Higher levels of energy costs will tend to increase transportation and utility invoice amounts resulting in a corresponding increase in accounts and drafts payable. Increases in accounts and drafts payable generate higher interest income and improve liquidity.

New business opportunities are an important component of the Company's strategy to grow earnings and improve performance. Generating new customers allows the Company to leverage existing systems and facilities and grow revenues faster than expenses.

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 FDIC, (c) minority interests in the equity accounts of consolidated subsidiaries less (d) goodwill, (e) mortgage servicing rights within certain limits, and (f) any other intangible assets and investments in subsidiaries that the FDIC determines should be deducted from Tier 1 capital. The FDIC also requires a minimum leverage ratio of 3.0%, defined as the ratio of Tier 1 capital less purchased mortgage servicing rights to total assets, for banking organizations deemed the strongest and most highly rated by banking regulators. A higher minimum leverage ratio is required of less highly rated banking organizations. Total capital, a measure of capital adequacy, includes Tier 1 capital, allowance for loan losses, and debt considered equity for regulatory capital purposes.

The Company and the Bank continue to exceed all regulatory capital requirements, as evidenced by the following capital amounts and ratios:

	September 30, 2011		December 31, 2010	
(In thousands)	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 163,047	17.79%	$ 148,659	16.82%
Cass Commercial Bank	64,957	12.14%	58,838	10.72%
Tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 151,571	16.54%	$ 137,603	15.57%
Cass Commercial Bank	58,242	10.89%	51,955	9.46%
Tier I capital (to average assets)				
Cass Information Systems, Inc.	$ 151,571	11.34%	$ 137,603	11.18%
Cass Commercial Bank	58,242	9.52%	51,955	8.92%

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 and Not Yet Adopted Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-05 – Comprehensive Income (ASC Topic 220) – Presentation of Comprehensive Income. This ASU improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. This ASU requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. The adoption of this ASU is not expected to have a material impact on the consolidated financial statements or results of operations.

In September 2011, the FASB issued ASU No. 2011-08 –Intangibles –Goodwill and Other (ASC Topic 350) –Testing of Goodwill for Impairment. This ASU simplifies how entities test goodwill for impairment. The amendments under this ASU permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this ASU is not expected to have a material impact on the consolidated financial statements or results of operations.

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, 2010, 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, 2011 has changed materially from that at December 31, 2010.

ITEM 4. CONTROLS AND PROCEDURES

The Company’s management, under the supervision and with the participation of the principal executive officer and the principal financial officer, evaluated the effectiveness of 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 the end of the period covered by this report and concluded that, as of such date, these controls and procedures were effective.

There were no changes in the Third Quarter of 2011 in the Company's internal control over financial reporting identified by the Company’s principal executive officer and principal financial officer in connection with their evaluation that materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has included in Part I, Item 3 of its Annual Report on Form 10-K for the year ended December 31, 2010 disclosure regarding certain legal proceedings. There were no material developments with regard to these proceedings during the three-month period ended September 30, 2011. All other legal proceedings and actions involving the Company are of an ordinary and routine nature and are incidental to the operations of the Company. Management believes the outcome of these proceedings, including proceedings discussed in the Annual Report on Form 10-K for the year ended December 31, 2010, will not have a material effect on the businesses 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, 2010, 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 2010 Annual Report on Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

(a)	None.
(b)	There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors implemented in the Third Quarter of 2011.

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.

Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CASS INFORMATION SYSTEMS, INC.

DATE: November 3, 2011	By	/s/ Eric H. Brunngraber Eric H. Brunngraber President and Chief Executive Officer (Principal Executive Officer)
DATE: November 3, 2011	By	/s/ P. Stephen Appelbaum P. Stephen Appelbaum Chief Financial Officer (Principal Financial and Accounting Officer)