CASS INFORMATION SYSTEMS INC
Form 10-Q
August 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 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	43-1265338
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
13001 Hollenberg Drive Bridgeton, Missouri	63044
(Address of principal executive offices)	(Zip Code)

(314) 506-5500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

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

(Check one)	Large Accelerated Filer |_|	Accelerated Filer |X|
	Non-Accelerated Filer |_|	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

August 1, 2008: Common stock, par value $.50 per share - 9,146,444 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.

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)

Assets	June 30 2008 (Unaudited)	December 31 2007
Cash and due from banks	$ 33,695	$ 26,719
Federal funds sold and other short-term investments	29,354	149,351
Cash and cash equivalents	63,049	176,070
Securities available-for-sale, at fair value	207,074	171,706
Loans	570,414	498,455
Less: Allowance for loan losses	6,090	6,280
Loans, net	564,324	492,175
Premises and equipment, net	12,334	12,771
Investment in bank-owned life insurance	12,814	12,544
Payments in excess of funding	19,107	11,664
Goodwill	7,471	7,471
Other intangible assets, net	737	877
Other assets	18,806	17,762
Total assets	$ 905,716	$ 903,040
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 96,908	$ 93,190
Interest-bearing	139,928	180,406
Total deposits	236,836	273,596
Accounts and drafts payable	548,028	513,734
Subordinated convertible debentures	3,501	3,688
Other liabilities	14,991	12,570
Total liabilities	803,356	803,588
Shareholders' Equity:		
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued	--	--
Common Stock, par value $.50 per share; 20,000,000 shares authorized and 9,949,324 shares issued at June 30, 2008 and December 31, 2007	4,975	4,975
Additional paid-in capital	45,343	45,837
Retained earnings	73,067	66,690
Common shares in treasury, at cost (802,880 shares at June 30, 2008 and 740,642 shares at December 31, 2007)	(18,912)	(16,118)
Accumulated other comprehensive loss	(2,113)	(1,932)
Total shareholders' equity	102,360	99,452
Total liabilities and shareholders' equity	$ 905,716	$ 903,040

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Fee Revenue and Other Income:				
Information services payment and processing revenue	$12,744	$11,399	$24,791	$22,648
Bank service fees	345	428	676	821
Other	215	224	448	445
Total fee revenue and other income	13,304	12,051	25,915	23,914
Interest Income:				
Interest and fees on loans	8,532	9,327	16,807	18,315
Interest and dividends on securities:				
Taxable	22	226	50	469
Exempt from federal income taxes	1,994	1,050	3,695	1,960
Interest on federal funds sold and other short-term investments	229	1,679	1,225	3,534
Total interest income	10,777	12,282	21,777	24,278
Interest Expense:				
Interest on deposits	657	1,965	1,842	3,925
Interest on short-term borrowings and other	13	23	13	25
Interest on subordinated convertible debentures	43	49	95	98
Total interest expense	713	2,037	1,950	4,048
Net interest income	10,064	10,245	19,827	20,230
Provision for loan losses	650	225	1,100	450
Net interest income after provision for loan losses	9,414	10,020	18,727	19,780
Operating Expense:				
Salaries and employee benefits	12,496	11,896	24,933	23,435
Occupancy	560	532	1,100	1,022
Equipment	872	877	1,696	1,689
Amortization of intangible assets	70	70	140	140
Other operating	2,510	2,557	4,999	4,979
Total operating expense	16,508	15,932	32,868	31,265

Income before income tax expense	6,210	6,139	11,774	12,429
Income tax expense	1,644	1,947	3,189	4,051
Net Income	$ 4,566	$ 4,192	$ 8,585	$ 8,378
Basic Earnings Per Share	.50	.46	.94	.91
Diluted Earnings Per Share	.48	.45	.91	.90

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30	
	2008	2007
Cash Flows From Operating Activities:		
Net income	$ 8,585	$ 8,37
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,127	1,38
Provision for loan losses	1,100	45
Stock-based compensation expense	491	31
Deferred income tax expense	9	98
Increase in income tax liability	493	25
Increase in pension liability	988	95
Other operating activities, net	(87)	57
Net cash provided by operating activities	13,706	13,30
Cash Flows From Investing Activities:		
Proceeds from maturities of securities available-for-sale	6,106	35,00
Purchase of securities available-for-sale	(42,553)	(66,99
Net increase in loans	(73,249)	(17,08
Increase in payments in excess of funding	(7,443)	(6,81
Purchases of premises and equipment, net	(750)	(1,04
Net cash used in investing activities	(117,889)	(56,93
Cash Flows From Financing Activities:		
Net increase (decrease) in noninterest-bearing demand deposits	3,718	(19,05
Net increase (decrease) in interest-bearing demand and savings deposits	304	(6,92
Net (decrease) increase in time deposits	(40,782)	3,29
Net increase in accounts and drafts payable	34,294	92,33
Net decrease in short-term borrowings	(198)	-
Purchase of common shares for treasury	(3,984)	-
Cash dividends paid	(2,208)	(2,00
Other financing activities, net	18	5

Net cash (used in) provided by financing activities	(8,838)	67,69
Net (decrease) increase in cash and cash equivalents	(113,021)	24,06
Cash and cash equivalents at beginning of period	176,070	196,50
Cash and cash equivalents at end of period	$ 63,049	$ 220,57
Supplemental information:		
Cash paid for interest	$ 2,168	$ 3,96
Cash paid for income taxes	2,789	2,75

See accompanying notes to unaudited consolidated financial statements.

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

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity. The Company issued a 10% stock dividend on December 17, 2007 and the share and per share information have been restated for all periods presented in the accompanying consolidated financial statements. For further information, refer to the audited consolidated financial statements and related footnotes included in Cass Information System, Inc.'s ("the Company" or "Cass") Annual Report on Form 10-K for the year ended December 31, 2007.

Note 2 - Intangible Assets

The Company accounts for intangible assets in accordance with Statement of Financial Accounting Standard No.142 ("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 June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008		December 31, 2007	
(In Thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Acc Amor
Assets eligible for amortization:				
Software	$ 862	$ (661)	$ 862	$

Customer List	750	(214)	750	
Total	1,612	(875)	1,612	
Unamortized intangible assets:				
Goodwill	7,698	(227)*	7,698	
Total unamortized intangibles	7,698	(227)	7,698	
Total intangible assets	$ 9,310	$(1,102)	$ 9,310	$

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

Software is amortized over four to five years and the customer list is amortized over seven years. Amortization of intangible assets amounted to $140,000 for the six-month periods ended June 30, 2008 and 2007. Estimated amortization of intangibles over the next five years is as follows: $280,000 in 2008, $222,000 in 2009 and $107,000 in 2010, 2011 and 2012.

Note 3 - Equity Investments in Non-Marketable Securities

Non-marketable equity investments in low-income housing projects are included in other assets on the Company's consolidated balance sheets. The total balance of these investments at December 31, 2007 and June 30, 2008 was $475,000 and $440,000, 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 June 30, 2008 and 2007 are as follows:

	Three Months Ended June 30		Six Months En June 30	
(Dollars in Thousands except Per Share data)	2008	2007	2008	
Basic				
Net income	$ 4,566	$ 4,192	$ 8,585	$
Weighted-average common shares outstanding	9,165,262	9,145,791	9,169,839	9,
Basic earnings per share	$ .50	$ .46	$ .94	$
Diluted				

Net income	$ 4,591	$ 4,219	$ 8,635	$
Weighted-average common shares outstanding	9,165,262	9,145,791	9,169,839	9,
Effect of dilutive stock options and awards	106,760	113,152	106,410	
Effect of convertible debentures	181,553	189,989	183,343	
Weighted-average common shares outstanding assuming dilution	9,453,575	9,448,932	9,459,592	9,
Diluted earnings per share	$ .48	$ .45	$ .91	$

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 120,000 shares during the three and six-month periods ended June 30, 2008. The Company did not repurchase any shares during the six-month period ended June 30, 2007. As of June 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.

The following table sets forth information about the Company's purchases of its $.50 par value Common Stock, its only class of stock registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program
April 1-30, 2008	--	$ --	--
May 1-31, 2008	120,000	33.20	120,000
June 1-30, 2008	--	--	--
Total	120,000	$ 33.20	120,000

Note 6 - Comprehensive Income

For the three and six-month periods ended June 30, 2008 and 2007, unrealized gains and losses on debt and equity securities available-for-sale were the Company's only other comprehensive income component. Comprehensive income for the three and six-month periods ended June 30, 2008 and 2007 is summarized as follows:

(In Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Net income	$ 4,566	$ 4,192	$ 8,585	$ 8,378
Other comprehensive income:				
Net unrealized loss on securities available-for-sale, net of tax	(1,865)	(1,170)	(181)	(1,303)
Total comprehensive income from continuing operations	$ 2,701	$ 3,022	$ 8,404	$ 7,075

Note 7 - Industry Segment Information

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

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

The Company's accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Management evaluates segment performance based on net income after allocations for corporate expenses and income taxes. Transactions between segments are accounted for at what management believes to be market value.

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

Summarized information about the Company's operations in each industry segment for the three and six-month periods ended June 30, 2008 and 2007, is as follows:

(In Thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	T
Quarter Ended June 30, 2008				
Total Revenues:				
Revenue from customers	$ 19,081	$ 3,637	$ --	$
Intersegment revenue	1,398	222	(1,620)	
Net income from continuing operations	3,912	654	--	
Total assets	640,896	333,857	(69,037)	

Goodwill	7,335	136	--	
Other intangible assets, net	737	--	--	
Quarter Ended June 30, 2007				
Total Revenues:				
Revenue from customers	$ 18,337	$ 3,734	$ --	$
Intersegment revenue	485	405	(890)	
Net income from continuing operations	3,439	753	--	
Total assets	626,443	324,033	(14,868)	
Goodwill	7,335	136	--	
Other intangible assets, net	1,016	--	--	

(In Thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	T
Six Months Ended June 30, 2008				
Total Revenues:				
Revenue from customers	$ 37,543	$ 7,099	$ --	$
Intersegment revenue	2,632	428	(3,060)	
Net income from continuing operations	7,369	1,216	--	
Total assets	640,896	333,857	(69,037)	
Goodwill	7,335	136	--	
Other intangible assets, net	737	--	--	
Six Months Ended June 30, 2007				
Total Revenues:				
Revenue from customers	$ 36,079	$ 7,615	$ --	$
Intersegment revenue	972	754	(1,726)	
Net income from continuing operations	6,633	1,745	--	
Total assets	626,443	324,033	(14,868)	
Goodwill	7,335	136	--	
Other intangible assets, net	1,016	--	--	

Note 8 - Loans by Type

(In Thousands)	June 30, 2008	December 31, 2007
Commercial and industrial	$ 124,115	$ 100,827
Real estate: (Commercial and church)		
Mortgage	396,012	360,907
Construction	44,923	31,082
Industrial revenue bonds	3,832	4,149
Other	1,532	1,490
Total loans	$ 570,414	$ 498,455

Note 9 - Commitments and Contingencies

In the normal course of business, the Company is party to activities that contain credit, market and operational risks that are not reflected in whole or in part in the Company's consolidated financial statements. Such activities include traditional off-balance sheet credit-related financial instruments and commitments under operating and capital leases. These financial instruments include commitments to extend credit, commercial letters of credit and standby letters of credit. The Company's maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, commercial letters of credit and standby letters of credit is represented by the contractual amounts of those instruments. At December 31, 2007 and June 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 dates or other termination clauses and may require payment of a fee. At December 31, 2007 the balance of unused loan commitments, standby and commercial letters of credit were $29,036,000, $5,999,000 and $4,147,000, respectively. At June 30, 2008 the balance of unused loan commitments, standby and commercial letters of credit were $22,880,000, $6,777,000 and $3,621,000, respectively. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. Commitments to extend credit and letters of credit are subject to the same underwriting standards as those financial instruments included on the consolidated balances sheets. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held varies, but is generally accounts receivable, inventory, residential or income-producing commercial property or equipment. In the event of nonperformance, the Company or its subsidiaries may obtain and liquidate the collateral to recover amounts paid under its guarantees on these financial instruments.

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

	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	$ 3,412	$ 655	$ 954	$ 830	$ 973
Time deposits	41,844	38,431	2,106	1,307	--
Convertible subordinated debentures*	3,501	--	--	--	3,501
Total	$48,757	$39,086	$ 3,060	$ 2,137	$ 4,474

* 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 June 30, 2008, 2,700 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. As of June 30, 2008, the total unrecognized compensation expense related to non-vested common stock was $1,743,000 and the related weighted-average period over which it is expected to be recognized is approximately 1.3 years.

Changes in restricted shares outstanding were as follows:

	Six Months Ended June 30, 2008 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 June 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 six-month periods ended June 30, 2008 and 2007. As of June 30, 2008, the total unrecognized compensation expense related to non-vested stock options was $86,000, and the related weighted-average period over which it is expected to be recognized is approximately 3.6 years

A summary of the Company's stock option program for the six-month period ended June 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	(24,116)	10.44		
Forfeited or expired	--	--		
Outstanding at June 30, 2008	71,213	15.19	3.13	$ 1,165

Exercisable at June 30, 2008	14,693	11.53	2.10	$	301

The total intrinsic value of options exercised was $509,000 and $16,000 for the six-month periods ended June 30, 2008 and 2007, respectively.

A summary of the activity of the non-vested options during the six-month period ended June 30, 2008 is shown below.

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

There were 0 and 109,755 stock appreciation rights granted during the three and six-month periods ended June 30, 2008, respectively. As of June 30, 2008, the total unrecognized compensation expense related to stock appreciation rights was $790,000 and the related weighted-average period over which it is expected to be recognized is 6.6 years. Following are the assumptions used to estimate the $7.65 per share fair value of stock appreciation rights granted during the six-month period ended June 30, 2008:

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

The risk-free interest rate is based on the zero-coupon U.S. Treasury yield for the period equal to the expected life of the options at the time of the grant. The expected life was derived using the historical exercise activity. The Company uses historical volatility for a period equal to the expected life of the rights using average monthly closing market prices of the Company's stock as reported on The Nasdaq Global Market. The expected dividend yield is based on the Company's current rate of annual dividends.

Note 11 - Defined Pension Plans

The Company has a noncontributory defined benefit pension plan, which covers most of its employees. The Company accrues and makes contributions designed to fund normal service costs on a current basis using the projected unit credit with service proration method to amortize prior service costs arising from improvements in pension benefits and qualifying service prior to the establishment of the plan over a period of approximately 30 years. Disclosure information is based on a measurement date of December 31 of the corresponding year.

The following table represents the components of the net periodic pension costs for 2007 and an estimate for 2008:

(In Thousands)	Estimated 2008	Actual 2007
Service cost - benefits earned during the year	$ 1,562	$ 1,622
Interest cost on projected benefit obligation	1,932	1,771
Expected return on plan assets	(2,110)	(1,865)
Net amortization	47	197
Net periodic pension cost	$ 1,431	$ 1,725

Pension costs recorded to expense were $357,000 and $429,000 for the three-month periods ended June 30, 2008 and 2007, respectively, and totaled $715,000 and $832,000 for the six-month periods ended June 30, 2008 and 2007, respectively. The Company has not made any contribution to the plan during the six-month period ended June 30, 2008, but expects to contribute at least $1,800,000 in 2008.

In addition to the above funded benefit plan, the Company has an unfunded supplemental executive retirement plan which covers key executives of the Company. This is a noncontributory plan in which the Company and its subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as its defined benefit plan. The following table represents the components of the net periodic pension costs for 2007 and an estimate for 2008:

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

Pension costs recorded to expense were $146,000 and $141,000 for the three-month periods ended June 30, 2008 and 2007, respectively, and were $293,000 and $227,000 for the six-month periods ended June 30, 2008 and 2007, respectively.

Note 12 - Income Taxes

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

The Company had unrecognized tax benefits of approximately $1,033,000 as of December 31, 2007. The total amount of federal and state unrecognized tax benefits at December 31, 2007 that, if recognized, would affect the effective tax rate was $806,000, net of federal tax benefit. There have been no material changes to the unrecognized tax benefits during the three and six-month periods ended June 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 six-month periods ended June 30, 2008 was immaterial.

The Company is subject to income tax in the U. S. federal jurisdiction and numerous state jurisdictions. U.S. federal income tax returns for tax years 2006 and 2007 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2004 through 2007.

Note 13 - Fair Value of Assets

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

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

Investment Securities Available for 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)	June 30, 2008
Treasury Securities	$ 1,998
State and Municipal Securities	205,076
	$ 207,074

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 June 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 June 30, 2008 was $1,967,000.

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

OF OPERATIONS

Overview

Cass Information Systems, Inc. provides payment and information processing services to large manufacturing, distribution and retail enterprises from its processing centers in St. Louis, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina and Wellington, Kansas. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays utility invoices, which includes electricity, gas and telecommunications expenses and is a provider of telecom expense management solutions. Cass extracts, stores and presents information from freight, utility and telecommunication invoices, assisting its customers' transportation, energy and information technology managers in making decisions that will enable them to improve operating performance. The Company receives data from multiple sources, electronic and otherwise, and processes the data to accomplish the specific operating requirements of its customers. It then provides the data in a central repository for access and archiving. The data is finally transformed into information through the Company's databases that allow client interaction as required and provide Internet-based tools for analytical processing. The Company also, through Cass Commercial Bank, its St. Louis, Missouri based bank subsidiary (the "Bank"), provides banking services in the St. Louis metropolitan area Orange County, California and other selected cities in the United States. In addition to supporting the Company's payment operations, the Bank provides banking services to its target markets, which include privately-owned businesses and churches and church-related ministries.

The specific payment and information processing services provided to each customer are developed individually to meet each customer's requirements, which can vary greatly. In addition, the degree of automation such as electronic data interchange ("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 economic slow-down may reduce the short-term growth rate, management remains optimistic about the long-term prospects for growth. With the recent significant drop in short-term interest rates, the major challenge faced by Cass is the prudent management of earning assets and interest bearing liabilities. Management actively monitors Cass' 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.

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 events and circumstances indicate that the carrying amounts of these assets will not be recoverable in the future. If impairment occurs, various methods of measuring impairment may be called for depending on the circumstances and type of asset, including quoted market prices, estimates based on similar assets, and estimates based on valuation techniques such as discounted projected cash flows. Assets held for sale are carried at the lower of cost or fair value less costs to sell. These policies affect both segments of the Company and require significant management assumptions and estimates that could result in materially different results if conditions or underlying circumstances change.

Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in the Company's financial statements or tax returns such as the realization of deferred tax assets, changes in tax laws or interpretations thereof. In addition, the Company is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other taxing authorities. Effective January 1, 2007, the Company adopted FIN No. 48, "Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109." FIN No. 48 provides guidance for the recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. See Note 12 to the financial statements.

Pension Plans. The amounts recognized in the consolidated financial statements related to pension are determined from actuarial valuations. Inherent in these valuations are assumptions including expected return on plan assets, discount rates at which the liabilities could be settled at December 31, 2007, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 12 to the consolidated financial statements filed with the Company's annual report on Form 10-K for the year ended December 31, 2007. Pursuant to Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158"), the Company has recognized the funded status of its defined benefit postretirement plan in its statement of financial position and has recognized changes in that funded status through comprehensive income. The funded status is measured as the difference between the fair value of the plan assets and the benefit obligation as of the date of its fiscal year-end.

Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three-month period ended June 30, 2008 ("Second Quarter of 2008") compared to the three-month period ended June 30, 2007 ("Second Quarter of 2007") and the six-month period ended June 30, 2008 ("First Half of 2008") compared to the six-month period ended June 30, 2007 ("First Half 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 Second Quarter of 2008 are not necessarily indicative of the results to be attained for any other period.

Net Income

The following table summarizes the Company's operating results:

	Three Months Ended June 30			
(Dollars in Thousands except Per Share Data)	2008	2007	% Change	2008
Net income	$ 4,566	$ 4,192	8.9%	$ 8,5
Diluted earnings per share	$ .48	$ .45	6.7%	$.
Return on average assets	2.05%	1.93%	--	1.

Return on average equity	17.60%	19.18%	--	16.

Fee Revenue and Other Income from Continuing Operations

The Company's fee revenue is derived mainly from freight and utility processing and payment fees. As the Company provides its processing and payment services, it is compensated by service fees which are typically calculated on a per-item basis and by the accounts and drafts payable balances generated in the payment process which can be used to generate interest income. Processing volumes related to fees and accounts and drafts payable for the three and six-month periods ended June 30, 2008 and 2007 were as follows:

	Three Months Ended June 30			
(In Thousands)	2008	2007	% Change	20
Freight Core Invoice Transaction Volume*	6,765	6,026	12.3%	1
Freight Invoice Dollar Volume	$4,355,522	$3,684,047	18.2%	$8,21
Utility Transaction Volume	2,618	2,271	15.3%	
Utility Transaction Dollar Volume	$2,257,471	$1,832,094	23.2%	$4,49
Payment and Processing Fees	$ 12,744	$ 11,399	11.8%	$ 2

*Core invoices exclude parcel shipments.

Second Quarter of 2008 compared to Second Quarter of 2007:

Freight transaction volume and invoice dollar volume for the Second Quarter of 2008 increased compared to the same period in 2007 due to new business and growth in existing customer volume. The dollar volume also increased due to higher average bills because of fuel surcharges. The increase in transaction and dollar volume from utility transactions resulted primarily from new customers as the growth of this division continues.

Bank service fees decreased $83,000 or 19% primarily due to the elimination of correspondent banking services which was completed in the Second Quarter of 2008. Other income decreased $9,000 in the Second Quarter of 2008.

First Half of 2008 compared to First Half of 2007:

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

Bank service fees decreased $145,000 or 18% due to the same factors discussed above for the Second Quarter of 2008. Other income increased $3,000 in the First Half of 2008.

Net Interest Income

Net interest income is the difference between interest earned on loans, investments, and other earning assets and interest expense on deposits and other interest-bearing liabilities. Net interest income is a significant source of the Company's revenues. The following table summarizes the changes in net interest income and related factors for the three and six-month periods ended June 30, 2008 and 2007:

	Three Months Ended June 30			
(Dollars in Thousands)	2008	2007	% Change	20
Average earnings assets	$803,611	$789,525	1.8%	$801,
Net interest income*	11,163	10,848	2.9%	21,
Net interest margin*	5.59%	5.51%	--	5
Yield on earning assets*	5.94%	6.55%	--	5
Rate on interest bearing liabilities	2.00%	4.33%	--	2

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

Second Quarter of 2008 compared to Second Quarter of 2007:

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

Total average loans increased $29,285,000, or 6%, to $557,406,000. Total average investment in debt and equity securities increased $74,892,000 or 57% to $205,303,000 as the Company invested a portion of the increase in payables in non-taxable state and municipal securities. Total average federal funds sold and other short-term investments decreased $90,091,000 or 69% to $40,902,000. For more information on the changes in net interest income please refer to the tables that follow.

First Half of 2008 compared to First Half of 2007:

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

Total average loans increased $8,358,000 or 2% to $530,802,000. Total average investment in debt and equity securities increased $68,301,000 or 55% to $191,946,000 as the Company invested a portion of the increase in payables in non-taxable state and municipal securities. Total average federal funds sold and other short-term investments decreased $59,357,000 or 43% to $79,155,000. 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.

	Second Quarter of 2008			
(Dollars in Thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Averag Balanc
Assets (1)				
Earning assets:				
Loans (2,3):				
Taxable	$ 553,453	$ 8,488	6.17%	$ 522,
Tax-exempt (4)	3,953	69	7.02	5,
Debt and equity securities (5):				
Taxable	2,857	22	3.10	19,
Tax-exempt (4)	202,446	3,068	6.10	111,
Federal funds sold and other short-term investments	40,902	229	2.25	130,
Total earning assets	803,611	11,876	5.94	789,
Nonearning assets:				
Cash and due from banks	22,579			25,
Premises and equipment, net	12,590			12,
Bank owned life insurance	12,726			12,
Goodwill and other intangibles	8,251			8,
Other assets	41,331			29,
Allowance for loan losses	(6,210)			(6,
Total assets	$ 894,878			$ 870,
Liabilities And Shareholders' Equity (1)				
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 76,792	$ 241	1.26%	$ 64,
Savings deposits	18,238	52	1.15	22,
Time deposits of $100 or more	27,899	235	3.39	67,
Other time deposits	15,195	129	3.41	30,

Total interest-bearing deposits	138,124	657	1.91	184,
Short-term borrowings & other	1,124	13	4.65	
Subordinated debentures	3,549	43	4.87	3,
Total interest-bearing liabilities	142,797	713	2.00	188,
Noninterest-bearing liabilities:				
Demand deposits	84,094			94,
Accounts and drafts payable	551,015			487,
Other liabilities	12,648			13,
Total liabilities	790,554			783,
Shareholders' equity	104,324			87,
Total liabilities and shareholders' equity	$ 894,878			$ 870,
Net interest income		$ 11,163		
Interest spread			3.94%	
Net interest margin			5.59	

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 $64,000 and $48,000 for the Second Quarter 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 $1,099,000 and $603,000 for the Second Quarter of 2008 and 2007, respectively.

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

	First Half of 2008			
(Dollars in Thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Averag Balanc
Assets (1)				
Earning assets:				
Loans (2,3):				
Taxable	$ 526,775	$ 16,715	6.38%	$ 516,
Tax-exempt (4)	4,027	141	7.04	6,
Debt and equity securities (5):				

Taxable	3,263	50	3.08	19,
Tax-exempt (4)	188,683	5,684	6.06	103,
Federal funds sold and other short-term investments	79,155	1,225	3.11	138,
Total earning assets	801,903	23,815	5.97	784,
Nonearning assets:				
Cash and due from banks	22,345			25,
Premises and equipment, net	12,625			12,
Bank owned life insurance	12,659			12,
Goodwill and other intangibles	8,287			8,
Other assets	38,427			28,
Allowance for loan losses	(6,275)			(6,
Total assets	$ 889,971			$ 865,
Liabilities And Shareholders' Equity (1)				
Interest-bearing liabilities:				
Interest-bearing demand deposits	$ 76,359	$ 619	1.63%	$ 64,
Savings deposits	18,619	148	1.60	22,
Time deposits of $100 or more	34,099	672	3.96	68,
Other time deposits	19,289	403	4.20	29,
Total interest-bearing deposits	148,366	1,842	2.50	185,
Short-term borrowings & other	597	13	4.38	
Subordinated debentures	3,583	95	4.68	3,
Total interest-bearing liabilities	152,546	1,950	2.56	189,
Noninterest-bearing liabilities:				
Demand deposits	85,778			95,
Accounts and drafts payable	536,130			481,
Other liabilities	12,790			12,
Total liabilities	787,244			779,
Shareholders' equity	102,727			86,
Total liabilities and shareholders' equity	$ 889,971			$ 865,
Net interest income		$ 21,865		
Interest spread			3.41%	
Net interest margin			5.48	

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 $118,000 and $94,000 for the First Half 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 $2,038,000 and $1,133,000 for the First Half of 2008 and 2007, respectively.

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

Analysis of Net Interest Income Changes

The following table presents the changes in interest income and expense between periods due to changes in volume and interest rates. That portion of the change in interest attributable to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of the change in each.

	Second Quarter of 2008 Over 2007		
(In Thousands)	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans (1,2):			
Taxable	$ 534	$(1,302)	$ (768)
Tax-exempt (3)	(36)	(3)	(39)
Debt and equity securities:			
Taxable	(144)	(60)	(204)
Tax-exempt (3)	1,377	75	1,452
Federal funds sold and other short-term investments	(797)	(653)	(1,450)
Total interest income	934	(1,943)	(1,009)
Interest expense on:			
Interest-bearing demand deposits	86	(364)	(278)
Savings deposits	(29)	(108)	(137)
Time deposits of $100 or more	(397)	(241)	(638)
Other time deposits	(154)	(101)	(255)
Short-term borrowings & other	12	(22)	(10)
Subordinated debentures	(2)	(4)	(6)
Total interest expense	(484)	(840)	(1,324)
Net interest income	$ 1,418	$(1,103)	$ 315

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%.

	First Half of 2008 Over 2007		
(In Thousands)	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans (1,2):			

Taxable	$ 371	$(1,829)	$(1,458)
Tax-exempt (3)	(73)	(6)	(79)
Debt and equity securities:			
Taxable	(294)	(125)	(419)
Tax-exempt (3)	2,560	109	2,669
Federal funds sold and other short-term investments	(1,201)	(1,108)	(2,309)
Total interest income	1,363	(2,959)	(1,596)
Interest expense on:			
Interest-bearing demand deposits	165	(583)	(418)
Savings deposits	(59)	(176)	(235)
Time deposits of $100 or more	(739)	(352)	(1,091)
Other time deposits	(235)	(104)	(339)
Short-term borrowings & other	25	(37)	(12)
Subordinated debentures	(3)	0	(3)
Total interest expense	(846)	(1,252)	(2,098)
Net interest income	$ 2,209	$(1,707)	$ 502

1. Average balances include nonaccrual loans.

2. Interest income includes net loan fees.

3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%.

Provision and Allowance for Loan Losses

An important determinant of the Company's operating results is the provision for loan losses and the level of loans charged off. There was a $650,000 and $225,000 provision for loan losses during the Second Quarter of 2008 and the Second Quarter of 2007, respectively. There was a $1,100,000 and $450,000 provision for loan losses during the First Half of 2008 and the First Half of 2007, respectively. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. There were $817,000 and $204,000 of net loan charge-offs in the Second Quarter of 2008 and 2007, respectively. There were $1,290,000 of net loan charge-offs in the First Half of 2008 and $199,000 in the First Half 2007.

The allowance for loan losses at June 30, 2008 was $6,090,000 and at December 31, 2007 was $6,280,000. The ratio of allowance for loan losses to total loans outstanding at June 30, 2008 was 1.07% compared to 1.26% at December 31, 2007. Nonperforming loans were $3,265,000 or .57% of total loans at June 30, 2008 compared to $2,481,000 or .50% of total loans at December 31, 2007.

At June 30, 2008, nonperforming loans, which are also considered impaired, consisted of $2,919,000 in non-accrual loans as shown in the following table. This total consists of eight loans to borrowers with businesses in financial trouble or in the process of liquidation. Nonperforming loans at December 31, 2007 consisted of $1,985,000 in five non-accrual loans, four of which are included in the June 30, 2008 total. One loan was charged off in the Second Quarter of 2008. Total nonperforming loans increased $410,000 from June 30, 2007 to June 30, 2008. This increase was primarily due to the addition of six commercial loans which are in financial trouble offset by the charge-off of two loans.

In addition to the nonperforming loans discussed above, at June 30, 2008, approximately $2,975,000 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.

Summary of Asset Quality

	Three Months Ended June 30		Six Mont June
(Dollars in Thousands)	2008	2007	2008
Allowance at beginning of period	$ 6,257	$ 6,822	$ 6,280
Provision charged to expense	650	225	1,100
Loans charged off	844	285	1,335
Recoveries on loans previously charged off	27	81	45
Net loans charged-off	817	204	1,290
Allowance at end of period	$ 6,090	$ 6,843	$ 6,090

Loans outstanding:			
Average	$557,406	$528,121	$530,802
June 30	570,414	521,007	570,414
Ratio of allowance for loan losses to loans outstanding:			
Average	1.09%	1.30%	1.15%
June 30	1.07	1.31	1.07%
Nonperforming loans:			
Nonaccrual loans	$ 2,919	$ 2,855	$ 2,919
Loans past due 90 days or more	346	--	346
Renegotiated loans	--	--	--
Total non performing loans	$ 3,265	$ 2,855	$ 3,265
Foreclosed assets	1,388	--	1,388
Nonperforming loans as percentage of average loans	.59%	.54%	.62%

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

Operating Expense from Continuing Operations

Total operating expense for the Second Quarter of 2008 increased $576,000 or 4% to $16,508,000 compared to the Second Quarter of 2007 due primarily to expenses related to the 12% growth in processing activity. Total operating expense for the First Half of 2008 increased $1,603,000 or 5% to $32,868,000 compared to the First Half of 2007 due primarily to expenses related to the 9% growth in processing activity.

Salaries and benefits expense for the Second Quarter of 2008 increased $600,000 or 5% to $12,496,000 compared to the Second Quarter of 2007 and increased $1,498,000 or 6% to $24,933,000 for the First Half of 2008 compared to the First Half 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 Second Quarter of 2007 increased $28,000 or 5% to $560,000 from the Second Quarter of 2007 and increased $78,000 or 8% from the First Half of 2007 compared to the First Half of 2008.

Equipment expense for the Second Quarter of 2008 decreased $5,000 or less than 1% compared to the Second Quarter of 2007 and increased $7,000 or less than 1% from the First Half of 2007.

Amortization of intangible assets was $70,000 for the Second Quarter of 2008 and 2007 and $140,000 for the First Half of 2008 and 2007.

Other operating expense for the Second Quarter of 2008 decreased $47,000, or 2% compared to the Second Quarter of 2007 and decreased $20,000 for the First Half of 2008 compared to the First Half of 2007. The decreases were due to lower legal and outside services expenses.

Income tax expense for the Second Quarter of 2008 decreased $303,000 or 16% compared to the Second Quarter of 2007 and decreased $862,000 for the First Half of 2008 compared to the First Half of 2007. The effective tax rate was 26.5% and 31.7% for the Second Quarters of 2008 and 2007, respectively and was 27.1% and 32.6% for the First Halves of 2008 and 2007, respectively. The decreases reflect the impact of the increase in interest income relating to tax-exempt securities.

Financial Condition

Total assets at June 30, 2008 were $905,716,000, an increase of $2,676,000, or less than 1% from December 31, 2007. The most significant changes in asset balances during this period were a decrease of $119,997,000 or 80% in federal funds sold and other short-term investments and increases of $35,368,000 and $71,959,000 in securities available for sale and loans, respectively. Changes in federal funds sold and other short-term investments reflect the Company's daily liquidity position and are affected by the changes in the other asset balances and changes in deposit and accounts and draft payable balances.

Total liabilities at June 30, 2008 were $803,356,000, a decrease of $232,000, less than 1% from December 31, 2007. Total deposits at June 30, 2008 were $236,836,000, a decrease of $36,760,000 or 13% from December 31, 2007. Accounts and drafts payable at June 30, 2008 were $548,028,000, an increase of $34,294,000 or 7%. Total shareholders' equity at June 30, 2008 was $102,360,000, a $2,908,000 or 3% 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 $8,585,000, $491,000 from stock-based compensation expense offset by dividends paid of $2,208,000 ($.12 per share), the repurchase of treasury shares of $3,984,000, an increase in other comprehensive loss of $181,000 and other miscellaneous activity of $205,000.

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 $63,049,000 at June 30, 2008, a decrease of $113,021,000 or 64% from December 31, 2007. At June 30, 2008 these assets represented 7% of total assets. These funds are the Company's and its subsidiaries' primary source of liquidity to meet future expected and unexpected loan demand, depositor withdrawals or reductions in accounts and drafts payable.

Secondary sources of liquidity include the investment portfolio and borrowing lines. Total investment in securities was $207,074,000 at June 30, 2008, an increase of $35,368,000 from December 31, 2007. These assets represented 23% of total assets at June 30, 2008. Of this total, 99% were state and political subdivision securities and 1% was U.S. Treasury securities. Of the total portfolio, 4% mature in one year, 21% mature in one to five years, and 75% mature in five or more years. During the Second Quarter of 2008 the Company did not sell any securities.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $39,000,000. Additionally, the Bank maintains a line of credit at unaffiliated financial institutions in the maximum amount of $81,568,000 collateralized by commercial and real estate loans.

The deposits of the Company's banking subsidiary have historically been stable, consisting of a sizable volume of core deposits related to customers that utilize other commercial products of the Bank. The accounts and drafts payable generated by the Company has also historically been a stable source of funds.

Net cash flows provided by operating activities were $13,706,000 for the First Half of 2008 compared with $13,305,000 for the First Half of 2007. This increase is attributable to the increases in net income of $207,000, depreciation and amortization of $740,000, provision for loan losses of $650,000, stock-based compensation expense of $172,000, the decrease in net income taxes deferred and payable of $735,000 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.

The Company faces market risk to the extent that its net interest income and fair market value of equity are affected by changes in market interest rates. For information regarding the market risk of the Company's financial instruments, see Item 3. "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK".

Risk-based capital guidelines require the Company to meet a minimum total capital ratio of 8.0% of which at least 4.0% must consist of Tier 1 capital. Tier 1 capital generally consists of (a) common shareholders' equity (excluding the unrealized market value adjustments on the available-for-sale securities), (b) qualifying perpetual preferred stock and related surplus subject to certain limitations specified by the Federal Deposit Insurance Corporation ("FDIC"), (c) minority interests in the equity accounts of consolidated subsidiaries less (d) goodwill, (e) mortgage servicing rights within certain limits, and (f) any other intangible assets and investments in subsidiaries that the FDIC determines should be deducted from Tier 1 capital. The FDIC also requires a minimum leverage ratio of 3.0%, defined as the ratio of Tier 1 capital less purchased mortgage servicing rights to total assets, for banking organizations deemed the strongest and most highly rated by banking regulators. A higher minimum leverage ratio is required of less highly-rated banking organizations. Total capital, a measure of capital adequacy, includes Tier 1 capital, allowance for loan losses, and debt considered equity for regulatory capital purposes.

The Company and the Bank continue to exceed all regulatory capital requirements, as evidenced by the following capital amounts and ratios at June 30, 2008 and December 31, 2007:

June 30, 2008 (Dollars in Thousands)	Amount	Ratio
Total capital (to risk-weighted assets)		
Cass Information Systems, Inc.	$102,360	14.62%
Cass Commercial Bank	42,916	13.85
Tier I capital (to risk-weighted assets)		
Cass Information Systems, Inc.	$ 92,769	13.25%
Cass Commercial Bank	39,043	12.60
Tier I capital (to average assets)		
Cass Information Systems, Inc.	$ 92,769	10.46%

Cass Commercial Bank	39,043	12.19

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

Inflation

The Company's assets and liabilities are primarily monetary, consisting of cash, cash equivalents, securities, loans, payables and deposits. Monetary assets and liabilities are those that can be converted into a fixed number of dollars. The Company's consolidated balance sheet reflects a net positive monetary position (monetary assets exceed monetary liabilities). During periods of inflation, the holding of a net positive monetary position will result in an overall decline in the purchasing power of a company. Management believes that replacement costs of equipment, furniture, and leasehold improvements will not materially affect operations. The rate of inflation does affect certain expenses, such as those for employee compensation, which may not be readily recoverable in the price of the Company's services.

Impact of New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Company adopted this statement as of January 1, 2008 and there was no effect on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company adopted this statement as of January 1, 2008 and there was no effect on the Company's consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As described in the Company's annual report on Form 10-K for the year ended December 31, 2007, the Company manages its interest rate risk through measurement techniques that include gap analysis and a simulation model. As part of the risk management process, asset/liability management policies are established and monitored by management. The policy objective is to limit the change in annualized net interest income to 15% from an immediate and sustained parallel change in interest rates of 200 basis points. Based on the Company's most recent evaluation, management does not believe the Company's risk position at June 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 June 30, 2008 and based on their evaluation, believe that, as of June 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 second quarter of 2008 in the Company's internal control over financial reporting identified by the Chief Executive Officer and Principal Financial Officer in connection with their evaluation that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are not involved in any pending proceedings other than ordinary routine litigation incidental to its businesses. Management believes none of these proceedings, if determined adversely, would have a material effect on the business or financial conditions of the Company or its subsidiaries.

ITEM 1A. RISK FACTORS

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2007, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the "Risk Factors"). There are no material changes to the Risk Factors as disclosed in the Company's 2007 Annual Report on Form 10-K.

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

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.

The following table sets forth information about the Company's repurchases of its $0.50 par value Common Stock, its only class of stock registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
April 1-30, 2008	--	$	--
May 1-31, 2008	120,000	33.20	120,000
June 1-30, 2008	--	--	--
Total	120,000	$33.20	120,000

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

At the annual meeting of the shareholders of Cass Information Systems, Inc. held on April 21, 2008, the following proposals were voted on and approved:

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

Proposal to elect four directors for a term of three years ending 2011:

	For	Withheld Authority
K. Dane Brooksher	7,746,043	142,304
Eric H. Brunngraber	7,745,788	142,559
Bryan S. Chapell	7,746,468	141,879
Benjamin F. Edwards, IV	7,723,941	164,406

Proposal to ratify KPMG LLP as the Company's independent registered public accounting firm for 2008:

For	Against	Abstain
7,811,526	19,896	56,924

ITEM 5. OTHER INFORMATION

(a) None
(b) None

ITEM 6. EXHIBITS

Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CASS INFORMATION SYSTEMS, INC.

DATE: August 6, 2008 By /s/ Eric H. Brunngraber

Eric H. Brunngraber
President and Chief Executive Officer
(Principal Executive Officer)

DATE: August 6, 2008 By /s/ P. Stephen Appelbaum

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