CASS INFORMATION SYSTEMS INC
Form 10-K
March 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission file number 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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock par value $.50	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

Common Stock par value $.50
(Title of Class)

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes |_| No |X|

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes |_| No |X|

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, and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. |_|

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 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 checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $240,337,000 based on the closing price of the common stock of $32.03 on June 30, 2008, as reported by The Nasdaq Global Select Market.

As of March 6, 2009, the Registrant had 9,213,242 shares outstanding of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the Registrant's Proxy Statement for the 2009 Annual Meeting of Shareholders.

CASS INFORMATION SYSTEMS, INC.
FORM 10-K ANNUAL REPORT
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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 which may cause future performance to be materially different from expected performance summarized in the forward-looking statements. These risks, uncertainties and other factors are discussed in Part I, Item 1A, "Risk Factors." 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.

ITEM 1. BUSINESS

Description of Business

Cass Information Systems, Inc. ("Cass" or "the Company") is a leading provider of payment and information processing services to large manufacturing, distribution and retail enterprises across the United States. The Company provides freight invoice rating, payment, audit, accounting and transportation information to many of the nation's largest companies. It is also a processor and payer of utility invoices, including electricity, gas, and other facility related expenses. Additionally, Cass competes in the telecommunications expense management market which includes bill processing, audit and payment services for telephone, data line, cellular and communication equipment expense. Also the Company, through its wholly owned bank subsidiary, Cass Commercial Bank ("the

Bank"), provides commercial banking services. The Bank's primary focus is to support the Company's payment operations and provide banking services to its target markets, which include privately owned businesses and churches and church-related ministries. Services include commercial and commercial real estate, checking, savings and time deposit accounts and other cash management services. The principal offices of the Company are at 13001 Hollenberg Drive, Bridgeton, Missouri 63044. Other operating locations are in Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina and Wellington, Kansas. The Bank's headquarters are also located at the Bridgeton location, and the Bank operates five other branches, four in the St. Louis metropolitan area and one in southern California.

Company Strategy and Core Competencies

Cass is an information services company with a primary focus on processing payables and payables-related transactions for large corporations located in the United States. Cass possesses four core competencies that encompass most of its processing services.

Data acquisition - This refers to the gathering of data elements from diverse, heterogeneous sources and the building of complete databases for our customers. Data is the raw material of the information economy. Cass gathers vital data from complex and diverse input documents, electronic media, proprietary databases and data feeds, including data acquired from vendor invoices as well as customer procurement and sales systems. Through its numerous methods of obtaining streams and pieces of raw data, Cass is able to assemble vital data into centralized data management systems and warehouses, thus producing an engine to create the power of information for managing critical corporate functions and processing systems.

Data management - Once data is assembled, Cass is able to utilize the power from derived information to produce significant savings and benefits for its clients. This information is integrated into customers' unique financial and accounting systems, eliminating the need for internal accounting processing and providing internal and external support for these critical systems. Information is also used to produce management and exception reporting for operational control, feedback, planning assistance and performance measurement.

Information delivery - Receiving information in the right place at the right time and in the required format is paramount for business survival. Cass' information delivery solutions provide reports, digital images, data files and retrieval capabilities through the Internet or directly into customer internal systems. Cass' proprietary Internet management delivery system is the foundation for driving these critical functions. Transaction, operational, control, status and processing exception information are all delivered through this system creating an efficient, accessible and highly reliable asset for Cass customers.

Financial exchange - Since Cass is unique among its competition in that it owns a commercial bank, it is also able to manage the movement of funds from its customers to their suppliers. This is a distinguishing factor, which clearly requires the processing capability, operating systems and financial integrity of a banking organization. Cass provides immediate, accurate, controlled and protected funds management and transfer system capabilities for all of its customers. Old and costly check processing and delivery mechanisms are replaced with more efficient electronic cash management and funds transfer systems.

Cass' core competencies allow it to perform the highest levels of transaction processing in an integrated, efficient and systematic approach. Not only is Cass able to process the transaction, it is also able to collect the data defining the transaction and effect the financial payment governing its terms.

Cass' shared business processes - Accounting, Human Resources and Technology -

support its core competencies. Cass' accounting function provides the internal control systems to ensure the highest levels of accountability and protection for customers. Cass' human resources department provides experienced people dedicated to streamlining business procedures and reducing expenses. Cass' technology is proven and reliable. The need to safeguard data and secure the efficiency, speed and timeliness that govern its business is a priority within the organization. The ability to leverage technology over its strategic units allows Cass the advantage of deploying technology in a proven and reliable

manner without hindering clients' strategic business and system requirements.

These core competencies, enhanced through shared business processes, drive Cass' strategic business units. Building upon these foundations, Cass continues to explore new business opportunities that leverage these competencies and processes.

Marketing, Customers and Competition

The Company, through its Transportation Information Services business unit, is one of the largest firms in the freight bill processing and payment industry in the United States based on the total dollars of freight bills paid and items processed. Competition consists of a few primary competitors and numerous small freight bill audit firms located throughout the United States. While offering freight payment services, few of these audit firms compete on a national basis. These competitors compete mainly on price, functionality and service levels. The Company, through its Utility Information Services business unit, also competes with other companies, located throughout the United States, that pay utility bills and provide management reporting. Available data indicates that the Company is one of the largest providers of utility information processing and payment services. Cass' Utility Information Services is unique among these competitors in that it is not exclusively affiliated with any one energy service provider ("ESP"). The ESPs market the Company's services adding value with their unique auditing, consulting and technological capabilities. Many of Cass' services are customized for the ESPs, providing a full-featured solution without any development costs to the ESP. Also the Company, through its Telecom Information Services business unit, is a leader in the growing telecom expense management market, and competes with other companies located throughout the United States in this market.

The Bank is organized as a Missouri trust company with banking powers and was founded in 1906. Due to its ownership of a federally insured commercial bank, the Company is a bank holding corporation and was originally organized in 1982 as Cass Commercial Corporation under the laws of Missouri. It was approved by the Board of Governors of the Federal Reserve System (the "Federal Reserve") in February 1983. The Company changed its name to Cass Information Systems, Inc. in January 2001. The Company's bank subsidiary encounters competition from numerous banks and financial institutions located throughout the St. Louis, Missouri metropolitan area and other areas in which the Bank competes. The Bank's principal competitors, however, are large bank holding companies that are able to offer a wide range of banking and related services through extensive branch networks. The Bank targets its services to privately held businesses located in the St. Louis, Missouri area and church and church-related institutions located in St. Louis, Missouri, Orange County, California and other selected cities located throughout the United States. The Bank has not financed, and does not currently finance, sub-prime mortgage loans.

The Company holds several trademarks for the payment and rating services it provides. These include: FreightPay(R), Transdata(R), TransInq(R), Ratemaker(R), Rate Advice(R), First Rate(R), Best Rate(R), Rate Exchange(R) and CassPort(R).

The Company and its subsidiaries are not dependent on any one customer for a significant portion of their businesses. The Company and its subsidiaries have a varied client base with no individual client exceeding 10% of total revenue.

Employees

The Company and its subsidiaries had 709 full-time and 227 part-time employees as of March 2, 2009. Of these employees, the Bank had 62 full-time and two part-time employees.

Supervision and Regulation

The Company and its bank subsidiary are extensively regulated under federal and state law. These laws and regulations are intended to protect depositors, not shareholders. The Bank is subject to regulation and supervision by the Missouri Division of Finance, the Federal Reserve Bank (the "FRB") and the Federal Deposit Insurance Corporation (the "FDIC"). The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended, and as such, it is subject to regulation, supervision and examination by the FRB. The Company is required to file quarterly and annual reports with the FRB and to provide to the FRB such additional information as the FRB may require, and it is subject to regular inspections by the FRB. Bank regulatory agencies use Capital Adequacy Guidelines in their examination and regulation of bank holding companies and banks. If the capital falls below the minimum levels established by these guidelines, the agencies may force certain remedial action to be taken. The Capital Adequacy Guidelines are of several types and include risk-based capital guidelines, which are designed to make capital requirements more sensitive to various risk profiles and account for off-balance sheet exposure; guidelines that consider market risk, which is the risk of loss due to change in value of assets and liabilities due to changes in interest rates; and guidelines that use a leverage ratio which places a constraint on the maximum degree of risk to which a bank holding company may leverage its equity capital base. For further discussion of the capital adequacy guidelines and ratios, please refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, Note 3 of this report.

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The FRB also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law or regulations or for unsafe or unsound practices. Both the FRB and Missouri Division of Finance also have restrictions on the amount of dividends that banks and bank holding companies may pay.

As a bank holding company, the Company must obtain prior approval from the FRB before acquiring ownership or control of more than 10% of the voting shares of another bank or bank holding company or acquiring all or substantially all of the assets of such a company. In many cases, prior approval is also required for the Company to engage in similar acquisitions involving a non-bank company or to engage in new non-bank activities. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company.

Website Availability of SEC Reports

Cass files annual, quarterly and current reports with the Securities and Exchange Commission (the "SEC"). Cass will, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC, make available free of charge on its website each of its Annual Reports on Form 10-K, Quarterly

Reports on Form 10-Q, Current Reports of Form 8-K, all amendments to those reports, and its definitive proxy statements. The address of Cass' website is: www.cassinfo.com. All reports filed with the SEC are available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549-0213 or for more information call the Public Reference Room at 1-800-SEC-0330. The SEC also makes all filed reports, proxy statements and information statements available on its website at www.sec.gov.

The reference to our website address does not constitute incorporation by reference of the information contained on the website and should not be considered part of this report.

Financial Information about Segments

The services provided by the Company are classified in two reportable segments: Information Services and Banking Services. The revenues from external customers, net income and total assets by segment as of and for the three years ended December 31, 2008, are set forth in Item 8, Note 18 of this report.

Statistical Disclosure by Bank Holding Companies

For the statistical disclosure by bank holding companies refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 1A. RISK FACTORS

This section highlights specific risks that could affect the Company's business. Although this section attempts to highlight key factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time, and Cass cannot predict such risks or estimate the extent to which they may affect the Company's financial performance. In addition to the factors discussed elsewhere or incorporated by reference in this report, the identified risks that could cause actual results to differ materially include the following:

General political, economic or industry conditions may be less favorable than expected.

Local, domestic, and international economic, political and industry-specific conditions and governmental monetary and fiscal policies affect the industries in which the Company competes, directly and indirectly. Conditions such as inflation, recession, unemployment, volatile interest rates, tight money supply, real estate values, international conflicts and other factors outside of Cass' control may adversely affect the Company. Economic downturns could result in the delinquency of outstanding loans, which could have a material adverse impact on Cass' earnings. If the weak global economic conditions persist well into the future, the Company's financial condition could be negatively impacted.

Unfavorable developments concerning customer credit quality could affect Cass' financial results.

Although the Company regularly reviews credit exposure related to its customers and various industry sectors in which it has business relationships, default risk may arise from events or circumstances that are difficult to detect or foresee. Under such circumstances, the Company could experience an increase in the level of provision for credit losses, delinquencies, nonperforming assets, net charge-offs and allowance for credit losses.

The Company has lending concentrations, including, but not limited to, churches and church-related entities located in selected cities and privately-held businesses located in or near St. Louis, Missouri, that could suffer a significant decline which could adversely affect the Company.

Cass' customer base consists, in part, of lending concentrations in several segments and geographical areas. If any of these segments or areas is significantly affected by the general weak economic conditions that currently exist, the Company could experience increased credit losses, and its business could be adversely affected.

Fluctuations in interest rates could affect Cass' net interest income and balance sheet.

The operations of financial institutions such as the Company are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Prevailing economic conditions, the fiscal and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest, which in turn significantly affect financial institutions' net interest income. Fluctuations in interest rates affect Cass' financial statements, as they do for all financial institutions. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions. As discussed in greater detail in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," a continuation of the decline in the general level of interest rates, as has been experienced during 2008, can have a negative impact on net interest income.

Methods of reducing risk exposures might not be effective.

Instruments, systems and strategies used to hedge or otherwise manage exposure to various types of credit, interest rate, market and liquidity, operational, regulatory/compliance, business risks and enterprise-wide risks could be less effective than anticipated. As a result, the Company may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk.

Customer borrowing, repayment, investment, deposit, and payable processing practices may be different than anticipated.

The Company uses a variety of financial tools, models and other methods to anticipate customer behavior as part of its strategic and financial planning and to meet certain regulatory requirements. Individual, economic, political, industry-specific conditions and other factors outside of Cass' control could alter predicted customer borrowing, repayment, investment, deposit, and payable processing practices. Such a change in these practices could adversely affect Cass' ability to anticipate business needs, including cash flow and its impact on liquidity, and to meet regulatory requirements.

Operational difficulties or security problems could damage Cass' reputation and business.

The Company depends on the reliable operation of its computer operations and network connections from its clients to its systems. Any operational problems or outages in these systems would cause Cass to be unable to process transactions for its clients, resulting in decreased revenues. In addition, any system delays, failures or loss of data, whatever the cause, could reduce client satisfaction with the Company's products and services and harm Cass' financial

results. Cass also depends on the security of its systems. Company networks may be vulnerable to unauthorized access, computer viruses and other disruptive problems. A material security problem affecting Cass could damage its reputation, deter prospects from purchasing its products, deter customers from using its products or result in liability to Cass.

Cass' stock price can become volatile and fluctuate widely in response to a variety of factors.

The Company's stock price can fluctuate based on factors that can include actual or anticipated variations in Cass' quarterly results; new technology or services by competitors; unanticipated losses or gains due to unexpected events, including losses or gains on securities held for investment purposes; significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; changes in accounting policies or practices; failure to integrate acquisitions or realize anticipated benefits from acquisitions; or changes in government regulations.

General market fluctuations, industry factors and general economic and political conditions, such as economic slowdowns or recessions, governmental intervention, interest rate changes, credit loss trends, low trading volume or currency fluctuations also could cause Cass' stock price to decrease regardless of the Company's operating results.

Cass must respond to rapid technological changes and these changes may be more difficult or expensive than anticipated.

If competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, the Company's existing product and service offerings, technology and systems may become obsolete. Further, if Cass fails to adopt or develop new technologies or to adapt its products and services to emerging industry standards, Cass may lose current and future customers, which could have a material adverse effect on its business, financial condition and results of operations. The payment processing and financial services industries are changing rapidly and in order to remain competitive, Cass must continue to enhance and improve the functionality and features of its products, services and technologies. These changes may be more difficult or expensive than the Company anticipates.

Competitive product and pricing pressure within Cass' markets may change.

The Company operates in a very competitive environment, which is characterized by competition from a number of other vendors and financial institutions in each market in which it operates. The Company competes with large payment processors and national and regional financial institutions and also smaller auditing companies and banks in terms of products and pricing. If the Company is unable to compete effectively in products and pricing in its markets, business could decline.

Management's ability to maintain and expand customer relationships may differ from expectations.

The industries in which the Company operates are very competitive. The Company not only competes for business opportunities with new customers, but also competes to maintain and expand the relationships it has with its existing customers. The Company continues to experience pressures to maintain these relationships as its competitors attempt to capture its customers.

The introductions, withdrawal, success and timing of business initiatives and strategies, including, but not limited to, the expansion of payment and processing activities to new markets, the expansion of products and services to existing markets and opening of new bank branches, may be less successful or may be different than anticipated. Such a result could adversely affect Cass' business.

The Company makes certain projections and develops plans and strategies for its payment processing and banking products. If the Company does not accurately determine demand for its products and services, it could result in the Company incurring significant expenses without the anticipated increases in revenue, which could result in an adverse effect on its earnings.

Management's ability to retain key officers and employees may change.

Cass' future operating results depend substantially upon the continued service of Cass' executive officers and key personnel. Cass' future operating results also depend in significant part upon Cass' ability to attract and retain qualified management, financial, technical, marketing, sales and support personnel. Competition for qualified personnel is intense, and the Company cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills to serve in these positions, and it may be increasingly difficult for the Company to hire personnel over time. Cass' business, financial condition and results of operations could be materially adversely affected by the loss of any of its key employees, by the failure of any key employee to perform in his or her current position, or by Cass' inability to attract and retain skilled employees.

Changes in regulation or oversight may have a material adverse impact on Cass' operations.

The Company is subject to extensive regulation, supervision and examination by the Missouri Division of Finance, the FDIC, the FRB, the SEC and other regulatory bodies. Such regulation and supervision governs the activities in which the Company may engage. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on Cass' operations, investigations and limitations related to Cass' securities, the classification of Cass' assets and determination of the level of Cass' allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material adverse impact on Cass' operations.

Legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving the Company and its subsidiaries, could adversely affect Cass or the financial services industry in general.

The Company is subject to various legal and regulatory proceedings. It is inherently difficult to assess the outcome of these matters, and there can be no assurance that the Company will prevail in any proceeding or litigation. Any such matter could result in substantial cost and diversion of Cass' efforts, which by itself could have a material adverse effect on Cass' financial condition and operating results. Further, adverse determinations in such matters could result in actions by Cass' regulators that could materially adversely affect Cass' business, financial condition or results of operations.

The Company's accounting policies and methods are the basis of how Cass reports its financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain. In

addition, changes in accounting policies and practices, as may be adopted by the regulatory agencies, the Financial Accounting Standards Board, or other authoritative bodies, could materially impact Cass' financial statements.

The Company's accounting policies and methods are fundamental to how Cass records and reports its financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure that they comply with generally accepted accounting principles and reflect management's judgment as to the most appropriate manner in which to record and report Cass' financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in the Company reporting materially different amounts than would have been reported under a different alternative.

Cass has identified four accounting policies as being "critical" to the presentation of its financial condition and results of operations because they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. More information on Cass' critical accounting policies is contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

From time to time, the regulatory agencies, the Financial Accounting Standards Board ("FASB"), and other authoritative bodies change the financial accounting and reporting standards that govern the preparation of the Company's financial statements. These changes can be hard to predict and can materially impact how management records and reports the Company's financial condition and results of operations.

Cass is subject to examinations and challenges by tax authorities, which, if not resolved in the Company's favor, could adversely affect the Company's financial condition and results of operations.

In the normal course of business, Cass and its affiliates are routinely subject to examinations and challenges from federal and state tax authorities regarding the amount of taxes due in connection with investments it has made and the businesses in which it is engaged. Recently, federal and state taxing authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in the Company's favor, they could have an adverse effect on Cass' financial condition and results of operations.

There could be terrorist activities or other hostilities, which may adversely affect the general economy, financial and capital markets, specific industries, and the Company.

The terrorist attacks in September 2001 in the United States and ensuing events, as well as the resulting decline in consumer confidence, had a material adverse effect on the economy. Any similar future events may disrupt Cass' operations or those of its customers. In addition, these events had and may continue to have an adverse impact on the U.S. and world economy in general and consumer confidence and spending in particular, which could harm Cass' operations. Any of these events could increase volatility in the U.S. and world financial markets, which could harm Cass' stock price and may limit the capital resources available

to its customers and the Company. This could have a significant impact on Cass' operating results, revenues and costs and may result in increased volatility in the market price of Cass' common stock.

There could be natural disasters, including, but not limited to, hurricanes, tornadoes, earthquakes, fires and floods, which may adversely affect the general economy, financial and capital markets, specific industries, and the Company.

The Company has significant operations and customer base in Missouri, California, Ohio, Massachusetts, South Carolina, and other regions where natural disasters may occur. These regions are known for being vulnerable to

natural disasters and other risks, such as tornadoes, hurricanes, earthquakes, fires and floods. These types of natural disasters at times have disrupted the local economy, Cass' business and customers and have posed physical risks to Cass' property. A significant natural disaster could materially affect Cass' operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's headquarters are located at 13001 Hollenberg Drive, Bridgeton, Missouri. This location is owned by the Company, and includes a building with approximately 61,500 square feet of office space. The Company also owns a production facility of approximately 45,500 square feet located at 2675 Corporate Exchange Drive, Columbus, Ohio. Additional production facilities are located in Lowell, Massachusetts where approximately 25,800 square feet of office space is leased through March 2011, Greenville, South Carolina where approximately 8,500 square feet of office space is leased through November 2013, Wellington, Kansas where approximately 2,000 square feet of office space is leased through July 2011 and Columbus, Ohio where approximately 8,500 square feet of office space is leased through November 2009.

The Bank's headquarters are also located at 13001 Hollenberg Drive, Bridgeton, Missouri. The Bank occupies approximately 20,500 square feet of the 61,500 square foot building. In addition, the Bank owns a banking facility near downtown St. Louis, Missouri that consists of approximately 1,750 square feet with adjoining drive-up facilities. The Bank has additional leased facilities in Maryland Heights, Missouri (2,500 square feet), Fenton, Missouri (2,000 square feet), Chesterfield, Missouri (2,850 square feet) and Santa Ana, California (3,400 square feet).

Management believes that these facilities are suitable and adequate for the Company's operations.

ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of security holders during the fourth

quarter of 2008.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is quoted on The Nasdaq Global Select Market(R) under the symbol "CASS." As of March 2, 2009, there were 180 holders of record of the Company's common stock. High and low sale prices, as reported by The Nasdaq Global Select Market for each quarter of 2008 and 2007 were as follows:

	2008		2007	
	High	Low	High	Low
1st Quarter	$ 34.87	$ 25.01	$ 35.41	$ 29.34
2nd Quarter	34.71	29.40	34.35	28.28
3rd Quarter	39.15	29.00	34.77	28.90
4th Quarter	36.50	27.14	40.55	30.00

The Company has continuously paid regularly scheduled cash dividends since 1934 and expects to continue to pay quarterly cash dividends in the future. Cash dividends paid per share, restated for stock dividends, by the Company during the two most recent fiscal years were as follows:

	2008	2007
March	$ .120	$ .109
June	.120	.109
September	.120	.109
December	.130	.120

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 for $3,984,000 in 2008 and did not repurchase any shares during 2007. As of December 31, 2008, 180,000 shares remained available for repurchase under the program. A portion of the repurchased shares may be used for the Company's employee benefit plans, and the balance will be available for other general corporate purposes. The stock repurchase authorization does not have an expiration date and the pace of repurchase activity will depend on factors such as levels of cash generation from operations, cash requirements for investments, repayment of debt, current stock price, and other factors. The Company may repurchase shares from time to time on the open market or in private transactions, including structured transactions. The stock repurchase program may be modified or discontinued at any time.

Performance Quoted on The Nasdaq Stock Market for the last Five Fiscal Years

The following graph compares the cumulative total returns over the last five fiscal years of a hypothetical investment of $100 in shares of common stock of the Company with a hypothetical investment of $100 in The Nasdaq Stock Market (US) ("Nasdaq") and in the index of Nasdaq computer and data processing stocks. The graph assumes $100 was invested on December 31, 2003, with dividends reinvested. Returns are based on period end prices.

[THE FOLLOWING DATA IS A REPRESENTATION OF A LINE CHART IN THE PRINTED MATERIAL]

		Dec-2003	Dec-2004	Dec-2005	D
Cass Information Systems Inc.	Return %		18.84	44.64	
	Cum $	100.00	118.84	171.89	
NASDAQ Computer and Data Processing Index	Return %		10.25	3.39	
	Cum $	100.00	110.25	113.99	
NASDAQ 100 Stock Index	Return %		10.75	1.90	
	Cum $	100.00	110.75	112.85	

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial information for each of the five years ended December 31. The selected financial data should be read in conjunction with the Company's consolidated financial statements and accompanying notes included in Item 8 of this report.

(Dollars in thousands, except per share data)	2008	2007	2006	20
Fee revenue and other income	$ 53,170	$ 48,200	$ 42,821	$ 38,6
Interest income on loans	34,204	36,288	36,164	32,2
Interest income on debt and equity securities	7,716	5,531	3,627	2,4
Other interest income	2,218	7,527	7,262	3,5
Total interest income	44,138	49,346	47,053	38,2
Interest expense on deposits	3,179	7,728	6,414	4,4
Interest expense on short-term borrowings	12	6	7	
Interest on debentures and other	187	230	198	1
Total interest expense	3,378	7,964	6,619	4,6
Net interest income	40,760	41,382	40,434	33,5
Provision for loan losses	2,200	900	1,150	7
Net interest income after provision	38,560	40,482	39,284	32,7
Operating expense	65,564	62,739	58,277	55,2
Income before income tax expense	26,166	25,943	23,828	16,2
Income tax expense	7,160	8,148	8,367	4,9
Income from continuing operations	$19,006	$ 17,795	$ 15,461	$ 11,2
Net loss from discontinued operations	--	--	(395)	(2
Net income	19,006	17,795	15,066	10,9

Diluted earnings per share from continuing operations	$ 2.03	$ 1.90	$ 1.65	$ 1.
Diluted earnings per share	2.03	1.90	1.61	1.
Dividends per share	.490	.447	.400	.3
Dividend payout ratio	24.14%	23.53%	24.84%	29.
Average total assets	$922,471	$891,734	$839,208	$776,8
Average net loans	546,110	508,621	516,164	506,8
Average debt and equity securities	197,273	141,363	91,555	71,0
Average total deposits	241,844	279,831	278,546	290,5
Average subordinated convertible debentures	3,669	3,699	3,700	3,7
Average total shareholders' equity	104,185	89,427	79,736	71,8
Return on average total assets	2.06%	2.00%	1.80%	1.
Return on average equity	18.24	19.90	18.89	15.
Average equity to assets ratio	11.29	10.03	9.50	9.
Equity to assets ratio at year-end	12.00	11.01	9.78	9.
Net interest margin	5.34	5.45	5.50	4.
Allowance for loan losses to loans at year-end	1.09	1.26	1.31	1.
Nonperforming assets to loans and foreclosed assets	.57	.77	.16	.
Net loan charge-offs to average loans outstanding	.37	.24	.16	.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information about the financial condition and results of operations of the Company for the years ended December 31, 2008, 2007 and 2006. All share and per share data have been restated to give effect to the 50% and 10% stock dividends issued on September 15, 2006 and December 17, 2007, respectively. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying notes and other selected financial data presented elsewhere in this report.

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Executive Overview

Cass 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 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 provide Internet-based tools for analytical processing. The Company also, through Cass Commercial Bank, its St. Louis, Missouri based bank subsidiary, 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 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 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, such as those experienced in the second half of 2008, the number and total dollar amount of transactions processed by the Company may decline thereby reducing fee revenue, interest income, and possibly 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," a decline in the general level of interest rates, as has been experienced during 2008, can have a negative impact on net interest income.

On July 7, 2006, the Company acquired 100% of the stock of NTransit, Inc. ("NTransit"), a company that provides auditing and expense management of parcel shipments. While this acquisition did not meet the Regulation S-X criteria of a significant business combination, it positioned the Company to expand its offerings in the specialized service and expertise in parcel shipping, which is a unique segment of the transportation industry that has experienced significant growth in recent years.

Total fee revenue and other income in 2008 increased $4,970,000, or 10%, and net interest income after provision for loan losses (also referred to as net investment income) decreased $1,922,000, or 5%, while total operating expenses increased $2,825,000, or 5%. These results were driven by a 1,950,000, or 11%, increase in items processed and $4,715,346,000, or 21%, increase in dollars processed, which were somewhat offset by the impact of a higher provision for loan losses and the decline in the general level of interest rates. The asset quality of the Company's loans and investments appears strong.

Currently, management views Cass' major opportunity and challenge as the continued expansion of its payment and information processing service offerings and customer base. Management intends to accomplish this by maintaining

the Company's lead in applied technology, which we believe, when combined with the security and processing controls of the Bank, makes Cass unique in the industry.

Recent Developments

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

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

After careful assessment, and due to its strong capital base, the Company chose not to participate in the TARP Capital Purchase Program.

The Company elected to participate in the Temporary Liquidity Guarantee Program, as not participating could have put the Company at a competitive disadvantage without the 100% FDIC guarantee of its non-interest bearing transaction deposit accounts. The FDIC guarantee of senior debt was not a factor in the Company's decision process, as it has no senior debt outstanding.

Critical Accounting Policies

The Company has prepared 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.

Impairment of Assets. The Company periodically evaluates certain long-term assets such as intangible assets including goodwill, foreclosed assets, internally developed software and investments in private equity securities for impairment. Generally, these assets are initially recorded at cost, and recognition of impairment is required when events and circumstances indicate that the carrying amounts of these assets will not be recoverable in the future. If impairment occurs, various methods of measuring impairment may be called for

depending on the circumstances and type of asset, including quoted market prices, estimates based on similar assets, and estimates based on valuation techniques such as discounted projected cash flows. Assets held for sale are carried at the lower of cost or fair value less costs to sell. These policies affect both segments of the Company and require significant management assumptions and estimates that could result in materially different results if conditions or underlying circumstances change.

Pension Plans. The amounts recognized in the consolidated financial statements related to pensions 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, 2008, 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. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158") on December 31, 2006. SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur 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.

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 FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 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 15 to the consolidated financial statements.

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.

Summary of Results

	December 31,			
(In thousands, except per share data)	2008	2007	2006	2008 v.
Total processing volume	36,416	32,740	29,266	11.

Total processing dollars	$26,900,535	$22,185,189	$19,871,281	21.
Payment and processing fees	$50,721	$45,642	$40,343	11.
Net investment income	$38,560	$40,482	$39,284	(4.
Total net revenue	$91,730	$88,682	$82,105	3.
Average earning assets	$841,367	$809,739	$762,397	3.
Net interest margin*	5.34%	5.45%	5.50%	(2.
Net income from continuing operations	$19,006	$17,795	$15,461	6.
Diluted EPS from continuing operations	$2.03	$1.90	$1.65	6.
Net income	$19,006	$17,795	$15,066	6.
Diluted earnings per share	$2.03	$1.90	$1.61	6.
Return on average assets	2.06%	2.00%	1.80%	
Return on average equity	18.24%	19.90%	18.89%	

* Presented on a tax-equivalent basis

The results of 2008 compared to 2007 include the following significant items:

Payment and processing fee revenue from continuing operations increased as the number of transactions processed increased. This increase was driven mainly by Utility Information Services processing activity which added a significant amount of new business during 2008. Transportation Information Services also achieved record levels of processing during 2008 and record levels of new customers added.

Net investment income decreased $1,922,000 primarily due to both a decline in the general level of interest rates and an increase in the provision for loan losses. The net interest margin on a tax equivalent basis was 5.34% in 2008 compared to 5.45% in 2007. The growth in average earning assets was funded mainly by increases in accounts and drafts payable due to the increase in dollars processed.

There were $552,000 gains from the sale of securities in 2008 and no gains in 2007. Bank service fees decreased $352,000, or 21%, to $1,330,000. Other income from continuing operations decreased $309,000 in 2008 or 35%. Operating expenses from continuing operations increased $2,825,000, or 5%, due mainly to expenses relating to the increase in processing activity.

The results of 2007 compared to 2006 include the following significant items:

Payment and processing fee revenue from continuing operations increased as the number of transactions processed increased. This increase was driven mainly by Utility Information Services processing activity which added a significant amount of new business during 2007. Transportation Information Services also achieved record levels of processing during 2007 and record levels of new customers added.

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Net investment income increased $1,198,000 due to an increase in average earning assets. The net interest margin on a tax equivalent basis was 5.45% in 2007 compared to 5.50% in 2006. The growth in average earning assets was funded mainly by increases in accounts and drafts payable due to the increase in dollars processed.

There were no gains from the sale of securities in 2007 and 2006. Bank service fees increased $57,000, or 4%, to $1,682,000. Other income from continuing operations remained fairly constant at $876,000 in 2007 and $853,000 in 2006. Operating expenses from continuing operations increased $4,462,000, or 8%, due mainly to expenses relating to the increase in processing activity.

Fee Revenue and Other Income from Continuing Operations

The Company's fee revenue is derived mainly from freight and utility payment and processing fees. As the Company provides its processing and payment services, it is compensated by service fees which are typically calculated on a per-item basis and by the accounts and drafts payable balances generated in the payment process which can be used to generate interest income. Processing volumes, fee revenue and other income for the years ended December 31, 2008, 2007 and 2006 were as follows:

	December 31,			%
(In thousands)	2008	2007	2006	2008 v. 200
Freight invoice transaction volume	25,854	23,480	22,601	10.1%
Freight invoice dollar volume	$17,482,520	$14,519,906	$14,199,389	20.4%
Utility transaction volume	10,562	9,260	6,665	14.1%
Utility transaction dollar volume	$9,418,015	$7,665,283	$5,671,892	22.9%
Payment and processing revenue	$50,721	$45,642	$40,343	11.1%
Bank service fees	$1,330	$1,682	$1,625	(20.9)%
Gains on sales of investment securities	$552	--	--	N/A
Other	$567	$876	$853	(35.3)%

Fee revenue and other income in 2008 compared to 2007 include the following significant pre-tax components:

Freight volume increased by 2,374,000 transactions during the past year. This increase was due mainly to new business in 2008 somewhat offset by the impact of the general economic slow down on existing customer processing activity, particularly in the second half of the year. Utility volume experienced solid growth, adding more than 1,302,000 transactions in 2008. This growth was due mainly to new business. These transaction volume increases drove most of the $5,079,000 increase in payment and processing revenue.

Fee revenue and other income in 2007 compared to 2006 include the following significant pre-tax components:

Freight volume increased by 879,000 transactions during 2007. This increase was due mainly to new business in 2007. Utility volume experienced significant growth, adding more than 2,595,000 transactions in 2007. This growth was due mainly to new business. These transaction volume increases drove most of the $5,299,000 increase in payment and processing revenue.

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 tax-equivalent net interest income and related factors for the three periods ended December 31, 2008, 2007 and 2006:

(In Thousands)	2008	2007	2006	% Change 2008 v. 2007

Average earning assets	$841,366	$809,739	$762,397	3.9%
Net interest income*	44,966	44,115	41,950	1.9%
Net interest margin*	5.34%	5.45%	5.50%	(2.0)%
Yield on earning assets	5.75%	6.43%	6.37%	(10.6)%
Rate on interest bearing liabilities	2.16%	4.20%	3.62%	(48.6)%

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

Net interest income in 2008 compared to 2007:

The increase in net interest income was caused by the increase in earning assets partially offset by a decrease in net interest margin. The increase in earning assets was funded mainly by the increase in accounts and drafts payable due to the increased dollars processed. The decrease in net interest margin was due mainly to

the reduction in the general level of interest rates. The Company is negatively affected by decreases in the level of interest rates. Conversely, the Company is positively affected by increases in the level of interest rates due to the fact that its rate sensitive assets significantly exceed its rate sensitive liabilities. This is primarily due to the non-interest-bearing liabilities generated by the Company in the form of accounts and drafts payable. More information is contained in the tables below and in Item 7A of this report.

Total average loans increased $37,210,000, or 7%, to $552,333,000. Loans have a positive effect on interest income and the net interest margin due to the fact that loans are one of the Company's highest yielding earning assets for any given maturity.

Total average investment in securities increased $55,910,000, or 40%, to $197,273,000. The investment portfolio will expand and contract over time as the interest rate environment changes and the Company manages its liquidity and interest rate position. The increase in 2008 was due to the purchase of state and political subdivision securities with AA or better credit ratings and maturities approaching ten years. With the declining interest rate environment, the Company made these purchases to reduce the level of short-term rate sensitive assets. All purchases were made in accordance with the Company's investment policy. Total average federal funds sold and other short-term investments decreased $61,493,000, or 40%, to $91,760,000. This decrease was the primary offset to the previously mentioned increases in loans and investment securities.

The Bank's average interest-bearing deposits decreased $33,634,000, or 18%, compared to the prior year. This decrease was primarily the result of the reduction of higher-cost time deposits. Average rates paid on interest-bearing liabilities decreased from 4.20% to 2.16% as a result of an overall decline in the interest rate environment during 2008 combined with the previously mentioned reduction in higher-cost time deposits.

Net interest income in 2007 compared to 2006:

The increase in net interest income was caused by the increase in earning assets partially offset by a slight decrease in net interest

margin. The increase in earning assets was funded mainly by the increase in accounts and drafts payable due to the increased dollars processed. The decrease in net interest margin was due mainly to the reduction in the general level of interest rates. The Company is negatively affected by decreases in the level of interest rates. Conversely, the Company is positively affected by increases in the level of interest rates due to the fact that its rate sensitive assets significantly exceed its rate sensitive liabilities. This is primarily due to the non-interest-bearing liabilities generated by the Company in the form of accounts and drafts payable. More information is contained in the tables below and in Item 7A of this report.

Total average loans decreased $7,244,000, or 1%, to $515,123,000. Loans have a positive effect on interest income and the net interest margin due to the fact that loans are one of the Company's highest yielding earning assets for any given maturity.

Total average investment in securities increased $49,808,000, or 54%, to $141,363,000. The investment portfolio will expand and contract over time as the interest rate environment changes and the Company manages its liquidity and interest rate position. The increase in 2007 was due to the purchase of state and political subdivision securities with AA or better credit ratings and maturities approaching ten years. With the expectations of a declining interest rate environment, the Company made these purchases to reduce the level of short-term rate sensitive assets. All purchases were made in accordance with the Company's investment policy. Total average federal funds sold and other short-term investments increased $4,778,000, or 3%, to $153,253,000. This increase was funded by the increase in accounts and drafts payable.

The Bank's average interest-bearing deposits remained relatively flat with a $6,450,000, or 4%, increase compared to the prior year. Average demand deposits decreased $5,165,000, or 5%, as customers moved their deposited funds into higher yielding off-balance sheet investment products. Average rates paid on interest-bearing liabilities increased from 3.62% to 4.20% as a result of increased rate competition for savings deposits and certificates of deposit in the markets served by the Bank.

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

The following table contains 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:

	2008			2007		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate

Assets(1)						
Earning assets:						
Loans (2,3):						
Taxable	$548,500	$34,030	6.20%	$509,409	$36,021	7.07%
Tax-exempt (4)	3,833	268	6.97	5,714	411	7.19
Securities (5):						
Taxable	2,758	78	2.83	15,309	722	4.72
Tax-exempt (4)	194,515	11,750	6.04	126,054	7,398	5.87
Federal funds sold and other short-term investments	91,760	2,218	2.42	153,253	7,527	4.91
Total earning assets	841,366	48,344	5.75	809,739	52,079	6.43
Nonearning assets:						
Cash and due from banks	11,607			24,313		
Premises and equipment, net	12,393			12,915		
Bank owned life insurance	12,802			12,261		
Goodwill and other intangibles, net	8,216			8,495		
Other assets	42,310			30,513		
Assets related to discontinued operations	--			--		
Allowance for loan losses	(6,223)			(6,502)		
Total assets	$922,471			$891,734		
Liabilities And Shareholders' Equity (1)						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$77,835	$1,086	1.40%	$ 67,719	$2,122	3.13%
Savings deposits	21,434	290	1.35	23,859	795	3.33
Time deposits of $100 or more	32,052	1,102	3.44	65,127	3,357	5.15
Other time deposits	20,712	701	3.38	28,962	1,454	5.02
Total interest-bearing deposits	152,033	3,179	2.09	185,667	7,728	4.16
Short-term borrowings	876	12	1.37	138	6	4.35
Subordinated convertible debentures	3,669	187	5.10	3,699	230	5.33
Total interest-bearing liabilities	156,578	3,378	2.16	189,504	7,964	4.20
Noninterest-bearing liabilities:						
Demand deposits	89,811			94,164		
Accounts and drafts payable	559,230			504,678		
Other liabilities	12,667			13,961		
Liabilities related to discontinued operations	--			--		
Total liabilities	818,286			802,307		
Shareholders' equity	104,185			89,427		
Total liabilities and shareholders' equity	$922,471			$891,734		
Net interest income		$44,966			$44,115	
Net interest margin		5.34%			5.45%	
Interest spread		3.59%			2.23%	

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 Item 8, Note 1 of this report.

3. Interest income on loans includes net loan fees of $310,000, $202,000 and $213,000 for 2008, 2007 and 2006, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35% for 2008, 2007 and 2006. The tax-equivalent adjustment was approximately $4,206,000, $2,733,000 and $1,516,000 for 2008, 2007 and 2006, respectively.
5. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

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Analysis of Net Interest Income Changes

The following table presents the changes in interest income and expense between years due to changes in volume and interest rates.

	2008 Over 2007			
(Dollars in thousands)	Volume(1)	Rate(1)	Total	Volume(
Increase (decrease) in interest income:				
Loans (2,3):				
Taxable	$2,643	$(4,634)	$(1,991)	$(527)
Tax-exempt (4)	(132)	(11)	(143)	22
Securities:				
Taxable	(433)	(211)	(644)	(426)
Tax-exempt (4)	4,129	223	4,352	3,464
Federal funds sold and other short-term investments	(2,343)	(2,966)	(5,309)	234
Total interest income	$3,864	$(7,599)	$(3,735)	$2,767
Interest expense on:				
Interest-bearing demand deposits	281	(1,317)	(1,036)	(89)
Savings deposits	(74)	(431)	(505)	(36)
Time deposits of $100 or more	(1,363)	(892)	(2,255)	585
Other time deposits	(350)	(403)	(753)	(24)
Short-term borrowings	13	(7)	6	(1)
Subordinated convertible debenture	(16)	(27)	(43)	6
Total interest expense	(1,509)	(3,077)	(4,586)	441
Net interest income	$5,373	$(4,522)	$851	$2,326

1. The change in interest due to the combined rate/volume variance has been allocated in proportion to the absolute dollar amounts of the change in each.
2. Average balances include nonaccrual loans.
3. Interest income includes net loan fees.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35% for 2008, 2007 and 2006.

Loan Portfolio

Interest earned on the loan portfolio is a primary source of income for the Company. The loan portfolio was $591,976,000 and represented 67% of the Company's total assets as of December 31, 2008 and generated $34,204,000 in revenue during the year then ended. The Company had no sub-prime mortgage loans or residential development loans in its portfolio as of December 31, 2008. The following tables show the composition of the loan portfolio at the end of the periods indicated and remaining maturities for loans as of December 31, 2008.

Loans by Type
(At December 31)

(Dollars in thousands)	2008	2007	2006	2005
Commercial and industrial	$118,044	$100,827	$113,162	$146,892
Real estate: (Commercial and Church)				
Mortgage	412,788	360,907	352,044	348,554
Construction	56,221	31,082	29,779	28,170
Industrial revenue bonds	3,363	4,149	6,293	4,514
Installment	--	--	--	107
Other	1,560	1,490	2,847	1,069
Total loans	$591,976	$498,455	$504,125	$529,306

Loans by Maturity
(At December 31, 2008)

	One Year Or Less		Over 1 Year Through 5 Years		Over 5 Years	
(Dollars in thousands)	Fixed Rate	Floating Rate(1)	Fixed Rate	Floating Rate(1)	Fixed Rate	Flo Rat
Commercial and industrial	$21,294	$ 68,597	$ 18,387	$ 8,505	$1,261	$
Real estate: (Commercial and Church)						
Mortgage	41,369	37,161	323,854	6,078	4,326	
Construction	25,856	13,442	3,398	13,525	--	
Industrial revenue bonds	1,026	-	2,337	--	--	
Other	418	933	206	3	--	
Total loans	$89,963	$120,133	$348,182	$28,111	$5,587	

(1) Loans have been classified as having "floating" interest rates if the rate specified in the loan varies with the prime commercial rate of interest. Note: Due to the historically low interest rates encountered during 2008 the Company instituted a 4% floor for its prime lending rate.

The Company has no concentrations of loans exceeding 10% of total loans, which are not otherwise disclosed in the loan portfolio composition table and as are

discussed in Item 8, Note 5 of this report. As can be seen in the loan composition table above and as are discussed in Item 8, Note 5, the Company's primary market niche for banking services is privately held businesses and churches and church-related ministries.

Loans to commercial entities are generally secured by the business assets of the borrower, including accounts receivable, inventory, machinery and equipment, and the real estate from which the borrower operates. Operating lines of credit to these companies generally are secured by accounts receivable and inventory, with specific percentages of each determined on a customer-by-customer basis based on various factors including the type of business. Intermediate term credit for machinery and equipment is generally provided at some percentage of the value of the equipment purchased, depending on the type of machinery or equipment purchased by the entity. Loans secured exclusively by real estate to businesses and churches are generally made with a maximum 80% loan to value ratio, depending upon the Company's estimate of the resale value and ability of the property to generate cash. The Company's loan policy requires an independent appraisal for all loans over $250,000 secured by real estate. Company management monitors the local economy in an attempt to determine whether it has had a significant deteriorating effect on such real estate credits. When problems are identified, appraised values are updated on a continual basis, either internally or through an updated external appraisal.

Loan portfolio changes from December 31, 2007 to December 31, 2008:

Total loans increased $93,521,000, or 19%, to $591,976,000. This increase was the result of two primary factors: 1) the successful implementation of new marketing efforts by the Company's lending staff and 2) the negative impact of the credit crisis on many of the Company's competitors resulted in more attractive loan growth opportunities. The growth in real estate construction loans was primarily due to increased activity in the church portfolio. At year-end, church and church-related real estate and construction loans totaled $310,329,000, which represents a 22% increase over 2007. Additional details regarding the types and maturities of loans in the loan portfolio are contained in the tables above and in Item 8, Note 5.

Loan portfolio changes from December 31, 2006 to December 31, 2007:

Total loans decreased $5,670,000, or 1%, to $498,455,000. This decrease was due mainly to the reduction in commercial and industrial loans as loans were paid down. At the end of 2007, church and church-related real estate and construction credits totaled $253,626,000, which represents a 12% increase over 2006. Additional details regarding the types and maturities of loans in the loan portfolio are contained in the tables above and in Item 8, Note 5.

Provision and Allowance for Loan Losses

The Company recorded a provision for loan losses of $2,200,000 in 2008, $900,000 in 2007 and $1,150,000 in 2006. The amount of the provisions for loan losses was derived from the Company's quarterly analysis of the allowance for loan losses in relation to probable losses in the loan portfolio. The amount of the provision will fluctuate as determined by these quarterly analyses. The Company had net loan charge-offs of $2,029,000, $1,212,000 and $842,000 in 2008, 2007 and 2006, respectively. The allowance for loan losses was $6,451,000 at December 31, 2008 compared to $6,280,000 at December 31, 2007 and $6,592,000 at December 31, 2006. The year-end 2008 allowance

represented 1.09% of outstanding loans, compared to 1.26% at year-end 2007 and 1.31% at year-end 2006. From December 31, 2007 to December 31, 2008, the level of nonperforming loans decreased $1,262,000 from $2,481,000 to $1,219,000, which represents .21% of outstanding loans. Nonperforming loans are more fully explained in the section entitled "Nonperforming Assets."

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. Charges or credits are made to expense to cover any deficiency or reduce any excess, as required. The current methodology employed to determine the appropriate allowance consists of two components, specific and general. The Company develops specific valuation 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 a reserve amount consistent with each loan's rating category. The reserve amount is based on derived loss experience over prescribed periods. In addition to the amounts derived from the loan grades, a portion is added to the general reserve to take into account other factors including national and local economic conditions, downturns in specific industries including loss in collateral value, trends in credit quality at the Company and the banking industry, and trends in risk rating changes. As part of their examination process, federal and state agencies review the Company's methodology for maintaining the allowance for loan losses and the balance in the account. These agencies may require the Company to increase the allowance for loan losses based on their judgments and interpretations about information available to them at the time of their examination.

The following schedule summarizes activity in the allowance for loan losses and the allocation of the allowance to the Company's loan categories. During 2008, the allocation of the allowance to the commercial loan portfolio declined because one loan with a reserve allocation of $900,000 was paid off and one loan of $809,000 was charged off. The allocation to the real estate portfolio increased primarily due to the $51,881,000 in additional loan balances.

Summary of Loan Loss Experience

	December 31,			
(Dollars in thousands)	2008	2007	2006	2005
Allowance at beginning of year	$6,280	$6,592	$6,284	$6,037
Loans charged-off:				
Commercial and industrial loans and industrial revenue bonds ("IRB's")	2,120	337	864	532
Real estate: (Commercial and Church)				
Mortgage	--	1,038	--	22
Other	53	--	--	1
Total loans charged-off	2,173	1,375	864	555
Recoveries of loans previously charged-off:				
Commercial, industrial and IRB's	136	159	22	10
Real estate: (Commercial and Church)				

Mortgage	--	4	--	13
Other	8	--	--	4
Total recoveries of loans previously charged-off	144	163	22	27
Net loans charged-off	2,029	1,212	842	528
Provision charged to expense	2,200	900	1,150	775
Allowance at end of year	$6,451	$6,280	$6,592	$6,284
Loans outstanding:				
Average	$552,333	$515,123	$522,367	$512,966
December 31	591,976	498,455	504,125	529,306
Ratio of allowance for loan losses to loans outstanding:				
Average	1.17%	1.22%	1.26%	1.23%
December 31	1.09%	1.26%	1.31%	1.19%
Ratio of net charge-offs to average loans outstanding	.37%	.24%	.16%	.10%

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Allocation of allowance for loan losses(1):				
Commercial, industrial and IRB's	$1,521	$3,380	$3,507	$3,419
Real estate: (Commercial and Church)				
Mortgage	4,343	2,564	2,723	2,645
Construction	569	318	271	200
Other loans	18	18	91	20
Total	$6,451	$6,280	$6,592	$6,284
Percent of categories to total loans:				
Commercial and industrial and IRB's	20.5%	21.1%	22.5%	28.6%
Real estate: (Commercial and Church)				
Mortgage	69.7	72.4	69.8	65.9
Construction	9.5	6.2	5.9	5.3
Other	.3	.3	1.8	.2
Total	100.0%	100.0%	100.0%	100.0%

(1) Although specific allocations exist, the entire allowance is available to absorb losses in any particular loan category.

Nonperforming Assets

It is the policy of the Company to continually monitor its loan portfolio and to discontinue the accrual of interest on any loan on which payment of principal or interest in a timely manner in the normal course of business, is doubtful. Subsequent payments received on such loans are applied to principal if there is any doubt as to the collectability of such principal; otherwise, these receipts are recorded as interest income. Interest on nonaccrual and renegotiated loans, which would have been recorded under the original terms of the loans, was approximately $86,000 for the year ended December 31, 2008. Of this amount, approximately $56,000 was actually recorded as interest income on such loans.

Total nonaccrual loans at December 31, 2008 consists of five loans totaling $1,178,000 that relate to businesses that have weak financial positions and/or collateral deficiencies. Allocations of the allowance for loan losses have been established for the estimated loss exposure.

Foreclosed assets and accruing loans 90 days or more past due were $2,177,000 and $41,000, respectively, at December 31, 2008. The foreclosed assets relate to the foreclosure of two loans which were secured by commercial real estate buildings in St. Louis County and St. Charles County, Missouri. These buildings are currently listed for sale and have been recorded at their estimated fair value less costs to sell. The decrease in accruing loans 90 days or more past due is primarily related to one loan of $41,000 that was past its maturity date; however, full payment was received in March, 2009.

The Company does not have any foreign loans. The Company's loan portfolio does not include a significant amount of single family real estate mortgages, as the Company does not market its services to retail customers. Also, the Company had no sub-prime mortgage loans or residential development loans in its portfolio as of December 31, 2008.

The Company does not have any other interest-earning assets which would have been included in nonaccrual, past due or restructured loans if such assets were loans.

Summary of Nonperforming Assets

	December 31,			
(Dollars in thousands)	2008	2007	2006	
Commercial, industrial and IRB's:				
Nonaccrual	$ 278	$ 1,277	$ 795	$
Contractually past due 90 days or more and still accruing	41	496	--	
Renegotiated loans	--	--	--	
Real estate-mortgage:				
Nonaccrual	900	708	--	
Contractually past due 90 days or more and still accruing	--	--	--	
Renegotiated loans	--	--	--	
Total nonperforming loans	1,219	2,481	795	1
Total foreclosed assets	2,177	1,388	--	
Total nonperforming assets	$ 3,396	$ 3,869	$ 795	$1

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Operating Expenses from Continuing Operations

Operating expenses from continuing operations in 2008 compared to 2007 include the following significant pre-tax components:

Salaries and employees benefits expense increased $2,758,000, or 6%, to

$49,723,000. This is mainly attributable to additional staff related to the increase in processing volume, annual salary increases and the associated increase in benefit expenses.

Occupancy expense increased $122,000, or 6%, to $2,228,000 as a result of additional maintenance and repairs expense plus an increase in rent expense.

Equipment expense decreased $25,000, or 1%, to $3,331,000. This decrease is primarily due to a reduction in contract maintenance expense.

Amortization of intangibles was $280,000 in 2008 and 2007 due to the intangible assets acquired in the acquisition of NTransit in July 2006.

Other operating expense decreased $30,000, or less than 1%, to $10,002,000 due to reductions in postage and supplies, promotional expense and professional services offset by an increase in other real estate owned expense.

Operating expenses from continuing operations in 2007 compared to 2006 include the following significant pre-tax components:

Salaries and employees benefits expense increased $4,289,000, or 10%, to $46,965,000. This is mainly attributable to additional staff related to the increase in processing volume, annual salary increases and the associated increase in benefit expenses.

Occupancy expense increased $127,000, or 6%, to $2,106,000.

Equipment expense increased $428,000, or 15%, to $3,356,000. This increase is primarily due to depreciation related to capital expenditures in 2006 and 2007.

Amortization of intangibles increased $54,000, or 24%, to $280,000 due to the intangible assets acquired in the acquisition of NTransit in July 2006.

Other operating expense decreased $436,000, or 4%, to $10,032,000 due to reductions in outside imaging and legal expenses.

Income Tax Expense

Income tax expense from continuing operations in 2008 totaled $7,160,000 compared to $8,148,000 in 2007, and compared to $8,367,000 in 2006. When measured as a percent of income from continuing operations, the Company's effective tax rate was 27% in 2008, 31% in 2007 and 35% in 2006. The effective tax rate varies from year-to-year primarily due to changes in the Company's amount of investment in tax-exempt municipal bonds and income recognized on bank owned life insurance. The Company's income tax benefit from discontinued operations was $0, $0 and $280,000 with effective rates of 0%, 0%, and 41% for the years 2008, 2007 and 2006, respectively.

Investment Portfolio

Investment portfolio changes from December 31, 2007 to December 31, 2008:

U.S. Treasury securities decreased $1,796,000, or 90%, to $200,000. U.S. government-sponsored corporation and agency securities decreased from $1,499,000 to $0. State and political subdivision securities increased $25,440,000, or 15%, to $192,918,000. The investment portfolio provides the Company with a significant source of earnings,

secondary source of liquidity, and mechanisms to manage the effects of changes in loan demand and interest rates. Therefore, the size, asset allocation and maturity distribution of the investment portfolio will vary over time depending on management's assessment of current and future interest rates, changes in loan demand, changes in the Company's sources of funds and the economic outlook. During this period, the size of the investment portfolio increased as the Company purchased state and political subdivision securities. These securities all had AA or better credit ratings and maturities approaching ten

years. With the additional liquidity provided by the increase in accounts and drafts payables and the declining rate environment, the Company made these purchases to continue to reduce the level of short-term rate sensitive assets. All purchases were made in accordance with the Company's investment policy. As of December 31, 2008, the Company had no mortgage-backed securities in its portfolio.

Investment portfolio changes from December 31, 2006 to December 31, 2007:

U.S. Treasury securities decreased $14,828,000, or 88%, to $1,996,000. U.S. government-sponsored corporation and agency securities decreased $1,486,000, or 50%, to $1,499,000. State and political subdivision securities increased $85,271,000, or 104%, to $167,478,000. The investment portfolio provides the Company with a significant source of earnings, secondary source of liquidity, and mechanisms to manage the effects of changes in loan demand and interest rates. Therefore, the size, asset allocation and maturity distribution of the investment portfolio will vary over time depending on management's assessment of current and future interest rates, changes in loan demand, changes in the Company's sources of funds and the economic outlook. During this period the size of the investment portfolio increased as the Company purchased state and political subdivision securities. These securities all had AA or better credit ratings and maturities approaching ten years. With the additional liquidity provided by the increase in accounts and drafts payables and the expectation of a declining rate environment, the Company made these purchases to reduce the level of short-term rate sensitive assets. All purchases were made in accordance with the Company's investment policy. As of December 31, 2007, the Company had no mortgage-backed securities in its portfolio.

There was no single issuer of securities in the investment portfolio at December 31, 2008 for which the aggregate amortized cost exceeded 10% of total shareholders' equity.

Investments by Type

	Decembe	
(Dollars in thousands)	2008	200
U.S. Treasury securities	$ 200	$ 1,99
U.S. government-sponsored corporations and agencies	--	1,49
State and political subdivisions	192,918	167,47
Stock of the Federal Home Loan Bank	465	45
Stock of the Federal Reserve Bank	282	28

Total investments	$ 193,865	$ 171,70

Investment in Debt Securities by Maturity
(At December 31, 2008)

(Dollars in thousands)	Within 1 Year	Over 1 to 5 Years	Over 5 to 10 Years	Over 10 Yea
U.S. Treasury securities	$ 200	$ --	$ --	$
State and political subdivisions(1)	13,229	45,999	72,066	61,6
Total investment in debt securities	$ 13,429	$ 45,999	$ 72,066	$ 61,6
Weighted average yield	4.99%	5.72%	6.18%	6.4

1. Weighted average yield is presented on a tax-equivalent basis assuming a tax rate of 35%.

Deposits and Accounts and Drafts Payable

Noninterest-bearing demand deposits increased $10,110,000, or 11%, from December 31, 2007 to $103,300,000 at December 31, 2008. The average balances of these deposits decreased $4,353,000, or 5%, from 2007 to $89,811,000 in 2008. The increase in ending balances relates mainly to growth in these accounts during the latter part of the year. These balances are primarily maintained by commercial customers and churches and can fluctuate on a daily basis.

Interest-bearing deposits decreased $6,165,000, or 3%, from December 31, 2007 to $174,241,000 at December 31, 2008. The average balances of these deposits decreased to $152,033,000 in 2008 from $185,667,000 in 2007. This decrease was primarily the result of the Company's decision to reduce higher-cost time deposits.

Accounts and drafts payable generated by the Company in its payment processing operations decreased $34,709,000, or 7%, from December 31, 2007 to $479,025,000 at December 31, 2008. The average balance of these funds increased $54,552,000, or 11%, from 2007 to $559,230,000 in 2008. The increase relates to the increase in dollars processed. Due to the Company's payment processing cycle, average balances are much more indicative of the underlying

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activity than period-end balances since point-in-time comparisons can be misleading if the comparison dates fall on different days of the week.

The composition of average deposits and the average rates paid on those deposits is represented in the table entitled "Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rate and Interest Differential" which is included earlier in this discussion. The Company does not have any significant deposits from foreign depositors.

As discussed in "Recent Developments," the company elected to participate in the Temporary Liquidity Guarantee Program, as not participating could have put the Company at a competitive disadvantage without the 100% FDIC guarantee of its

non-interest bearing transaction deposit accounts. The cost of this program is 10 basis points or approximately $60,000 on an annual basis based upon the additional covered deposits at December 31, 2008.

Maturities of Certificates of Deposits of $100,000 or More
(At December 31, 2008)

(Dollars in thousands)	
Three months or less	$18,602
Three to six months	15,697
Six to twelve months	10,635
Over twelve months	2,325
Total	$47,259

Subordinated Convertible Debentures

Total subordinated convertible debentures at December 31, 2008 and 2007 were $2,991,000 and $3,688,000, respectively and the average balances of these funds were and $3,669,000 and $3,699,000, respectively. The debentures were issued on August 24, 2004 as part of the Company's purchase of PROFITLAB, Inc. ("PROFITLAB"). For more information on these debentures please refer to Item 8, Note 10 of this report.

Liquidity

The discipline of liquidity management as practiced by the Company seeks to ensure that funds are available to fulfill all payment obligations relating to invoices processed as they become due, meet depositor withdrawal requests and borrower credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in supply of funds. Primary liquidity to meet demand is provided by short-term liquid assets that can be converted to cash, maturing securities and the ability to obtain funds from external sources. The Company's Asset/Liability Committee ("ALCO") has direct oversight responsibility for the Company's liquidity position and profile. Management considers both on-balance sheet and off-balance sheet items in its evaluation of liquidity.

The balances of liquid assets consist of cash and cash equivalents, which include cash and due from banks, federal funds sold, and money market funds, and were $29,485,000 at December 31, 2008, a decrease of $146,585,000 or 83% from December 31, 2007. At December 31, 2008 these assets represented 3% of total assets. The Company decreased liquid assets during 2008 as a result of the significant drop in short-term interest rates. The excess liquidity held at the end of 2007 was invested in higher-yielding loans and investment securities to help maximize net interest income during 2008. Cash and cash equivalents 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 debt securities available-for-sale at fair value was $193,865,000 at December 31, 2008, an increase of $22,159,000 or 13% from December 31, 2007. These assets represented 22% of total assets at December 31, 2008 and all but less than 1% were state and political subdivision securities. Of the total portfolio, 6% mature in one year, 22% mature after one year through

five years and 72% mature after five years. The Company sold $20,867,000 of securities available-for-sale during 2008 in managing its liquidity position and to take advantage of favorable reinvestment opportunities.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $46,000,000. Additionally, the Bank maintains lines of credit at unaffiliated financial institutions in the maximum amount of $81,643,000 collateralized by U.S. Treasury securities and commercial mortgage loans.

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

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Net cash flows provided by operating activities from continuing operations for the years 2008, 2007 and 2006 were $22,030,000, $23,652,000 and $17,031,000 respectively. Net income plus depreciation and amortization accounts for most of the operating cash provided. 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. Further analysis of the changes in these account balances is discussed earlier in this report. Due to the daily fluctuations in these account balances, management believes that 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, cash from operations, and borrowing lines will continue to be sufficient to fund the Company's operations and capital expenditures in 2009.

Capital Resources

One of management's primary objectives is to maintain a strong capital base to warrant the confidence of customers, shareholders, and bank regulatory agencies. A strong capital base is needed to take advantage of profitable growth opportunities that arise and to provide assurance to depositors and creditors. The Company and its banking subsidiary continue to exceed all regulatory capital requirements, as evidenced by the capital ratios at December 31, 2008 as shown in Item 8, Note 3 of this report.

In 2008, cash dividends paid were $.49 per share for a total of $4,499,000, an increase of $381,000, or 9%, compared to $.447 per share and a total of $4,118,000 in 2007. The increase is attributable primarily to the per share amount paid.

Shareholders' equity was $106,241,000, or 12%, of total assets, at December 31, 2008, an increase of $6,789,000 over the balance at December 31, 2007. This increase resulted from net income of $19,006,000, proceeds from the exercise of stock options of $24,000, $697,000 related to the conversion of subordinated debentures, a decrease in other comprehensive loss of $508,000 and other items of $1,026,000 related to the stock bonuses, which were offset by cash dividends paid of $4,499,000, the purchase of treasury shares of $3,984,000 and the pension adjustment per SFAS No. 158 of $5,989,000.

Dividends from the Bank are a source of funds for payment of dividends by the Company to its shareholders. The only restrictions on dividends are those dictated by regulatory capital requirements and prudent and sound banking principles. As of December 31, 2008, unappropriated retained earnings of

$1,530,000 were available at the Bank for the declaration of dividends to the Company without prior approval from regulatory authorities.

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 Company repurchased 120,000 shares during 2008 and did not repurchase any shares during 2007. As of December 31, 2008, 180,000 shares remained available for repurchase under the program. A portion of the repurchased shares may be used for the Company's employee benefit plans, and the balance will be available for other general corporate purposes. The stock repurchase authorization does not have an expiration date and the pace of repurchase activity will depend on factors such as levels of cash generation from operations, cash requirements for investments, repayment of debt, current stock price, and other factors. The Company may repurchase shares from time to time on the open market or in private transactions, including structured transactions. The stock repurchase program may be modified or discontinued at any time.

As discussed in the "Recent Developments" section above, after careful assessment and due to its strong capital base, the Company chose not to participate in the TARP Capital Purchase Program.

Commitments, Contractual Obligations and Off-Balance Sheet Arrangements

In the normal course of business, the Company is party to activities that involve credit, market and operational risk 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, 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, 2008, the balance of loan commitments, standby and commercial letters of credit were $33,525,000, $7,585,000 and $3,185,000, 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.

On August 24, 2004, the Company issued $3,700,000 in subordinated convertible debentures as part of the Company's acquisition of PROFITLAB. Interest, at a rate of 5.33%, is payable annually on the anniversary date of the acquisition. The holders of the debentures can convert the principal amount into fully paid and non-assessable shares of the common stock of the Company at a rate per share of $19.47 at various amounts over a 10-year period, at which time the securities mature. The debentures may be called by the Company without penalty after August 24, 2010. For more information please refer to Item 8, Note 10 of this report.

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

		Amount of Commitment Expiration pe		
(Dollars in thousands at December 31, 2008)	Total	Less than 1 Year	1-3 Years	3-5 Year
Operating lease commitments	$ 3,148	$ 624	$ 949	$ 78
Time deposits*	69,648	65,410	3,028	1,21
Convertible subordinated debentures *	2,991	--	--	-
Total	$ 75,787	$ 66,034	$ 3,977	$ 1,99

* Includes principal payments only.

During 2008, the Company contributed $5,900,000 to its noncontributory defined benefit pension plan. The contribution had no significant effect on the Company's overall liquidity. In determining pension expense, the Company makes several assumptions, including the discount rate and long-term rate of return on assets. These assumptions are determined at the beginning of the plan year based on interest rate levels and financial market performance. For 2008 these assumptions were as follows:

Weighted average discount rate	6.50%
Rate of increase in compensation levels	4.25%
Expected long-term rate of return on assets	7.25%

Impact of Accounting Pronouncements Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141(R) - Business Combinations ("SFAS No. 141(R)"). SFAS No. 141(R) will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how entities will account for business combinations under SFAS No. 141(R) include: (a) the acquisition date will be the date the acquirer obtains control; (b) all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; (c) assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability

on the acquisition date; (d) adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; (e) acquisition-related restructuring costs that do not meet the criteria in SFAS No. 146 - Accounting for Costs Associated with Exit or Disposal Activities, will be expensed as incurred; (f) transaction costs will be expensed as incurred; (g) reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and (h) the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS No. 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. SFAS No. 141(R) is effective for all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS No. 141(R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require

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any changes in those amounts to be recorded in earnings. We are currently evaluating the impact that SFAS No. 141(R) will have on our financial condition, results of operations and the disclosures that will be presented in our consolidated financial statements and we do not expect there will be a material impact.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

The Company faces market risk to the extent that its net interest income and its fair market value of equity are affected by changes in market interest rates. The asset/liability management discipline as applied by the Company seeks to limit the volatility, to the extent possible, of both net interest income and the fair market value of equity that can result from changes in market interest rates. This is accomplished by limiting the maturities of fixed rate investments, loans, and deposits; matching fixed rate assets and liabilities to the extent possible; and optimizing the mix of fees and net interest income. However, as discussed below, the Company's asset/liability position differs significantly from most other bank holding companies with significant positive cumulative "gaps" shown for each time horizon presented. This asset sensitive position is caused primarily by the operations of the Company, which generate large balances of accounts and drafts payable. These balances, which are noninterest bearing, contribute to the Company's historical high net interest margin but cause the Company to become susceptible to changes in interest rates, with a decreasing net interest margin and fair market value of equity in periods of declining interest rates and an increasing net interest margin and fair market value of equity in periods of rising interest rates.

The Company's ALCO measures the Company's interest rate risk sensitivity on a quarterly basis to monitor and manage the variability of earnings and fair market value of equity in various interest rate environments. The ALCO evaluates the Company's risk position to determine whether the level of exposure is significant enough to hedge a potential decline in earnings and value or whether the Company can safely increase risk to enhance returns. The ALCO uses gap reports, twelve-month net interest income simulations, and fair market value of equity analyses as its main analytical tools to provide management with insight into the Company's exposure to changing interest rates.

Management uses a gap report to review any significant mismatch between the re-pricing points of the Company's rate sensitive assets and liabilities in certain time horizons. A negative gap indicates that more liabilities re-price in that particular time frame and, if rates rise, these liabilities will re-price faster than the assets. A positive gap would indicate the opposite. Gap reports can be misleading in that they capture only the re-pricing timing within the balance sheet, and fail to capture other significant risks such as basis risk and embedded options risk. Basis risk involves the potential for the spread relationship between rates to change under different rate environments and embedded options risk relates to the potential for the alteration of the level and/or timing of cash flows given changes in rates.

Another measurement tool used by management is net interest income simulation, which forecasts net interest income during the coming twelve months under different interest rate scenarios in order to quantify potential changes in short term accounting income. Management has set policy limits specifying acceptable levels of interest rate risk given multiple simulated rate movements. These simulations are more informative than gap reports because they are able to capture more of the dynamics within the balance sheet, such as basis risk and embedded options risk. A table containing simulation results as of December 31, 2008, from an immediate and sustained parallel change in interest rates is shown below.

While net interest income simulations do an adequate job of capturing interest rate risk to short term earnings, they do not capture risk within the current balance sheet beyond twelve months. The Company uses fair market value of equity analyses to help identify longer-term risk that may reside on the current balance sheet. The fair market value of equity is represented by the present value of all future income streams generated by the current balance sheet. The Company measures the fair market value of equity as the net present value of all asset and liability cash flows discounted at forward rates suggested by the current U.S. Treasury curve plus appropriate credit spreads. This representation of the change in the fair market value of equity under different rate scenarios gives insight into the magnitude of risk to future earnings due to rate changes. Management has set policy limits relating to declines in the market value of equity. The table below contains the analysis, which illustrates the effects of an immediate and sustained parallel change in interest rates as of December 31, 2008:

Change in Interest Rates	% Change in Net Interest Income	% Change in Fair Market Value of Equity
+200 basis points	10%	10%
+100 basis points	5%	5%
Stable Rates	----	----
-100 basis points	(3%)	(3%)
-200 basis points	(6%)	(3%)

Interest Rate Sensitivity Position

The following table presents the Company's gap or interest rate risk position at December 31, 2008 for the various time periods indicated.

(Dollars in thousands)	Variable Rate	0-90 Days	91-180 Days	181-364 Days	1-5 Years	O 5
Earning assets:						
Loans:						
Taxable	$148,244	$ 4,830	$30,131	$53,980	$345,841	$
Tax-exempt	--	--	124	898	2,341	
Debt and equity securities(1):						
Taxable	--	200	--	--	--	
Tax-exempt	--	1,973	2,793	6,738	44,535	1
Other	747	--	--	--	--	
Federal funds sold and other short-term investments	19,442	--	--	--	--	
Total earning assets	$168,433	$ 7,003	$33,048	$61,616	$392,717	$1
Interest-sensitive liabilities:						
Money market accounts	$ 49,604	$ --	$ --	$ --	$ --	$
Now accounts	31,749	--	--	--	--	
Savings deposits	23,240	--	--	--	--	
Time deposits:						
$100K and more	--	18,602	15,697	10,635	2,325	
Less than $100K	--	10,677	8,236	1,563	1,913	
Federal funds purchased and other short-term borrowing	305	--	--	--	--	
Subordinated convertible debentures	--	--	--	--	--	
Total interest-bearing liabilities	$104,898	$ 29,279	$23,933	$12,198	$ 4,238	$
Interest sensitivity gap:						
Periodic	$ 63,535	$(22,276)	$ 9,115	$49,418	$388,479	$1
Cumulative	63,535	41,259	50,374	99,792	488,271	6
Ratio of interest-bearing assets to interest-bearing liabilities:						
Periodic	1.61	0.24	1.38	5.05	92.67	
Cumulative	1.61	1.31	1.32	1.59	3.80	

(1) Balances shown reflect earliest re-pricing date.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	December 31, 2008	
Assets		
Cash and due from banks	$ 10,043	$
Federal funds sold and other short-term investments	19,442	

Cash and cash equivalents	29,485
Securities available-for-sale, at fair value	193,865
Loans	591,976
Less: Allowance for loan losses	6,451
Loans, net	585,525
Premises and equipment, net	11,617
Investment in bank owned life insurance	13,093
Payments in excess of funding	21,865
Goodwill	7,471
Other intangible assets, net	597
Other assets	21,710
Total assets	$885,228
Liabilities and Shareholders' Equity	
Liabilities:	
Deposits:	
Noninterest-bearing	$ 103,300
Interest-bearing	174,241
Total deposits	277,541
Accounts and drafts payable	479,025
Subordinated convertible debentures	2,991
Other liabilities	19,430
Total liabilities	778,987
Shareholders' Equity:	
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued	--
Common stock, par value $.50 per share; 20,000,000 shares authorized: 9,949,324 shares issued at December 31, 2008 and 2007, respectively	4,975
Additional paid-in capital	45,746
Retained earnings	81,197
Common shares in treasury, at cost (775,288 and 740,642 shares at December 31, 2008 and 2007, respectively)	(18,264)
Accumulated other comprehensive loss	(7,413)
Total shareholders' equity	106,241
Total liabilities and shareholders' equity	$ 885,228

See accompanying notes to consolidated financial statements.

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

For the Years Ended Dec

(In thousands, except share and per share data)	2008	2007
Fee Revenue and Other Income:		
Information services payment and processing revenue	$ 50,721	$ 45,642
Bank service fees	1,330	1,682
Gains on sales of investment securities	552	-
Other	567	876
Total fee revenue and other income	53,170	48,200
Interest Income:		
Interest and fees on loans	34,204	36,288
Interest and dividends on securities:		
Taxable	78	722
Exempt from federal income taxes	7,638	4,809
Interest on federal funds sold and other short-term investments	2,218	7,527
Total interest income	44,138	49,346
Interest Expense:		
Interest on deposits	3,179	7,728
Interest on short-term borrowings	12	6
Interest on subordinated convertible debentures and other	187	230
Total interest expense	3,378	7,964
Net interest income	40,760	41,382
Provision for loan losses	2,200	900
Net interest income after provision for loan losses	38,560	40,482
Total net revenue	91,730	88,682
Operating Expense:		
Salaries and employee benefits	49,723	46,965
Occupancy	2,228	2,106
Equipment	3,331	3,356
Amortization of intangible assets	280	280
Other operating	10,002	10,032
Total operating expense	65,564	62,739
Income before income tax expense and discontinued operations	26,166	25,943
Income tax expense	7,160	8,148
Net income from continuing operations	19,006	17,795
Net loss from discontinued operations	--	--
Net income	$ 19,006	$ 17,795
Basic Earnings Per Share:		
From continuing operations	$ 2.08	$ 1.95

From discontinued operations	--	--
Basic earnings per share	2.08	1.95
Diluted Earnings Per Share:		
From continuing operations	$ 2.03	$ 1.90
From discontinued operations	--	--
Diluted earnings per share	2.03	1.90

See accompanying notes to consolidated financial statements.

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

	For the Years Ended	
(Dollars in thousands)	2008	2007
Cash Flows From Operating Activities:		
Net income from continuing operations	$ 19,006	$ 17,795
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	4,336	3,186
Gains on sales of investment securities	(552)	--
Stock-based compensation expense	1,026	678
Provision for loan losses	2,200	900
Deferred income tax expense (benefit)	1,575	1,409
Increase in income tax liability	1,393	743
(Decrease) increase in pension liability	(4,013)	(992
Other operating activities, net	(2,941)	(67
Operating activities of discontinued operations	--	--
Net cash provided by operating activities	22,030	23,652
Cash Flows From Investing Activities:		
From continuing operations:		
Proceeds from sales of securities available-for-sale	20,867	--
Proceeds from maturities of securities available-for-sale	11,106	52,500
Purchase of securities available-for-sale	(54,460)	(120,304
Net (increase) decrease in loans	(95,550)	3,158
Increase in payments in excess of funding	(10,201)	(2,331
Purchases of premises and equipment, net	(1,240)	(2,112
Payment for business acquisition, net of cash acquired	--	--
Proceeds from sale of discontinued operations	--	--
Net cash (used in) provided by investing activities	(129,478)	(69,089
Cash Flows From Financing Activities:		
From continuing operations:		
Net increase (decrease) in noninterest-bearing deposits	10,110	(13,397
Net increase (decrease) in interest-bearing demand and savings deposits	6,813	3,269
Net (decrease) increase in time deposits	(12,978)	(6,170
Net (decrease) increase in accounts and drafts payable	(34,709)	45,341

Cash proceeds from exercise of stock options	24	15
Cash dividends paid	(4,499)	(4,118
Purchase of common shares for treasury	(3,984)	--
Other financing activities, net	86	63
Net cash (used in) provided by financing activities	(39,137)	25,003
Net (decrease) increase in cash and cash equivalents	(146,585)	(20,434
Cash and cash equivalents at beginning of year	176,070	196,504
Cash and cash equivalents at end of year	$ 29,485	$ 176,070
Supplemental information:		
Cash paid for interest	$ 3,665	$ 8,119
Cash paid for income taxes	4,949	6,258
Noncash transactions:		
Other real estate transferred from loans	$ 788	$ 1,300

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumula Other Comprehe Income (
Balance, December 31, 2005	$3,168	$18,326	$71,506	$(17,313)	$(406
Net income			15,066		
Cash dividends ($.400 per share)			(3,666)		
50% common stock dividend	1,388		(1,390)		
Purchase of 30,000 common shares				(870)	
Other comprehensive income (loss):					
Net unrealized gain on securities available-for-sale, net of tax					550
Adoption of SFAS No. 158, net of tax					(3,114
Issuance of 15,010 common shares pursuant to stock-based compensation plan		(198)		198	
Exercise of stock options		(581)		908	
Tax benefit of stock awards		122			
Stock-based compensation expense		227			
Balance, December 31, 2006	$4,556	$17,896	$81,516	$(17,077)	$(2,970
Comprehensive income for 2006					
Net income			17,795		
Cash dividends ($.447 per share)			(4,118)		
10% common stock dividend	419	28,159	(28,590)		
Other comprehensive income (loss):					
Net unrealized gain on securities					

available-for-sale, net of tax					1,184
SFAS No. 158 adjustment, net of tax					(146
FIN 48 adjustment			87		
Issuance of 47,432 common shares pur-suant to stock-based compensation plan		(938)		938	
Exercise of stock options		6		9	
Tax benefit of stock awards		36			
Stock-based compensation expense		678			
Subordinated debenture conversion				12	
Balance, December 31, 2007	$4,975	$45,837	$66,690	$(16,118)	$(1,932
Comprehensive income for 2007					
Net income			19,006		
Cash dividends ($.49 per share)			(4,499)		
Purchase of 120,000 shares				(3,984)	
Other comprehensive income (loss):					
Reclassification adjustments for gains included in net income, net of tax					(359
Net unrealized gain on securities available-for-sale, net of tax					867
SFAS No. 158 adjustment, net of tax					(5,989
Issuance of 31,924 common shares pur-suant to stock-based compensation plan		(705)		705	
Exercise of stock options		(282)		306	
Stock-based compensation expense		1,026			
Subordinated debenture conversion		(130)		827	
Balance, December 31, 2008	$4,975	$45,746	$81,197	$(18,264)	$(7,413
Comprehensive income for 2008					

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1
Summary of Significant Accounting Policies

Summary of Operations Cass Information Systems, Inc. (the "Company") provides payment and information services, which include processing and payment of freight, utility and telecommunications invoices. These services include the acquisition and management of data, information delivery and financial exchange. The consolidated balance sheet captions, "Accounts and drafts payable" and "Payments in excess of funding," consist of obligations related to the payment services that are performed for customers. The Company also provides a full range of banking services to individual, corporate and institutional customers through Cass Commercial Bank (the "Bank"), its wholly owned bank subsidiary.

Basis of Presentation The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of intercompany transactions. Certain amounts in the 2007 and 2006 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 a 50% stock dividend on September 15, 2006. The share and per share information have been restated for all periods presented in the accompanying consolidated financial statements.

Use of Estimates In preparing the consolidated financial statements, Company management is required to make estimates and assumptions which significantly affect the reported amounts in the consolidated financial statements. A significant estimate, which is particularly susceptible to change in a short period of time, is the determination of the allowance for loan losses.

Cash and Cash Equivalents For purposes of the consolidated statements of cash flows, the Company considers cash and due from banks, federal funds sold and other short-term investments as segregated in the accompanying consolidated balance sheets to be cash equivalents.

Investment in Debt and Equity Securities The Company classifies its debt and marketable equity securities as available-for-sale. Securities classified as available-for-sale are carried at fair value. Unrealized gains and losses, net of the related tax effect, are excluded from earnings and reported in accumulated other comprehensive income, a component of shareholders' equity. A decline in the fair value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. To determine whether impairment is other than temporary, the Company considers whether it has the ability and intent to hold the investment until a marketplace recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investee. Premiums and discounts are amortized or accreted to interest income over the estimated lives of the securities using the level-yield method. Interest income is recognized when earned. Gains and losses are calculated using the specific identification method.

Allowance for Loan Losses The allowance for loan losses is increased by provisions charged to expense and is available to absorb charge-offs, net of recoveries. Management utilizes a systematic, documented approach in determining the appropriate level of the allowance for loan losses. Management's approach, which provides for general and specific allocations, is based on current economic conditions, past losses, collection experience, risk characteristics of the portfolio, assessments of collateral values by obtaining independent appraisals for significant properties, and such other factors which, in management's judgment, deserve current recognition in estimating loan losses.

Management believes the allowance for loan losses is adequate to absorb probable losses in the loan portfolio. While management uses all available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such 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.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the estimated useful lives of the assets, or the respective lease terms for leasehold improvements, using straight-line and accelerated methods. Estimated useful lives do not exceed 40 years for

buildings, the lesser of 10 years or the life of the lease for leasehold improvements and range from 3 to 7 years for software, equipment, furniture and fixtures. Maintenance and repairs are charged to expense as incurred.

Intangible Assets Cost in excess of fair value of net assets acquired has resulted from business acquisitions, which were accounted for using the purchase method. Goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives.

Periodically, the Company reviews intangible assets for events or changes in circumstances that may indicate that the carrying amount of the assets may not be recoverable. Based on those reviews, adjustments of recorded amounts have not been required.

Non-marketable Equity Investments The Company accounts for non-marketable equity investments, in which it holds less than a 20% ownership, under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other than temporary declines in fair value, distributions of earnings and additional investments. The Company periodically evaluates whether any declines in fair value of its investments are other than temporary. In performing this evaluation, the Company considers various factors including any decline in market price, where available, the investee's financial condition, results of operations, operating trends and other financial ratios. Non-marketable equity investments are included in other assets on the consolidated balance sheets.

Foreclosed Assets Other real estate, included in other assets in the accompanying consolidated balance sheets, is recorded at the lower of cost or fair value less costs to sell. If the fair value of other real estate declines subsequent to foreclosure, the difference is recorded as a valuation allowance through a charge to expense. Subsequent increases in fair value are recorded through reversal of the valuation allowance. Expenses incurred in maintaining the properties are charged to expense.

Treasury Stock Purchases of the Company's common stock are recorded at cost. Upon reissuance, treasury stock is reduced based upon the average cost basis of shares held.

Comprehensive Income Comprehensive income consists of net income, changes in net unrealized gains (losses) on available-for-sale securities and pension liability adjustments and is presented in the accompanying consolidated statements of shareholders' equity and comprehensive income.

Interest on Loans Interest on loans is recognized based upon the principal amounts outstanding. It is the Company's policy to discontinue the accrual of interest when there is reasonable doubt as to the collectability of principal or interest. Subsequent payments received on such loans are applied to principal if there is any doubt as to the collectability of such principal; otherwise, these receipts are recorded as interest income. The accrual of interest on a loan is resumed when the loan is current as to payment of both principal and interest and/or the borrower demonstrates the ability to pay and remain current.

Impairment of Loans A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. When measuring impairment, the expected future cash flows of an impaired loan are discounted at the loan's effective interest rate. Alternatively, impairment could be measured by reference to an observable market price, if one exists, or the fair value of

the collateral for a collateral-dependent loan. Regardless of the historical measurement method used, the Company measures impairment based on the fair value of the collateral when the Company determines foreclosure is probable. Additionally, impairment of a restructured loan is measured by discounting the total expected future cash flows at the loan's effective rate of interest as stated in the original loan agreement. The Company uses its nonaccrual methods as discussed above for recognizing interest on impaired loans.

Information Services Revenue A majority of the Company's revenues are attributable to fees for providing services. These services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. The Company also processes, pays and generates management information from electric, gas, telecommunications and other invoices. The specific payment and information processing services provided to each customer are developed individually to meet each customer's specific requirements. The Company enters into service agreements with customers typically for fixed fees per transaction that are invoiced monthly. Revenues are recognized in the period services are rendered and earned under the service agreements, as long as collection is reasonably assured.

Income Taxes Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced if necessary, by a deferred tax asset valuation allowance. In the event that management determines it will not be able to realize all or part of net deferred tax assets in the future, the Company adjusts the recorded value of deferred tax assets, which

would result in a direct charge to income tax expense in the period that such determination is made. Likewise, the Company will reverse the valuation allowance when realization of the deferred tax asset is expected. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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.

Stock-Based Compensation Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R ("SFAS No. 123R") "Share-based Payment." SFAS No. 123R requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. SFAS No. 123R also requires that excess tax benefits related to stock option exercises and restricted stock awards be reflected as financing cash inflows instead of operating cash inflows.

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, 2008, rate of

increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 12. The Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158") on December 31, 2006. SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur 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.

Impact of Accounting Pronouncements Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141(R) - Business Combinations ("SFAS No. 141(R)"). SFAS No. 141(R) will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how entities will account for business combinations under SFAS No. 141(R) include: (a) the acquisition date will be the date the acquirer obtains control; (b) all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; (c) assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; (d) adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; (e) acquisition-related restructuring costs that do not meet the criteria in SFAS No. 146 - Accounting for Costs Associated with Exit or Disposal Activities, will be expensed as incurred; (f) transaction costs will be expensed as incurred; (g) reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and (h) the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS No. 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. SFAS No. 141(R) is effective for all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS No. 141(R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. We are currently evaluating the impact that SFAS No. 141(R) will have on our financial condition, results of operations and the disclosures that will be presented in our consolidated financial statements and we do not expect there will be a material impact.

Note 2
Acquisition of NTransit

On July 7, 2006, the Company acquired 100% of the common stock of NTransit, Inc. ("NTransit"), a company whose service provides auditing and expense management of parcel shipments. While this acquisition did not meet the Regulation S-X criteria of a significant business combination, it positioned the Company to expand its offerings in the specialized service and expertise in parcel shipping, which is a unique segment of the transportation industry that has experienced tremendous growth in recent years.

Note 3

Capital Requirements And Regulatory Restrictions

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulators to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. Management believes that as of December 31, 2008 and 2007, the Company and the Bank met all capital adequacy requirements to which they are subject.

The Bank is also subject to the regulatory framework for prompt corrective action. As of December 31, 2008, the most recent notification from the regulatory agencies categorized the Bank as well capitalized. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

Subsidiary dividends are a significant source of funds for payment of dividends by the Company to its shareholders. At December 31, 2008, unappropriated retained earnings of $1,530,000 were available at the Bank for the declaration of dividends to the Company without prior approval from regulatory authorities. However, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Restricted funds on deposit used to meet regulatory reserve requirement were $0 and $500,000 at December 31, 2008 and 2007, respectively.

The Company's and the Bank's actual and required capital amounts and ratios as of December 31, 2008 and 2007 are as follows:

	Actual		Capital requirements		
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	A
At December 31, 2008					
Total capital (to risk-weighted assets):					
Cass Information Systems, Inc.	$115,028	15.93%	$57,780	8.00%	$
Cass Commercial Bank	44,187	11.39	31,027	8.00	
Tier I capital (to risk-weighted assets):					
Cass Information Systems, Inc.	105,586	14.62	28,890	4.00	
Cass Commercial Bank	39,782	10.26	15,514	4.00	
Tier I capital (to average assets):					
Cass Information Systems, Inc.	105,586	11.26	28,133	3.00	
Cass Commercial Bank	39,782	10.35	11,528	3.00	
At December 31, 2007					

Total capital (to risk-weighted assets):					
Cass Information Systems, Inc.	$103,044	16.12%	$51,105	8.00%	$
Cass Commercial Bank	41,441	14.39	23,044	8.00	
Tier I capital (to risk-weighted assets):					
Cass Information Systems, Inc.	93,036	14.56	25,552	4.00	
Cass Commercial Bank	37,827	13.13	11,522	4.00	
Tier I capital (to average assets):					
Cass Information Systems, Inc.	93,036	10.14	27,525	3.00	
Cass Commercial Bank	37,827	11.46	9,903	3.00	

Note 4
Investment in Debt and Equity Securities

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"). Investment

securities available-for-sale are recorded at fair value on a recurring basis. The determination of fair value utilizes several observable inputs rather than "significant unobservable inputs" and therefore the Company has classified its entire portfolio of investment securities at December 31, 2008 as Level 2 as required under SFAS No. 157. The table below presents the balances of securities available-for-sale measured at fair value on a recurring basis: The amortized cost, gross unrealized gains, gross unrealized losses and fair value of debt and equity securities at December 31, 2008 and 2007 are summarized as follows:

	2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	$ 200	$ --	$ --	$
State and political subdivisions	189,729	3,790	601	
Total debt securities	189,929	3,790	601	
Stock in Federal Reserve Bank and Federal Home Loan Bank	747	--	--	
Total	$ 190,676	$ 3,790	$ 601	$

	2007			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	$ 1,995	$ 1	$ --	$
Obligations of U.S. government-sponsored corporations and agencies	1,500	--	1	
State and political subdivisions	165,072	2,509	103	

Total debt securities	168,567	2,510	104	
Stock in Federal Reserve Bank and Federal Home Loan Bank	733	--	--	
Total	$ 169,300	$ 2,510	$ 104	$

The fair values of securities with unrealized losses at December 31, 2008 and 2007 are as follows:

	2008				
	Less than 12 months		12 months or more		
(In thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estim Fair
State and political subdivisions	41,813	601	--	--	41,
Total	$ 41,813	$ 601	$ --	$ --	$ 41,

	2007				
	Less than 12 months		12 months or more		
(In thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estim Fair
Obligations of U.S. government-sponsored corporations and agencies	$ --	$ --	$ 1,000	$ 1	$ 1,
State and political subdivisions	8,882	35	6,931	68	15,
Total	$ 8,882	$ 35	$ 7,931	$ 69	$ 16,

There were 45 securities (none greater than 12 months) in an unrealized loss position as of December 31, 2008. All unrealized losses are reviewed to determine whether the losses are other than temporary. Management believes that all unrealized losses are temporary since they are market driven and the Company has the ability and intent to hold these securities until maturity.

There were 21 securities (11 greater than 12 months) in an unrealized loss position as of December 31, 2007. All unrealized losses are reviewed to determine whether the losses are other than temporary. Management believes that all unrealized losses are temporary since they are market driven and the Company has the ability and intent to hold these securities until maturity.

The amortized cost and fair value of debt and equity securities at December 31, 2008, 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.

(Dollars in thousands)	2008	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 13,249	$ 13,429
Due after 1 year through 5 years	44,411	45,999
Due after 5 years through 10 years	70,348	72,066
Due after 10 years	61,921	61,624
No stated maturity	747	747
Total	$190,676	$193,865

The amortized cost of debt securities pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes at December 31, 2008 and 2007 were $200,000 and $3,495,000, respectively.

Proceeds from sales of debt securities classified as available-for-sale were $20,867,000 in 2008 and $0 in 2007 and 2006. Gross realized gains and losses on the sales in 2008 were $567,000 and $15,000, respectively.

Note 5
Loans

A summary of loan categories at December 31, 2008 and 2007 is as follows:

(Dollars in thousands)	2008	2007
Commercial and industrial	$118,044	$100,827
Real estate:		
Mortgage - Commercial	141,585	122,397
Mortgage - Church & related	271,203	238,510
Construction	17,095	16,035
Construction - Church & related	39,126	15,047
Industrial revenue bonds	3,363	4,149
Other	1,560	1,490
Total	$591,976	$498,455

The Company originates commercial, industrial and real estate loans to businesses, and churches throughout the metropolitan St. Louis, Missouri area, Orange County, California and other selected cities in the United States. The Company does not have any particular concentration of credit in any one economic sector; however, a substantial portion of the commercial and industrial loans are extended to privately-held commercial companies in these market areas, and are generally secured by the assets of the business. The Company also has a substantial portion of real estate loans secured by mortgages that are extended to churches in its market area and selected cities throughout the United States.

Loan transactions involving executive officers and directors of the Company and its subsidiaries and loans to affiliates of executive officers and directors for

the year ended December 31, 2008, are summarized below. Such loans were made in the normal course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons, and did not involve more than the normal risk of collectability.

(In thousands)	
Aggregate balance, January 1, 2008	$941
New loans	--
Payments	22
Aggregate balance, December 31, 2008	$919

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A summary of the activity in the allowance for loan losses for 2008, 2007 and 2006 is as follows:

(In thousands)	2008	2007	2006
Balance, January 1	$ 6,280	$ 6,592	$ 6,284
Provision charged to expense	2,200	900	1,150
Loans charged off	(2,173)	(1,375)	(864)
Recoveries of loans previously charged off	144	163	22
Net loan charge-offs	(2,029)	(1,212)	(842)
Balance, December 31	$ 6,451	$ 6,280	$ 6,592

The following is a summary of information pertaining to impaired loans at December 31, 2008 and 2007:

(In thousands)	2008	2007
Impaired loans without a valuation allowance	$ 41	$ 496
Impaired loans with a valuation allowance	1,178	1,985
Allowance for loan losses related to impaired loans	480	1,078

Impaired loans consist primarily of renegotiated loans, nonaccrual loans and loans greater than 90 days past due and still accruing interest. Nonaccrual loans were $1,178,000 and $1,985,000 at December 31, 2008 and 2007, respectively. Loans delinquent 90 days or more and still accruing interest totaled $41,000 at December 31, 2008 and $496,000 at December 31, 2007. The impaired loan of $41,000 was paid in full in March, 2009. The average balances of impaired loans during 2008, 2007 and 2006 were $1,927,000, $2,227,000 and

$1,177,000, respectively. Income that would have been recognized on non-accrual loans under the original terms of the contract was $86,000, $163,000 and $152,000 for 2008, 2007 and 2006, respectively. Income that was recognized on nonaccrual loans was $56,000, $149,000 and $25,000 for 2008, 2007 and 2006 respectively. There are two foreclosed loans with a book value of $2,177,000 which have been reclassified as other real estate owned (included in other assets) as of December 31, 2008.

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 December 31, 2008, all impaired loans were evaluated based on the fair value of the collateral. The fair value of the collateral is based upon an observable market price or current appraised value and therefore, the Company classifies these assets as nonrecurring Level 2. The total principal balance of impaired loans measured at fair value at December 31, 2008 was $699,000.

Note 6
Premises and Equipment

A summary of premises and equipment at December 31, 2008 and 2007, is as follows:

(In thousands)	2008	2007
Land	$ 873	$ 873
Buildings	10,468	10,468
Leasehold improvements	1,823	2,013
Furniture, fixtures and equipment	11,182	14,164
Purchased software	4,162	4,887
Internally developed software	3,433	4,037
	31,941	36,442
Less accumulated depreciation and amortization	20,324	23,671
Total	$11,617	$12,771

Total depreciation and amortization charged to expense in 2008, 2007 and 2006 amounted to $2,394,000, $2,239,000 and $2,042,000, respectively.

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The Company and its subsidiaries lease various premises and equipment under operating lease agreements, which expire at various dates through 2020. Rental expense for 2008, 2007 and 2006 was $729,000, $646,000 and $614,000, respectively. The following is a schedule, by year, of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2008:

(In thousands)	Amount
2009	$ 624

2010	479
2011	470
2012	404
2013	384
2014 and after	787
Total	$ 3,148

Note 7
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 balances of these investments at December 31, 2008 and 2007 were $605,000 and $475,000, respectively.

Note 8
Acquired Intangible Assets

The Company accounts for intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") which requires that intangibles with indefinite useful lives be tested annually for impairment and those with finite useful lives be amortized over their useful lives. Details of the Company's intangible assets as of December 31, 2008 and 2007 are as follows:

	December 31, 2008		Decembe
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount
Assets eligible for amortization:			
Software	$ 862	$ (747)	$ 862
Customer List	750	(268)	750
Total	1,612	(1,015)	1,612
Assets not eligible for amortization:			
Goodwill	7,698	(227)*	7,698
Total	7,698	(227)	7,698
Total intangible assets	$ 9,310	$ (1,242)	$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 that was acquired in the NTransit purchase is amortized over seven years on a straight-line basis. Goodwill includes $3,073,000 acquired in 2006 in the NTransit purchase. The weighted average remaining amortization period at December 31, 2008 was five years for all amortized intangible assets combined. Amortization of intangible assets amounted to $280,000, $280,000 and $226,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Estimated future amortization of intangibles is as follows: $222,000 in 2009, $107,000 in 2010, $107,000 in 2011 and 2012 and $54,000 in 2013.

Note 9
Interest-Bearing Deposits

Interest-bearing deposits consist of the following at December 31, 2008 and 2007:

(In thousands)	2008	2007
NOW and money market deposit accounts	$ 81,353	$ 75,250
Savings deposits	23,240	22,530
Time deposits:		
Less than $100	22,389	26,908
$100 or more	47,259	55,718
Total	$174,241	$ 180,406

Interest on deposits consists of the following for 2008, 2007 and 2006:

(In thousands)	2008	2007	2006
NOW and money market deposit accounts	$ 1,086	$ 2,122	$ 1,831
Savings deposits	290	795	730
Time deposits:			
Less than $100	701	1,454	1,297
$100 or more	1,102	3,357	2,556
Total	$ 3,179	$ 7,728	$ 6,414

The scheduled maturities of time deposits at December 31, 2008 and 2007 are summarized as follows:

	2008		2007	
(In thousands)	Amount	Percent of Total	Amount	Percent of Total
Due within:				
One year	$65,410	93.9%	$79,472	96.2%
Two years	2,592	3.7%	1,171	1.4%
Three years	436	.6%	1,363	1.6%
Four years	699	1.1%	60	.1%
Five years	511	.7%	560	.7%
Total	$69,648	100.0%	$82,626	100.0%

Note 10
Subordinated Convertible Debentures and Unused Available Lines of Credit

On August 24, 2004, the Company issued $3,700,000 of 5.33% subordinated convertible debentures in partial consideration for the acquisition of the assets of PROFITLAB, Inc. Interest is payable annually on the anniversary date of the acquisition. The holders of the debentures can convert up to 20% of the principal amount into fully paid and non-assessable shares of the common stock of the Company at a rate per share of $19.47 after the third anniversary of the issuance date. After the fourth anniversary date an additional 30% can be converted under the same terms. After the fifth anniversary date, 100% can be converted under the same terms. The securities mature 10 years after the date of issuance. The debentures may be called by the Company without penalty after August 24, 2010. During 2008, several debtholders converted $697,000 of the principal balance into 35,808 shares of the Company's common stock in accordance with the conversion provisions, resulting in an ending principal balance of $2,991,000. In December, 2007, one debtholder converted $12,000 of the principal balance into 532 shares of the Company's common stock, resulting in an ending principal balance of $3,688,000.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $46,000,000. Additionally, the Bank maintains lines of credit at unaffiliated financial institutions in the maximum amount of $81,643,000 collateralized by U.S. Treasury securities and commercial mortgage loans. There were no outstanding borrowings under these arrangements at December 31, 2008 or 2007.

Note 11
Common Stock and Earnings Per Share

The table below shows activity in the outstanding shares of the Company's common stock during 2008.

Shares outstanding at January 1, 2008	9,208,682
Issuance of common stock:	
Issued under stock-based compensation plan	31,924
Stock options exercised	17,622
Subordinated debt conversion	35,808
Stock repurchased	(120,000)
Shares outstanding at December 31, 2008	9,174,036

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. Under the treasury stock method, outstanding stock options and SAR's are dilutive when the average market price of the Company's common stock, combined with the effect of any unamortized compensation expense, exceeds the option price during a period. In addition, proceeds from the assumed exercise of dilutive options along with the related tax benefit are

assumed to be used to repurchase common shares at the average market price of such stock during the period. Anti-dilutive shares are those option shares with exercise prices in excess of the current market value.

The calculations of basic and diluted earnings per share for the periods ended December 31, 2008, 2007 and 2006 are as follows:

(Dollars in thousands, except share and per share data)	2008	2007
Basic		
Net income from continuing operations	$ 19,006	$ 17,795
Net loss from discontinued operations	-	-
Net income	$ 19,006	$ 17,795
Weighted average common shares outstanding	9,150,342	9,145,499
Basic earnings per share from continuing operations	$ 2.08	$ 1.95
Basic loss per share from discontinued operations	-	-
Basic earnings per share	$ 2.08	$ 1.95
Diluted		
Net income from continuing operations	$ 19,006	$ 17,795
Net income effect of 5.33% convertible debentures	96	109
Net income, assuming dilution, from continuing operations	19,102	17,904
Net loss from discontinued operations	-	-
Net income	$ 19,102	$ 17,904
Weighted average common shares outstanding	9,150,342	9,145,499
Effect of dilutive stock options and awards	106,851	111,119
Effect of 5.33% convertible debentures	174,557	189,940
Weighted average common shares outstanding assuming dilution	9,431,750	9,446,558
Diluted earnings per share from continuing operations	$ 2.03	$ 1.90
Diluted earnings per share from discontinued operations	-	-
Diluted earnings per share	$ 2.03	$ 1.90

Share and per share data in the schedule above have been restated for the 10% stock dividend on December 17, 2007 and the 50% stock dividend on September 15, 2006.

Note 12
Employee Benefit Plans

The Company has a noncontributory defined-benefit pension plan (the "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.

A summary of the activity in the Plan's projected benefit obligation, assets, funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 2008 and 2007 is as follows:

(In thousands)	2008	2007
Projected benefit obligation:		
Balance, January 1	$ 30,211	$ 28,977
Service cost	1,523	1,622
Interest cost	1,947	1,771
Actuarial loss	(34)	(1,493)
Benefits paid	(824)	(666)
Balance, December 31	$ 32,823	$ 30,211
Plan assets:		
Fair value, January 1	$ 28,690	$ 25,193
Actual return	(8,170)	963
Employer contribution	5,900	3,200
Benefits paid	(824)	(666)
Fair value, December 31	$ 25,596	$ 28,690
Funded status:		
Accrued pension liability	$ (7,227)	$ (1,521)

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The following represent the major assumptions used to determine the projected benefit obligation of the Plan. For 2008 the Plan's expected benefit cash flows are discounted using the Citibank Above Median Curve. Previously, the discount rate was based on the Citigroup Pension Liability Curve.

	2008	2007	2006
Weighted average discount rate	6.50%	6.50%	6.00%
Rate of increase in compensation levels	4.00%	4.25%	4.00%

The accumulated benefit obligation was $26,304,000 and $23,898,000 as of December 31, 2008 and 2007, respectively. The Company expects to contribute approximately $1,800,000 to the Plan in 2009. The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the Plan:

2009	$1,075,000

2010	1,163,000
2011	1,170,000
2012	1,298,000
2013	1,342,000
2014-2018	9,726,000

The Plan's pension cost for 2008, 2007 and 2006 was $1,428,000, $1,725,000 and $1,786,000, respectively, and included the following components:

(In thousands)	2008	2007	2006
Service cost - benefits earned during the year	$1,523	$1,622	$1,554
Interest cost on projected benefit obligations	1,947	1,771	1,565
Expected return on plan assets	(2,108)	(1,865)	(1,603)
Net amortization and deferral	66	197	270
Net periodic pension cost	$1,428	$1,725	$1,786

The following represent the major assumptions used to determine the net pension cost of the Plan:

	2008	2007	2006
Weighted average discount rate	6.50%	6.00%	5.75%
Rate of increase in compensation levels	4.25%	4.25%	4.00%
Expected long-term rate of return on assets	7.25%	7.25%	7.50%

The asset allocation for the Plan as of the measurement date, by asset category, is as follows:

	Percentage of Plan Assets	
Asset Class	2008	2007
Equity securities	50.2%	45.0%
Debt securities	49.1%	54.6%
Cash and cash equivalents	.7%	.4%
Total	100.0%	100.0%

The investment objective for the Plan is to maximize total return with a tolerance for average risk. Asset allocation is a balance between fixed income equity investments, with a target allocation of approximately 50% fixed income, 34% US equity and 16% Non-US equities. Due to volatility in the market, this target allocation is not always desirable and asset allocations can fluctuate between acceptable ranges. The fixed income component is invested in pooled

investment grade securities. The equity components are invested in pooled large cap, small/mid cap and Non-US stocks. The assumed long-term rate of return on assets, which falls within the expected range, is 7.25% as derived below:

Asset Class	Expected Long-Term Return on Class	X	Allocation	=	Contribution to Assumption
Fixed Income	4 - 6%		50%		2.0% - 3.0%
US Equity	6 - 10%		34%		2.0% - 3.4%
Non-US Equity	6 - 11%		16%		1.0% - 1.8%
					5.0% - 8.2%

The Company also has an unfunded supplemental executive retirement plan ("SERP") which covers key executives of the Company. The SERP is a noncontributory plan in which the Company's subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as the Plan.

A summary of the activity in the SERP's projected benefit obligation, funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 2008 and 2007 is as follows:

(In thousands)	2008	2007
Benefit obligation:		
Balance, January 1	$ 4,263	$ 2,745
Service cost (benefit)	59	44
Interest cost	267	233
Benefits paid	(33)	(32)
Actuarial loss (gain)	(346)	1,273
Balance, December 31	$ 4,210	$ 4,263

The SERP's pension cost for 2008, 2007 and 2006 was $496,000, $526,000, and $304,000, respectively, and included the following components:

(In thousands)	2008	2007	2006
Service cost - benefits earned during the year	$ 59	$ 44	$ 43
Interest cost on projected benefit obligations	267	233	150
Net amortization and deferral	170	249	111
Net periodic pension cost	$ 496	$ 526	$304

The accumulated benefit obligation was $3,378,000 and $3,147,000 as of December 31, 2008 and 2007, respectively. Since this is an unfunded plan there are no plan assets. Benefits paid were $33,000 in 2008, $32,000 in 2007 and $32,000 in 2006. Expected future benefits payable by the Company over the next 10 years are as follows:

2009	$ 270,000
2010	270,000
2011	270,000
2012	269,000
2013	268,000
2014 - 2018	1,349,000

The following represent the major assumptions used to determine the projected benefit obligation of the Plan. The Plan's expected benefit cash flows are discounted using the Citigroup Above Median Curve. Previously, the discount rate was based on the Citigroup Pension Liability Curve.

	2008	2007	2006
Weighted average discount rate	7.00%	6.50%	6.00%
Rate of increase in compensation levels	4.00%	4.25%	4.00%

The pre-tax amounts in accumulated other comprehensive loss as of December 31 were as follows:

	The Plan		SERP	
	2008	2007	2008	2007
(In thousands)				
Prior service cost	$ 49	$ 57	$ 152	$ 202
Net actuarial loss	13,651	3,465	1,363	1,829
Total	$13,700	$3,522	$1,515	$2,031

The estimated pre-tax prior service cost and net actuarial loss in accumulated other comprehensive loss at December 31, 2008 expected to be recognized as components of net periodic benefit cost in 2009 for the Plan were $880,000 and $39,000 respectively. The estimated pre-tax prior service cost and net actuarial loss in accumulated other comprehensive loss at December 31, 2008, expected to be recognized as components of net periodic benefit cost in 2009 for SERP are $82,000 and $184,000 respectively.

The Company also maintains a noncontributory profit sharing plan, which covers most of its employees. Employer contributions are calculated based upon formulas which relate to current operating results and other factors. Profit sharing expense recognized in the consolidated statements of income in 2008, 2007 and 2006 was $4,339,000, $4,097,000 and $3,524,000, respectively.

The Company also sponsors a defined contribution 401(k) plan to provide additional retirement benefits to substantially all employees. Contributions under the 401(k) plan for 2008, 2007 and 2006 were $444,000, $430,000 and $349,000, respectively.

Note 13
Stock-based Compensation

On January 16, 2007, the Board approved, and on April 16, 2007, the Company's shareholders approved, the 2007 Omnibus Incentive Stock Plan ("the Omnibus Plan") to provide incentive opportunities for key employees and non-employee directors and to align the personal financial interests of such individuals with those of the Company's shareholders. 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.

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 outstanding. Restricted shares are amortized to expense over the three-year vesting period. Options currently vest and expire over a period not to exceed seven years. The plans authorize the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code, options that do not qualify (non-statutory stock options) and grants of restricted shares of common stock. The Company issues shares out of treasury stock for restricted shares and option exercises. These plans have been superseded by the Omnibus Plan and accordingly, all remaining unissued shares under these plans have been cancelled.

Restricted Stock
Changes in restricted shares outstanding for the year ended December 31, 2008 were as follows:

	Year Ended December 31	
	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 December 31, 2008	68,564	$30.72

During 2007 and 2006, 47,432 shares and 16,511 shares, respectively, were granted with weighted average per share market values at date of grant of $33.66 in 2007 and $24.16 in 2006. The fair value of such shares, which is based on the market price on the date of grant, is amortized to expense over the three-year vesting period. Amortization of the restricted stock bonus awards totaled $942,000 for 2008, $648,000 for 2007 and $197,000 for 2006. As of December 31, 2008, the total unrecognized compensation expense related to non-vested restricted stock awards was $1,267,000 and the related weighted average period over which it is expected to be recognized is approximately .8 years.

Stock Options
Changes in options outstanding were as follows:

	Shares	Weighted Average Exercise Price
Balance at December 31, 2005	230,836	$ 9.70
Granted	27,750	20.66
Exercised	(154,252)	8.83
Forfeited	(7,749)	13.25
Balance at December 31, 2006	96,585	14.00
Granted	--	--
Exercised	(1,256)	15.03
Forfeited	--	--
Balance at December 31, 2007	95,329	13.99
Granted	--	--
Exercised	(25,793)	10.54
Forfeited	--	--
Balance at December 31, 2008	69,536	$15.24
Exercisable at December 31, 2008	13,016	$11.33

The total intrinsic value of options exercised during 2008 was $542,000. The total intrinsic value of options exercised during 2007 was $21,000. The average remaining contractual term for options outstanding as of December 31, 2008 was 2.6 years and the aggregate intrinsic value was $1,058,000. The average remaining contractual term for options exercisable as of December 31, 2008 was 1.6 years and the aggregate intrinsic value was $250,000.

A summary of the activity of the non-vested options during 2008 is shown below.

	Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2007	77,076	$2.29
Granted	--	--
Vested	(20,556)	1.80
Forfeited	--	--
Non-vested at December 31, 2008	56,520	$2.46

As of December 31, 2008, the total unrecognized compensation expense related to

non-vested stock options was $71,000 and the related weighted average period over which it is expected to be recognized is approximately 3.5 years. For the year ended December 31, 2008, there were no non-qualified options exercised that generated a tax benefit and there were 25,793 incentive stock options exercised that did not generate any excess tax benefit for the Company. During 2008, the Company recognized stock option expense of $31,000.

Stock Appreciation Rights (SAR's)
There were 109,755 SAR's granted during the year ended December 31, 2008. The Company uses the Black-Scholes option-pricing model to determine the fair value of the SAR's at the date of grant. Following are the assumptions used to estimate the $7.65 per share fair value.

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

During 2008, the Company recognized SAR's expense of $110,000. As of December 31, 2008, the total unrecognized compensation expense related to stock appreciation rights was $730,000, and the related weighted average period over which it is expected to be recognized is 6.1 years.

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 options using average monthly closing market prices of the Company's stock. The expected dividend yield is determined based on the Company's current rate of annual dividends.

Note 14
Other Operating Expense

Details of other operating expense for 2008, 2007 and 2006 are as follows:

(In thousands)	2008	2007	2006
Postage and supplies	$ 2,579	$ 2,830	$ 2,502
Promotional Expense	1,587	1,629	1,552
Professional fees	1,876	2,018	1,997
Outside service fees	1,520	1,432	2,088
Data processing services	352	272	232
Telecommunications	592	585	578
Other	1,496	1,266	1,519
Total other operating expense	$ 10,002	$ 10,032	$10,468

Note 15
Income Taxes

The components of income tax expense (benefit) from continuing operations for 2008, 2007 and 2006 are as follows:

(In thousands)	2008	2007	2006
Current:			
Federal	$ 4,279	$ 5,258	$ 7,196
State	1,306	1,481	1,460
Deferred:			
Federal	1,446	1,294	(265)
State	129	115	(24)
Total income tax expense	$ 7,160	$ 8,148	$ 8,367

A reconciliation of expected income tax expense (benefit), computed by applying the effective federal statutory rate of 35% for 2008, 2007 and 2006 to income from continuing operations before income tax expense, to reported income tax expense is as follows:

(In thousands)	2008	2007	2006
Expected income tax expense:	$ 9,158	$ 9,080	$ 8,340
(Reductions) increases resulting from			
Tax-exempt income	(2,924)	(1,952)	(1,151)
State taxes, net of federal benefit	849	963	949
Other, net	77	57	229
Total income tax expense	$ 7,160	$ 8,148	$ 8,367

The tax effects of temporary differences which give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007, are presented below:

(In thousands)	2008	2007
Deferred tax assets:		
Allowance for loan losses	$ 2,459	$ 2,394
SFAS No. 158 pension funding liability	5,728	2,057
Net operating loss carry forward(1)	498	540
Deferred revenue	36	37
Stock compensation	318	230
Supplemental executive retirement plan accrual	277	91
Other	81	68

Total deferred tax assets	$ 9,397	$ 5,417
Deferred tax liabilities:		
Premises and equipment	(147)	(13)
Pension	(1,705)	--
Intangible/assets	(526)	(477)
Unrealized gain on investment in securities available-for-sale	(1,116)	(842)
Other	(143)	(147)
Total deferred tax liabilities	(3,637)	(1,479)
Net deferred tax assets	$ 5,760	$ 3,938

1. As of December 31, 2008, the Company had approximately $1,465,000 of net operating loss carryforwards as a result of the acquisition of Franklin Bancorp. The utilization of the net operating loss carryforward is subject to Section 382 of the Internal Revenue Code and limits the Company's use to approximately $122,000 per year during the carryforward period, which expires in 2020.

A valuation allowance would be provided on deferred tax assets when it is more likely than not that some portion of the assets will not be realized. The Company has not established a valuation allowance at December 31, 2008 or 2007, due to management's belief that all criteria for recognition have been met, including the existence of a history of taxes paid sufficient to support the realization of deferred tax assets.

There was no income (loss) from discontinued operations in 2008 and 2007. The income tax benefit from discontinued operations was $(280,000) with an effective rate of 41% for 2006.

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

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effect of change in accounting principle of $87,000, which was recorded as an increase to retained earnings as of January 1, 2007.

The following table presents a reconciliation of the total beginning and ending amounts of unrecognized tax benefits (in thousands):

	2008	20
Balance at January 1	$1,033	$
Changes in unrecognized tax benefits as a result of tax positions taken during a prior year	75	
Changes in unrecognized tax benefits as a result of tax position taken during the current year	346	
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(55)	

Balance at December 31	$1,399	$1,
	======	===

The total amount of federal and state unrecognized tax benefits at December 31, 2008 that, if recognized, would affect the effective tax rate was $1,170,000, net of federal tax benefit.

The Company expects a reduction of $155,000 in unrecognized tax benefits during the following year ending December 31, 2009 as a result of the lapse of federal and state statutes of limitations. The unrecognized tax benefits relate primarily to apportionment of taxable income among various state tax jurisdictions.

The Company's policy is to record interest and penalties related to unrecognized tax benefits as a component of income tax expense. The amount of interest recorded during the years ended December 31, 2008 and 2007 was $60,000 and $36,000 respectively. The amount of interest recognized for all tax years subject to examination was $114,000 and $54,000 for years ended December 31, 2008 and 2007, respectively. There were no penalties for unrecognized tax benefits accrued at December 31, 2008 or January 1, 2008, nor did the Company recognize any expense for penalties during 2008.

The Company is subject to income tax in the U. S. federal jurisdiction and numerous state jurisdictions. The Company's federal income tax returns for 2004 and 2005 have been examined by the Internal Revenue Service. U.S. federal income tax returns for tax year 2006 and 2007 remain subject to examination by the Internal Revenue Service ("IRS"). In addition, the Company is subject to state tax examinations for the tax years 2004 through 2007.

Note 16
Contingencies

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 17
Disclosures About Financial Instruments

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. 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, 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 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. The approximate remaining terms of commercial and standby letters of credit range from less than one to five years. Since these 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 may obtain and liquidate the collateral to recover amounts paid under its guarantees on these financial instruments.

The following table shows conditional commitments to extend credit, standby letters of credit and commercial letters at December 31, 2008 and 2007:

(In thousands)	2008	2007
Conditional commitments to extend credit	$33,525	$29,036
Standby letters of credit	7,585	5,999
Commercial letters of credit	3,185	4,147

Following is a summary of the carrying amounts and fair values of the Company's financial instruments at December 31, 2008 and 2007:

	2008		2007	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	$ 29,485	$ 29,485	$176,070	$176,070
Investment in debt and equity securities	193,865	193,865	171,706	171,706
Loans, net	585,525	588,991	492,175	495,335
Accrued interest receivable	4,836	4,836	4,710	4,710
Total	$813,711	$817,177	$844,661	$847,821
Balance sheet liabilities:				
Deposits	$277,541	$277,541	$273,596	$273,596
Accounts and drafts payable	479,025	479,025	513,734	513,734
Short-term borrowings	305	305	219	219
Subordinated convertible debentures	2,991	3,116	3,688	3,786
Accrued interest payable	302	302	588	588
Total	$760,164	$760,289	$791,825	$791,923

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.

Investment in Debt and Equity Securities Fair values are based on quoted market prices or dealer quotes.

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 nor the benefit derived from the customer relationship inherent in existing deposits.

Subordinated Convertible Debentures The fair value of convertible subordinated debentures is estimated by discounting the projected future cash flows using estimated current rates for similar borrowings.

Commitments to Extend Credit and Standby Letters of Credit The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counterparties drawing on such financial instruments and the present credit-worthiness of such counterparties. The Company believes such commitments have been made at terms which are competitive in the markets in which it operates; however, no premium or discount is offered thereon.

Limitations Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets or liabilities that are not considered financial assets or liabilities include premises and equipment and the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market (core deposit intangible). In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on management's judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Note 18
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 Note 1 of this report. 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 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 years ended December 31, 2008, 2007 and 2006, is as follows:

(In thousands)	Information Services	Banking Services	Corpor and Eliminat
2008			
Fee revenue and other income:			
Income from customers	$ 76,569	$ 15,161	$
Intersegment income (expense)	5,880	925	(6,8
Net interest income (expense) after provision for loan losses:			
Interest from customers	24,732	13,828	
Intersegment interest	904	(904)	
Depreciation and amortization	2,256	407	
Income taxes	5,126	2,034	
Net income from continuing operations	15,858	3,148	
Goodwill	7,335	136	
Other intangible assets, net	597	--	
Total assets	$564,687	$382,982	$(62,4
2007			
Fee revenue and other income:			
Income from customers	$ 46,498	$ 1,702	$
Intersegment income (expense)	5,155	1,752	(6,9
Net interest income (expense) after provision for loan losses:			
Interest from customers	27,103	13,379	
Intersegment interest	278	(278)	
Depreciation and amortization	2,118	385	
Income taxes	5,852	2,296	
Net income from continuing operations	14,363	3,432	
Goodwill	7,335	136	
Other intangible assets, net	877	--	
Total assets	$588,408	$345,750	$(31,1

2006			
Fee revenue and other income:			
Income from customers	$ 41,180	$ 1,641	$
Intersegment income (expense)	1,487	1,741	(3,2
Net interest income (expense) after provision for loan losses:			
Interest from customers	25,500	13,784	
Intersegment interest	349	(349)	
Depreciation and amortization	1,889	379	
Income taxes	5,431	2,936	
Net income from continuing operations	11,151	4,310	
Goodwill	7,335	136	
Other intangible assets, net	1,156	--	
Total assets	$527,227	$333,454	$ (2,2

Note 19
Condensed Financial Information of Parent Company

Following are the condensed balance sheets of the Company (parent company only) as of December 31, 2008 and 2007, and the related condensed statements of income and cash flows for each of the years in the three-year period ended December 31, 2008.

	Condensed Balance Sheets December 31,	
(In thousands)	2008	2007
Assets:		
Cash and due from banks	$ 11,822	$ 15,895
Short-term investments	60,799	101,886
Securities available for sale, at fair value	192,917	168,978
Loans, net	231,175	245,898
Investment in subsidiary	39,918	37,963
Premises and equipment, net	10,672	11,480
Other assets	57,302	44,270
Total assets	$604,605	$626,370
Liabilities and Shareholders' Equity:		
Accounts and drafts payable	$479,025	$513,734
Subordinated convertible debentures	2,991	3,688
Other liabilities	16,348	9,496
Total liabilities	498,364	526,918
Total shareholders' equity	106,241	99,452
Total liabilities and shareholders' equity	$604,605	$626,370

Condensed Statements of Income

(In thousands)	For the Years Ended December 31, 2008	2007	2006
Income from subsidiary:			
Dividends	$ 1,192	$ 4,117	$ 3,655
Interest	939	347	422
Management fees	1,828	1,722	1,487
Income from subsidiary	3,959	6,186	5,564
Information services revenue	50,721	45,642	40,343
Net interest income after provision	23,389	25,711	23,401
Gains on sales of investment securities	552	-	-
Other income	564	857	838
Total income	$ 79,185	$ 78,396	$ 70,146
Expenses:			
Salaries and employee benefits	$ 44,768	$ 41,845	$ 37,479
Other expenses	12,240	12,219	12,430
Total expenses	$ 57,008	$ 54,064	$ 49,909
Income before income tax and equity in undistributed income of subsidiary	22,177	24,332	20,237
Income tax expense	5,126	5,852	5,431
Income before undistributed income of subsidiary	17,051	18,480	14,806
(Excess of dividends over) equity in undistributed income of subsidiary	1,955	(685)	260
Net income	$ 19,006	$ 17,795	$15,066

Condensed Statements of Cash Flows

(In thousands)	For the Years Ended December 31, 2008	2007	2006
Cash flows from operating activities:			
Net income	$ 19,006	$ 17,795	$ 15,066
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiary	(1,955)	685	(260
Net change in other assets	(11,118)	(514)	(6,288
Net change in other liabilities	(2,378)	(322)	2,457
Amortization of stock-based awards	933	648	196
Other, net	2,316	2,073	1,889
Net cash provided by operating activities	6,804	20,365	13,060
Cash flows from investing activities:			
Net increase in securities	(22,605)	(68,648)	(8,065
Net decrease (increase) in loans	14,723	(11,180)	35,861

Payment for business acquisitions, net of cash acquired	--	--	(3,172
Purchases of premises and equipment, net	(1,178)	(1,904)	(2,188
Net cash (used in) provided by investing activities	(9,060)	(81,732)	22,436
Cash flows from financing activities:			
Net (decrease) increase in accounts and drafts payable	(34,709)	45,341	22,582
Cash dividends paid	(4,499)	(4,118)	(3,666
Purchases of common shares for treasury	(3,984)	--	(870
Other financing activities	288	34	325
Net cash provided by financing activities	(42,904)	41,257	18,371
Net (decrease) increase in cash and cash equivalents	(45,160)	(20,110)	53,867
Cash and cash equivalents at beginning of year	117,781	137,891	84,024
Cash and cash equivalents at end of year	$ 72,621	$117,781	$137,891

Note 20
SUPPLEMENTARY FINANCIAL INFORMATION
(Unaudited)

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
2008					
Fee revenue and other income	$12,611	$ 13,304	$ 13,893	$13,362	$ 53,170
Interest income	11,000	10,777	11,215	11,146	44,138
Interest expense	1,237	713	692	736	3,378
Net interest income	9,763	10,064	10,523	10,410	40,760
Provision for loan losses	450	650	500	600	2,200
Operating expenses	16,360	16,508	16,479	16,217	65,564
Income tax expense	1,545	1,644	2,209	1,762	7,160
Net income	$ 4,019	$ 4,566	$ 5,228	$ 5,193	$ 19,006
Net income per share:					
Basic earnings per share	.44	.50	.57	.57	2.08
Diluted earnings per share	.43	.48	.56	.56	2.03
2007					
Fee revenue and other income	$11,863	$ 12,051	$ 12,070	$12,216	$ 48,200
Interest income	11,996	12,282	12,718	12,350	49,346
Interest expense	2,011	2,037	2,043	1,873	7,964
Net interest income	9,985	10,245	10,675	10,477	41,382
Provision for loan losses	225	225	225	225	900
Operating expense	15,333	15,932	15,664	15,810	62,739
Income tax expense	2,104	1,947	2,179	1,918	8,148

Net income	$ 4,186	$ 4,192	$ 4,677	$ 4,740	$ 17,795
Net income per share:					
Basic earnings per share	.45	.46	.51	.53	1.95
Diluted earnings per share	.45	.45	.50	.50	1.90

Report of Independent Registered Public Accounting Firm

The Board of Directors
Cass Information Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Cass Information Systems, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 1 and 12 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standard No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/KPMG LLP

St. Louis, Missouri
March 11, 2009

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE

NONE

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2008. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2008.

There have not been changes in our internal control over financial reporting that occurred during our fourth fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentations.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by KPMG LLP, our independent registered public accounting firm. KPMG LLP's report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2008, is included below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Cass Information Systems, Inc.:

We have audited Cass Information Systems, Inc.'s (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 11, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/KPMG LLP

St. Louis, Missouri
March 11, 2009

ITEM 9B. OTHER INFORMATION

NONE

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item 10 is incorporated herein by reference from

the following sections of the Company's definitive Proxy Statement for its 2009 Annual Meeting of Shareholders ("2009 Proxy Statement"), a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year: "Election of Directors" and "Executive Officers" (please note that "Section 16(a) Beneficial Ownership Reporting Compliance" is within the "Executive Officers" section).

The Company has adopted a Code of Conduct and Business Ethics policy, applicable to all Company directors, executive officers and employees. The policy is publicly available and can be viewed on the Company's website at www.cassinfo.com. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding the amendment to, or a waiver of, a provision of this policy that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K by posting such information on its website.

There have been no material changes to the procedures by which stockholders may recommend nominees to the Board.

ITEM 11. EXECUTIVE COMPENSATION

Information required pursuant to this Item 11 is incorporated herein by reference from the sections entitled "Executive Officers" and "Election of Directors" of the Company's 2009 Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required pursuant to this Item 12 is incorporated herein by reference from the section entitled "Executive Officers" of the Company's 2009 Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year.

Securities Authorized for Issuance under Equity Compensation Plans
The following information is as of December 31, 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of s remaining ava future issua equity compens (excluding s reflected in c (c
Equity compensation plans approved by security holders	138,100(1) 142,009(2)	$22.93 28.41	- 737,99
Equity compensation plans not approved by security holders	–	–	
Total	280,109	$25.71	737,99

(1) Amount disclosed relates to the Company's 1995 Performance-Based Stock Option Plan and 1995 Restricted Stock Bonus Plan. There will be no more shares or options granted under these plans.
(2) Amount disclosed relates to the 2007 Omnibus Incentive Stock Plan.

Refer to Note 12 to the consolidated financial statements for information concerning stock options and bonus plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item 13 is incorporated herein by reference from the section entitled "Election of Directors" of the Company's 2009 Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning our principal accountant's fees and services is incorporated herein by reference from the section "Ratification of Appointment of Independent Registered Public Accounting Firm" of the Company's 2009 Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are incorporated by reference in or filed as an exhibit to this Report:

(1) and (2) Financial Statements and Financial Statement Schedules Included in Item 8 of this report.

(3) Exhibits listed under (b) of this Item 15.

(b) Exhibits

3.1 Restated Articles of Incorporation of Registrant, incorporated by reference to Exhibit 4.1 to Form S-8 Registration Statement No. 333-44499, filed with the SEC on January 20, 1998.

3.2 Articles of Merger of Cass Commercial Corporation, incorporated by reference to Exhibit 3.1 to the quarterly report on Form 10-Q for the quarter ended September 30, 2006 (File No. 333 - 44497).

3.3 Second Amended and Restated Bylaws of Registrant, incorporated by reference to Exhibit 3.1 to the current report on Form 8-K, filed with the SEC on April 18, 2007 (File No. 333 - 44497).

10.1 1995 Restricted Stock Bonus Plan, as amended to January 19, 1999, including form of Restriction Agreement, incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 2 to Form S-8 Registration Statement No. 33-91456, filed with the SEC on February 16, 1999.

10.2 1995 Performance-Based Stock Option Plan, as amended to January 19, 1999, including forms of Option Agreements, incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 2 to Form S-8 Registration Statement No. 33-91568, filed with the SEC on February 16, 1999.

10.3 Form of Directors' Indemnification Agreement, incorporated by

reference to Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended March 31, 2003 (File No 333 - 44497).

10.4 Amended and Restated 2007 Omnibus Incentive Stock Plan, incorporated by reference to Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended September 30, 2007 (File No. 333-44497).

10.5 Amendment and Restatement of the Supplemental Executive Retirement Plan, incorporated by reference to Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended September 30, 2007 (File No 333 - 44497).

10.6 Form of Restricted Stock Agreement Award Agreement, incorporated by reference to Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended September 30, 2007 (File No 333 - 44497).

10.7 Form of Stock Appreciation Rights Award Agreement, incorporated by reference to Exhibit 10.4 to the quarterly report on Form 10-Q for the quarter ended September 30, 2007 (File No 333 - 44497).

10.8 Memo of Understanding between Lawrence A. Collett and Cass Information Systems, Inc. incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on July 17, 2008.

21 Subsidiaries of registrant.

23 Consent of Independent Registered Public Accounting Firm.

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

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

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

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

(c) None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CASS INFORMATION SYSTEMS, INC.

Date: March 11, 2009 By /s/ Eric H. Brunngraber

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

Date: March 11, 2009 By /s/ P. Stephen Appelbaum

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on the dates indicated by the following persons on behalf of the Company and in their capacity as a member of the Board of Directors of the Company.

Date: March 11, 2009 By /s/ K. Dane Brooksher

K. Dane Brooksher

Date: March 11, 2009 By /s/ Eric H. Brunngraber

Eric H. Brunngraber

Date: March 11, 2009 By /s/ Bryan S. Chapell

Bryan S. Chapell

Date: March 11, 2009 By /s/ Lawrence A. Collett

Lawrence A. Collett

Date: March 11, 2009 By /s/ Robert A. Ebel

Robert A. Ebel

Date: March 11, 2009 By /s/ Benjamin F. Edwards, IV

Benjamin F. Edwards, IV

Date: March 11, 2009 By /s/ John L. Gillis, Jr.

John L. Gillis, Jr.

Date: March 11, 2009 By /s/ Wayne J. Grace

Wayne J. Grace

Date: March 11, 2009 By /s/ James J. Lindemann

James J. Lindemann

Date: March 11, 2009 By /s/ A. J. Signorelli

A. J. Signorelli

Date: March 11, 2009 By /s/ Franklin D. Wicks, Jr.

Franklin D. Wicks, Jr.