META FINANCIAL GROUP INC
Form 10-Q
February 06, 2013

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

FORM 10-Q

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

For the quarterly period ended December 31, 2012

o 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: 0-22140

META FINANCIAL GROUP, INC.®
(Exact name of registrant as specified in its charter)

Delaware	42-1406262
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5501 South Broadband Lane, Sioux Falls, South Dakota 57108
(Address of principal executive offices)

(712) 732-4117
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES x NO o.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller Reporting

Company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES x NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class:	Outstanding at February 5, 2013:
Common Stock, $.01 par value	5,488,989 Common Shares

META FINANCIAL GROUP, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

ASSETS	December 31, 2012	September 30, 2012
Cash and cash equivalents	$ 32,745	$ 145,051
Investment securities available for sale	565,037	435,250
Mortgage-backed securities available for sale	758,955	681,442
Loans receivable - net of allowance for loan losses of $3,963 at December 31, 2012 and $3,971 at September 30, 2012	317,258	326,981
Federal Home Loan Bank Stock, at cost	11,375	2,120
Accrued interest receivable	8,800	6,710
Insurance receivable	539	581
Premises, furniture, and equipment, net	17,661	17,738
Bank-owned life insurance	32,957	14,832
Foreclosed real estate and repossessed assets	9	838
Intangible assets	2,185	2,035
MPS accounts receivable	6,077	5,763
Other assets	9,672	9,557
Total assets	$ 1,763,270	$ 1,648,898
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	$ 1,132,218	$ 1,181,299
Interest-bearing checking	32,709	33,094
Savings deposits	26,598	26,053
Money market deposits	39,750	38,585
Time certificates of deposit	84,983	100,763
Total deposits	1,316,258	1,379,794
Advances from Federal Home Loan Bank	11,000	11,000
Federal funds purchased	208,000	-
Securities sold under agreements to repurchase	12,303	26,400
Subordinated debentures	10,310	10,310
Accrued interest payable	218	177
Contingent liability	331	1,719
Accrued expenses and other liabilities	58,856	73,639
Total liabilities	1,617,276	1,503,039
STOCKHOLDERS' EQUITY		
	-	-

Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at December 31, 2012 and September 30, 2012, respectively						
Common stock, $.01 par value; 10,000,000 shares authorized, 5,576,099 and 5,576,099 shares issued, 5,481,727 and 5,443,881 shares outstanding at December 31, 2012 and September 30, 2012, respectively		56			56	
Additional paid-in capital		78,760			78,769	
Retained earnings - substantially restricted		63,189			60,776	
Accumulated other comprehensive income		5,551			8,513	
Treasury stock, 94,372 and 132,218 common shares, at cost, at December 31, 2012 and September 30, 2012, respectively		(1,562	)		(2,255	)
Total stockholders' equity		145,994			145,859	
Total liabilities and stockholders' equity	$	1,763,270		$	1,648,898	

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

	Three Months Ended December 31,	
	2012	2011
Interest and dividend income:		
Loans receivable, including fees	$4,127	$4,540
Mortgage-backed securities	2,934	4,787
Other investments	2,569	288
	9,630	9,615
Interest expense:		
Deposits	425	653
FHLB advances and other borrowings	408	324
	833	977
Net interest income	8,797	8,638
Provision for loan losses	-	699
Net interest income after provision for loan losses	8,797	7,939
Non-interest income:		
Card fees	11,536	13,913
Gain on sale of securities available for sale, net	1,654	1,050
Loan fees	268	329
Deposit fees	168	162
Bank-owned life insurance income	125	128
Loss on sale of foreclosed real estate	(400)	-
Other income	59	100
Total non-interest income	13,410	15,682
Non-interest expense:		
Compensation and benefits	8,277	7,176
Card processing expense	3,685	5,322
Occupancy and equipment expense	2,021	2,098
Legal and consulting expense	920	1,266
Data processing expense	320	275
Marketing	270	167
Other expense	2,585	2,487
Total non-interest expense	18,078	18,791
Income before income tax expense	4,129	4,830

Income tax expense	1,004	1,739
Net income	$3,125	$3,091
Earnings per common share:		
Basic	$0.57	$0.97
Diluted	$0.57	$0.97

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in Thousands)

	Three Months Ended December 31,	
	2012	2011
Net income	$3,125	$3,091
Other comprehensive income (loss):		
Change in net unrealized gain (loss) on securities available for sale	(3,143)	3,504
Gains realized in net income	(1,654)	(1,050)
	(4,797)	2,454
Deferred income tax effect	(1,835)	938
Total other comprehensive income (loss)	(2,962)	1,516
Total comprehensive income	$163	$4,607

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Three Months Ended December 31, 2012 and 2011
(Dollars in Thousands, Except Share and Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2011	$34	$32,471	$45,494	$ 6,336	$(3,758)	$ 80,577
Cash dividends declared on common stock ($.13 per share)	-	-	(415)	-	-	(415)
Issuance of 44,398 common shares from treasury stock due to issuance of restricted stock	-	51	-	-	725	776
Stock compensation	-	13	-	-	-	13
Change in net unrealized gains (losses) on securities available for sale	-	-	-	1,516	-	1,516
Net income	-	-	3,091	-	-	3,091
Balance, December 31, 2011	$34	$32,535	$48,170	$ 7,852	$(3,033)	$ 85,558
Balance, September 30, 2012	$56	$78,769	$60,776	$ 8,513	$(2,255)	$ 145,859
Cash dividends declared on common stock ($.13 per share)	-	-	(712)	-	-	(712)
Issuance of common shares from the sales of equity securities	-	(62)	-	-	-	(62)
Issuance of 37,846 common shares from treasury stock due to issuance of restricted stock	-	48	-	-	693	741
Stock compensation	-	5	-	-	-	5
	-	-	-	(2,962)	-	(2,962)

Change in net unrealized gains (losses) on securities available for sale						
Net income	-	-	3,125	-	-	3,125
Balance, December 31, 2012	$56	$78,760	$63,189	$ 5,551	$(1,562)	$ 145,994

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in Thousands)

	Three Months Ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net income	$ 3,125	$ 3,091
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	5,057	2,864
Disbursement of non-real estate consumer loans originated for sale	-	(304,066)
Proceeds from sale of non-real estate consumer loans	-	304,717
Proceeds from sale of 1-4 family residential mortgage loans	-	373
Loss on sale of loans	-	2
Provision for loan losses	-	699
Gain on other assets	(7)	(13)
Gain on sale of securities available for sale, net	(1,654)	(1,050)
Net change in accrued interest receivable	(2,090)	(309)
Net change in other assets	(257)	812
Net change in accrued interest payable	41	(16)
Net change in accrued expenses and other liabilities	(16,171)	(3,813)
Net cash provided by (used in) operating activities	(11,956)	3,291
Cash flow from investing activities:		
Purchase of securities available for sale	(363,998)	(277,388)
Proceeds from sales of securities available for sale	110,516	45,595
Proceeds from maturities and principal repayments of securities available for sale	38,783	39,738
Purchase of bank owned life insurance	(18,000)	-
Loans purchased	(1,075)	(4,188)
Net change in loans receivable	10,798	(2,651)
Proceeds from sales of foreclosed real estate	427	350
Federal Home Loan Bank stock purchases	(116,901)	(6,007)
Federal Home Loan Bank stock redemptions	107,646	-
Proceeds from the sale of premises and equipment	5	30
Purchase of premises and equipment	(725)	(789)
Other, net	1,835	(938)
Net cash provided by (used in) investing activities	(230,689)	(206,248)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	(47,756)	93,065
Net change in time deposits	(15,780)	(9,889)
Net change in federal funds purchased	208,000	-
Net change in securities sold under agreements to repurchase	(14,097)	(604)
Cash dividends paid	(712)	(415)

Stock compensation	5	13
Proceeds from issuance of common stock	679	776
Net cash provided by (used in) financing activities	130,339	82,946
Net change in cash and cash equivalents	(112,306)	(120,011)
Cash and cash equivalents at beginning of period	145,051	276,893
Cash and cash equivalents at end of period	$ 32,745	$ 156,882
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 793	$ 993
Income taxes	3,315	1,442
Supplemental schedule of non-cash investing activities:		
Loans transferred to foreclosed real estate	$ -	$ 1,720

See Notes to Condensed Consolidated Financial Statements.

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NOTE 1. BASIS OF PRESENTATION

The interim unaudited condensed consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2012 included in Meta Financial Group, Inc.'s ("Meta Financial" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on December 21, 2012. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the interim period ended December 31, 2012, are not necessarily indicative of the results expected for the year ending September 30, 2013.

NOTE 2. CREDIT DISCLOSURES

Loans are considered impaired if full principal or interest payments are not probable in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent.

The allowance consists of specific, general, and unallocated components. The specific component relates to impaired loans. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers loans not considered impaired and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Smaller-balance homogeneous loans are collectively evaluated for impairment. Such loans include residential first mortgage loans secured by one-to-four family residences, residential construction loans, and automobile, manufactured homes, home equity and second mortgage loans. Commercial and agricultural loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Generally, non-accrual loans are considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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Loans receivable at December 31, 2012 and September 30, 2012 are as follows:

	December 31, 2012	September 30, 2012
	(Dollars in Thousands)	
One to four family residential mortgage loans	$ 55,964	$ 49,134
Commercial and multi-family real estate loans	176,884	191,905
Agricultural real estate loans	23,446	19,861
Consumer loans	30,736	32,838
Commercial operating loans	13,569	16,452
Agricultural operating loans	20,926	20,981
Total Loans Receivable	321,525	331,171
Less:		
Allowance for loan losses	(3,963)	(3,971)
Net deferred loan origination fees	(304)	(219)
Total Loans Receivable, Net	$ 317,258	$ 326,981

Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three month periods ended December 31, 2012 and 2011 is as follows:

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Unallocated	Total
Three Months Ended December 31, 2012								
Allowance for loan losses:								
Beginning balance	$193	$3,113	$1	$3	$49	$-	$612	$3,971
Provision (recovery) for loan losses	(5)	(235)	-	-	1	18	221	-
Loan charge offs	-	(8)	-	-	-	-	-	(8)
Recoveries	-	-	-	-	-	-	-	-
Ending balance	$188	$2,870	$1	$3	$50	$18	$833	$3,963
Ending balance: individually evaluated for impairment	$10	$443	$-	$-	$-	$-	$-	$453
Ending balance: collectively evaluated for impairment	$178	$2,427	$1	$3	$50	$18	$833	$3,510
Loans:								
Ending balance: individually evaluated for impairment	$351	$8,798	$-	$-	$16	$-	$-	$9,165
Ending balance: collectively evaluated for impairment	$55,613	$168,086	$23,446	$30,736	$13,553	$20,926	$-	$312,360

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Unallocated	Total
Three Months Ended December 31, 2011								
Allowance for loan losses:								
Beginning balance	$165	$3,901	$-	$16	$36	$67	$741	$4,926
Provision (recovery) for loan losses	15	775	-	3	(2)	(2)	(90)	699
Loan charge offs	-	(1,067)	-	(2)	-	-	-	(1,069)
Recoveries	1	-	-	4	4	-	-	9
Ending balance	$181	$3,609	$-	$21	$38	$65	$651	$4,565
Ending balance: individually evaluated for impairment	$11	$1,425	$-	$-	$3	$-	$-	$1,439
Ending balance: collectively evaluated for impairment	$170	$2,184	$-	$21	$35	$65	$651	$3,126
Loans:								
Ending balance: individually evaluated for impairment	$178	$14,608	$-	$-	$91	$-	$-	$14,877
Ending balance: collectively evaluated for impairment	$37,328	$179,836	$20,070	$34,359	$12,549	$22,071	$-	$306,213

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Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by our regulator, the Office of the Comptroller of the Currency (the "OCC"), to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current ne worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the savings association will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such minimal value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When assets are classified as "loss," MetaBank (the "Bank") is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. The Bank's determinations as to the classification of its assets and the amount of its valuation allowances are subject to review by its regulatory authorities, which may direct management to establish additional general or specific loss allowances.

The asset classification of loans at December 31, 2012 and September 30, 2012 are as follows:

December 31, 2012

10.29	Deferred Compensation Plan for certain Executives, effective as of January 1, 2001. **
10.30	Intentionally omitted.
10.31	Intentionally omitted.
10.32	Injectable Drugs Agreement effective as of September 5, 2001 between Health Option, Inc. and OptionMed, Inc. Filed on October 10, 2001 as Exhibit 10.1 to Form 8-K/A and incorporated herein by reference.
10.33	Credit and Security Agreement, dated March 29, 2002, by and among Option Care, Inc. and the domestic subsidiaries of Option Care party thereto, as Borrowers, the Lending Institutions party thereto, as Lenders, J.P. Morgan Business Credit Corp., as Advisor, and JPMorgan Chase Bank, as Administrative and Collateral Agent and Arranger, and LaSalle Bank National Association, as Co-Agent. Filed as Exhibit 10.21 to Option Care s Current Report on Form 8-K filed May 15, 2002 and incorporated by reference herein.
10.34	Employment Agreement between Richard M. Smith and Option Care, Inc., dated May 7, 2003. Filed as Exhibit 10.34 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated by reference herein. *
10.35	Employment Offer Letter between Option Care, Inc. and Paul Mastrapa, dated January 18, 2002. Filed as Exhibit 10.35 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated by reference herein. *
10.36	

	Employment Offer Letter between Option Care, Inc. and Joseph P. Bonaccorsi, dated December 31, 2001. Filed as Exhibit 10.36 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 and incorporated by reference herein. *
10.37	Fourth Amendment to Credit and Security Agreement, dated October 23, 2003, by and among Option Care, Inc. and the domestic subsidiaries party thereto, as Borrowers, the Lending Institutions party thereto, as Lenders, J.P. Morgan Business Credit Corp., as Advisor, and JPMorgan Chase Bank, as Administrative and Collateral Agent and Arranger, and LaSalle Bank National Association, as Co-Agent. Filed as Exhibit 10.37 to our Quarterly Report on Form 10-Q for

	the quarter ended September 30, 2003.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Chief Executive Officer and Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and Exchange Act Rule 13a-14(b).

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* Management contracts and compensatory plans and arrangements.

** Portions of this Exhibit are subject to a Confidential Treatment Request pursuant to Rule 24b-2 under the Securities and Exchange Act of 1934, as amended, filed with the SEC on September 10, 2001 and amended October 10, 2001.