

META FINANCIAL GROUP INC
Form 10-Q
February 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 31, 2017

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 and Zip Code)

(605) 782-1767
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant 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 NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

YES 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, 2018:
Common Stock, \$.01 par value	9,683,841 shares
Nonvoting Common Stock, \$.01 par value	0 Nonvoting shares

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Common stock, \$.01 par value; 15,000,000 shares authorized, 9,685,398 and 9,626,431 shares issued, 9,664,846 and 9,622,595 shares outstanding at December 31, 2017 and September 30, 2017, respectively	96	96
Common stock, Nonvoting, \$.01 par value; 3,000,000 shares authorized, no shares issued or outstanding at December 31, 2017 and September 30, 2017, respectively	—	—
Additional paid-in capital	262,872	258,336
Retained earnings	170,578	167,164
Accumulated other comprehensive income	5,782	9,166
Treasury stock, at cost, 20,552 and 3,836 common shares at December 31, 2017 and September 30, 2017, respectively	(1,623	) (266
Total stockholders' equity	437,705	434,496
Total liabilities and stockholders' equity	\$5,417,963	\$5,228,332

See Notes to Condensed Consolidated Financial Statements.

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AND SUBSIDIARIESCondensed Consolidated Statements of Operations (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

	Three Months Ended December 31,	
	2017	2016
Interest and dividend income:		
Loans receivable, including fees	\$16,443	\$10,678
Mortgage-backed securities	3,758	3,320
Other investments	10,656	8,577
	30,857	22,575
Interest expense:		
Deposits	1,885	938
FHLB advances and other borrowings	2,776	1,804
	4,661	2,742
Net interest income	26,196	19,833
Provision for loan losses	1,068	843
Net interest income after provision for loan losses	25,128	18,990
Non-interest income:		
Refund transfer product fees	192	176
Tax advance product fees	1,947	449
Card fees	25,247	18,414
Loan fees	1,292	870
Bank-owned life insurance	669	448
Deposit fees	848	150
Loss on sale of securities available-for-sale, net (Includes (\$1,010) and (\$1,234) reclassified from accumulated other comprehensive income (loss) for net gains (losses) on available for sale securities for the three months ended December 31, 2017 and 2016, respectively)	(1,010)	(1,234)
Loss on foreclosed real estate	(19)	—
Other income	102	76
Total non-interest income	29,268	19,349
Non-interest expense:		
Compensation and benefits	22,340	17,850
Refund transfer product expense	101	51
Tax advance product expense	280	27
Card processing	6,540	5,579
Occupancy and equipment	4,890	3,977
Legal and consulting	2,416	2,723
Marketing	553	470
Data processing	414	363
Intangible amortization expense	1,681	1,525

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Other expense	4,827	4,188
Total non-interest expense	44,042	36,753
Income before income tax expense	10,354	1,586
Income tax expense (Includes (\$380), and (\$463) reclassified from accumulated other comprehensive income (loss) for the three months ended December 31, 2017 and 2016, respectively)	5,684	342
Net income	\$4,670	\$1,244
Earnings per common share		
Basic	\$0.48	\$0.14
Diluted	\$0.48	\$0.14

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Dollars in Thousands)

	Three Months Ended December 31,	
	2017	2016
Net income	\$4,670	\$1,244
Other comprehensive income (loss):		
Change in net unrealized loss on securities	(7,480)	(45,268)
Losses realized in net income	1,010	1,234
	(6,470)	(44,034)
LESS: Deferred income tax effect	(3,086)	(16,092)
Total other comprehensive loss	(3,384)	(27,942)
Total comprehensive income (loss)	\$1,286	\$(26,698)

See Notes to Condensed Consolidated Financial Statements.

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AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the Three Months Ended December 31, 2017 and 2016

(Dollars in Thousands, Except Share and Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2016	\$ 85	\$ 184,780	\$ 127,190	\$ 22,920	\$—	\$ 334,975
Cash dividends declared on common stock (\$0.13 per share)	—	—	(1,195)	—	—	(1,195)
Issuance of common shares due to issuance of stock options, restricted stock and ESOP	3	3,245	—	—	—	3,248
Issuance of common shares due to acquisition	5	37,291	—	—	—	37,296
Contingent consideration equity earnout due to SCS acquisition	—	24,091	—	—	—	24,091
Stock compensation	—	69	—	—	—	69
Net change in unrealized gains on securities, net of income taxes	—	—	—	(27,942)	—	(27,942)
Net income	—	—	1,244	—	—	1,244
Balance, December 31, 2016	\$ 93	\$ 249,476	\$ 127,239	\$ (5,022)	\$—	\$ 371,786
Balance, September 30, 2017	\$ 96	\$ 258,336	\$ 167,164	\$ 9,166	\$(266)	\$ 434,496
Cash dividends declared on common stock (\$0.13 per share)	—	—	(1,256)	—	—	(1,256)
Issuance of common shares due to ESOP	—	1,606	—	—	—	1,606
Shares repurchased for tax withholdings on stock compensation	—	(314)	—	—	(1,357)	(1,671)
Stock compensation	—	3,244	—	—	—	3,244
Net change in unrealized losses on securities, net of income taxes	—	—	—	(3,384)	—	(3,384)
Net income	—	—	4,670	—	—	4,670
Balance, December 31, 2017	\$ 96	\$ 262,872	\$ 170,578	\$ 5,782	\$(1,623)	\$ 437,705

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31,	
(Dollars in Thousands)	2017	2016 ⁽¹⁾
Cash flows from operating activities:		
Net income	\$4,670	\$1,244
Adjustments to reconcile net income to net cash provided (used in) by operating activities:		
Depreciation, amortization and accretion, net	9,561	9,479
Stock-based compensation expense	3,244	69
Provision for loan losses	1,068	843
Provision (recovery) for deferred taxes	6,807	(927)
(Gain) on other assets	(8)	(6)
Loss on sale of foreclosed real estate	19	—
Loss on sale of securities available for sale, net	1,010	1,234
Net change in accrued interest receivable	(1,709)	(4,176)
Fair value adjustment of foreclosed real estate	23	—
Originations of loans held for sale	—	(27,191)
Proceeds from sales of loans held for sale	—	25,968
Change in bank-owned life insurance value	(669)	(448)
Net change in other assets	(1,102)	(27,164)
Net change in accrued interest payable	1,785	1,379
Net change in accrued expenses and other liabilities	(14,462)	14,255
Net cash provided by (used in) operating activities	10,237	(5,441)
Cash flows from investing activities:		
Purchase of securities available-for-sale	(105,327)	(144,024)
Proceeds from sales of securities available-for-sale	65,941	60,623
Proceeds from maturities and principal repayments of securities available for sale	35,065	30,849
Proceeds from maturities and principal repayments of securities held to maturity	12,021	13,301
Loans purchased	(75,163)	(136,172)
Loans sold	5,916	6,525
Net change in loans receivable	(114,827)	(59,008)
Proceeds from sales of foreclosed real estate or other assets	122	—
Net cash paid for acquisitions	—	(29,425)
Federal Home Loan Bank stock purchases	(249,920)	(140,680)
Federal Home Loan Bank stock redemptions	253,600	184,360
Proceeds from the sale of premises and equipment	—	58
Purchase of premises and equipment	(2,593)	(2,899)
Net cash used in investing activities	(175,165)	(216,492)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	341,407	309,726
Net change in time deposits	4,583	(3,658)
Net change in wholesale deposits	(55,769)	926,987
Net change in FHLB and other borrowings	(205,000)	(100,000)
Net change in federal funds	113,000	(992,000)

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Net change in securities sold under agreements to repurchase	867	744
Principal payments on capital lease obligations	(16) (18)
Cash dividends paid	(1,256	) (1,195)
Purchase of shares by ESOP	1,606	—
Proceeds from exercise of stock options and issuance of common stock	—	3,248
Shares repurchased for tax withholdings on stock compensation	(1,671) —
Net cash provided by financing activities	197,751	143,834
Net change in cash and cash equivalents	32,823	(78,099)
Cash and cash equivalents at beginning of period	1,267,586	773,830
Cash and cash equivalents at end of period	\$1,300,409	\$695,731

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Supplemental disclosure of cash flow information

Cash paid during the period for:

Interest	\$6,446	\$1,362
Income taxes	218	2,110
Franchise taxes	31	20
Other taxes	1	1

Supplemental schedule of non-cash investing activities:

Securities transferred from held to maturity to available for sale	\$(306,000)	\$—
Contingent consideration - cash		\$(17,259)
Contingent consideration - equity	—	(24,091)
Stock issued for acquisition	—	(37,296)

See Notes to Condensed Consolidated Financial Statements.

⁽¹⁾ See Note 1. Basis of Presentation for further discussion on the current presentation.

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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, 2017 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 November 29, 2017. 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 three month period ended December 31, 2017 are not necessarily indicative of the results expected for the fiscal year ending September 30, 2018.

In fiscal 2017, the Company early adopted Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The requirement to report the excess tax benefit related to settlements of share-based payment awards in earnings as an increase or (decrease) to income tax expense has been applied utilizing the prospective method. While the adoption of ASU 2016-09 requires retrospective application to all fiscal year periods presented, the Company elected to not recast previously reported financial statements as the impact was considered insignificant. However, the Company reclassified stock compensation from financing to operating activities on the Consolidated Statement of Cash Flows as of December 31, 2017 and December 31, 2016.

NOTE 2. CREDIT DISCLOSURES

The allowance for loan losses represents management's estimate of probable loan losses which have been incurred as of the date of the consolidated financial statements. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Management's periodic evaluation of the appropriateness of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management may periodically allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.

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. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance.

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 is 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.

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Homogeneous loan populations are collectively evaluated for impairment. These loan populations may include commercial insurance premium finance loans, residential first mortgage loans secured by one-to-four family residences, residential construction loans, home equity and second mortgage loans, and tax product loans. Commercial and agricultural loans as well as mortgage loans secured by other properties are monitored regularly by the Bank given the larger balances. When analysis of the borrower operating results and financial condition indicates that underlying cash flows of the borrower's business is not adequate to meet its debt service requirements, the individual loan or loan relationship is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 210 days or more for commercial insurance premium finance, 180 days or more for tax and other national lending loans and 90 days or more for other loans. Non-accrual loans and all troubled debt restructurings are considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Loans receivable at December 31, 2017 and September 30, 2017 were as follows:

	December 31, 2017	September 30, 2017
	(Dollars in Thousands)	
1-4 Family Real Estate	\$203,967	\$ 196,706
Commercial and Multi-Family Real Estate	654,029	585,510
Agricultural Real Estate	61,303	61,800
Consumer	274,981	163,004
Commercial Operating	56,516	35,759
Agricultural Operating	24,696	33,594
Commercial Insurance Premium Finance	235,671	250,459
Total Loans Receivable	1,511,163	1,326,832
Allowance for Loan Losses	(8,862)	(7,534)
Net Deferred Loan Origination Fees	(2,023)	(1,461)
Total Loans Receivable, Net	\$1,500,278	\$ 1,317,837

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Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three months ended December 31, 2017 and 2016 was as follows:

	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	CML Insurance Premium Finance	Unallocated	Total
(Dollars in Thousands)									
Three Months Ended December 31, 2017									
Allowance for loan losses:									
Beginning balance	\$ 803	\$ 2,670	\$ 1,390	\$ 6	\$ 158	\$ 1,184	\$ 796	\$ 527	\$ 7,534
Provision (recovery) for loan losses	(118)	) 364	(210)	) 297	690	(380)	) 51	374	1,068
Charge offs	(31)	) —	—	—	—	—	(129)	) —	(160)
Recoveries	—	—	—	367	46	—	7	—	420
Ending balance	\$ 654	\$ 3,034	\$ 1,180	\$ 670	\$ 894	\$ 804	\$ 725	\$ 901	\$ 8,862
Ending balance: individually evaluated for impairment	—	—	—	—	—	—	—	—	—
Ending balance: collectively evaluated for impairment	654	3,034	1,180	670	894	804	725	901	8,862
Total	\$ 654	\$ 3,034	\$ 1,180	\$ 670	\$ 894	\$ 804	\$ 725	\$ 901	\$ 8,862
Loans:									
Ending balance: individually evaluated for impairment	95	707	—	61	—	1,052	—	—	1,915
Ending balance: collectively evaluated for impairment	203,872	653,322	61,303	274,920	56,516	23,644	235,671	—	1,509,248
Total	\$ 203,967	\$ 654,029	\$ 61,303	\$ 274,981	\$ 56,516	\$ 24,696	\$ 235,671	\$ —	\$ 1,511,163

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	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	CML Insurance Premium Finance	Unallocated	Total
(Dollars in Thousands)									
Three Months Ended									
December 31, 2016									
Allowance for loan losses:									
Beginning balance	\$654	\$ 2,198	\$ 142	\$ 51	\$ 117	\$ 1,332	\$ 588	\$ 553	\$5,635
Provision (recovery) for loan losses	—	(286)	334	(28)	691	(3)	110	25	843
Charge offs	—	—	—	—	—	—	(118)	—	(118)
Recoveries	—	—	—	24	5	12	14	—	55
Ending balance	\$654	\$ 1,912	\$ 476	\$ 47	\$ 813	\$ 1,341	\$ 594	\$ 578	\$6,415
Ending balance: individually evaluated for impairment	11	—	—	—	339	—	—	—	350