

META FINANCIAL GROUP INC  
Form 10-Q  
May 11, 2010  
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## 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 March 31, 2010**

**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

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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**121 East Fifth Street, Storm Lake, Iowa 50588**

(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 o 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:**  
Common Stock, \$.01 par value

**Outstanding at May 7, 2010:**  
3,082,362 Common Shares

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**META FINANCIAL GROUP, INC.**

**FORM 10-Q**

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

	March 31, 2010	September 30, 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 16,570	\$ 6,168
Federal funds sold		9
Investment securities available for sale	19,351	17,566
Mortgage-backed securities available for sale	483,931	347,272
Loans receivable - net of allowance for loan losses of \$17,521 at March 31, 2010 and \$6,993 at September 30, 2009	382,519	391,609
Federal Home Loan Bank Stock, at cost	6,961	7,050
Accrued interest receivable	4,330	4,344
Bond insurance receivable	3,993	4,118
Premises, furniture, and equipment, net	21,251	21,989
Bank-owned life insurance	13,532	13,270
Foreclosed real estate and repossessed assets	1,247	2,053
Goodwill and intangible assets	2,720	2,215
MPS accounts receivable	7,222	5,381
Other assets	18,283	11,733
<b>Total assets</b>	<b>\$ 981,910</b>	<b>\$ 834,777</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Non-interest-bearing checking	\$ 590,684	\$ 442,158
Interest-bearing checking	20,076	15,602
Savings deposits	10,534	10,001
Money market deposits	33,252	39,823
Time certificates of deposit	124,830	146,163
<b>Total deposits</b>	<b>779,376</b>	<b>653,747</b>
Advances from Federal Home Loan Bank	98,300	74,800
Other borrowings from Federal Reserve Bank		25,000
Securities sold under agreements to repurchase	7,407	6,686
Subordinated debentures	10,310	10,310
Accrued interest payable	338	447
Contingent liability	4,118	4,268
Accrued expenses and other liabilities	20,943	12,174
<b>Total liabilities</b>	<b>920,792</b>	<b>787,432</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding		
Common stock, \$.01 par value; 5,200,000 shares authorized, 3,372,999 shares issued, 3,072,502 and 2,634,215 shares outstanding at March 31, 2010 and September 30, 2009, respectively	34	30

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Additional paid-in capital	31,942	23,551
Retained earnings - substantially restricted	37,251	31,626
Accumulated other comprehensive (loss)	(2,746)	(1,838)
Treasury stock, 300,497 and 323,784 common shares, at cost, at March 31, 2010 and September 30, 2009, respectively	(5,363)	(6,024)
<b>Total shareholders equity</b>	<b>61,118</b>	<b>47,345</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 981,910</b>	<b>\$ 834,777</b>

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 March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
<b>Interest and dividend income:</b>				
Loans receivable, including fees	\$ 7,376	\$ 7,536	\$ 14,101	\$ 13,908
Mortgage-backed securities	2,827	2,797	4,982	4,805
Other investments	180	200	364	547
	10,383	10,533	19,447	19,260
<b>Interest expense:</b>				
Deposits	949	1,429	2,037	2,973
FHLB advances and other borrowings	433	860	1,090	1,882
	1,382	2,289	3,127	4,855
<b>Net interest income</b>	9,001	8,244	16,320	14,405
Provision for loan losses	9,478	10,270	14,169	12,399
<b>Net interest income after provision for loan losses</b>	(477)	(2,026)	2,151	2,006
<b>Non-interest income:</b>				
Card fees	37,116	32,988	56,660	48,086
Gain on sale of securities available for sale, net		9	1,854	9
Deposit fees	190	177	394	378
Bank-owned life insurance income	132	131	262	258
Loan fees	65	231	178	330
Other income	133	75	326	85
<b>Total non-interest income</b>	37,636	33,611	59,674	49,146
<b>Non-interest expense:</b>				
Card processing expense	14,095	14,861	22,447	20,111
Compensation and benefits	8,861	8,342	17,532	15,781
Occupancy and equipment expense	2,159	2,049	4,234	3,853
Legal and consulting expense	835	925	1,826	2,045
Marketing	483	474	838	812
Data processing expense	177	816	369	1,272
Other expense	2,256	2,183	4,423	4,328
<b>Total non-interest expense</b>	28,866	29,650	51,669	48,202
<b>Income before income tax expense</b>	8,293	1,935	10,156	2,950
Income tax expense	3,119	760	3,790	1,102

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<b>Net income</b>	\$	5,174	\$	1,175	\$	6,366	\$	1,848
<b>Earnings per common share:</b>								
Basic	\$	1.76	\$	0.45	\$	2.29	\$	0.71
Diluted	\$	1.74	\$	0.45	\$	2.26	\$	0.71
<b>Dividends declared per common share:</b>								
	\$	0.13	\$	0.13	\$	0.26	\$	0.26

See Notes to Condensed Consolidated Financial Statements.



Table of Contents**META FINANCIAL GROUP, INC.®****AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

(Dollars in Thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Net income	\$ 5,174	\$ 1,175	\$ 6,366	\$ 1,848
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on				
securities available for sale	1,525	(1,243)	(3,301)	(196)
Gains realized in net income		9	1,854	9
	1,525	(1,234)	(1,447)	(187)
Deferred income tax effect	569	(460)	(539)	(70)
Total other comprehensive income (loss)	956	(774)	(908)	(117)
Total comprehensive income	\$ 6,130	\$ 401	\$ 5,458	\$ 1,731

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**META FINANCIAL GROUP, INC.®****AND SUBSIDIARIES****Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)****For the Six Months Ended March 31, 2010 and 2009**

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss), Net of Tax	Treasury Stock	Total Shareholders Equity
Balance, September 30, 2008	\$ 30	\$ 23,058	\$ 34,442	\$ (5,022)	\$ (6,775)	\$ 45,733
Cash dividends declared on common stock (\$.26 per share)			(675)			(675)
Stock compensation		290				290
Change in net unrealized losses on securities available for sale				(117)		(117)
Net income for six months ended March 31, 2009			1,848			1,848
Balance, March 31, 2009	\$ 30	\$ 23,348	\$ 35,615	\$ (5,139)	\$ (6,775)	\$ 47,079
Balance, September 30, 2009	\$ 30	\$ 23,551	\$ 31,626	\$ (1,838)	\$ (6,024)	\$ 47,345
Cash dividends declared on common stock (\$.26 per share)			(741)			(741)
Issuance of 415,000 common shares from the sales of equity securities	4	8,571				8,575
Issuance of 23,287 common shares from treasury stock due to issuance of restricted stock and exercise of stock options		(271)			661	390
Stock compensation		91				91
				(908)		(908)

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Change in net unrealized losses on securities available for sale												
Net income for six months ended March 31, 2010												
Balance, March 31, 2010												
	\$	34	\$	31,942	\$	37,251	\$	(2,746)	\$	(5,363)	\$	61,118

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)

	Six Months Ended March 31,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,366	\$ 1,848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	6,053	1,983
Provision for loan losses	14,169	12,399
Loss (gain) on sale of other	5	(39)
(Gain) on sale of available for sale securities, net	(1,854)	(9)
Net change in accrued interest receivable	14	408
Net change in other assets	(9,033)	1,254
Net change in accrued interest payable	(109)	166
Net change in accrued expenses and other liabilities	8,619	5,225
<b>Net cash provided by operating activities</b>	<b>24,230</b>	<b>23,235</b>
<b>Cash flow from investing activities:</b>		
Purchase of securities available for sale	(287,973)	(156,114)
Net change in federal funds sold	9	4,972
Proceeds from sales of securities available for sale	38,401	903
Proceeds from maturities and principal repayments of securities available for sale	107,379	23,040
Loans purchased	(392)	(7,054)
Net other change in loans receivable	(4,653)	(408)
Proceeds from sales of foreclosed real estate	807	
Net change in Federal Home Loan Bank stock	89	1,305
Proceeds from the sale of premises and equipment		1
Purchase of premises and equipment	(1,199)	(2,309)
Other, net	539	70
<b>Net cash used in investing activities</b>	<b>(146,993)</b>	<b>(135,594)</b>
<b>Cash flows from financing activities:</b>		
Net change in checking, savings, and money market deposits	146,962	123,305
Net change in time deposits	(21,333)	17,365
Net change in advances from Federal Home Loan Bank and other borrowings	(1,500)	(31,075)
Net change in securities sold under agreements to repurchase	721	16,911
Cash dividends paid	(741)	(675)
Proceeds from issuance of equity securities	8,575	
Stock compensation	91	290
Proceeds from exercise of stock options	390	
<b>Net cash provided by financing activities</b>	<b>133,165</b>	<b>126,121</b>
<b>Net change in cash and cash equivalents</b>	<b>10,402</b>	<b>13,762</b>
Cash and cash equivalents at beginning of period	6,168	2,963
Cash and cash equivalents at end of period	\$ 16,570	\$ 16,725

**Supplemental disclosure of cash flow information**

Cash paid during the period for:

Interest	\$	3,235	\$	4,689
Income taxes		64		2,055

**Supplemental schedule of non-cash investing and financing activities:**

Loans transferred to foreclosed real estate	\$		\$	3,775
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See Notes to Condensed Consolidated Financial Statements.

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**META FINANCIAL GROUP, INC. ®**

**AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements (Unaudited)

**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, 2009 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 10, 2009. Accordingly, footnote disclosures, which would substantially duplicate the disclosure 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 March 31, 2010, are not necessarily indicative of the results expected for the year ending September 30, 2010.

**NOTE 2. ALLOWANCE FOR LOAN LOSSES**

At March 31, 2010 the Company's allowance for loan losses was \$17.5 million, an increase of \$10.5 million from \$7.0 million at September 30, 2009. During the six months ended March 31, 2010 the Company recorded a provision for loan losses of \$14.2 million. \$11.1 million related to the Company's Meta Payment Systems@ MPS) division, of which \$10.5 million related to loan originations offered in collaboration with a nationally known tax preparation firm. This level of anticipated losses is within the financial model for this program. In addition to the Company's loss provision, the contractual arrangement with this firm provides for substantial, but not full, reimbursement of financial losses, if any. During the six months ended March 31, 2010, the Company recorded a retail bank provision in the amount of \$3.1 million due to increases in the general reserves and in the historical loss rates for commercial real estate and multi-family loans. Two loans with commercial borrowers were partially charged off in the amount of \$4.2 million during the second quarter of fiscal 2010. These two loans were previously reserved for and classified as doubtful.

During the three months ended March 31, 2010, the Company recorded a provision for loan losses in the amount of \$9.5 million, consisting of \$7.5 million related to the MPS tax loan portfolio and \$2.0 million primarily related to increases in the general reserves and in the historical loss rates for commercial real estate and multi-family loans. The Company's total net charge-offs for the three and six months ended March 31, 2010 were \$4.1 million and \$3.6 million, respectively, due to recoveries exceeding charged-off loans by \$0.5 million in the first fiscal quarter. Further discussion of this change in the allowance is included in Financial Condition - Non-performing Assets and Allowance for Loan Loss in Management's Discussion and Analysis.



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Basic EPS is computed by dividing income (loss) available to common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Diluted EPS shows the dilutive effect of additional common shares issuable pursuant to stock option agreements.

A reconciliation of the income and common stock share amounts used in the computation of basic and diluted EPS for the three and six months ended March 31, 2010 and 2009 is presented below.

<b>Three Months Ended March 31, (Dollars in Thousands, Except Share and Per Share Data)</b>	<b>2010</b>	<b>2009</b>
<b>Earnings</b>		
Net Income	\$ 5,174	\$ 1,175
<b>Basic EPS</b>		
Weighted average common shares outstanding	2,942,383	2,602,655
Less weighted average unallocated ESOP and nonvested shares	(3,334)	(5,000)
Weighted average common shares outstanding	2,939,049	2,597,655
<b>Earnings Per Common Share</b>		
Basic	\$ 1.76	\$ 0.45
<b>Diluted EPS</b>		
Weighted average common shares outstanding for basic earnings per common share	2,939,049	2,597,655
Add dilutive effect of assumed exercises of stock options, net of tax benefits	33,710	
Weighted average common and dilutive potential common shares outstanding	2,972,759	2,597,655
<b>Earnings Per Common Share</b>		
Diluted	\$ 1.74	\$ 0.45



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Six Months Ended March 31, (Dollars in Thousands, Except Share and Per Share Data)	2010	2009
<b>Earnings</b>		
Net Income	\$ 6,366	\$ 1,848
<b>Basic EPS</b>		
Weighted average common shares outstanding	2,788,866	2,602,655
Less weighted average unallocated ESOP and nonvested shares	(3,334)	(5,000)
Weighted average common shares outstanding	2,785,532	2,597,655
<b>Earnings Per Common Share</b>		
Basic	\$ 2.29	\$ 0.71
<b>Diluted EPS</b>		
Weighted average common shares outstanding for basic earnings per common share	2,785,532	2,597,655
Add dilutive effect of assumed exercises of stock options, net of tax benefits	36,630	
Weighted average common and dilutive potential common shares outstanding	2,822,162	2,597,655
<b>Earnings Per Common Share</b>		
Diluted	\$ 2.26	\$ 0.71

Stock options totaling 363,464 and 348,014 were not considered in computing diluted EPS for the three and six months ended March 31, 2010, respectively, because they were not dilutive. Stock options totaling 301,468 and 511,674 were not considered in computing diluted EPS for the three and six months ended March 31, 2009, respectively, because they were not dilutive. The calculation of the diluted EPS for the three and six months ended March 31, 2009 does not reflect the assumed exercise of 34,395 and 39,933 stock options, respectively, because the effect would have been anti-dilutive for the period.

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The amortized cost, gross unrealized gains and losses and estimated fair values of available for sale securities as of March 31, 2010 and September 30, 2009 are presented below.

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
(Dollars in Thousands)				
<b>March 31, 2010</b>				
Debt securities				
Trust preferred and corporate securities	\$ 25,810	\$	\$ (8,798)	\$ 17,012
Obligations of states and political subdivisions	2,255	84		2,339
Mortgage-backed securities	479,596	5,950	(1,615)	483,931
Total debt securities	\$ 507,661	\$ 6,034	\$ (10,413)	\$ 503,282

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
(Dollars in Thousands)				
<b>September 30, 2009</b>				
Debt securities				
Trust preferred and corporate securities	\$ 25,805	\$	\$ (10,604)	\$ 15,201
Obligations of states and political subdivisions	2,258	107		2,365
Mortgage-backed securities	339,706	7,662	(96)	347,272
Total debt securities	\$ 367,769	\$ 7,769	\$ (10,700)	\$ 364,838

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at March 31, 2010 and September 30, 2009 are as follows:

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
(Dollars in Thousands)						
<b>March 31, 2010</b>						
Debt securities						
Trust preferred and corporate securities	\$	\$	\$ 17,012	\$ (8,798)	\$ 17,012	\$ (8,798)
Mortgage-backed securities	206,910	(1,615)			206,910	(1,615)
Total debt securities	\$ 206,910	\$ (1,615)	\$ 17,012	\$ (8,798)	\$ 223,922	\$ (10,413)

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	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
	(Dollars in Thousands)					
<b>September 30, 2009</b>						
Debt securities						
Trust preferred and corporate securities	\$	\$	\$ 15,201	\$ (10,604)	\$ 15,201	\$ (10,604)
Mortgage-backed securities	17,780	(37)	10,782	(59)	28,562	(96)
Total debt securities	\$ 17,780	\$ (37)	\$ 28,348	\$ (10,663)	\$ 46,128	\$ (10,700)

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**NOTE 5. COMMITMENTS AND CONTINGENCIES**

At March 31, 2010 and September 30, 2009, the Company had outstanding commitments to originate and purchase loans totaling \$39.9 million and \$51.8 million, respectively. It is expected that outstanding loan commitments will be funded with existing liquid assets. At March 31, 2010, the Company had commitments to purchase securities available for sale totaling \$63.5 million. There were no commitments to sell securities available for sale.

**Legal Proceedings**

Lawsuits against MetaBank involving the sale of purported MetaBank certificates of deposit continue to be addressed. Specifically, these cases involve the sale of fraudulent certificates of deposit using MetaBank's name and standard form of certificate of deposit. Such certificate of deposits were apparently sold by a former MetaBank employee to various financial institutions through an independent broker. Since its filing of Form 10-K for the year ended September 30, 2009, the matter of Methodist Hospitals of Dallas v. MetaBank and Meta Financial Group, Inc., filed in the 95th Judicial District Court of Dallas County, TX, Cause No. 08-06994, has been settled for a payment (see below) and the matter dismissed with prejudice. In all, nine cases have been filed, and of those nine, two have been dismissed, and three have been settled for payments that the Company deemed reasonable under the circumstances, including the costs of litigation. The Company is vigorously defending the four remaining actions. Two of the cases are class action cases although to date no class has been certified. The remaining two cases share similar fact patterns as each Plaintiff seeks recovery of \$99,000 and other specified damages, in connection with a fraudulent CD.

Cedar Rapids Bank & Trust Company v MetaBank, Case No. LACV007196. In a separate matter, on November 3, 2009, Cedar Rapids Bank & Trust Company (CRBT) filed a Petition against MetaBank in the Iowa District Court in and for Linn County claiming an unspecified amount of money damages against MetaBank arising from CRBT's participation in loans originated by MetaBank to companies owned or controlled by Dan Nelson. The complaint states that the Nelson companies eventually filed for bankruptcy and the loans, including CRBT's portion, were not fully repaid. Under a variety of theories, CRBT claims that MetaBank had material negative information about Dan Nelson, his companies and the loans that it did not share with CRBT prior to CRBT taking a participation interest in them. **MetaBank believes that CRBT's loss of principal was limited to approximately \$200,000, and in any event intends to vigorously defend its actions.**

In addition, since the filing of the Company's Form 10-K for the year ended September 30, 2009, the matter of Parallel Communications, Inc et al v. MetaBank et al., filed in the United States District Court for the Southern District of South Dakota, Docket Number 09-4031, has been settled and the suit will be dismissed shortly.

Other than the matters set forth above, there are no other new material pending legal proceedings or updates to which the Company or its subsidiaries is a party other than ordinary routine litigation to their respective businesses.

**NOTE 6. STOCK OPTION PLAN**

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The Company maintains the 2002 Omnibus Incentive Plan, which, among other things, provides for the awarding of stock options and nonvested (restricted) shares to certain officers and directors of the Company. Awards are granted by the Stock Option Committee of the Board of Directors based on the performance of the award recipients or other relevant factors.

In accordance with ASC 718, compensation expense for share based awards is recorded over the vesting period at the fair value of the award at the time of grant. The exercise price of options or fair value of nonvested shares

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granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock based compensation, since actual historical forfeiture rates on its stock based incentive awards has been negligible.

A summary of option activity for the six months ended March 31, 2010 is presented below:

	Number of Shares	Weighted Average Exercise Price  (Dollars in Thousands, Except Share and Per Share Data)	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
Options outstanding, September 30, 2009	577,921	\$ 23.74	7.12	\$ 1,836
Granted	1,000	21.40		
Exercised	(20,434)	15.81		
Forfeited or expired	(19,454)	27.00		
Options outstanding, March 31, 2010	539,033	\$ 23.89	6.64	\$ 2,231
Options exercisable, March 31, 2010	459,891	\$ 23.18	6.59	\$ 2,003

A summary of nonvested share activity for the six months ended March 31, 2010 is presented below:

	Number of Shares  (Dollars in Thousands, Except Share and Per Share Data)	Weighted Average Fair Value at Grant
Nonvested shares outstanding, September 30, 2009	3,334	\$ 24.43
Granted	3,600	23.01
Vested	(3,600)	23.01
Forfeited or expired		
Nonvested shares outstanding, March 31, 2010	3,334	\$ 24.43

As of March 31, 2010, stock based compensation expense not yet recognized in income totaled \$170,000 which is expected to be recognized over a weighted average remaining period of 0.85 years.

**NOTE 7. SEGMENT INFORMATION**

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose results are reviewed by the chief operating decision-maker. Operating segments are aggregated into reportable segments if certain criteria are met. The Company has determined that it has two reportable segments. The first reportable segment, Traditional Banking, along with the second reportable segment, MPS, comprise the entirety of its banking subsidiary, MetaBank (the Bank). The Bank operates as a traditional community bank providing deposit, loan and other related products to individuals and small businesses, primarily in the communities where their offices are

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located. MPS provides a number of products and services to financial institutions and other businesses. These products and services include issuance of prepaid debit cards, sponsorship of ATMs into the debit networks, credit programs, ACH origination services, gift card programs, rebate programs, travel programs and tax related programs. The remaining grouping under the caption "All Others" consists of the operations of Meta Financial Group, Inc. and Meta Trust Company® and inter-segment eliminations. Transactions between affiliates, the resulting revenues of which are shown in the

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intersegment revenue category, are conducted at market prices, meaning prices that would be paid if the companies were not affiliates. The following tables present segment data for the Company for the three and six months ended March 31, 2010 and 2009, respectively.

	Traditional Banking	Meta Payment Systems®	All Others	Total
<b>Three Months Ended March 31, 2010</b>				
Interest income	\$ 5,944	\$ 4,445	\$ (6)	\$ 10,383
Interest expense	1,132	136	114	1,382
Net interest income (loss)	4,812	4,309	(120)	9,001
Provision for loan losses	2,000	7,478		9,478
Non-interest income	483	37,122	31	37,636
Non-interest expense	5,044	23,587	235	28,866
Income (loss) before tax	(1,749)	10,366	(324)	8,293
Income tax expense (benefit)	(673)	3,903	(111)	3,119
Net income (loss)	\$ (1,076)	\$ 6,463	\$ (213)	\$ 5,174
Inter-segment revenue (expense)	\$ 2,577	\$ (2,577)	\$	\$
Total assets	384,032	596,918	960	981,910
Total deposits	210,725	570,898	(2,247)	779,376

	Traditional Banking	Meta Payment Systems®	All Others	Total
<b>Three Months Ended March 31, 2009</b>				
Interest income	\$ 7,126	\$ 3,378	\$ 29	\$ 10,533
Interest expense	1,864	271	154	2,289
Net interest income (loss)	5,262	3,107	(125)	8,244
Provision for loan losses	4,173	6,097		10,270
Non-interest income	584	33,009	18	33,611
Non-interest expense	4,781	24,455	414	29,650
Income (loss) before tax	(3,108)	5,564	(521)	1,935
Income tax expense (benefit)	(1,167)	2,092	(165)	760
Net income (loss)	\$ (1,941)	\$ 3,472	\$ (356)	\$ 1,175
Inter-segment revenue (expense)	\$ 2,203	\$ (2,203)	\$	\$
Total assets	384,175	504,704	768	889,647
Total deposits	220,535	466,487	(380)	686,642



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	Traditional Banking	Meta Payment Systems®	All Others	Total
<b>Six Months Ended March 31, 2010</b>				
Interest income	\$ 11,608	\$ 7,825	\$ 14	\$ 19,447
Interest expense	2,668	216	243	3,127
Net interest income (loss)	8,940	7,609	(229)	16,320
Provision for loan losses	3,100	11,069		14,169
Non-interest income	2,975	56,644	55	59,674
Non-interest expense	9,825	41,443	401	51,669
Income (loss) before tax	(1,010)	11,741	(575)	10,156
Income tax expense (benefit)	(389)	4,377	(198)	3,790
Net income (loss)	\$ (621)	\$ 7,364	\$ (377)	\$ 6,366
Inter-segment revenue (expense)	\$ 4,952	\$ (4,952)	\$	\$
Total assets	384,032	596,918	960	981,910
Total deposits	210,725	570,898	(2,247)	779,376

	Traditional Banking	Meta Payment Systems®	All Others	Total
<b>Six Months Ended March 31, 2009</b>				
Interest income	\$ 12,997	\$ 6,205	\$ 58	\$ 19,260
Interest expense	3,887	630	338	4,855
Net interest income (loss)	9,110	5,575	(280)	14,405
Provision for loan losses	5,023	7,376		12,399
Non-interest income	972	48,133	41	49,146
Non-interest expense	9,649	37,866	687	48,202
Income (loss) before tax	(4,590)	8,466	(926)	2,950
Income tax expense (benefit)	(1,696)	3,122	(324)	1,102
Net income (loss)	\$ (2,894)	\$ 5,344	\$ (602)	\$ 1,848
Inter-segment revenue (expense)	\$ 4,076	\$ (4,076)	\$	\$
Total assets	384,175	504,704	768	889,647
Total deposits	220,535	466,487	(380)	686,642

**NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2009, the FASB issued an accounting standard which amends current GAAP related to the accounting for transfers and servicing of financial assets and extinguishments of liabilities, including the removal of the concept of a qualifying special-purpose entity from GAAP. This new accounting standard also clarifies that a transferor must evaluate whether it has maintained effective control of a financial asset by considering its continuing direct or indirect involvement with the transferred financial asset. This accounting standard was subsequently codified into ASC Topic 860, *Accounting for Transfers of Financial Assets*. This accounting standard is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of ASC Topic 860 is not anticipated to have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued an accounting standard which will require a qualitative rather than quantitative analysis to determine the primary beneficiary of a variable interest entity for consolidation purposes. This accounting standard requires an enterprise to perform an analysis and ongoing reassessments to determine



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whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity and amends certain guidance for determining whether an entity is a variable interest entity. It also requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. This accounting standard was subsequently codified into ASC Topic 810, *Improvements for Financial Reporting by Enterprises Involved with Variable Interest Entities*. This accounting standard is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, and for all interim reporting periods after that. The adoption of ASC Topic 810 is not anticipated to have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued an accounting standard which requires (i) fair value disclosures by each class of assets and liabilities (generally a subset within a line item as presented in the statement of financial position) rather than a major category, (ii) for items measured at fair value on a recurring basis, the amounts of significant transfers between Levels 1 and 2, and transfers into and out of Level 3, and the reasons for those transfers, including separate discussion related to the transfers into each level apart from transfers out of each level, and (iii) gross presentation of the amounts of purchases, sales, issuances and settlements in the Level 3 recurring measurement reconciliation. Additionally, the standard clarifies that a description of the valuation technique(s) and inputs used to measure fair values is required for both recurring and nonrecurring fair value measurements. Also, if a valuation technique has changed, entities should disclose that change and the reason for the changes. This accounting standard was subsequently codified into ASC Topic 820, *Improving Disclosures about Fair Value Measurements*. Disclosures other than the gross presentation changes in the Level 3 reconciliation are effective for the first reported period beginning after December 31, 2009. The requirement to present the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis will be effective for fiscal years beginning after December 15, 2010 and is not anticipated to have a material impact on the Company's consolidated financial statements.

**NOTE 9. FAIR VALUE MEASUREMENTS**

Effective October 1, 2008, the Company adopted the provisions of ASC 820, *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system and expands disclosures about fair value measurement. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts.

The fair value hierarchy is as follows:

Level 1 Inputs Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access at measurement date.

Level 2 Inputs Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in active markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market.

Level 3 Inputs Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash

flow models and similar techniques.

*Securities Available for Sale.* Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using an independent pricing service. Level 1 securities include those traded on an active exchange,

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such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency securities that are traded by dealers or brokers in active over-the-counter markets. The Company had no Level 1 securities at March 31, 2010. Level 2 securities include agency mortgage-backed securities and private collateralized mortgage obligations, municipal bonds and corporate debt securities.

The following table summarizes the assets of the Company for which fair values are determined on a recurring basis as of March 31, 2010.

(Dollars in Thousands)	Total	Fair Value at March 31, 2010		
		Level 1	Level 2	Level 3
Securities available for sale	\$ 503,282	\$	\$ 503,282	\$

Included in securities available for sale are trust preferred securities as follows:

**At March 31, 2010**

Issuer(1)	Book Value	Fair Value (Dollars in Thousands)	Unrealized (Loss)	S&P Credit Rating	Moody Credit Rating
Key Corp. Capital I	\$ 4,980	\$ 3,319	\$ (1,661)	BB	Baa3
Huntington Capital Trust II SE	4,970	2,764	(2,206)	B	Ba1
Bank Boston Capital Trust IV (2)	4,961	3,441	(1,520)	BB	Baa3
Bank America Capital III	4,949	3,438	(1,511)	BB	Baa3
PNC Capital Trust	4,950	3,800	(1,150)	BBB	Baa2
Cascade Capital Trust I 144A (3)	500	125	(375)		
CNB Inv Tr II Exchangeable Pfd Ser B (3)	500	125	(375)		
Total	\$ 25,810	\$ 17,012	\$ (8,798)		

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- (1) Trust preferred securities are single-issuance. There are no known deferrals, defaults or excess subordination except for Cascade Capital Trust I 144A which has deferred payment of its interest.  
(2) Bank Boston was acquired by Bank of America.  
(3) Securities not rated.

The Company's management reviews the status and potential impairment of the trust preferred securities on a monthly basis. In its review, management discusses duration of unrealized losses and reviews credit rating changes. Other factors, but not necessarily all, considered are: that the risk of loss is minimized and easier to determine due to the single-issuer, rather than pooled, nature of the securities, the condition of the banks listed, and whether there have been any payment deferrals or defaults to-date. Such factors are subject to change over time.

*Federal Home Loan Bank ( FHLB ) Stock.* FHLB stock is recorded at cost which is assumed to represent fair value since the Company is generally able to redeem this stock at par value.



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*Foreclosed Real Estate and Repossessed Assets.* Real estate properties and repossessed assets are initially recorded at the lower of cost or fair value less selling costs at the date of foreclosure, establishing a new cost basis.

*Loans.* The Company does not record loans at fair value on a recurring basis. However, if a loan is considered impaired, an allowance for loan losses is established. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC 310, *Accounting for Creditors for Impairment of a Loan*. When the fair value of the collateral is based on an observable market price or current appraised value, the Company records the impaired loan as non-recurring level 2.

The following table summarizes the assets of the Company for which fair values are determined on a non-recurring basis as of March 31, 2010.

(Dollars in Thousands)	Total	Fair Value at March 31, 2010		
		Level 1	Level 2	Level 3
FHLB Stock	\$ 6,961	\$	\$ 6,961	\$
Foreclosed Assets, net	1,247		1,247	
Loans	9,817		9,817	
Total	\$ 18,025	\$	\$ 18,025	\$

The following table discloses the Company's estimated fair value amounts of its financial instruments. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of March 31, 2010 and September 30, 2009, as more fully described below. The operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the Bank's capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

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The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at March 31, 2010 and September 30, 2009. The fair value for ASC 825 purposes is estimated using a historical replacement cost basis concept (i.e. entity price concept). The information presented is subject to change over time based on a variety of factors.

	March 31, 2010		September 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in Thousands)				
<b>Financial assets</b>				
Cash and cash equivalents	\$ 16,570	\$ 16,570	\$ 6,168	\$ 6,168
Federal funds sold			9	9
Securities available for sale	503,282	503,282	364,838	364,838
Loans receivable, net	382,519	384,640	391,609	396,640
FHLB stock	6,961	6,961	7,050	7,050
Accrued interest receivable	4,330	4,330	4,344	4,344
<b>Financial liabilities</b>				
Noninterest bearing demand deposits	590,684	590,684	442,158	442,158
Interest bearing demand deposits, savings, and money markets	63,862	63,862	65,426	65,426
Certificates of deposit	124,830	127,041	146,163	148,673
Total deposits	779,376	781,587	653,747	656,257
Advances from FHLB	98,300	101,078	74,800	76,034
FRB TAF Borrowings			25,000	25,000
Securities sold under agreements to repurchase	7,407	7,407	6,686	6,686
Subordinated debentures	10,310	10,293	10,310	10,656
Accrued interest payable	338	338	447	447
Off-balance-sheet instruments, loan commitments				

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at March 31, 2010 and September 30, 2009.

**CASH AND CASH EQUIVALENTS**

The carrying amount of cash and short-term investments is assumed to approximate the fair value.

**FEDERAL FUNDS SOLD**



The carrying amount of federal funds sold is assumed to approximate the fair value.

**SECURITIES AVAILABLE FOR SALE**

To the extent available, quoted market prices or dealer quotes were used to determine the fair value of securities available for sale. For those securities which are thinly traded, or for which market data was not available, management estimated fair value using other available data.

**LOANS RECEIVABLE, NET**

The fair value of loans was 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 similar remaining maturities. When using the discounting method to determine fair value, loans were gathered by homogeneous groups with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers as of March 31,

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2010 and September 30, 2009. In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value for consideration of credit quality.

**FHLB STOCK**

The fair value of such stock is assumed to approximate book value since the Company is generally able to redeem this stock at par value.

**ACCRUED INTEREST RECEIVABLE**

The carrying amount of accrued interest receivable is assumed to approximate the fair value.

**DEPOSITS**

The carrying values of non-interest bearing checking deposits, interest bearing checking deposits, savings, and money markets is assumed to approximate fair value, since such deposits are immediately withdrawable without penalty. The fair value of time certificates of deposit was estimated by discounting expected future cash flows by the current rates offered on certificates of deposit with similar remaining maturities.

In accordance with ASC 825, no value has been assigned to the Company's long-term relationships with its deposit customers (core value of deposits intangible) since such intangible is not a financial instrument as defined under ASC 825.

**ADVANCES FROM FHLB**

The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates as of March 31, 2010 and September 30, 2009 for advances with similar terms and remaining maturities.

**FEDERAL RESERVE BANK ( FRB ) TERM AUCTION FACILITY ( TAF ) BORROWINGS**

The carrying amount of FRB TAF borrowings is assumed to approximate the fair value due to short-term maturities of 30 days or less.

**SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND SUBORDINATED DEBENTURES**

The fair value of these instruments was estimated by discounting the expected future cash flows using derived interest rates approximating market as of March 31, 2010 and September 30, 2009 over the contractual maturity of such borrowings.

**ACCRUED INTEREST PAYABLE**

The carrying amount of accrued interest payable is assumed to approximate the fair value.

**LOAN COMMITMENTS**

The commitments to originate and purchase loans have terms that are consistent with current market terms. Accordingly, the Company estimates that the fair values of these commitments are not significant.

**LIMITATIONS**

It must be noted that fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. Additionally, fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business, customer relationships and the value of assets and liabilities that are not considered financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time. Furthermore, since no market exists for certain of the Company's financial instruments, fair value estimates may be based on 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

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therefore cannot be determined with a high level of precision. Changes in assumptions as well as tax considerations could significantly affect the estimates. Accordingly, based on the limitations described above, the aggregate fair value estimates are not intended to represent the underlying value of the Company, on either a going concern or a liquidation basis.

**NOTE 10. GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of the Company's goodwill and intangible assets for the six months ended March 31, 2010 and 2009 are as follows:

	<b>Traditional Banking Goodwill</b>	<b>Meta Payment Systems® Goodwill</b>	<b>Meta Payment Systems® Patents</b>	<b>Meta Payment Systems® Other</b>	<b>Total</b>
	(Dollars in Thousands)				
Balance as of September 30, 2009	\$ 1,508	\$	\$ 707	\$	\$ 2,215
Acquisitions during the period			313	230	543
Accumulated amortization				(38)	(38)
Balance as of March 31, 2010	\$ 1,508	\$	\$ 1,020	\$ 192	\$ 2,720

	<b>Traditional Banking Goodwill</b>	<b>Meta Payment Systems® Goodwill</b>	<b>Meta Payment Systems® Patents</b>	<b>Total</b>
	(Dollars in Thousands)			
Balance as of September 30, 2008	\$ 1,508	\$ 425	\$ 273	\$ 2,206
Acquisitions during the period			243	243
Balance as of March 31, 2009	\$ 1,508	\$ 425	\$ 516	\$ 2,449

The Company tests goodwill and intangible assets for impairment at least annually or more often if conditions indicate a possible impairment. There was no impairment to goodwill during the six months ended March 31, 2010 and 2009.

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Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

**META FINANCIAL GROUP, INC®.**

**AND SUBSIDIARIES**

**FORWARD-LOOKING STATEMENTS**

Meta Financial Group, Inc.®, ( Meta Financial or the Company ) and its wholly-owned subsidiaries, MetaBank (the Bank ), and Meta Trust Company® ( Meta Trust or the Trust Company ), may from time to time make written or oral forward-looking statements, including statements contained in its filings with the Securities and Exchange Commission ( SEC ), in its reports to shareholders, and in other communications by the Company, which are made in good faith by the Company pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company's balance sheet and income statements; growth and expansion; new products and services, such as those offered by the Bank or Meta Payment Systems® ( MPS ), a division of the Bank; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company's financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the FRB or the Board ), as well as efforts of the United States Treasury in conjunction with bank regulatory agencies to stimulate the economy and protect the financial system; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services offered by the Company as well as risks (including reputational and litigation) attendant thereto and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third-party vendors; the significant portion of the Company's revenues that are derived from income tax-related programs, the impact of changes in financial services laws and regulations; technological changes, including but not limited to the protection of electronic files or databases; acquisitions; litigation risk in general, including but not limited to those risks involving the MPS division; the growth of the Company's business as well as expenses related thereto; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default.

The foregoing list of factors is not exclusive. Additional discussions of factors affecting the Company's business and prospects are contained in the Company's periodic filings with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries.

**GENERAL**

The Company, a registered unitary savings and loan holding company, is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of the Bank, a federal savings bank. The Company also owns all the issued and outstanding shares of Meta Trust. Unless the context otherwise requires, references herein to the Company include Meta Financial and the Bank, and all subsidiaries of Meta Financial, direct or indirect, on a consolidated basis.

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The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at March 31, 2010, compared to September 30, 2009, and the consolidated results of operations for the three and six months ended March 31, 2010 and 2009. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2009.

**CORPORATE DEVELOPMENTS AND OVERVIEW**

As previously disclosed, the Company recently completed two common stock private placements that raised a net of \$8.6 million of capital after related legal and registration expenses in the amount of \$0.3 million. In addition, in January 2010, a reorganization of the MPS division was completed that resulted in a reduction of 47 staff positions, or about 10% of all employees of the Company. These combined actions were taken to position the Company to pursue its core business-to-business servicing strategy, which includes several existing and near-term significant growth opportunities. At the same time several product development initiatives that do not fall into this category have been discontinued, and management implemented a reduction-in-force. No material revenue sources are being reduced by these decisions. Further, during the quarter ending March 31, 2010, severance and costs related to the January staff reduction were offset by lower compensation and benefits expense starting in February 2010 and the Company anticipates that thereafter the staff reduction will prove accretive to earnings.

The Company recorded net income of \$5.2 million for the 2010 fiscal second quarter which was primarily due to increased MPS fee revenue of \$4.1 million, or 13%, and lower MPS expenses of \$2.2 million. The division's tax and credit business lines were major contributors to the increase in revenue in the first half of fiscal 2010 with income tax-related revenue accounting for approximately one-third of the increase.

The traditional bank segment is continuing to build its customer base in the growing metropolitan areas of Sioux Falls, South Dakota and Des Moines, Iowa and smaller towns in Brookings, SD and Storm Lake, IA. The Bank focuses primarily on establishing lending and deposit relationships with commercial businesses and commercial real estate developers in these communities. The Bank currently operates 12 retail banking branches: in Brookings (1) and Sioux Falls (3), South Dakota, in Des Moines (6) and Storm Lake (2), Iowa and a non-retail service branch in Memphis, Tennessee. The traditional bank implemented new checking products early in the first quarter of fiscal 2010. Retail bank checking balances grew 12% from \$36.0 million at September 30, 2009 to \$40.1 million at March 31, 2010. In addition, provision for loan losses was \$2.2 million lower than the previous year quarter.

The Company's stock trades on the NASDAQ Global Market under the symbol CASH.

**FINANCIAL CONDITION**

As of March 31, 2010, the Company's assets grew by \$147.1 million, or 17.6%, to \$981.9 million compared to \$834.8 million at September 30, 2009. The increase in assets was reflected primarily in increases in the Company's mortgage-backed securities available for sale and cash and cash equivalents offset in part by a small decrease in the Company's net loans receivable.

Total cash and cash equivalents and federal funds sold were \$16.6 million at March 31, 2010, an increase of \$10.4 million from \$6.2 million at September 30, 2009. The increase primarily was the result of the Company's additional liquidity due to an increase in deposits, primarily due to

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deposits generated by MPS. In general, the Company maintains its cash investments in interest-bearing overnight deposits with the FHLB and FRB. Federal funds sold deposits may be maintained at the FHLB or various commercial banks, including, but not limited to the following: CitiBank, JP Morgan Chase, M&I Bank, BNP Paribas, and Bank of America. At March 31, 2010, the Company had no federal funds sold.

The total of mortgage-backed securities and investment securities available for sale increased \$138.4 million, or 38.0%, to \$503.3 million at March 31, 2010, as investment purchases exceeded related investment maturities,



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sales, and principal paydowns. The Company's portfolio of securities available for sale consists primarily of mortgage-backed securities, which have an anticipated average duration of 2.5 years. Approximately 9% of the mortgage-backed securities have balloons which further limit maturity extension risk. During the six month period ended March 31, 2010, the Company purchased \$288.0 million of mortgage-backed securities with average lives of five years or less and stated finals of 30 years or less.

The Company's portfolio of net loans receivable decreased \$9.1 million, or 2.3%, to \$382.5 million at March 31, 2010. Commercial operating, real estate, and one- to four-family residential real estate loans decreased \$6.6 million, \$11.9 million, and \$5.9 million, respectively. These decreases were primarily offset by an increase of \$27.2 million in MPS consumer loans. In addition, the allowance for loan losses increased \$10.5 million.

Foreclosed real estate and repossessed assets decreased to \$1.2 million as compared to \$2.1 million at September 30, 2009 due to the Company's write-down and sale of foreclosed real estate and repossessed assets.

Other assets increased by \$6.5 million, or 55.8%, to \$18.3 million at March 31, 2010. This increase primarily relates to a one-time prepayment in December 2009 of \$3.9 million with respect to the Company's prepaid FDIC Assessment.

Total deposits increased \$125.6 million, or 19.2%, to \$779.4 million at March 31, 2010. The Company continues to grow its low- and no-cost deposit portfolio. Total MPS deposits were up \$148.8 million, or 35.3%, at March 31, 2010, as compared to September 30, 2009. This increase results from growth in prepaid card programs and seasonal activity. Offsetting the above increases was a \$21.3 million decrease in certificates of deposits primarily related to a decrease in public funds.

Total borrowings decreased \$0.8 million, or 0.7%, from \$116.8 million at September 30, 2009 to \$116.0 million at March 31, 2010 and is primarily due to the growth of deposits. The Company reduced its FRB TAF borrowings by \$25.0 million due to maturity and discontinuation of the TAF program. Offsetting this decrease, was an increase of \$23.5 million of borrowings with the FHLB.

Accrued expenses and other liabilities increased \$8.8 million, or 72.0%, to \$20.9 million at March 31, 2010. This increase was primarily related to a change of \$7.9 million in liability for federal and state income taxes. At September 30, 2009, the Company recorded a receivable of \$2.1 million as compared to a liability of \$5.8 million at March 31, 2010, due to an increase in the Company's taxable income as compared to the prior fiscal year's taxable loss.

At March 31, 2010, the Company's shareholders' equity totaled \$61.1 million, up \$13.8 million from \$47.3 million at September 30, 2009. The increase was related to the previously disclosed net sales of equity securities in the amount of \$8.6 million and 2010 year-to-date net income (see Results of Operations below), partially offset by an unfavorable change in the accumulated other comprehensive loss on the Company's available for sale portfolio and the payment of dividends on the Company's common stock. At March 31, 2010, the Bank continues to exceed all regulatory requirements for classification as well-capitalized institution. See *Liquidity and Capital Resources* for further information.

**Non-performing Assets and Allowance for Loan Losses**

Generally, when a loan becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result of this action, previously accrued interest income on the loan is taken out of current income. The loan will remain on non-accrual status until the loan has been brought current or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

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The Company believes that the level of allowance for loan losses at March 31, 2010 adequately reflects potential risks related to these loans; however, there can be no assurance that all loans will be fully collectible or that the present level of the allowance will be adequate in the future. See Allowance for Loan Losses.

The table below sets forth the amounts and categories of non-performing assets in the Company's portfolio. Foreclosed assets include assets acquired in settlement of loans.

**Non-Performing Assets As Of**  
**March 31, 2010**                      **September 30, 2009**  
(Dollars in Thousands)

<u>Non-Performing Loans</u>			
Non-Accruing Loans :			
1-4 Family	\$	127	\$ 266
Commercial & Multi Family		8,062	11,512
Commercial Business		314	871
Total		8,503	12,649
Accruing Loans Delinquent 90 Days or More:			
Total			
Total Non-Performing Loans		8,503	12,649
<u>Other Assets</u>			
Non-Accruing Investments :			
Trust Preferred Securities		500	
Total		500	
Foreclosed Assets:			
Commercial & Multi Family		568	957
Commercial Business		679	1,096
Total		1,247	2,053
Total Other Assets		1,747	2,053
Total Non-Performing Assets	\$	10,250	\$ 14,702
Total as a Percentage of Total Assets		1.04%	1.76%

The 2010 year-to-date decrease in non-performing loans primarily relates to partial charge-offs for two commercial borrowers. See Note 2 to the Notes to Condensed Consolidated Financial Statements.

In addition, the Company was informed in March 2010 that one of its available for sale trust preferred securities, Cascade Capital Trust I 144A ( Cascade ), was deferring all interest payments in order to conserve capital while they work on addressing items contained in a memorandum of understanding entered into with the FDIC. Cascade is accruing the expense and expects to pay the deferred interest balances on the trust preferred bonds upon approval from the FDIC. In the meantime, the Company has placed the investment on nonaccrual status and classified it as substandard, included in total substandard assets below.



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*Classified Assets.* Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the Office of Thrift Supervision (the OTS) to be of lesser quality as substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net 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 the weaknesses inherent in those classified as 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 reserve is not warranted. When assets are classified as either substandard or doubtful, the Bank may establish general or specific allowances for loan losses in an amount deemed prudent by management. 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, the Bank is required either to establish a specific allowance for loan losses equal to 100% of that portion of the asset so classified or to charge-off such amount. The Bank's determination as to the classification of its assets and the amount of its valuation allowances are subject to review by its regulatory authorities, who may overrule the Bank's classifications and require the establishment of additional general or specific loss allowances. The discovery of additional information in the future may also affect both the level of classification and the amount of loss allowances.

In connection with the Bank's 2009 examination by the OTS, the Bank was informed that four of its trust preferred securities should be classified as substandard assets as of March 31, 2009. The four securities are: Huntington Capital Trust II SE, Bank Boston Capital Trust IV, Bank America Capital III, and Key Corp. Capital I. The criterion for the determination was the OTS policy that the assignment of a sub-investment grade rating by one nationally recognized rating agency, notwithstanding the fact that other nationally recognized rating agencies have assigned an investment grade rating to the securities in question, mandates the categorization of the asset as substandard. Despite the classification, and since the classification, the actual performance of the four securities continues to be satisfactory; interest payments are being made on a timely basis and there have been no requests for payment deferrals.

On the basis of management's review of its loans and other assets, at March 31, 2010, the Company had classified a total of \$24.9 million of its assets as substandard, \$6.7 million as doubtful and none as loss. This compares to classifications at September 30, 2009 of \$30.8 million as substandard, \$10.4 million as doubtful and none as loss. As of March 31, 2010, \$20.4 million out of a total of \$24.9 million of substandard assets is attributable to the trust preferred securities identified above. See Note 9 to the Notes to Condensed Consolidated Financial Statements.

*Allowance for Loan Losses.* The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets and non-performing loans, the composition of its loan portfolio and the general economic environment within which the Company and its borrowers operate.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. The economic slowdown has strained the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Over the past five years, loss rates in the commercial and multi-family real estate market have increased. Management concludes that future losses in this portfolio may be slightly higher than recent historical experience, excluding loan losses related to fraud by borrowers. On the other hand, current trends in agricultural markets continue to be mostly positive. Reasonable commodity prices as well as higher yields have created strong economic conditions for most farmers. Nonetheless, management still expects that future losses in this portfolio could be higher than the very positive



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recent historical experience. Management believes that the slowdown in economic growth during this fiscal year may also negatively impact consumers' repayment capacities. Additionally, a sizable portion of the Traditional Bank's consumer loan portfolio is secured by residential real estate, as discussed above, and is an area to be closely monitored by management in view of its stated concerns. The Company's MPS division, in connection with its relationship to a nationally known tax preparation firm ( "tax firm" ), issued income tax-related loans to some of the tax firm's customers during the first and second quarters of fiscal 2010. These loans are typically repaid at approximately the same time the customer receives their tax refund. The Company engaged in this program in the prior year as well and believes that this allowance is adequate to cover losses from this tax cycle which is now complete.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at March 31, 2010 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by its regulatory agencies, which can require the establishment of additional general or specific allowances.

At March 31, 2010, the Company has established an allowance for loan losses totaling \$17.5 million, or 206.1% of non-performing loans, compared to \$7.0 million, or 55.3% of non-performing loans, at September 30, 2009. Excluding the \$11.8 million allowance related to MPS and its income tax-related loans, the ratio of allowance to non-performing loans would have been 67.6% at March 31, 2010. The increase in the coverage ratio is due to management taking a more conservative approach to valuing its assets and related collateral to reflect the recent and ongoing decline in values and an increase in the historical loss rate for commercial real estate and multi-family loans.

The following table sets forth an analysis of the activity in the Company's allowance for loan losses for the three and six months ended March 31, 2010 and 2009.

(Dollars in Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Beginning balance	\$ 12,182	\$ 7,741	\$ 6,993	\$ 5,732
Provision for loan losses	9,478	10,270	14,169	12,399
Charge-offs	(4,947)	(7,293)	(5,080)	(7,414)
Recoveries	808	506	1,439	507
Ending balance	\$ 17,521	\$ 11,224	\$ 17,521	\$ 11,224

The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. In addition to the factors mentioned above, future additions to the allowance for loan losses may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio.

**CRITICAL ACCOUNTING POLICIES**

The Company's financial statements are prepared in accordance with GAAP. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of



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accounting policies that: (i) involve the most complex and subjective decisions and assessments which may be uncertain at the time the estimate was made, and (ii) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements, management has identified the policies described below as Critical Accounting Policies. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of its Annual Report on Form 10-K for the year ended September 30, 2009 and information contained herein.

*Allowance for Loan Losses.* The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies, and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio, it will enhance its methodology accordingly. Management may have reported a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. Although management believes the levels of the allowance as of both March 31, 2010 and September 30, 2009 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions or other factors could result in increasing losses.

*Goodwill and Intangible Assets.* Goodwill represents the excess of acquisition costs over the fair value of the net assets acquired in a purchase acquisition. Intangible assets include patents filed by the MPS Division. Goodwill and intangible assets are tested annually for impairment or more often if conditions indicate a possible impairment. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate future cash flows, risk-adjusted discount rates, future economic and market conditions, comparison of the Company's market value to book value and determination of appropriate market comparables. Actual future results may differ from those estimates.

Each quarter the Company evaluates the estimated useful lives of intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with ASC 350, *Accounting for the Impairment or Disposal of Long-Lived Assets*, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Assumptions and estimates about future values and remaining useful lives of the Company's intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company's business strategy and internal forecasts. Although the Company believes the historical assumptions and estimates used are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results.

*Self-Insurance.* The Company has a self-insured healthcare plan for its employees up to certain limits. To mitigate a portion of these risks, the Company has a stop-loss insurance policy through a commercial insurance carrier for coverage in excess of \$50,000 per individual occurrence with a maximum aggregate limit for each employee of \$2.0 million. The estimate of self-insurance liability is based upon known claims and an estimate of



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incurred, but not reported ( IBNR ) claims. IBNR claims are estimated using historical claims lag information received by a third party claims administrator. Although management believes it uses the best information available to determine the accrual, unforeseen health claims could result in adjustments to the accrual.

*Deferred Tax Assets.* The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to income for the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized subject to management's judgment that realization is more-likely-than-not. An estimate of probable income tax benefits that will not be realized in future years is required in determining the necessity for a valuation allowance.

*Other-Than-Temporary Impairment.* Management evaluates the Company's available for sale securities for other-than-temporary impairment at least on a quarterly basis, and more often if economic or market concerns warrant such evaluation. Such factors management uses to determine impairment are: (i) the length of time and extent to which the market value has been less than cost, (ii) the financial condition and near-term prospects of the issuer including specific events, (iii) the Company's intent and ability to hold the investment to the earlier of maturity or recovery in fair value, (iv) the implied and historical volatility of the security, and (v) any downgrades by rating agencies.

**RESULTS OF OPERATIONS**

*General.* The Company recorded net income of \$5.2 million, or \$1.74 per diluted share, for the three months ended March 31, 2010 compared to net income of \$1.2 million, or \$0.45 per diluted share, for the same period in fiscal year 2009. The change in net income in the current period compared to the second quarter in fiscal 2009, was primarily due to increased non-interest income of \$4.0 million (generated by the MPS division), an \$0.8 million decrease in provision for loan losses, an increase in net interest income of \$0.8 million, and a decrease in non-interest expense of \$0.8 million partially offset by an increase in income tax expense of \$2.4 million.

The Company recorded net income of \$6.4 million, or \$2.26 per diluted share, for the six months ended March 31, 2010 compared to \$1.8 million, or \$0.71 per diluted share, for the same period in fiscal year 2009. Net earnings for the six month period ended March 31, 2010 were impacted by the aforementioned factors, except with respect to provision for loan losses, which increased \$1.8 million from the six month period ended March 31, 2009 to March 31, 2010.

*Net Interest Income.* Net interest income for the 2010 fiscal second quarter increased by \$0.8 million, or 9.2%, to \$9.0 million from \$8.2 million for the same period in the prior fiscal year. Net interest margin decreased to 3.66% for the second quarter of 2010 as compared to 3.96% for the same period in 2009. Overall, asset yields declined by 84 basis points primarily due to lower average yields in the loan and mortgage-backed securities portfolios and a change in asset mix to more mortgage-backed securities. Mortgage-backed securities comprise 38% of average interest-earning assets compared to 30% one year ago. Overall, rates on all deposits and interest-bearing liabilities decreased by 48 basis points from 1.06% in the 2009 quarter to 0.58% in 2010. As of March 31, 2010, low- and no-cost checking deposits represented 84% of total deposits compared to 79% one year earlier. The increase was driven by growth of \$104.4 million in deposits generated by MPS as of the end of the quarter; as compared to one year earlier, this was a 22% increase. The Company's decreases in the average balance of interest-bearing liabilities of \$51.7 million and the rate paid on those liabilities had a \$0.9 million impact on the increase in net interest income for the 2010 fiscal second quarter as compared to the same quarter in the prior period.



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For the six month period ended March 31, 2010 net interest income was \$16.3 million compared to \$14.4 million for the same period in the prior fiscal year. Contributing to this increase was an 86 basis point decrease in rates paid on interest-bearing liabilities, a \$33.4 million reduction in the average balances of interest-bearing liabilities, and a 21% increase in earning assets. These were partially offset by asset yields that decreased 82 basis points, in part, due to faster prepayment speeds in the Company's mortgage-backed securities portfolio as compared to the prior year.

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The following tables present, for the periods indicated, the Company's total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments have been made. Non-accruing loans have been included in the table as loans carrying a zero yield.

Three Months Ended March 31, (Dollars in Thousands)	Average Outstanding Balance	2010 Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	2009 Interest Earned / Paid	Yield / Rate
<b>Interest-earning assets:</b>						
Loans receivable	\$ 428,073	\$ 7,376	6.99%	\$ 424,580	\$ 7,536	7.20%
Mortgage-backed securities	378,884	2,827	3.02%	249,101	2,797	4.55%
Other investments and fed funds sold	191,585	180	0.38%	170,991	200	0.47%
<b>Total interest-earning assets</b>	<b>998,542</b>	<b>\$ 10,383</b>	<b>4.22%</b>	<b>844,672</b>	<b>\$ 10,533</b>	<b>5.06%</b>
Non-interest-earning assets	42,720			97,883		
<b>Total assets</b>	<b>\$ 1,041,262</b>			<b>\$ 942,555</b>		
Non-interest bearing deposits	\$ 716,826	\$	0.00%	\$ 573,119	\$	0.00%
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking	19,126	45	0.95%	15,656	9	0.23%
Savings	10,362	9	0.35%	9,742	10	0.42%
Money markets	34,900	72	0.84%	37,703	93	1.00%
Time deposits	126,937	823	2.63%	155,526	1,317	3.43%
FHLB advances	40,289	309	3.11%	55,797	669	4.86%
Other borrowings	18,065	124	2.78%	26,930		