META FINANCIAL GROUP INC
Form 10-Q/A
May 14, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended March 31, 2010

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

For the transition period from to

Commission File Number: 0-22140

META FINANCIAL GROUP, INC. ®

(Exact name of registrant as specified in its charter)

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

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:	**Outstanding at May 13, 2010:**
Common Stock, $.01 par value	3,082,362 Common Shares

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Explanatory Note

This Amendment No. 1 on Form 10-Q/A (Amendment No. 1) is being filed by Meta Financial Group, Inc. to amend the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 filed with the Securities and Exchange Commission on May 11, 2010 (the Initial Report). The sole purpose for filing this Amendment No. 1 is to disclose developments in the legal proceedings discussed in Note 5 to the Notes to Condensed Consolidated Financial Statements in the Initial Report. No other changes have been made to the Initial Report, nor does Amendment No. 1 change previously reported financial results or other financial disclosures contained in the Initial Report. This Amendment No. 1 has not been updated to reflect events occurring after the filing of the Initial Report.

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FORM 10-Q/A

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition (Unaudited)

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

	March 31, 2010	September 30, 2009
ASSETS		
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
Total assets	$ 981,910	$ 834,777
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
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
Total deposits	779,376	653,747
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
Total liabilities	920,792	787,432
SHAREHOLDERS EQUITY		
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

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)
Total shareholders equity		61,118		47,345
Total liabilities and shareholders equity	$	981,910	$	834,777

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, 2010	Three Months Ended March 31, 2009	Six Months Ended March 31, 2010	Six Months Ended March 31, 2009
Interest and dividend income:				
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
Interest expense:				
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
Net interest income	9,001	8,244	16,320	14,405
Provision for loan losses	9,478	10,270	14,169	12,399
Net interest income after provision for loan losses	(477)	(2,026)	2,151	2,006
Non-interest income:				
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
Total non-interest income	37,636	33,611	59,674	49,146
Non-interest expense:				
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
Total non-interest expense	28,866	29,650	51,669	48,202
Income before income tax expense	8,293	1,935	10,156	2,950
Income tax expense	3,119	760	3,790	1,102

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

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.®

AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009	Six Months Ended March 31, 2010	Six Months Ended March 31, 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.

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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)

Change in net unrealized losses on securities available for sale												
Net income for six months ended March 31, 2010						6,366						6,366
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.®

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended March 31, 2010	2009
Cash flows from operating activities:		
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
Net cash provided by operating activities	24,230	23,235
Cash flow from investing activities:		
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
Net cash used in investing activities	(146,993)	(135,594)
Cash flows from financing activities:		
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	
Net cash provided by financing activities	133,165	126,121
Net change in cash and cash equivalents	10,402	13,762
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

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC. ®

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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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NOTE 3. EARNINGS PER COMMON SHARE (EPS)

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.

Three Months Ended March 31, **(Dollars in Thousands, Except Share and Per Share Data)**	**2010**	**2009**
Earnings		
Net Income	$ 5,174	$ 1,175
Basic EPS		
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
Earnings Per Common Share		
Basic	$ 1.76	$ 0.45
Diluted EPS		
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
Earnings Per Common Share		
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**
Earnings				
Net Income	$	6,366	$	1,848
Basic EPS				
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
Earnings Per Common Share				
Basic	$	2.29	$	0.71
Diluted EPS				
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
Earnings Per Common Share				
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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NOTE 4. SECURITIES

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)		
March 31, 2010				
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)		
September 30, 2009				
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)			
March 31, 2010						
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)

	LESS THAN 12 MONTHS				OVER 12 MONTHS				TOTAL			
		Fair Value		Unrealized (Losses)		Fair Value		Unrealized (Losses)		Fair Value		Unrealized (Losses)
	(Dollars in Thousands)											
September 30, 2009												
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. 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 to date, 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. Of the four remaining cases, two are class action cases. On May 5, 2010, in one of these two cases, Guardian Angel Credit Union v. MetaBank et al., Case No. 08-cv-261-PB (USDC, District of NH), the court granted the plaintiff s motion to certify the class. The other two cases, not styled as class actions, are cases in which each plaintiff seeks recovery of $99,000 and other specified damages, in connection with a fraudulent CD. This matter was first disclosed in the Company's quarterly report for the period ended December 31, 2007, which stated that an employee of the Bank had sold fraudulent CDs for her own benefit. The unauthorized and illegal actions of the employee have since prompted a number of demands and lawsuits seeking recovery on the bogus CDs to be filed against the Bank, which have been disclosed in subsequent filings. The employee was prosecuted, convicted and is scheduled for sentencing in June, 2010. Notwithstanding the nature of her crimes, which were secreted from the Bank and its management, plaintiffs in the four remaining cases seek to impose liability on the Bank under a number of legal theories with respect to the remaining $3.8 million of bogus CDs that were issued by the former employee. The Bank and its insurer, which has assumed defense of the action and which is advancing defense costs subject to a reservation of rights, continue to vigorously contest liability in the remaining actions.

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

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	Weighted Average Remaining Contractual Term (Yrs)		Aggregate Intrinsic Value
	(Dollars in Thousands, Except Share and Per Share Data)					
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		Weighted Average Fair Value at Grant
	(Dollars in Thousands, Except Share and Per Share Data)		
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 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
Three Months Ended March 31, 2010				
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
Three Months Ended March 31, 2009				
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
Six Months Ended March 31, 2010				
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
Six Months Ended March 31, 2009				
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.

	Fair Value at March 31, 2010			
(Dollars in Thousands)	**Total**	**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**	**Unrealized (Loss)**	**S&P Credit Rating**	**Moody Credit Rating**
		(Dollars in Thousands)			
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 Invt Tr II Exchangeable Pfd Ser B (3)	500	125	(375)		
Total	$ 25,810	$ 17,012	$ (8,798)		

(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.

	Fair Value at March 31, 2010			
(Dollars in Thousands)	**Total**	**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 Banks 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)		
Financial assets				
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
Financial liabilities				
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:

	Traditional Banking Goodwill	Meta Payment Systems® Goodwill	Meta Payment Systems® Patents	Meta Payment Systems® Other	Total
			(Dollars in Thousands)		