

META FINANCIAL GROUP INC
Form 10-Q
August 10, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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
(State or other jurisdiction of
incorporation or organization)

42-1406262
(I.R.S. Employer Identification No.)

121 East Fifth Street, Storm Lake, Iowa 50588

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 periods that the registrant was required to submit and post such files.) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class:
Common Stock, \$.01 par value

Outstanding at August 7, 2009:
2,607,855 Common Shares

Table of Contents

META FINANCIAL GROUP, INC.

FORM 10-Q

Table of Contents

	Page No.
 <u>Part I. Financial Information</u>	
Item 1.	
Financial Statements (Unaudited):	
<u>Condensed Consolidated Statements of Financial Condition as of June 30, 2009 and September 30, 2008</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2009 and 2008</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2009 and 2008</u>	3
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended June 30, 2009 and 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2009 and 2008</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosure About Market Risk</u>	38
<u>Item 4T.</u>	
<u>Controls and Procedures</u>	40
 <u>Part II. Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	41
<u>Item 1A.</u>	
<u>Risk Factors</u>	41
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	41
<u>Item 4.</u>	
<u>Submission of Matters to a Vote of Security Holders</u>	41
<u>Item 5.</u>	
<u>Other Information</u>	41
<u>Item 6.</u>	
<u>Exhibits</u>	41

Table of Contents**META FINANCIAL GROUP, INC.****AND SUBSIDIARIES****Condensed Consolidated Statements of Financial Condition (Unaudited)**

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

	June 30, 2009	September 30, 2008 (As Restated)
ASSETS		
Cash and cash equivalents	\$ 5,227	\$ 2,963
Federal funds sold	10,032	5,188
Investment securities available for sale	15,532	19,711
Mortgage-backed securities available for sale	271,395	184,123
Loans receivable - net of allowance for loan losses of \$9,125 at June 30, 2009 and \$5,732 at September 30, 2008	402,624	427,928
Federal Home Loan Bank Stock, at cost	6,787	8,092
Accrued interest receivable	3,465	4,497
Bond insurance receivable	4,143	6,098
Premises and equipment, net	22,432	21,992
Bank-owned life insurance	13,140	12,758
Foreclosed real estate and repossessed assets	2,500	
Goodwill and intangible assets	2,508	2,206
MPS accounts receivable	47,208	50,046
Other assets	12,522	10,802
Total assets	\$ 819,515	\$ 756,404
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	\$ 461,086	\$ 355,020
Interest-bearing checking	15,887	15,029
Savings deposits	9,994	9,394
Money market deposits	34,643	43,038
Time certificates of deposit	140,930	123,491
Total deposits	662,540	545,972
Advances from Federal Home Loan Bank	76,750	132,025
Securities sold under agreements to repurchase	8,356	5,348
Subordinated debentures	10,310	10,310
Accrued interest payable	607	578
Contingent liability	4,268	4,293
Accrued expenses and other liabilities	12,576	12,145
Total liabilities	775,407	710,671
SHAREHOLDERS' EQUITY		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding		
Common stock, \$.01 par value; 5,200,000 shares authorized, 2,957,999 shares issued, 2,607,855 and 2,601,103 shares outstanding at June 30, 2009 and September 30, 2008, respectively	30	30
Additional paid-in capital	23,342	23,058

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Retained earnings - substantially restricted	32,694	34,442
Accumulated other comprehensive (loss)	(5,284)	(5,022)
Treasury stock, 350,144 and 356,896 common shares, at cost, at June 30, 2009 and September 30, 2008, respectively	(6,674)	(6,775)
Total shareholders equity	44,108	45,733
Total liabilities and shareholders equity	\$ 819,515	\$ 756,404

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008 (As Restated)
Interest and dividend income:				
Loans receivable, including fees	\$ 5,625	\$ 6,290	\$ 19,533	\$ 19,167
Mortgage-backed securities	2,652	2,390	7,457	6,236
Other investments	188	491	735	2,562
	8,465	9,171	27,725	27,965
Interest expense:				
Deposits	1,211	1,813	4,184	6,268
FHLB advances and other borrowings	910	1,367	2,792	4,216
	2,121	3,180	6,976	10,484
Net interest income	6,344	5,991	20,749	17,481
Provision for loan losses	6,277	125	18,676	195
Net interest income after provision for loan losses	67	5,866	2,073	17,286
Non-interest income:				
Card fees	15,677	7,509	63,763	24,466
Loan fees	212	213	542	618
Deposit fees	189	250	567	621
Bank-owned life insurance income	124	126	382	372
Gain on sale of securities available for sale, net	204		213	
Gain on sale of membership equity interests, net	515	318	515	525
Loss on sale of REO	(208)		(208)	
Other income	162	113	247	342
Total non-interest income	16,875	8,529	66,021	26,944
Non-interest expense:				
Card processing expense	7,102	3,569	27,213	11,670
Compensation and benefits	8,218	6,601	23,999	18,769
Occupancy and equipment expense	1,996	1,732	5,849	4,772
Legal and consulting expense	690	996	2,735	2,225
Data processing expense	498	386	1,770	968
Marketing	349	246	1,161	984
Other expense	2,102	1,610	6,430	4,893
Total non-interest expense	20,955	15,140	69,157	44,281
Loss from continuing operations before income tax benefit	(4,013)	(745)	(1,063)	(51)
Income tax benefit from continuing operations	(1,431)	(335)	(329)	(54)
Income (loss) from continuing operations	(2,582)	(410)	(734)	3

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Gain on sale from discontinued operations before taxes						2,309		
Income from discontinued operations before taxes						76		
Income tax expense from discontinued operations						1,574		
Income from discontinued operations						811		
Net income (loss)	\$	(2,582)	\$	(410)	\$	(734)	\$	814
Basic earnings per common share:								
Income (loss) from continuing operations	\$	(0.99)	\$	(0.16)	\$	(0.28)	\$	
Income from discontinued operations								0.31
Net income (loss)	\$	(0.99)	\$	(0.16)	\$	(0.28)	\$	0.31
Diluted earnings per common share:								
Income (loss) from continuing operations	\$	(0.99)	\$	(0.16)	\$	(0.28)	\$	
Income from discontinued operations								0.31
Net income (loss)	\$	(0.99)	\$	(0.16)	\$	(0.28)	\$	0.31
Dividends declared per common share:	\$	0.13	\$	0.13	\$	0.39	\$	0.39

See Notes to Condensed Consolidated Financial Statements.

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

(Dollars in Thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008 (As Restated)
Net income (loss)	\$ (2,582)	\$ (410)	\$ (734)	\$ 814
Other comprehensive loss:				
Change in net unrealized losses on securities available for sale	(435)	(5,207)	(631)	(1,407)
Gains realized in net income	204	318	213	525
	(231)	(4,889)	(418)	(882)
Deferred income tax effect	(86)	(1,824)	(156)	(329)
Total other comprehensive loss	(145)	(3,065)	(262)	(553)
Total comprehensive income (loss)	\$ (2,727)	\$ (3,475)	\$ (996)	\$ 261

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 Nine Months Ended June 30, 2009 and 2008 (As Restated)

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss), Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders Equity
Balance, September 30, 2007	\$ 30	\$ 21,958	\$ 36,805	\$ (3,345)	\$ (377)	\$ (6,973)	\$ 48,098
Cash dividends declared on common stock (\$.39 per share)			(1,005)				(1,005)
Issuance of 14,089 common shares from treasury stock due to exercise of stock options		(2)				164	162
Stock compensation		324					324
4,252 common shares committed to be released under the ESOP		200			286		486
Change in net unrealized losses on securities available for sale				(553)			(553)
Net income for nine months ended June 30, 2008			814				814
Balance, June 30, 2008	\$ 30	\$ 22,480	\$ 36,614	\$ (3,898)	\$ (91)	\$ (6,809)	\$ 48,326
Balance, September 30, 2008	\$ 30	\$ 23,058	\$ 34,442	\$ (5,022)	\$	\$ (6,775)	\$ 45,733
Cash dividends declared on common stock (\$.39 per share)			(1,014)				(1,014)
Issuance of 5,200 common shares from treasury stock due to issuance of		(101)				101	

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

restricted stock												
Stock compensation			385						385			
Change in net unrealized losses on securities available for sale						(262)			(262)			
Net loss for nine months ended June 30, 2009					(734)				(734)			
Balance, June 30, 2009	\$	30	\$	23,342	\$	32,694	\$	(5,284)	\$	(6,674)	\$	44,108

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

META FINANCIAL GROUP, INC.®

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended June 30,	
	2009	2008 (As Restated)
Cash flows from operating activities:		
Net income (loss)	\$ (734)	\$ 814
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Effect of contribution to employee stock ownership plan		486
Depreciation, amortization and accretion, net	3,875	2,368
Provision for loan losses	18,676	195
(Gain) loss on sale of other	143	(79)
(Gain) on sale of available for sale securities, net	(213)	
(Gain) on sale of membership equity interests, net	(515)	(525)
Net change in accrued interest receivable	1,032	186
Net change in other assets	2,904	(5,498)
Net change in accrued interest payable	29	(232)
Net change in accrued expenses and other liabilities	406	(24,405)
Net cash provided by (used in) operating activities-continuing operations	25,603	(26,690)
Net cash provided by operating activities-discontinued operations		6,029
Net cash provided by (used in) operating activities	25,603	(20,661)
Cash flow from investing activities:		
Purchase of securities available for sale	(156,114)	(102,790)
Net change in federal funds sold	(4,844)	74,615
Proceeds from sales of securities available for sale	10,848	
Proceeds from maturities and principal repayments of securities available for sale	60,727	27,469
Loans purchased	(52,070)	(15,487)
Net change in loans receivable	56,263	(52,657)
Proceeds from sales of foreclosed real estate		596
Net change in Federal Home Loan Bank stock	1,305	(4,223)
Proceeds from the sale of premises and equipment	2	102
Purchase of premises and equipment	(3,076)	(4,348)
Other, net	(52)	615
Net cash used in investing activities-continuing operations	(87,011)	(76,108)
Net cash provided by investing activities-discontinued operations		17,598
Net cash used in investing activities	(87,011)	(58,510)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	99,129	46,792
Net change in time deposits	17,439	(25,274)
Net change in advances from Federal Home Loan Bank	(55,275)	44,525
Net change in securities sold under agreements to repurchase	3,008	53,168
Cash dividends paid	(1,014)	(1,005)
Stock compensation	385	324
Proceeds from exercise of stock options		162
Net cash provided by financing activities-continuing operations	63,672	118,692

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Net cash used in financing activities-discontinued operations			(33,210)
Net cash provided by provided by financing activities	63,672		85,482
Net change in cash and cash equivalents	2,264		6,311
Cash and cash equivalents at beginning of period	2,963		20,903
Cash and cash equivalents at end of period	\$ 5,227	\$	27,214
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	\$ 6,947	\$	11,794
Income taxes	2,607		
Supplemental schedule of non-cash investing and financing activities:			
Loans transferred to foreclosed real estate	\$ 3,755	\$	278
Cash received on sale of commercial bank			8,224

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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, 2008 included in Meta Financial Group, Inc.'s (the Company) Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on July 6, 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 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 June 30, 2009, are not necessarily indicative of the results expected for the year ending September 30, 2009.

NOTE 2. DISCONTINUED BANK OPERATIONS

Sale of MetaBank West Central

On November 29, 2007, the Company entered into an agreement to sell MetaBank West Central (MetaBank WC). On March 28, 2008 the Company consummated the sale of MetaBank WC to Anita Bancorporation (Iowa). MetaBank WC had three offices in Stuart, Casey, and Menlo, Iowa and was a state chartered commercial bank whose primary federal regulator was the Federal Reserve Bank of Chicago. The transaction involved the sale of the stock of MetaBank WC for approximately \$8.2 million and generated a pre-tax gain on sale of \$2.3 million. The activity related to Meta Bank WC is accounted for as discontinued operations.

Activities related to discontinued bank operations have been recorded separately with prior period amounts reclassified as discontinued operations on the condensed consolidated statements of operations and cash flows. The notes to the condensed consolidated financial statements have also been adjusted to eliminate the effect of discontinued bank operations.

NOTE 3. ALLOWANCE FOR LOAN LOSSES

At June 30, 2009 the Company's allowance for loan losses was \$9.1 million, an increase of \$3.4 million from \$5.7 million at September 30, 2008. During the nine months ended June 30, 2009 the Company recorded a provision for loan losses of \$18.7 million. \$8.1 million related to the Company's Meta Payment Systems@ (MPS) division, of which \$7.9 million relates to the start-up and completion of loan originations offered in collaboration with MPS' tax preparation partner. This program is now complete with all appropriate accounts charged off, consistent with our policy. There are no loan balances or allowance remaining for this program. During the nine months ended June 30, 2009 the Company also recorded a provision for loan losses in the amount of \$10.5 million primarily due to the failure of five commercial borrowers to repay their respective loans, one of which the Company believes committed fraud. As disclosed in the Company's 8-K filing of October 8, 2008, a borrower of the Bank has likely participated in a fraud on the Bank and other banks. Based on the Bank's

Table of Contents

investigation at the time, it concluded that, as of September 30, 2008, it was appropriate to establish an allowance for loan losses of \$1.8 million. After a subsequent review was completed on April 20, 2009, the Bank concluded that a \$1.3 million increase to the loan loss allowance was warranted for the three months ended March 31, 2009. Additionally, upon further review, the Bank concluded that a \$1.8 million increase to the loan loss allowance was warranted for the three months ended June 30, 2009. The increases were attributable to lower collateral values caused in large part by weaker economic conditions and a deterioration in the commercial real estate market. Potential total losses range from \$2.1 million to \$6.0 million with an expected loss of \$4.9 million. Of the \$4.9 million provided for, \$3.1 million has been charged off.

During the three months ended June 30, 2009, the Company recorded a provision for loan losses in the amount of \$773,000 primarily related to the MPS tax loan portfolio and \$5.5 million related to the various commercial borrowers mentioned above. The Company's total net charge-offs for the three months ended June 30, 2009 were \$8.4 million, of which \$8.0 million was related to MPS and previously provided for. Further discussion of this change in the allowance is included in Non-performing Assets and Allowance for Loan Loss in Management's Discussion and Analysis.

Table of Contents**NOTE 4. 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 (loss) and common stock share amounts used in the computation of basic and diluted EPS for the three and nine months ended June 30, 2009 and 2008 is presented below. See Note 11 to the Notes to Condensed Consolidated Financial Statements.

Three Months Ended June 30, (Dollars in Thousands, Except Share and Per Share Data)	2009	2008
Earnings		
Loss from continuing operations	\$ (2,582)	\$ (410)
Discontinued operations, net of tax		
Net loss	\$ (2,582)	\$ (410)
Basic EPS		
Weighted average common shares outstanding	2,602,655	2,596,479
Less weighted average unallocated ESOP and nonvested shares	(5,000)	(18,976)
Weighted average common shares outstanding	2,597,655	2,577,503
Earnings Per Common Share		
Loss from continuing operations	\$ (0.99)	\$ (0.16)
Discontinued operations, net of tax		
Net loss	\$ (0.99)	\$ (0.16)
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	2,597,655	2,577,503
Add dilutive effect of assumed exercises of stock options, net of tax benefits		
Weighted average common and dilutive potential common shares outstanding	2,597,655	2,577,503
Earnings Per Common Share		
Loss from continuing operations	\$ (0.99)	\$ (0.16)
Discontinued operations, net of tax		
Net loss	\$ (0.99)	\$ (0.16)

Table of Contents

Nine Months Ended June 30, (Dollars in Thousands, Except Share and Per Share Data)	2009	2008 (As Restated)
Earnings		
Income (loss) from continuing operations	\$ (734)	\$ 3
Discontinued operations, net of tax		811
Net income (loss)	\$ (734)	\$ 814
Basic EPS		
Weighted average common shares outstanding	2,602,655	2,602,655
Less weighted average unallocated ESOP and nonvested shares	(5,000)	(19,422)
Weighted average common shares outstanding	2,597,655	2,583,233
Earnings Per Common Share		
Income (loss) from continuing operations	\$ (0.28)	\$
Discontinued operations, net of tax		0.31
Net income (loss)	\$ (0.28)	\$ 0.31
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	2,597,655	2,583,233
Add dilutive effect of assumed exercises of stock options, net of tax benefits		31,340
Weighted average common and dilutive potential common shares outstanding	2,597,655	2,614,573
Earnings Per Common Share		
Income (loss) from continuing operations	\$ (0.28)	\$
Discontinued operations, net of tax		0.31
Net income (loss)	\$ (0.28)	\$ 0.31

Stock options totaling 10,200 and 28,567 were not considered in computing diluted EPS for the three and nine months ended June 30, 2009, respectively, because they were not dilutive. Stock options totaling 311,572 and 125,018 were not considered in computing diluted EPS for the three and nine months ended June 30, 2008, respectively, because they were not dilutive.

Table of Contents

NOTE 5. COMMITMENTS AND CONTINGENCIES

At June 30, 2009 and September 30, 2008, the Company had outstanding commitments to originate and purchase loans totaling \$54.8 million and \$64.2 million, respectively. It is expected that outstanding loan commitments will be funded with existing liquid assets. At June 30, 2009, the Company had no commitments to purchase or sell securities available for sale.

Legal Proceedings

With reference to the prior disclosure in the Company's quarterly report for the period ended March 31, 2009, the *First Federal Bank Littlefield Texas ssb, formerly known as First Federal Savings and Loan Association, Littlefield, Texas v. MetaBank, formerly known as First Federal Savings Bank of the Midwest* lawsuit was settled on May 26, 2009. The *Coreplus Federal Credit Union v. MetaBank* matter was dismissed without prejudice on March 18, 2009.

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

Table of Contents**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 SFAS No. 123(R), 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 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 nine months ended June 30, 2009 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, 2008	514,328	\$ 23.85	7.53	\$ 329
Granted	23,000	14.77		
Exercised				
Forfeited or expired	(500)	22.05		
Options outstanding, June 30, 2009	536,828	\$ 23.46	7.14	\$ 58
Options exercisable, June 30, 2009	424,470	\$ 22.55	6.77	\$ 1

A summary of nonvested share activity for the nine months ended June 30, 2009 is presented below:

	Number of Shares	Weighted Average Fair Market Value At Grant
(Dollars in Thousands, Except Share and Per Share Data)		
Nonvested shares outstanding, September 30, 2008	12,500	\$ 32.93
Granted	5,200	16.00
Vested	(5,200)	16.00
Forfeited or expired		
Nonvested shares outstanding, June 30, 2009	12,500	\$ 32.93

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

As of June 30, 2009, stock based compensation expense not yet recognized in income totaled \$378,923 which is expected to be recognized over a weighted average remaining period of 0.97 years.

Table of Contents**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, consists of its banking subsidiary, MetaBank. MetaBank 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. The second reportable segment, Meta Payment Systems® (MPS), is a division of MetaBank. 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. Other programs are in the process of development. 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. MetaBank WC is accounted for as discontinued bank operations. It is reported as part of the traditional banking segment and has been separately classified to show the effect of continuing operations. Transactions between affiliates, the resulting revenues of which are shown in the 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 nine months ended June 30, 2009 and 2008, respectively. See Note 11 to the Notes to Condensed Consolidated Financial Statements.

	Traditional Banking(1)	Meta Payment Systems®	All Others	Total
Three Months Ended June 30, 2009				
Interest income	\$ 6,776	\$ 1,661	\$ 28	\$ 8,465
Interest expense	1,828	148	145	2,121
Net interest income (loss)	4,948	1,513	(117)	6,344
Provision for loan losses	5,504	773		6,277
Non-interest income	1,141	15,700	34	16,875
Non-interest expense	4,358	16,319	278	20,955
Income (loss) from continuing operations before tax	(3,773)	121	(361)	(4,013)
Income tax expense (benefit)	(1,350)	34	(115)	(1,431)
Income (loss) from continuing operations	\$ (2,423)	\$ 87	\$ (246)	\$ (2,582)
Inter-segment revenue (expense)	\$ 2,177	\$ (2,177)	\$	\$
Total assets	352,931	465,124	1,460	\$ 819,515
Total deposits	220,670	442,187	(317)	\$ 662,540

(1) For the three months ended June 30, 2009 there was no information to report on MetaBank WC.

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Table of Contents

	Traditional Banking(1)	Meta Payment Systems®	All Others	Total
Three Months Ended June 30, 2008 (As Restated)				
Interest income	\$ 6,992	\$ 2,766	\$ (587)	\$ 9,171
Interest expense	3,275	240	(335)	3,180
Net interest income (loss)	3,717	2,526	(252)	5,991
Provision for loan losses	125			125
Non-interest income	939	7,583	7	8,529
Non-interest expense	4,763	10,429	(52)	15,140
Income (loss) from continuing operations before tax	(232)	(320)	(193)	(745)
Income tax expense (benefit)	(109)	(128)	(98)	(335)
Income (loss) from continuing operations	\$ (123)	\$ (192)	\$ (95)	\$ (410)
Inter-segment revenue (expense)	\$ 1,761	\$ (1,761)	\$	\$
Total assets	447,682	331,295	1,905	780,882
Total deposits	224,499	320,589	(592)	544,496

(1) For the three months ended June 30, 2009 there was no information to report on MetaBank WC.

	Traditional Banking(1)	Meta Payment Systems®	All Others	Total
Nine Months Ended June 30, 2009				
Interest income	\$ 19,773	\$ 7,866	\$ 86	\$ 27,725
Interest expense	5,715	778	483	6,976
Net interest income (loss)	14,058	7,088	(397)	20,749
Provision for loan losses	10,527	8,149		18,676
Non-interest income	2,113	63,833	75	66,021
Non-interest expense	14,007	54,185	965	69,157
Income (loss) from continuing operations before tax	(8,363)	8,587	(1,287)	(1,063)
Income tax expense (benefit)	(3,046)	3,156	(439)	(329)
Income (loss) from continuing operations	\$ (5,317)	\$ 5,431	\$ (848)	\$ (734)
Inter-segment revenue (expense)	\$ 6,253	\$ (6,253)	\$	\$
Total assets	352,931	465,124	1,460	819,515
Total deposits	220,670	442,187	(317)	662,540

(1) For the nine months ended June 30, 2009 there was no information to report on MetaBank WC.

Table of Contents

	Traditional Banking	Meta Payment Systems®	All Others	Total
Nine Months Ended June 30, 2008 (As Restated)				
Interest income	\$ 18,252	\$ 9,658	\$ 55	\$ 27,965
Interest expense	9,023	855	606	10,484
Net interest income (loss)	9,229	8,803	(551)	17,481
Provision for loan losses	195			195
Non-interest income	2,215	24,621	108	26,944
Non-interest expense	13,367	30,556	358	44,281
Income (loss) from continuing operations before tax	(2,118)	2,868	(801)	(51)
Income tax expense (benefit)	(740)	994	(308)	(54)
Income (loss) from continuing operations	\$ (1,378)	\$ 1,874	\$ (493)	\$ 3
Inter-segment revenue (expense)	\$ 4,432	\$ (4,432)	\$	\$
Total assets	447,682	331,295	1,905	\$ 780,882
Total deposits	224,499	320,589	(592)	\$ 544,496

	West Central
Nine Months Ended June 30, 2008 (As Restated)	
Net interest income	\$ 262
Provision for loan losses	(57)
Non-interest income, including gain on sale	2,440
Non-interest expense	374
Income from discontinued operations before tax	2,385
Income tax expense	1,574
Income from discontinued operations	\$ 811
Inter-segment revenue (expense)	\$ 175
Total assets	
Total deposits	

Table of Contents

NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The Company adopted SFAS 161 effective January 1, 2009. The adoption of SFAS 161 did not have a significant effect on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for financial statements issued after June 15, 2009. The adoption of FSP FAS 157-4 did not have a significant effect on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairment of equity securities. FSP FAS 115-2 and FAS 124-2 are effective for financial statements issued after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a significant effect on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 also amend APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 are effective for financial statements issued after June 15, 2009. The Company adopted FSP FAS 107-1 and APB 28-1 beginning June 30, 2009 with no material impact on the Company's financial position, results of operation or cash flows.

NOTE 9. FAIR VALUE MEASUREMENTS

Effective October 1, 2008, the Company adopted the provisions of SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 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.

Table of Contents

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.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and liabilities carried at fair value effective October 1, 2008.

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, 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 June 30, 2009. Level 2 securities include agency mortgage-backed securities and private collateralized mortgage obligations, municipal bonds and corporate debt securities.

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Table of Contents

The following table summarizes the assets of the Company for which fair values are determined on a recurring basis as of June 30, 2009.

(Dollars in Thousands)	Total	Fair Value at June 30, 2009		
		Level 1	Level 2	Level 3
Securities available for sale	\$ 286,927	\$	\$ 286,927	\$

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

At June 30, 2009

Issuer(1)	Book Value	Fair Value (Dollars in Thousands)	Unrealized Gain (Loss)	S&P Credit Rating	Moody Credit Rating
Key Corp. Capital I	\$ 4,980	\$ 3,501	\$ (1,479)	BB	Baa2
Huntington Capital Trust II SE	4,968	2,097	(2,871)	B	Baa3
Bank Boston Capital Trust IV (2)	4,960	2,193	(2,767)	B	Baa3
Bank America Capital III	4,947	1,616	(3,331)	B	Baa3
PNC Capital Trust	4,947	3,130	(1,817)	BBB	Baa1
Cascade Capital Trust I 144A (3)	500	445	(55)		
CNB Invt Tr II Exchangeable Pfd Ser B (3)	500	250	(250)		
Total	\$ 25,802	\$ 13,232	\$ (12,570)		

(1) Trust preferred securities are single-issuance. There are no known deferrals, defaults or excess subordination.

(2) Bank Boston now known as 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 five 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.

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

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. The carrying amount at June 30, 2009 represents the fair value and related losses that were measured at fair value subsequent to their initial classification as foreclosed assets.

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 SFAS No. 114, *Accounting for Creditors for Impairment of*

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Table of Contents

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 June 30, 2009.

(Dollars in Thousands)	Total	Fair Value at June 30, 2009		
		Level 1	Level 2	Level 3
FHLB Stock	\$ 6,787	\$	\$ 6,787	\$
Foreclosed Assets, net	2,500		2,500	
Loans	23,878		23,878	
Total	\$ 33,165	\$	\$ 33,165	\$

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 June 30, 2009 and September 30, 2008, 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.

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at June 30, 2009 and September 30, 2008. The information presented is subject to change over time based on a variety of factors.

	June 30, 2009		September 30, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in Thousands)				
Financial assets				
Cash and cash equivalents	\$ 5,227	\$ 5,227	\$ 2,963	\$ 2,963
Federal funds sold	10,032	10,032	5,188	5,188
Securities available for sale	286,927	286,927	203,834	203,834
Loans receivable, net	402,624	417,448	427,928	426,527
FHLB stock	6,787	6,787	8,092	8,092
Accrued interest receivable	3,465	3,465	4,497	4,497
Financial liabilities				
Noninterest bearing demand deposits	461,086	461,086	355,020	355,020
Interest bearing demand deposits, savings, and money markets	60,524	60,524	67,461	67,461
Certificates of deposit	140,930	143,276	123,491	124,808
Total deposits	662,540	664,886	545,972	547,289
Advances from FHLB	76,750	80,195	132,025	134,558
Securities sold under agreements to repurchase	8,356	8,356	5,348	5,348
Subordinated debentures	10,310	8,566	10,310	17,834

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Accrued interest payable	607	607	578	578
Off-balance-sheet instruments, loan commitments				

Table of Contents

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at June 30, 2009 and September 30, 2008.

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. The amount of securities for which quoted market prices were not available is not material to the portfolio as a whole.

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 June 30, 2009 and September 30, 2008. 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 SFAS No. 107, 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 SFAS No. 107.

ADVANCES FROM FHLB

The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates as of June 30, 2009 and September 30, 2008 for advances with similar terms and remaining maturities.

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 June 30, 2009 and September 30, 2008 over the contractual maturity of such borrowings.

Table of Contents

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 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.

Table of Contents**NOTE 10. GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of the Company's goodwill and intangible assets for the nine months ended June 30, 2009 and 2008 are as follows:

	Traditional Banking Goodwill	Meta Payment Systems® Goodwill	Meta Payment Systems® Patents	Total
	(Dollars in Thousands)			
Balance as of September 30, 2008	\$ 1,508	\$ 425	\$ 273	\$ 2,206
Acquisitions during the period			302	302
Balance as of June 30, 2009	\$ 1,508	\$ 425	\$ 575	\$ 2,508
	Traditional Banking Goodwill	Meta Payment Systems® Goodwill	Meta Payment Systems® Patents	Total
	(Dollars in Thousands)			
Balance as of September 30, 2007	\$ 1,508	\$	\$	\$ 1,508
Acquisitions during the period		425	113	538
Balance as of June 30, 2008	\$ 1,508	\$ 425	\$ 113	\$ 2,046
Discontinued Operations-Traditional Banking				
Balance as of September 30, 2007	\$ 1,895			
Dispositions during the period (1)	(1,895)			
Balance as of June 30, 2008	\$			

(1) MetaBank WC was sold during the quarter ended March 31, 2008.

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 nine months ended June 30, 2009 and 2008.

Table of Contents**Note 11. RESTATEMENT OF FINANCIAL INFORMATION**

On June 22, 2009, the Company reported that the Audit Committee of its Board of Directors had determined to restate its earnings results for the fiscal year ended September 30, 2008, and the fiscal quarters ended December 31, 2008 and March 31, 2009. The restatements, which resulted in an earnings decrease for fiscal year 2008 and a corresponding change to shareholders' equity at September 30, 2008 and the first and second quarters of fiscal year 2009, are the result of an error in estimating income tax expense associated with the Company's March 28, 2008 sale of its subsidiary, MetaBank West Central. In total, fiscal quarter ended June 30, 2008 net income decreased by \$1.1 million, or \$0.41 per diluted share, from income of \$1.9 million, or \$0.72 per diluted share, to income of \$814,000, or \$0.31 per diluted share.

Summary of restatement items for the fiscal quarter ended June 30, 2008:

Nine Months Ended June 30, 2008	Adjustments
Net income as originally reported	\$ 1,888
Error in income tax expense	(1,074)
Net income as adjusted	\$ 814

During the course of preparation for filing its 2008 federal income tax return, the Company in consultation with an outsourced third party public accounting firm determined that an error in income tax expense was reported on the Company's financial statements in connection with the Company's March 28, 2008 sale of its subsidiary, MetaBank West Central. Cost basis and tax treatment of the subsidiary sale was incorrect resulting in a greater reported gain on sale of the subsidiary for tax purposes. As a result of the error, the Company's accrued income tax expense was understated as originally reported and increased by \$1.1 million after the correction.

The following table summarizes the impact of the restatements on the Company's consolidated statement of operations for the nine months ended June 30, 2008. These restatements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K/A for the year ended September 30, 2008.

Consolidated Statement of Operations Nine Months Ended June 30, 2008	As Previously Reported	As Restated
Income tax expense from discontinued operations	\$ 500	\$ 1,574
Income from discontinued operations	1,885	811
Net Income	1,888	814
Earnings per share:		
Income from discontinued operations - basic	\$ 0.73	\$ 0.31
Income from discontinued operations - diluted	\$ 0.72	\$ 0.31

The restatement also affects Notes 4 and 7 of Notes to Condensed Consolidated Financial Statements.

Table of Contents

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 MetaBank or Meta Payment Systems® (MPS), a division of MetaBank; 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 Federal Reserve 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 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 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 MetaBank, a federal savings bank. The Company also owns all the issued and outstanding shares of Meta Trust. The Company was incorporated in 1993 as a unitary non-diversified savings and loan holding company that, on September 20 of that year, acquired all of the capital stock of MetaBank in connection with MetaBank's conversion from mutual to stock form of ownership. On September 30, 1996, the Company became a bank holding company for regulatory purposes upon its acquisition of MetaBank WC until its sale of MetaBank WC in March 2008, at which time the Company became a unitary

Table of Contents

savings and loan holding company again. Unless the context otherwise requires, references herein to the Company include Meta Financial and MetaBank, and all subsidiaries of Meta Financial, direct or indirect, on a consolidated basis.

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at June 30, 2009, compared to September 30, 2008, and the consolidated results of operations for the three and nine months ended June 30, 2009 and 2008. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2008.

CORPORATE DEVELOPMENTS AND OVERVIEW

The Company recorded a net loss of \$2.6 million for the fiscal third quarter of 2009 which was primarily due to an increased provision for loan losses in the amount of \$6.2 million. As discussed below, the provision comprised \$773,000 related to the MPS division and \$5.5 million related to the Company's traditional bank segment in connection with various commercial borrowers. Net loss in the current period was also impacted by higher operating expenses at MPS, commensurate with the growth in revenue. In addition, net interest income increased \$353,000 as compared to the same period in fiscal year 2008.

The MPS division continued to demonstrate significant growth on a year-over-year basis. Fiscal third quarter 2009 MPS-related fee income grew by \$8.2 million, or 109%, as all business lines were higher than the same period in fiscal 2008. In collaboration with one of MPS's tax preparation partners, MPS introduced a new credit-related product that functions in concert with the Meta-issued prepaid card during the first fiscal quarter. The division's rebate, tax and credit business lines were major contributors to the increase in revenue in the fiscal third quarter. The division also continued to exhibit product innovation as 40 patents were pending at the end of the quarter.

The traditional bank segment is continuing to build its customer base from the previous expansion in the growing metropolitan areas of Sioux Falls, South Dakota and Des Moines, Iowa. The Bank has added seven branches in approximately the past seven years in these markets. 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 13 retail banking branches: in Brookings (1) and Sioux Falls (4), South Dakota, in Des Moines (6) and Storm Lake (2), Iowa and a non-retail service branch in Memphis, Tennessee.

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

FINANCIAL CONDITION

As of June 30, 2009, the Company's assets grew by \$63.1 million, or 8.3%, to \$819.5 million compared to \$756.4 million at September 30, 2008. The increase in assets was reflected primarily in increases in the Company's mortgage-backed securities and to a lesser extent in the Company's investment in federal funds sold, offset in part by decreases in investment securities available for sale and net loans receivable.

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Total cash and cash equivalents and federal funds sold were \$15.3 million at June 30, 2009, an increase of \$7.1 million from \$8.2 million at September 30, 2008. The increase primarily was the result of the Company's excess liquidity due to an increase in deposits, primarily due to deposits generated by MPS. In general, the Company maintains its cash investments in interest-bearing overnight deposits with various correspondent banks. Federal funds sold deposits may be maintained at the FHLB of Des Moines or various commercial banks, including, but not limited to the following: CitiBank, JP Morgan Chase, M&I Bank, BNP Paribas, Bank of America and Bankers Bank, all but one with assets in excess of \$1.0 billion. At June 30, 2009, the Company held \$10.0 million in federal funds sold.

Table of Contents

The total of mortgage-backed securities and investment securities available for sale increased \$83.1 million, or 40.1%, to \$286.9 million at June 30, 2009, as investment purchases exceeded related maturities, sales, and principal paydowns. The Company's portfolio of securities available for sale consists primarily of mortgage-backed securities, which have relatively short expected lives. Approximately 32% of the mortgage-backed securities have balloons which further limit maturity extension risk. During the nine month period ended June 30, 2009, the Company purchased \$155.4 million of mortgage-backed securities with average lives of five years or less and stated finals of approximately 30 years or less.

The Company's portfolio of net loans receivable decreased \$25.3 million, or 5.9%, to \$402.6 million at June 30, 2009. This decrease primarily relates to a decrease of \$21.8 million in commercial business and agricultural operating loans due to pay downs and transfers to other repossessed assets and an increase in the allowance for loan losses of \$3.4 million. Offsetting the above was an increase in commercial and multi-family real estate loans of \$11.5 million.

FHLB stock, at cost, decreased \$1.3 million primarily due to decreased borrowings with the FHLB of Des Moines, IA. Bond insurance receivable decreased \$2.0 million as management revised the expected receipt of insurance proceeds.

Foreclosed real estate and foreclosed assets increased to \$2.5 million as compared to none at September 30, 2008 due to the Company's foreclosure of assets and loan collateral related to previously reported non-performing loans. See Non-performing Assets and Allowance for Loan Losses below for further discussion.

Total deposits increased \$116.6 million, or 21.4%, to \$662.5 million at June 30, 2009. The Company continues to grow its low- and no-cost deposit portfolio. Total MPS deposits were up \$111.2 million, or 33.6%, at June 30, 2009, as compared to September 30, 2008. This increase results from growth in prepaid card sponsorship programs.

Total borrowings decreased \$52.3 million, or 35.6%, from \$147.7 million at September 30, 2008 to \$95.4 million at June 30, 2009 and is primarily due to the growth of deposits.

At June 30, 2009, the Company's shareholders' equity totaled \$44.1 million, down \$1.6 million from \$45.7 million at September 30, 2008. The decrease was related to 2009 year-to-date net loss (see Results of Operations below), the payment of dividends on the Company's common stock and an unfavorable change in the accumulated other comprehensive loss on the Company's available for sale portfolio. At June 30, 2009, MetaBank continues to exceed regulatory requirements for classification as well-capitalized institution.

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.

The Company believes that the level of allowance for loan losses at June 30, 2009 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. Balances related to discontinued bank operations have been eliminated for all periods presented.

Table of Contents

Non-Performing Assets As Of
June 30, 2009 **September 30, 2008**
(Dollars in Thousands)

Non-Accruing Loans:			
1-4 Family	\$	4,173	\$ 942
Commercial & Multi Family		10,455	1,302
Agricultural Real Estate			12
Consumer			1
Commercial Business		2,582	538
Total		17,210	2,795
Accruing Loans Delinquent 90 Days or More			
Total			4,600
Restructured Loans:			
Agricultural Operating			121
Total			121
Foreclosed Assets:			
Consumer			
Commercial Business		2,500	
Total		2,500	
Total Non-Performing Assets	\$	19,710	\$ 7,516
Total as a Percentage of Total Assets		2.41%	0.99%

The 2009 third quarter increase in non-performing loans relates to three commercial borrowers and is primarily due to deterioration in the commercial real estate market caused by the economic downturn.

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by 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 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.

Table of Contents

In connection with the Bank's recent examination by the Office of Thrift Supervision (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 OTS' *policy that the recent 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*, 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 June 30, 2009, the Company had classified a total of \$34.2 million of its assets as substandard, \$12.1 million as doubtful and none as loss. This compares to classifications at September 30, 2008 of \$15.8 million as substandard, \$88,000 as doubtful and none as loss. *As of June 30, 2009, \$19.9 million out of a total of \$34.2 million of substandard assets is attributable to the trust preferred securities identified above. See Note 9 to the Notes to Condensed Consolidated Financial Statement.*

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. While the Company has no direct exposure to sub-prime mortgage loans, management reiterates and restates its concern that developments in the sub-prime mortgage market may have a direct effect on residential real estate prices and an indirect effect on the economy in general. In addition, the economic slowdown is straining 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 remained moderate. Management concludes that future losses in this portfolio may be somewhat 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, which have been very low, could be higher than 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 Company'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.

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 June 30, 2009 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 June 30, 2009, the Company has established an allowance for loan losses totaling \$9.1 million, or 53.0% of non-performing loans, compared to \$5.7 million, or 76.3% of non-performing loans at September 30, 2008. Excluding the current period allowance related to MPS, the ratio of allowance to non-performing loans would

Table of Contents

have been 52.0% at June 30, 2009. The decline in the coverage ratio is due to management taking a more conservative approach to valuing our assets and related collateral to reflect the recent and anticipated ongoing decline in values. This resulted in the charge offs that are reflected in the table below.

The following table sets forth an analysis of the activity in the Company's allowance for loan losses for the three and nine months ended June 30, 2009 and 2008.

(Dollars in Thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Beginning balance	\$ 11,224	\$ 4,581	\$ 5,732	\$ 4,493
Provision for loan losses	6,277	125	18,676	195
Charge-offs	(8,436)	(1)	(15,850)	(30)
Recoveries	60	23	567	70
Ending balance	\$ 9,125	\$ 4,728	\$ 9,125	\$ 4,728

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 U.S. generally accepted accounting principles (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 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 Financial Statements and Supplementary Data of its Annual Report on Form 10-K/A for the year ended September 30, 2008 and 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 June 30, 2009 and September 30, 2008 were

adequate

Table of Contents

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 FASB Statement No. 144, *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 incurred, but not reported (IBNR) claims. IBNR claims are estimated using historical claims lag information received by a third party claims administrator. Due to the uncertainty of health claims, the approach includes a process which may differ significantly from other methodologies and still produce an estimate in accordance with GAAP. 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. There was no deferred tax valuation allowance at June 30, 2009 or September 30, 2008.

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.

Table of Contents

RESULTS OF OPERATIONS

General. The Company recorded a loss from continuing operations of \$2.6 million, or \$0.99 per diluted share, for the three months ended June 30, 2009 compared to a net loss of \$410,000, or \$0.16 per diluted share, for the same period in fiscal year 2008. Net loss in the current period was primarily impacted by higher operating expenses at MPS, commensurate with the growth in revenue, and an increased provision for loan losses in connection with various commercial borrowers. In addition, net interest income increased \$353,000 as compared to the same period in fiscal year 2008.

The Company recorded a loss from continuing operations of \$734,000, or \$0.28 per diluted share, for the nine months ended June 30, 2009 compared to income of \$3,000, or \$0.00 per diluted share, for the same period in fiscal year 2008. Including discontinued operations, net loss was \$734,000, or \$0.28 per diluted share for the nine months ended June 30, 2009 compared to income of \$814,000, or \$0.31 per diluted share for the same period in fiscal year 2008. Net loss for the nine month period ended June 30, 2009 were impacted by the aforementioned factors.

Net earnings in the prior year nine month period ended June 30, 2008 were impacted by an after-tax gain of \$735,000 million resulting from the sale of the Company's commercial banking subsidiary, MetaBank WC. See Note 2 to the Notes to Condensed Consolidated Financial Statements for further discussion on discontinued operations.

Net Interest Income. Net interest income from continuing operations for the third quarter of fiscal year 2009 increased by \$353,000, or 5.9%, to \$6.3 million from \$6.0 million for the same period in the prior fiscal year. Net interest margin decreased to 3.19% for the third quarter of 2009 as compared to 3.32% for the same period in 2008. Overall, asset yields declined by 83 basis points due to a lower average yields. In addition, the investment portfolio grew from 40.9% to 46.9% of interest-earning assets which compounded the decline in yield. Also, interest income for three loans placed on non-accrual status was reversed during the quarter. Rates paid on deposits and interest-bearing liabilities decreased by 66 basis points from 1.73% in the 2008 quarter to 1.07% in 2009. As of June 30, 2009, low- and no-cost checking deposits represented 79% of total deposits compared to 76% one year earlier. The increase was driven by growth of \$121.6 million in MPS deposits as of the end of the quarter; as compared to one year earlier, this was a 38% increase.

Net interest income for the nine months ended June 30, 2009 was \$20.7 million, up \$3.3 million or 19% from 2008. The net interest margin increased by four basis points to 3.49%. Contributing to this increase was a 17% increase in earning assets while the level of interest-bearing liabilities decreased by 10% due to the continued migration to no-cost deposits provided by MPS.

Table of Contents

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. Balances related to discontinued bank operations have been reclassified to non-interest-earning assets and non-interest-bearing liabilities for all periods presented.

Three Months Ended June 30, (Dollars in Thousands)	Average Outstanding Balance	2009 Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	2008 (As Restated) Interest Earned / Paid	Yield / Rate
Interest-earning assets:						
Loans receivable	\$ 423,155	\$ 5,625	5.33%	\$ 428,416	\$ 6,290	5.91%
Mortgage-backed securities	297,492	2,652	3.58%	217,924	2,390	4.41%
Other investments and fed funds sold	76,252	188	0.99%	78,925	491	2.50%
Total interest-earning assets	796,899	\$ 8,465	4.26%	725,265	\$ 9,171	5.09%
Non-interest-earning assets	64,332			78,773		
Total assets	\$ 861,231			\$ 804,038		
Non-interest bearing deposits	\$ 492,238	\$	0.00%	\$ 365,792	\$	0.00%
Interest-bearing liabilities:						
Interest-bearing checking	16,406	10	0.24%	14,335	16	0.45%
Savings	10,085	9	0.36%	9,539	14	0.59%
Money markets	35,248	85	0.97%	78,318	370	1.90%
Time deposits	132,720	1,107	3.35%	134,994	1,413	4.21%
FHLB advances	85,217	646	3.04%	75,350	792	4.23%
Other borrowings	23,737	264	4.46%	62,797	575	3.68%
Total interest-bearing liabilities	303,413	2,121	2.80%	375,333	3,180	3.41%
Total deposits and interest-bearing liabilities	795,651	\$ 2,121	1.07%	741,125	\$ 3,180	1.73%
Other non-interest bearing liabilities	17,743			9,776		
Total liabilities	813,394			750,901		
Shareholders' equity	47,837			53,137		
Total liabilities and shareholders equity	\$ 861,231			\$ 804,038		
Net interest income and net interest rate spread including non-interest bearing deposits		\$ 6,344	3.19%		\$ 5,991	3.36%
Net interest margin			3.19%			3.32%

Table of Contents

Nine Months Ended June 30, (Dollars in Thousands)	Average Outstanding Balance	2009 Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	2008 (As Restated) Interest Earned / Paid	Yield / Rate
Interest-earning assets:						
Loans receivable	\$ 429,863	\$ 19,533	6.08%	\$ 408,651	\$ 19,167	6.27%
Mortgage-backed securities	243,386	7,457	4.10%	191,747	6,236	4.34%
Other investments and fed funds sold	121,307	735	0.81%	77,028	2,562	4.44%
Total interest-earning assets	794,556	\$ 27,725	4.67%	677,426	\$ 27,965	5.51%
Non-interest-earning assets	68,931			59,164		
Total assets	\$ 863,487			\$ 736,590		
Non-interest bearing deposits	\$ 486,554	\$	0.00%	\$ 335,804	\$	0.00%
Interest-bearing liabilities:						
Interest-bearing checking	15,788	31	0.26%	15,314	91	0.79%
Savings	9,704	30	0.41%	10,064	90	1.19%
Money markets	38,128	321	1.13%	66,701	1,279	2.56%
Time deposits	147,462	3,802	3.45%	143,571	4,808	4.47%
FHLB advances	67,289	2,034	4.04%	70,809	2,588	4.88%
Other borrowings	34,680	758	2.92%	41,549	1,628	5.23%
Total interest-bearing liabilities	313,051	6,976	2.98%	348,008	10,484	4.02%
Total deposits and interest-bearing liabilities	799,605	\$ 6,976	1.17%	683,812	\$ 10,484	2.05%
Other non-interest bearing liabilities	16,674			8,555		
Total liabilities	816,279			692,367		
Shareholders equity	47,208			44,223		
Total liabilities and shareholders equity	\$ 863,487			\$ 736,590		
Net interest income and net interest rate spread including non-interest bearing deposits		\$ 20,749	3.50%		\$ 17,481	3.46%
Net interest margin			3.49%			3.45%

Table of Contents

Provision for Loan Loss. The Company recorded a provision for loan losses in the third quarter of fiscal year 2009 of \$6.3 million compared to a provision of \$125,000 for the same period in the prior fiscal year. The provision was comprised of \$773,000 related to the MPS division and \$5.5 million related to the Company's traditional bank segment in connection with various commercial borrowers. The borrowers, including the previously disclosed loan fraud case, which was the largest, accounted for approximately two-thirds of the provision. For the nine months ended June 30, 2009, the Company recorded a provision of \$18.7 million compared to a provision of \$195,000 for the same period in the prior fiscal year due to the aforementioned factors. Also see Note 3 to the Notes to Condensed Consolidated Financial Statements and Non-performing Assets and Allowance for Loan Losses herein for further discussion.

Non-Interest Income. Non-interest income increased by \$8.4 million, or 99.0%, to \$16.9 million from \$8.5 million in the prior fiscal year third quarter. The increase is primarily the result of higher fee income earned on prepaid debit cards, income tax related programs, credit products and other products offered by MPS. Fees earned on MPS-related programs were \$15.7 million for the third quarter of fiscal year 2009, compared to \$7.5 million for the same quarter in fiscal year 2008. For the nine months ended June 30, 2009, non-interest income increased by \$39.2 million, or 145.3%, to \$66.1 million from \$26.9 million for the same period in the prior fiscal year. Fees earned on MPS-related programs were \$63.4 million for the nine months ended June 30, 2009, compared to \$24.5 million for the same period in fiscal year 2008.

In addition, the Bank sold an equity interest in MasterCard which resulted in a third quarter gain of \$515,000. Offsetting this increase was a recorded loss on the sale of foreclosed property and real estate owned in the amount of \$208,000. The Bank sold a portion of assets acquired due to fraud of a commercial borrower previously disclosed.

Non-Interest Expense. Non-interest expense increased by \$5.8 million, or 38.4%, to \$20.9 million for the third quarter of fiscal year 2009 from \$15.1 million for the same quarter in fiscal year 2008. Non-interest expense increased by \$24.9 million, or 56.2%, to \$69.2 million for the nine months ended June 30, 2009 from \$44.3 million for the same period in fiscal year 2008.

Costs associated with the operational support of products at MPS also increased, although to a lesser extent than the related non-interest income. Card processing expenses rose \$3.5 million from \$3.6 million in the third quarter of fiscal year 2008 to \$7.1 million in the current quarter. For the nine months ended June 30, 2009, card processing expense totaled \$27.2 million, compared to \$11.7 million for the same period in the prior fiscal year. These expenses primarily stem from the aforementioned growth in programs managed by MPS.

Compensation expense rose \$1.6 million to \$8.2 million for the three months ended June 30, 2009 as compared to \$6.6 million for the same period in fiscal 2008. For the nine months ended June 30, 2009, compensation expense totaled \$24.0 million, compared to \$18.8 million for the same period in the prior fiscal year. The increase represents the addition of management, client relations, compliance and operations support staff within MPS, as well as software developers, Information Technology (IT) support staff, and other administrative support within the Company. Most of the new employees are focused on supporting new business growth and the expansion of existing MPS products and services.

The Company's occupancy and equipment expense also rose during the third quarter of fiscal year 2009 as compared to the same period in the prior fiscal year. Occupancy and equipment expense for the third quarter of fiscal year 2009 was \$2.0 million compared to \$1.7 million for the same period in fiscal year 2008. Occupancy and equipment expense for the nine months ended June 30, 2009 was \$5.8 million compared to \$4.8 million for the same period in fiscal year 2008. Both quarter and year-to-date increases were due to supporting new product lines and increasing market penetration of MPS products and services.

Table of Contents

Legal and consulting expense was \$690,000 for the third quarter of fiscal year 2009, down \$306,000 or 30.7% from the same period in 2008 due to the wind down of the seasonal tax programs. Legal and consulting expense was \$2.7 million for the nine months ended June 30, 2009, up \$510,000 or 22.9% from the same period in 2008. The increase related to MPS growth, resolution of previously disclosed customer fraud issues and general corporate matters.

The Company's data processing expense also rose during the third quarter of fiscal year 2009 as compared to the same period in the prior fiscal year due to increased transaction volumes from MPS programs. Data processing expense for the third quarter of fiscal year 2009 was \$498,000 compared to \$386,000 for the same period in fiscal year 2008. Data processing expense for the nine months ended June 30, 2009 was \$1.8 million compared to \$968,000 for the same period in fiscal year 2008.

The Company's other non-interest expense totaled \$2.1 million for the third quarter of fiscal year 2009 as compared to \$1.6 million for the same period in fiscal 2008. Regulatory expense increased \$219,000 due to increased FDIC assessments, including \$68,000 for the 2009 special assessment, and insurance and surety bond costs increased \$81,000 as compared to the same period in 2008. Other non-interest expense for the nine months ended June 30, 2009 was \$6.4 million compared to \$4.9 million for the same period in fiscal year 2008. Regulatory expense increased \$766,000 and insurance and surety bond costs increased \$398,000 as compared to the same period in 2008.

Income Tax Benefit. Income tax benefit from continuing operations for the third quarter of fiscal year 2009 was \$1.4 million, or an effective tax rate of 35.7%, compared to \$335,000, or an effective tax rate of 45.0%, for the same period in the prior fiscal year. For the nine months ended June 30, 2009, the Company recorded an income tax benefit from continuing operations in the amount of \$329,000, or an effective tax rate of 31.0%, compared to \$54,000, or an effective tax rate of 106.0% for the same period in the prior fiscal year. The change in tax benefit is primarily due to the change in loss from continuing operations before income tax benefit. The Company's recorded income tax benefit was also impacted by permanent differences between book and taxable income.

Discontinued Operations. The Company reported no income from discontinued operations in the current fiscal year compared to income of \$811,000 for the prior nine month period ended June 30, 2008. The prior year was impacted by a \$735,000 after-tax gain on sale of MetaBank WC. See Note 2 to the Notes to Condensed Consolidated Financial Statements for further discussion on discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans and mortgage-backed securities, and maturing investment activities. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments are influenced by the level of interest rates, general economic conditions, and competition.

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At June 30, 2009, the Company had commitments to originate and purchase loans totaling \$54.8 million. The Company believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Regulations require MetaBank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth MetaBank's actual capital and required capital amounts and ratios at June 30, 2009 which, at that date, exceeded the minimum capital adequacy requirements.

Table of Contents

In response to the current reserve ratios of the Deposit Insurance Fund, and the need to restore it to its statutory minimum, the Federal Deposit Insurance Corporation (the FDIC) announced on May 22, 2009 a final rule imposing a 5 basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009 (although no institution's special assessment will exceed 10 basis points times the institution's assessment base for the second quarter of 2009). The special assessment is payable on September 30, 2009. The FDIC also announced that an additional special assessment later in 2009 is probable. In addition, the FDIC made changes to its risk-based assessment rates effective April 1, 2009.

Finally, the FDIC promulgated a temporary liquidity guarantee program that had both a debt guarantee component, whereby the FDIC agreed to guarantee certain senior unsecured debt issued by eligible financial institutions between October 14, 2008 and October 31, 2009, and a transaction account guarantee component, whereby the FDIC agreed to insure 100% of non-interest bearing deposit transaction accounts held at eligible financial institutions, such as lawyers' trust accounts, payment processing accounts, payroll accounts and working capital accounts through December 31, 2009. The FDIC has proposed an extension of the transaction account guarantee component of this program but, as of the date of this filing, no extension has been finalized. MetaBank opted out of participation in both of these programs, however.

On May 22, 2009, President Obama signed into law the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the Credit Card Act). The law made significant changes to the Truth in Lending Act as implemented by the Federal Reserve's Regulation Z. The Credit Card Act imposes a number of changes upon credit card issuers by February 2010, although a limited number of changes go into effect in August 2009. While the Company does not have any credit card programs that are affected by the legislation, it will continue to monitor developments in this area.

While the Credit Card Act primarily affects credit cards, it contains an amendment (Title IV) relating to open and closed loop prepaid cards. The full impact of the Credit Card Act remains to be seen as many of the details are dependent upon the regulations as promulgated by the Federal Reserve. The amendments in Title IV of the Credit Card Act must be effective 15 months after enactment (i.e., August 2010) but final rules must be issued no later than nine months after passage of such Act (i.e., February 2010). Accordingly, the industry will have six months to implement any required changes after promulgation of such rules. With respect to additional rulemaking, the Company intends to participate in the Federal Reserve's rulemaking process. Although it cannot be predicted with absolute certainty, the Company does not expect earnings to be more than modestly affected.

The extent to which these programs and others like them will succeed in ameliorating tight credit conditions or otherwise result in an improvement in the national economy is uncertain. It is also likely, but not certain, that additional legislation affecting financial institutions (such as MetaBank) and their holding companies (such as the Company) will be enacted.

Legislative and regulatory changes continue to be proposed with respect to consumer financial products and services. The most significant of these proposals was released by the U.S. Treasury in June 2009 and involves the creation of a new, independent federal agency to be called the Consumer Financial Protection Agency. The proposed agency would regulate consumer financial products and services and provide minimum, uniform rules with respect to such products, including products currently offered by the Bank and MPS. The proposal also includes a rollback of preemption for federally chartered banks (like the Bank) such that a broad category of state consumer law not currently applicable to the Bank would be applicable to the operations and product offerings of the Bank, its subsidiaries and its affiliates. In addition, the proposed agency would have sole rulemaking and interpretive authority. Debate continues with respect to the creation and powers of the proposed agency and there is no way to predict whether it will be created and, if it is, the authority it will possess.

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

Aside from the proposal discussed above, additional legislative and regulatory proposals have been set forth by members of Congress and federal agencies related to tax refund anticipation products. There is no way to

Table of Contents

determine whether such proposals will be enacted by Congress or adopted by regulatory agencies and the extent to which they will impact the operations of the Bank and MPS.

The Company utilizes various third parties for, among other things, its processing needs, both with respect to standard bank operations and with respect to its MPS division. MPS was notified in April 2008 by one of the processors that the processor's computer system had been breached, which led to the unauthorized load and spending of funds from Bank-issued cards. The Bank believes the amount in question to be approximately \$2.0 million. The processor and program manager both have agreements with the Bank to indemnify it for any losses as a result of such unauthorized activity. In addition, the Bank has given notice to its own insurer. The Company has been notified by the processor that its insurer has denied the claim filed. The Company has made demand for payment and has filed a demand for arbitration to recover the unauthorized loading and spending amounts and certain damages, which action is currently pending.

Table of Contents

Part I. Financial Information

Item 3. Quantitative and Qualitative Disclosure About Market Risk

MARKET RISK

The Company is exposed to the impact of interest rate changes and changes in the market value of its investments.

The Company originates predominantly adjustable-rate loans and fixed-rate loans up to ten years. Long-term fixed-rate residential mortgages are generally sold into the secondary market. As a result of its lending practices, the Company's loan portfolio is relatively short in duration and yields respond quickly to the overall level of interest rates.

The Company's primary objective for its investment portfolio is to provide the liquidity necessary to meet the Company's cash demands. This portfolio may also be used in the ongoing management of interest rate risk. As a result, funds may be invested among various categories of security types and maturities based upon the Company's need for liquidity and its desire to create an economic hedge against the effects changes in interest rates may have on the overall market value of the Company.

The Company offers a full range of deposit products which are generally short term in nature. Interest-bearing checking, savings, and money market accounts generally provide a stable source of funds for the bank and also respond relatively quickly to changes in short term interest rates. The Company offers certificates of deposit with maturities of three months through five years, which serve to extend the duration of the overall deposit portfolio. A significant and increasing portion of the Company's deposit portfolio is concentrated in non-interest-bearing checking accounts. These accounts serve to decrease the Company's overall cost of funds and reduce its sensitivity to changes in short term interest rates.

The Company also maintains a portfolio of wholesale borrowings, predominantly advances from the Federal Home Loan Bank which carry fixed terms and fixed rates of interest. The Company utilizes this portfolio to manage liquidity demands and also, when appropriate, in the ongoing management of interest rate risk.

The Board of Directors, as well as the Office of Thrift Supervision, has established limits on the level of acceptable interest rate risk. There can be no assurance, however, that, in the event of an adverse change in interest rates, the Company's efforts to limit interest rate risk will be successful.

Net Portfolio Value. The Company uses a Net Portfolio Value (NPV) approach to the quantification of interest rate risk. This approach calculates the difference between the present value of expected cash flows from assets and the present value of expected cash flows from

liabilities, as well as cash flows from any off-balance sheet contracts. Management of the Company's assets and liabilities is performed within the context of the marketplace, but also within limits established by the Board of Directors on the amount of change in NPV that is acceptable given certain interest rate changes.

Table of Contents

Presented below (including discontinued operations), as of June 30, 2009 and September 30, 2008, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. At June 30, 2009, the Company was less sensitive to an adjustment in market value in an increasing interest rate environment compared to September 30, 2008. Down 100 basis points and down 200 basis points are not presented for June 30, 2009 due to the extremely low rate environment. At both June 30, 2009 and September 30, 2008, the Company's interest rate risk profile was within the limits set by the Board of Directors. As of June 30, 2009, MetaBank's interest rate risk profile was within the limits set forth by the Office of Thrift Supervision.

Change in Interest Rates (Basis Points)	Board Limit % Change	At June 30, 2009		At September 30, 2008	
		\$ Change	% Change	\$ Change	% Change
		(Dollars in thousands)			
+200 bp	(20)%	\$ (104)	(1)%	\$ (10,035)	(14)%
+100 bp	(10)	1,384	2	(4,739)	(7)
0 bp (Base Case)					
-100 bp	(10)			2,447	4
-200 bp	(20)			668	1

Certain shortcomings are inherent in the method of analysis presented in the preceding table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Furthermore, although management has estimated changes in the levels of prepayments and early withdrawal in these rate environments, such levels would likely deviate from those assumed in calculating the table. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase.

In addition to the NPV approach, the Company also reviews gap reports, which measure the differences in assets and liabilities repricing in given time periods, and net income simulations to assess its interest rate risk profile. Management reviews its interest rate risk profile on a quarterly basis.

Table of Contents

Part I. Financial Information

Item 4T. Controls and Procedures

CONTROLS AND PROCEDURES

Any control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that its objectives will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act) as of the end of the period covered by the report.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2009, the Company's disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this Report was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

With the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the Company's fiscal quarter ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on such evaluation, management concluded that, as of the end of the period covered by this report, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

META FINANCIAL GROUP, INC.

PART II - OTHER INFORMATION

FORM 10-Q

Item 1. Legal Proceedings See Legal Proceedings of Note 5 to the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors - In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K/A for the year ended September 30, 2008 as well as in our Quarterly Reports on Form 10-Q/A for the periods ended December 31, 2008 and March 31, 2009. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also materially and adversely affect us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - None

Item 3. Defaults Upon Senior Securities None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

Item 6. Exhibits

(a) Exhibits:

31.1 Section 302 certification of Chief Executive Officer.

31.2 Section 302 certification of Chief Financial Officer.

32.1 Section 906 certification of Chief Executive Officer.

32.2 Section 906 certification of Chief Financial Officer.

Table of Contents

META FINANCIAL GROUP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

META FINANCIAL GROUP, INC.

Date: August 10, 2009

By: /s/ J. Tyler Haahr
J. Tyler Haahr, President,
and Chief Executive Officer

Date: August 10, 2009

By: /s/ David W. Leedom
David W. Leedom, Senior Vice President
and Chief Financial Officer