

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

META FINANCIAL GROUP INC  
Form 10-Q  
August 14, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

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

For the transaction period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-22140

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

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

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

(Address of principal executive offices)

(712) 732-4117  
-----

(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 10, 2006:  
2,516,655 Common Shares

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

META FINANCIAL GROUP, INC.  
FORM 10-Q

## INDEX

### Part I. Financial Information

-----

- Item 1. Financial Statements (unaudited):
  - Condensed Consolidated Statements of Financial Condition at June 30, 2006 and September 30, 2005
  - Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2006 and 2005
  - Condensed Consolidated Statements of Comprehensive (Loss) for the Three and Nine Months Ended June 30, 2006 and 2005
  - Condensed Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended June 30, 2006
  - Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2006 and 2005
  - Notes to Condensed Consolidated Financial Statements
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosure About Market Risk
- Item 4. Controls and Procedures

### Part II. Other Information

-----

- Item 1. Legal Proceedings
  - Item 1.A. Risk Factors
  - Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
  - Item 3. Defaults Upon Senior Securities
  - Item 4. Submission of Matters to a Vote of Security Holders
  - Item 5. Other Information
  - Item 6. Exhibits
- Signatures

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

2

META FINANCIAL GROUP, INC.  
AND SUBSIDIARIES  
Condensed Consolidated Statement of Financial Condition (Unaudited)

ASSETS	June 30, 2006	September 30, 2005
Cash and due from banks	\$ 13,466,120	\$ 5,111,484
Interest-bearing deposits in other financial institutions - short-term (cost approximates market value)	78,532,767	8,111,484
Total cash and cash equivalents	91,998,887	14,222,968
Securities purchased under agreements to resell	8,648,161	37,111,484
Securities available for sale	195,302,200	230,111,484
Loans receivable - net of allowance for loan losses of of \$6,111,484 at June 30, 2006 and \$7,222,404 at September 30, 2005	399,087,976	440,111,484
Loans held for sale	1,261,009	8,111,484
Federal Home Loan Bank stock, at cost	6,197,700	8,111,484
Accrued interest receivable	3,924,692	4,111,484
Premises and equipment, net	16,085,939	15,111,484
Foreclosed real estate and repossessed assets	49,500	4,111,484
Bank owned life insurance	12,919,721	12,111,484
Goodwill	3,403,019	3,111,484
Other assets	7,930,983	5,111,484
 Total assets	 \$ 746,809,787	 \$ 776,111,484
 LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing demand deposits	\$ 187,327,972	\$ 102,111,484
Interest-bearing checking	25,471,425	33,111,484
Money market deposits	79,191,919	74,111,484
Savings deposits	42,303,092	62,111,484
Time certificates of deposit	218,772,087	268,111,484
Total deposits	553,066,495	540,111,484
Advances from Federal Home Loan Bank	114,565,000	159,111,484
Securities sold under agreements to repurchase	18,048,563	20,111,484
Subordinated debentures	10,310,000	10,111,484
Advances from borrowers for taxes and insurance	258,777	2,111,484
Accrued interest payable	580,119	5,111,484
Accrued expenses and other liabilities	6,488,391	6,111,484
 Total liabilities	 703,317,345	 733,111,484
 SHAREHOLDERS' EQUITY		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding	--	--
Common stock, \$.01 par value; 5,200,000 shares authorized,	--	--

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

2,957,999 shares issued, 2,516,655 and 2,503,655 shares outstanding at June 30, 2006 and September 30, 2005, respectively	29,580	
Additional paid-in capital	20,621,534	20
Retained earnings - substantially restricted	36,842,776	34
Accumulated other comprehensive (loss)	(5,545,211)	(3)
Unearned Employee Stock Ownership Plan shares	(483,301)	
Treasury stock, 441,344 and 454,344 common shares, at cost, at June 30, 2006 and September 30, 2005, respectively	(7,972,936)	(8)
Total shareholders' equity	43,492,442	42
Total liabilities and shareholders' equity	\$ 746,809,787	\$ 776

See Notes to Condensed Consolidated Financial Statements.

3

META FINANCIAL GROUP, INC.  
AND SUBSIDIARIES  
Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Ni
	2006	2005	200
Interest and dividend income:			
Loans receivable, including fees	\$ 7,525,676	\$ 7,931,647	\$ 22,57
Securities available for sale	2,710,090	2,754,168	7,90
Dividends on Federal Home Loan Bank stock	78,940	126,860	20
	10,314,706	10,812,675	30,68
Interest expense:			
Deposits	3,413,981	3,106,402	10,09
FHLB advances and other borrowings	1,776,272	2,590,639	5,75
	5,190,253	5,697,041	15,85
Net interest income	5,124,453	5,115,634	14,83
Provision for loan losses	--	4,956,000	(30
Net interest income after provision for loan losses	5,124,453	159,634	15,14
Non-interest income:			
Deposit service charges and other fees	336,663	340,767	1,04
Gain on sales of loans, net	56,933	55,811	16
Bank owned life insurance	166,992	126,645	49
Gain on sales of foreclosed real estate, net	3,382	--	
(Loss) on sales of securities available for sale, net	--	(20,413)	
Card fees	5,058,641	373,992	7,72

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

Other income	113,298	71,893	33
	-----	-----	-----
Total non-interest income	5,735,909	948,695	9,77
	-----	-----	-----
Non-interest expense:			
Employee compensation and benefits	3,676,323	2,923,900	10,30
Occupancy and equipment expense	1,081,793	931,871	3,04
Deposit insurance premium	14,411	17,111	4
Data processing expense	178,684	188,320	56
Legal and consulting expense	850,607	87,725	2,39
Card processing expense	469,262	59,300	1,75
Other expense	654,172	457,301	1,81
	-----	-----	-----
Total non-interest expense	6,925,252	4,665,528	19,91
	-----	-----	-----
Net income (loss) before income tax expense (benefit)	3,935,110	(3,557,199)	5,00
Income tax expense (benefit)	1,452,247	(1,245,205)	1,74
	-----	-----	-----
Net income (loss)	2,482,863	(2,311,994)	3,25
	=====	=====	=====
Earnings (loss) per common share:			
Basic	\$ 1.00	\$ (0.94)	\$
	=====	=====	=====
Diluted	0.98	(0.94)	
	=====	=====	=====
Dividends declared per common share:	\$ 0.13	\$ 0.13	\$
	=====	=====	=====

See Notes to Condensed Consolidated Financial Statements.

4

META FINANCIAL GROUP INC.  
AND SUBSIDIARIES  
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

	Three Months Ended June 30,		Nine Month June
	2006	2005	2006
	-----	-----	-----
Net income (loss)	\$ 2,482,863	\$ (2,311,994)	\$ 3,259,664
Other comprehensive income (loss):			
Net change in net unrealized income (loss)			
on securities available for sale	(1,249,585)	1,343,396	(3,565,069)
Deferred income tax benefit	(338,875)	499,879	(1,200,465)
	-----	-----	-----
Total other comprehensive income (loss)	(910,710)	843,517	(2,364,604)

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

Total comprehensive income (loss)	\$ 1,572,153	\$ (1,468,477)	\$ 895,060
	=====	=====	=====

See Notes to Condensed Consolidated Financial Statements.

5

META FINANCIAL GROUP, INC.  
AND SUBSIDIARIES  
Condensed Consolidated Statement of Changes in Shareholders' Equity (U  
For the Nine Months Ended June 30, 2006

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss), Net of Tax	Unrea Empl St Owe Plan
Balance, September 30, 2005	\$ 29,580	\$20,646,513	\$34,557,258	\$ (3,180,607)	\$ (82
Cash dividends declared on common stock (\$.39 per share)	--	--	(974,146)	--	
Issuance of 13,000 common shares from treasury stock due to exercise of stock options	--	(117,889)	--	--	
Stock compensation	--	116,005	--	--	
15,300 common shares committed to be released under the ESOP	--	(23,095)	--	--	34
Net change in net unrealized gains and losses on securities available for sale, net of income taxes	--	--	--	(2,364,604)	
Net income for nine months ended June 30, 2006	--	--	3,259,664	--	
Balance, June 30, 2006	\$ 29,580	\$20,621,534	\$36,842,776	\$ (5,545,211)	\$ (48

See Notes to Condensed Consolidated Financial Statements.

6

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

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

	Nine Months Ended 2006	
-----		
Cash Flows from operating activities:		
Net income	\$ 3,259,664	\$
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion, net	2,681,604	
Provision for loan losses	(309,500)	
Loss on the sale of securities available for sale, net	--	
Stock compensation	116,005	
Net change in loans held for sale	(955,009)	
Gain on sales of foreclosed real estate, net	(6,963)	
Net change in accrued interest receivable	316,002	
Net change in other assets	(4,516,284)	
Net change in accrued interest payable	(361,816)	
Net change in accrued expenses and other liabilities	5,603,703	
	-----	
Net cash provided by operating activities	5,827,406	
Cash flow from investing activities:		
Purchase of securities available for sale	(108,522)	
Proceeds from sales of securities available for sale	--	
Net change in securities purchased under agreement to resell	28,865,188	
Proceeds from maturities and principal repayments of securities available for sale	29,458,124	
Net change in loans receivable	44,947,494	
Proceeds from sales of foreclosed real estate	4,656,914	
Change in FHLB stock	1,963,300	
Purchase of premises and equipment	(1,894,995)	
	-----	
Net cash provided by investing activities	107,887,503	
Cash flows from financing activities:		
Net change in noninterest-bearing demand, savings, interest-bearing checking, and money market demand deposits	\$ 61,646,199	\$
Net change in time deposits	(49,350,009)	
Net repayments of advances from Federal Home Loan Bank	(45,140,000)	
Net change in securities sold under agreements to repurchase	(2,458,488)	
Net change in advances from borrowers for taxes and insurance	12,496	
Cash dividends paid	(974,146)	
Purchase of shares by ESOP	--	
Proceeds from exercise of stock options	178,172	
Purchase of treasury stock	--	
	-----	
Net cash (used in) financing activities	(36,085,776)	
	-----	
Net change in cash and cash equivalents	77,629,133	
Cash and cash equivalents at beginning of period	14,369,754	
	-----	
Cash and cash equivalents at end of period	\$ 91,998,887	\$
	=====	
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 16,214,211	\$
Income taxes	587,224	
Supplemental schedule of non-cash investing and financing activities:		

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

Loans transferred to foreclosed real estate \$ 49,500 \$

See Notes to Condensed Consolidated Financial Statements.

7

### META FINANCIAL GROUP, INC. (R) AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed for interim reporting by Meta Financial Group, Inc. ("Meta Group" or the "Company") and its consolidated subsidiaries, MetaBank, MetaBank West Central ("MetaBank WC"), Meta Trust Company ("Meta Trust"), First Services Financial Limited, and Brookings Service Corporation are consistent with the accounting policies followed for annual financial reporting. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited condensed consolidated financial statements, and all such adjustments are of a normal recurring nature. The accompanying condensed consolidated statement of financial condition as of September 30, 2005, which has been derived from audited financial statements, and the unaudited interim condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest shareholders' annual report (Form 10-K).

#### 2. CURRENT ACCOUNTING DEVELOPMENTS

In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, to clarify certain aspects of accounting and disclosure for uncertain tax positions, including issues related to the recognition and measurement of those tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is in the process of evaluating the impact of this interpretation and believes that implementation of this standard will not have a material effect on the Company's consolidated financial position or results of operations.

#### 3. EARNINGS PER SHARE

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share shows the dilutive effect of additional common shares issuable pursuant to stock options agreements.

A reconciliation of the numerators and denominators used in the basic earnings per common share and the diluted earnings per common share



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

computations for the three and nine months ended June 30, 2006 and 2005  
is presented below.

8

	Three Months Ended June 30,		Nine Months En June 30,	
	2006	2005	2006	
Basic earnings (loss) per common share:				
Numerator:				
Net income (loss)	\$ 2,482,863	\$ (2,311,994)	\$ 3,259,664	\$ (1,000,000)
Denominator:				
Weighted average common shares outstanding	\$ 2,514,525	\$ 2,502,521	\$ 2,509,664	\$ 2,509,664
Less: Weighted average unallocated ESOP shares	(24,875)	(41,473)	(30,060)	
Weighted average common shares outstanding for basic earnings per share	\$ 2,489,650	\$ 2,461,048	\$ 2,479,604	\$ 2,479,604
Basic earnings (loss) per common share	\$ 1.00	\$ (0.94)	\$ 1.32	\$ 1.32

	Three Months Ended June 30,		Nine Months En June 30,	
	2006	2005	2006	
Diluted earnings (loss) per common share:				
Numerator:				
Net income (loss)	\$ 2,482,863	\$ (2,311,994)	\$ 3,259,664	\$ (1,000,000)
Denominator:				
Weighted average common shares outstanding for basic earnings per common share	\$ 2,489,650	\$ 2,461,048	\$ 2,479,604	\$ 2,479,604
Add: Dilutive effect of assumed exercise of stock options, net of tax benefits	39,886	--	34,077	
Weighted average common shares outstanding for diluted earnings per share	\$ 2,529,536	\$ 2,461,048	\$ 2,513,681	\$ 2,513,681
Diluted earnings (loss) per common share	\$ 0.98	\$ (0.94)	\$ 1.30	\$ 1.30

#### 4. LOANS RECEIVABLE

Loans receivable before allowance for loan losses totaled \$405.2 million as of June 30, 2006, a decrease of \$42.2 million from \$447.4 million at September 30, 2005. Most of this decrease is the result of pay downs or pay offs of participation loans during this nine month period.

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

### 5. INTANGIBLE ASSETS

As of June 30, 2006 and September 30, 2005 the Company had intangible assets of \$3,403,019, all of which has been determined to be goodwill. There was no goodwill impairment loss or amortization related to goodwill during the three- and nine-month periods ended June 30, 2006 or 2005.

### 6. DEPOSITS

Overall deposits grew \$12.3 million from \$540.8 million as of September 30, 2005 to \$553.1 million as of June 30, 2006. Most of this increase arose from growth in low-or no-cost demand deposits, which grew \$77.2 million over this same time period. This growth has been offset by run-off of higher-cost certificates of deposit and public funds.

9

### 7. COMMITMENTS

At June 30, 2006 and September 30, 2005, the Company had outstanding commitments to originate and purchase loans totaling \$50.4 million and \$69.6 million, respectively, excluding undisbursed portions of loans in process. It is expected that outstanding loan commitments will be funded with existing liquid assets.

### 8. STOCK OPTION PLAN

Prior to October 1, 2005, the Company accounted for its stock option plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. No stock-based employee compensation cost was recognized for stock options in the Statement of Operations for the year ended September 30, 2005 or prior years, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective October 1, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the three- and nine-month periods ended June 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to October 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated. As a result of adopting Statement 123(R) on October 1, 2005, the Company's pre-tax net income for the three- and nine-month periods ended June 30, 2006 are \$36,000 and \$92,000 lower, respectively, than if it had continued to account for share-based compensation under Opinion 25.

Prior to the adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

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

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement 123 to options granted under the Company's stock option plans in all periods presented. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing formula and amortized to expense over the option's vesting periods.

10

	Three Months Ended June 30, 2005 -----	Nine Months Ended June 30, 2005 -----
Net (loss), as reported	\$ (2,311,994)	\$ (1,470,678)
Deduct: Total employee stock-based compensation expense determined under fair value based method for all awards, net of tax effects	(20,098)	(67,718)
	-----	-----
Pro forma net (loss)	\$ (2,332,092)	\$ (1,538,396)
	=====	=====
(Loss) per common share - basic:		
As reported	\$ (0.94)	\$ (0.60)
Pro forma	\$ (0.95)	\$ (0.63)
(Loss) per common share - diluted:		
As reported	\$ (0.94)	\$ (0.60)
Pro forma	\$ (0.95)	\$ (0.63)

### 9. 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 under Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information: a traditional banking segment consisting of its two banking subsidiaries, MetaBank and MetaBank West Central, and Meta Payment Systems(R), a division of MetaBank. MetaBank and MetaBank West Central operate as traditional community banks providing deposit, loan and other related products to individuals and small businesses, primarily in the communities where their offices are located. Meta Payment Systems provides a number of products and services, primarily to third parties, including financial institutions and other businesses. These products and services include issuance of prepaid cards, issuance of credit cards, sponsorship of ATMs into the debit networks, ACH origination services and a gift card program. Other related 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. Revenues and expenses are allocated to business segments using a funds transfer pricing methodology through which excess funds or funding shortfalls at individual segments are sold to or bought from, respectively, the remaining segments. As the Company's funding mix changes between segments, net interest income at individual segments may rise or fall based on the relative size of the excess funding or funding shortfall position at any particular segment. The following

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

tables present segment data for the Company for the three- and nine-month periods ended June 30, 2006 and June 30, 2005, respectively.

11

	(Unaudited)		
	Traditional Banking -----	Payment Systems -----	All Others -----
Three months ended June 30, 2006:			
Net interest income (loss)	\$ 4,333,972	\$ 984,624	\$ (194,143)
Provision for loan losses	--	--	--
Non-interest income	566,578	5,152,183	17,148
Non-interest expense	4,824,478	1,983,542	117,232
	-----	-----	-----
Net income (loss) before income tax expense	76,072	4,153,265	(294,227)
Income tax expense (benefit)	27,680	1,581,000	(156,433)
	-----	-----	-----
Net income (loss)	\$ 48,392	\$ 2,572,265	\$ (137,794)
	=====	=====	=====

	(Unaudited)		
	Traditional Banking -----	Payment Systems -----	All Others -----
Inter-segment revenue (expense)	\$ (633,233)	\$ 761,663	\$ (128,430)
Total assets	\$ 579,722,556	\$ 164,973,427	\$ 2,113,804
Total deposits	\$ 393,000,079	\$ 160,066,416	\$ --
Three months ended June 30, 2005:			
Net interest income (loss)	\$ 5,182,175	\$ 77,577	\$ (144,118)
Provision for loan losses	4,956,000	--	--
Non-interest income	439,772	457,413	51,510
Non-interest expense	3,868,295	766,654	30,579
	-----	-----	-----
Net (loss) before income tax (benefit)	(3,202,348)	(231,664)	(123,187)
Income tax (benefit)	(1,092,271)	(80,000)	(72,934)
	-----	-----	-----
Net (loss)	\$ (2,110,077)	\$ (51,664)	\$ (50,253)
Inter-segment revenue (expense)	\$ 45,595	\$ 80,111	\$ (125,706)
Total assets	\$ 750,184,896	\$ 16,376,892	\$ 2,115,281
Total deposits	\$ 475,920,606	\$ 17,948,982	\$ --

	(Unaudited)		
	Traditional Banking -----	Payment Systems -----	All Others -----

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

Nine months ended June 30, 2006:

Net interest income (loss)	\$ 12,373,360	\$ 2,976,030	\$ (515,499)	
Provision for loan losses	(309,500)	--	--	
Non-interest income	1,816,153	7,891,093	71,619	
Non-interest expense	13,872,122	5,415,250	628,410	
	-----	-----	-----	
Net income (loss) before income tax expense (benefit)	626,891	5,451,873	(1,072,290)	
Income tax expense (benefit)	212,956	2,029,000	(495,146)	
	-----	-----	-----	
Net income (loss)	\$ 413,935	\$ 3,422,873	\$ (577,144)	\$
	=====	=====	=====	=====
Inter-segment revenue (expense)	\$ (1,733,090)	\$ 2,180,984	\$ (447,894)	
Total assets	\$ 579,722,556	\$ 164,973,427	\$ 2,113,804	\$
Total deposits	\$ 393,000,079	\$ 160,066,416	\$ --	\$

12

	Traditional Banking -----	Payment Systems -----	(Unaudited) All Others -----	
Nine months ended June 30, 2005:				
Net interest income (loss)	\$ 15,022,241	\$ 114,823	\$ (345,258)	\$
Provision for loan losses	5,390,500	--	--	
Non-interest income	1,418,172	705,495	110,782	
Non-interest expense	11,682,940	2,156,182	175,656	
	-----	-----	-----	
Net (loss) before income tax (benefit)	(633,027)	(1,335,864)	(410,132)	
Income tax (benefit)	(204,782)	(469,000)	(234,563)	
	-----	-----	-----	
Net (loss)	\$ (428,245)	\$ (866,864)	\$ (75,569)	\$
	=====	=====	=====	=====
Inter-segment revenue (expense)	\$ 241,512	\$ 118,474	\$ (359,986)	
Total assets	\$ 750,184,896	\$ 16,376,892	\$ 2,115,281	\$
Total deposits	\$ 475,920,606	\$ 17,948,982	\$ --	\$

### 10. LEGAL PROCEEDINGS

On June 11, 2004, the Sioux Falls School District filed suit in the Second Judicial Circuit Court alleging that MetaBank, a wholly-owned subsidiary of the Company, improperly allowed funds, which belonged to the school district, to be deposited into, and subsequently withdrawn from, a corporate account established by an employee of the school district. The school district is seeking in excess of \$600,000. MetaBank has submitted the claim to its insurance carrier, and is working with counsel to vigorously contest the suit.

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

On or about March 10, 2006, plaintiffs filed five class-action suits on behalf of themselves and all other purchasers of vehicles from Prairie Auto Group, Inc., Dan Nelson Automotive Group, Inc.'s Rapid City, South Dakota location, and other not-yet-identified auto sales entities owned or operated by defendants. The complaints are styled as follows: Ronald Archulleta, et al. v. Prairie Auto Group, Inc., et al. - In the Tribal Court for the Oglala Sioux Tribe, Pine Ridge Indian Reservation; Cedar Around Him, et al. v. Prairie Auto Group, Inc., et al. - In the Tribal Court for the Rosebud Sioux Tribe, Rosebud Indian Reservation; Chris Dengler, et al. v. Prairie Auto Group, Inc. - Circuit Court of the Second Judicial Circuit, Minnehaha County, South Dakota; Lucinda Janis, et al. v. Prairie Auto Group, Inc., et al. - File No. C-157-04; In the Tribal Court for the Cheyenne River Sioux Indian Reservation, Eagle Butte, South Dakota; and Kali Treetop, et al. v. Prairie Auto Group, Inc., et al. - File No. 01-970; Circuit Court for the Seventh Judicial Circuit, Pennington County, South Dakota. Except for the named plaintiffs, each of the complaints is essentially identical to the others. The nature of the allegations are the same, and the same fourteen legal claims are sought to be pled in each.

Each complaint states that it is a "companion" to the other four and names the same defendants (approximately twenty-five) including the Registrant and affiliates thereof (the "MetaBank Defendants"). None of these complaints has yet been served on any of the MetaBank Defendants. The thrust of the complaints is that plaintiffs allegedly suffered damages as a result of a scheme by defendants to use fraudulent statements, misrepresentations and omissions to sell vehicles and extended warranties to plaintiffs. Plaintiffs claim that they and other similarly situated purchasers paid too much for their vehicles and were induced to buy warranties that were not honored and otherwise proved worthless. Plaintiffs allege that defendants reaped considerable profits through fraudulent sales methods; by refusing to make warrantied repairs; and by engaging in usurious repossession and resale practices. Plaintiffs allege that these practices were part of a business plan that originated with the franchisor-defendants and was purchased and employed by the franchisee-defendants. It appears that the principal basis for naming the MetaBank Defendants is that they loaned money to finance some of the defendants' business

13

operations, purportedly with some degree of knowledge about the defendants' allegedly abusive consumer practices.

The complaints allege that the described transactions are typical of defendants' business and were part of a deliberate scheme directed primarily at Native American customers. The complaints allege that the franchisee-defendants engaged in coercive, fraudulent and other illegal activities in connection with the automobile sales, and each seeks to state claims for: (1) breach of express warranty; (2) breach of implied warranty of merchantability; (3) deceit/fraud; (4) violation of applicable deceptive trade laws; (5) breach of the implied covenant of good faith and fair dealing; (6) conversion; (7) civil conspiracy under tribal and state common law; (8) negligent hiring, training and supervision of employees; (9) violation of the Federal Equal Credit Opportunity Act; (10) invasion of privacy; (11) violation of the Racketeer Influenced and Corrupt Organizations Act (RICO); (12) violation of the Magnuson-Moss Act; (13) violation of the Federal Truth and Lending Act's (TILA) Three Day Rescission Period; and (14) violation of TILA's Disclosure of Finance Cost Requirement.

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

In addition to seeking certification as a class, plaintiffs seek cancellation of the automobile purchase contracts; monetary damages including the initial purchase price warranty charges, finance costs and related repossession and other charges; costs of allegedly warranted repairs that were not made by defendants; consequential damages relating to the alleged wrongful repossession of vehicles and deficiency judgments associated therewith; damages for emotional and mental suffering; punitive and treble damages; and attorneys' fees. The amount of the alleged damages is not specified in the complaints.

With respect to the first matter described under "Corporate Development in Fiscal 2005" in the Company's Annual Report of Form 10-K for the fiscal year ended September 30, 2005 in Part II, Item 7 thereof, each participation agreement with the ten participant banks provides that the participant bank shall own a specified percentage of the outstanding loan balance at any give time. Each agreement also recites the maximum amount that can be loaned by MetaBank on that particular loan. MetaBank allocated to some participants an ownership in the outstanding loan balance in excess of the percentage specified in the participation agreement. MetaBank believes that in each instance this was done with the full knowledge and consent of the participant. Several participants have demanded that their participations be adjusted to match the percentage specified in the participant agreement. Based on the total loan recoveries projected as of June 30, 2006, MetaBank calculated that it would cost approximately \$953,000 to adjust these participations as the participants would have them adjusted. A few participants have more recently asserted that MetaBank owes them additional monies based on additional legal theories. MetaBank denies any obligation to make the requested adjustments on these or related claims. Other than as described below, MetaBank cannot predict at this time whether any of these claims will be the subject of litigation.

During the three months ended June 30, 2006 or shortly thereafter four lawsuits were filed against the Company's MetaBank subsidiary. Three of the complaints are related to the Company's alleged actions in connection with its activities as lead lender to three companies involved in auto sales, service, and financing and their owner. The fourth complaint alleges patent infringement. All four actions are in their infancy and materiality cannot be determined at this time. The Company intends, however, to vigorously defend its actions. The lawsuits are described in more detail herein at Part II - Other Information, Item 1. Legal Proceedings.

First Midwest Bank-Deerfield Branches and Mid-Country Bank v. MetaBank (Civ. No. 06-2241). On June 28, 2006, First Midwest Bank-Deerfield Branches and Mid-Country Bank filed suit against MetaBank in South Dakota's Second Judicial Circuit Court, Minnehaha County, in the above titled action. The complaint alleges that plaintiff banks, who were participating lenders with MetaBank on a series of loans made to Dan Nelson Automotive Group ("DNAG") and South Dakota Acceptance

Corporation ("SDAC"), suffered damages exceeding \$1 million as a result of MetaBank's placement and administration of the loans that were the subject of the loan participation agreements. The complaint sounds in breach of contract, negligence, gross negligence, negligent misrepresentation, fraud in the inducement, unjust enrichment and breach of fiduciary duty. On July 17, 2006, MetaBank removed the case

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

from state court to the United States District Court for the District of South Dakota, where the action has been assigned case no. Civ. 06-4114.

First Premier Bank v. MetaBank (Civ. No. 06-2277). On July 5, 2006, First Premier Bank filed suit against MetaBank in South Dakota's Second Judicial Circuit Court, Minnehaha County in the above titled action. The complaint alleges that First Premier, a participating lender with MetaBank on a series of loans made to SDAC, has suffered damages in an as yet undetermined amount as a result of MetaBank's actions in selling to First Premier a participation in a loan made to SDAC and MetaBank's actions in administering that loan. The complaint sounds in breach of contract, breach of covenant of good faith and fair dealing, fraudulent inducement, fraud, deceit, negligent misrepresentation, fraudulent misrepresentation, conversion, negligence, gross negligence, breach of fiduciary duty and unjust enrichment. On July 17, 2006, MetaBank removed the case from state court to the United States District Court for the District of South Dakota, where the action has been assigned case no. Civ. 06-4115.

Home Federal Bank v. J. Tyler Haahr, Daniel A. Nelson and MetaBank (Civ. No. 06-2230). On June 26, 2006, Home Federal Bank filed suit against MetaBank and two individuals, J. Tyler Haahr and Daniel A. Nelson, in South Dakota's Second Judicial Circuit Court, Minnehaha County in the above titled action. The complaint alleges that Home Federal, a participating lender with MetaBank on a series of loans made to DNAG and SDAC, suffered damages exceeding \$3.8 million as a result of failure to make disclosures regarding an investigation of Nelson, DNAG and SDAC by the Iowa Attorney General at the time Home Federal agreed to an extension of the loan participation agreements. The complaint sounds in fraud, negligent misrepresentation, breach of fiduciary duty, conspiracy and breach of duty of good faith and fair dealing.

Subject to a reservation of rights, the Company's insurance carrier has agreed to cover the three claims described above.

Meridian Enterprises Corporation v. Bank of America Corporation et al. (Case No. 4:06-cv-01117CDP). On July 21, 2006, Meridian Enterprises Corporation ("Meridian") filed suit against Meta Financial Group, Inc. (Meta Payment Systems division) ("Meta") and other banks and financial institutions in the U.S. District Court for the Eastern District of Missouri in the above-titled action. Meridian is the owner of U.S. Patent No. 5,025,372 (the "'372 Patent"). The complaint alleges that Meta and the co-defendants each sell, administer, process and/or sponsor an incentive program where cards are provided to participants in the incentive program that can be presented to retailers to make a purchase. The complaint further alleges, inter alia, that Meta and the co-defendants each use a computer to determine whether or not a participant's performance under the incentive program entitles the participant to an award, in which the computer also determines the amount of the award, and the amount of the award is based upon the level of the participant's performance in the incentive program. Accordingly, the complaint sounds in infringement, inducement of infringement, and contributory infringement of one or more claims of the '372 Patent.

There are no other material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.



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

- Part I. Financial Information  
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### META FINANCIAL GROUP, INC. AND SUBSIDIARIES

#### GENERAL

Meta Financial Group, Inc. is a bank holding company whose primary assets are MetaBank, and MetaBank West Central. The Company was incorporated in 1993 as First Midwest Financial, Inc., a unitary non-diversified savings and loan holding company and, on September 20, 1993, acquired all of the capital stock of First Federal Savings Bank of the Midwest in connection with First Federal's conversion from mutual to stock form of ownership. On September 30, 1996, the Company became a bank holding company in conjunction with the acquisition of Security State Bank. Pursuant to requisite shareholder and regulatory approvals, the Company and its banking subsidiaries consolidated their names under the "Meta-" brand as of the close of business on January 28, 2005.

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at June 30, 2006, compared to September 30, 2005, and the consolidated results of operations for the three- and nine-month periods ended June 30, 2006, compared to the three- and nine-month periods ended June 30, 2005. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2005.

#### CORPORATE DEVELOPMENTS AND OVERVIEW

The Company continues to emphasize expansion in the growing metropolitan areas of Sioux Falls, South Dakota and Des Moines, Iowa. The Company completed construction of its fourth branch office in the Sioux Falls market in late 2005, and plans to open a fifth branch in the Des Moines market in the fall of 2006, bringing the Company's total branch network to 19.

The Company continues to experience growth in its Meta Payment Systems (MPS) division, a separate reporting segment. During the quarter ended June 30, 2006, MPS reported a non-recurring fee income item totaling \$2.57 million related fees charged on a recently acquired portfolio of prepaid debit cards. Further discussion of the financial results of MPS is included below.

During the three months ended June 30, 2006 or shortly thereafter four lawsuits were filed against the Company's MetaBank subsidiary. Three of the complaints are related to the Company's alleged actions in connection with its activities as lead lender to three companies involved in auto sales, service, and financing and their owner. The fourth complaint alleges patent infringement. All four actions are in their infancy and materiality cannot be determined at this time. The Company intends, however, to vigorously defend its actions. The lawsuits are described in more detail herein at Part II - Other Information, Item 1. Legal Proceedings.

#### FINANCIAL CONDITION

As of June 30, 2006, Meta Financial Group had assets totaling \$746.8 million, compared to \$776.3 million at September 30, 2005. The reduction in total assets of \$29.5 million, or 3.8%, reflects the Company's planned strategy to reduce the level of lower yielding investment securities and pay off higher costing

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

wholesale borrowings, public funds deposits, and certificates. Investment and mortgage-backed securities totaled \$204.0 million at June 30, 2006, compared to \$268.4 million at September 30, 2005, reflecting a decrease of \$64.4 million, or 24.0%. Similarly, advances from the Federal Home Loan Bank of Des Moines, and other wholesale borrowings, declined \$47.6 million, or 25.0%, from \$190.5 million at September 30, 2005 to \$142.9 million at June 30, 2006.

16

Loans receivable before allowance for loan losses totaled \$405.2 million as of June 30, 2006, a decrease of \$42.2 million from \$447.4 million at September 30, 2005. Most of this decrease is the result of pay downs or pay offs of participation loans.

The Company's deposit mix has also changed favorably. Total deposits grew \$12.3 million from \$540.8 million as of September 30, 2005 to \$553.1 million as of June 30, 2006. Low or no-cost demand deposits grew \$77.2 million during this time period, which was partially offset by declines in higher-cost certificates of deposit and public funds deposits. The increase in demand deposits stems mainly from growth at Meta Payment Systems, while the decrease in certificates of deposit and public funds reflects management's planned strategy of reducing reliance on higher-costing funding sources.

As of June 30, 2006 the Company's shareholders' equity totaled \$43.5 million, compared to \$43.0 million as of September 30, 2005. The increase of \$0.5 million pertains to increases in retained earnings from net income, offset by common stock dividends and a negative change in the accumulated other comprehensive loss on the Company's available for sale securities portfolio. Both of the company's banking subsidiaries, MetaBank and MetaBank West Central, meet regulatory requirements for classification as well-capitalized institutions.

### 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 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.

At June 30, 2006, the Company had loans delinquent 30 days and over totaling \$9.4 million, or 2.35% of total loans, compared to \$1.9 million, or 0.42% of total loans, at September 30, 2005, and \$15.8 million, or 3.66% of total loans at March 31, 2006. The increase in delinquent loans since September is concentrated in a few large commercial credits. The Company believes that the level of allowance for loan losses adequately reflects potential risks related to these loans. The Company has monitored the increase in delinquent loans since the beginning of the fiscal year, and does not believe the increase in loan delinquencies is indicative of a downward trend in credit quality because the increase is concentrated in a few large loans. Additionally, several of the loans which were delinquent at the end of the second fiscal quarter were paid off or brought current during the third fiscal quarter. Nevertheless, the Company continues to monitor closely all developments in its loan portfolio.

At June 30, 2006, commercial and multi-family real estate loans delinquent 30 days and over totaled \$3.8 million, or 0.96% of total loans. This compares to no delinquent loans in this category as of September 30, 2005 and \$7.0 million, or 1.63% of total loans at March 31, 2006. Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by one-to-four

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

family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the higher level of difficulty of evaluating and monitoring these types of loans. The Company believes that the level of allowance for loan losses adequately reflects potential risks related to these loans; however there can be no assurance that all loans will be fully collectible.

At June 30, 2006, commercial business loans delinquent 30 days and over totaled \$5.2 million, or 1.29% of total loans. This compares to \$1.5 million, or 0.32% of total loans, at September 30, 2005, and \$6.7 million, or 1.55% of total loans, at March 31, 2006. Commercial business lending involves a greater degree of risk than one-to-four family residential mortgage loans because of the typically larger loan amounts. In addition, payments on loans

17

are typically dependent on the cash flows derived from the operation or management of the business to which the loan is made. The success of the loan may also be affected by factors outside the control of the business, such as unforeseen changes in economic conditions for the business, the industry in which the business operates or the general environment. The Company believes that the level of allowance for loan losses adequately reflects potential risks related to these loans; however there can be no assurance that all loans will be fully collectible.

At June 30, 2006, there were no agricultural operating loans delinquent 30 days and over. This compares to \$234,000, or 0.05% of total loans at September 30, 2005, and \$1.2 million, or 0.29% of total loans at March 31, 2006. Agricultural lending involves a greater degree of risk than one-to-four family residential mortgage loans because of the typically larger loan amounts. In addition, payments on loans are dependent on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. The success of the loan may also be affected by factors outside the control of the agricultural borrower, such as the weather and grain and livestock prices.

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

	June 30, 2006	September 30, 2005
(Dollars in thousands)		
Non-accruing loans:		
One- to four-family	\$ 91	\$ 54
Construction	243	--
Commercial and multi-family	--	--
Agricultural real estate	--	--
Consumer	--	1
Agricultural operating	--	218
Commercial business	3,862	404
	-----	-----
Total non-accruing loans	4,196	677
Accruing loans delinquent 90 days or more	--	--
	-----	-----
Total non-performing loans	4,196	677
Restructured loans:		
Consumer	--	--
Agricultural operating	--	7
Commercial business	--	--
	-----	-----

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

Total restructured loans	--	7
Foreclosed assets:		
One-to four family	15	--
Commercial and multi-family	35	1,841
Consumer	--	--
Agricultural operating	--	--
Commercial business	--	2,865
	-----	-----
Total foreclosed assets	50	4,706
	-----	-----
 Total non-performing assets	 \$4,246	 \$5,390
	=====	=====
Total as a percentage of total assets	0.57%	0.69%
	=====	=====

Classified assets. Federal regulations provide for the classification of loans and other assets as "substandard", "doubtful" or "loss", based on the level of weakness determined to be inherent in the collection of the principal and interest. When loans are classified as either substandard or doubtful, the Company 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 loans. When assets are classified as loss, the Company is required either to establish a specific allowance for loan losses equal to 100% of that

18

portion of the loan so classified, or to charge-off such amount. The Company's determination as to the classification of its loans and the amount of its allowances for loan losses are subject to review by its regulatory authorities, which may require the establishment of additional general or specific allowances for loan losses.

On the basis of management's review of its loans and other assets, at June 30, 2006, the Company had classified a total of \$5.0 million of its assets as substandard, \$540,000 as doubtful and none as loss. This compares to classifications at September 30, 2005 of \$10.5 million substandard, \$248,000 doubtful and none as loss.

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 Bank and its borrowers operate.

At June 30, 2006, the Company has established an allowance for loan losses totaling \$6.1 million compared to \$7.2 million at September 30, 2005. The allowance represents approximately 146% of the total non-performing loans at June 30, 2006. The allowance at September 30, 2005 represented approximately 1,067% of the total non-performing loans at that date.

The following table sets forth an analysis of the activity in the Company's allowance for loan losses for the three-and nine-month periods ended June 30, 2006 and June 30, 2005:

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	June 30,	June 30,	June 30,	June 30,
-----	-----	-----	-----	-----
	2006	2005	2006	2005
-----	-----	-----	-----	-----
Beginning balance	\$ 5,998	\$ 5,797	\$ 7,222	\$ 5,371
Provision charged (credited) to operations	--	4,956	(310)	5,391
Loans charged-off	(14)	(1,300)	(1,129)	(1,313)
Recoveries	127	116	328	120
-----	-----	-----	-----	-----
Ending balance	\$ 6,111	\$ 9,569	\$ 6,111	\$ 9,569
	=====	=====	=====	=====

The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. 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 accounting principles generally accepted in the United States of America. 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 involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policies to be those related to the allowance for loan losses and asset impairment judgments including the recoverability of goodwill.

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 non-performing 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. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "Non-performing Assets and Allowance for Loan Losses." Although management believes the levels of the allowance as of both June 30, 2006 and

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

September 30, 2005 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses.

Goodwill represents the excess of acquisition costs over the fair value of the net assets acquired in a purchase acquisition. Goodwill is tested annually for impairment.

### RESULTS OF OPERATIONS

General. For the three months ended June 30, 2006, the Company recorded net income of \$2.48 million, or \$0.98 per diluted share, compared to a net loss of \$2.31 million, or \$0.94 per diluted share, for the same period in 2005. Earnings in the current period were impacted by non-recurring and recurring fee income, partially offset by higher compensation, legal, and consulting expenses. Earnings in the prior period were reduced by a higher provision for loan losses arising from the Company's loans to three companies involved in the sales, service, and financing of automobiles. Earnings for the nine month period ended June 30, 2006 were \$3.26 million, or \$1.30 per diluted share, compared to a net loss of \$1.47 million, or \$0.60 per diluted share for the same period last year.

For the third fiscal quarter of 2006, Meta Payment Systems, a separate reportable segment, recorded net income of \$2.57 million, or \$1.02 per diluted share, compared to a loss of \$0.15 million, or \$0.06 per diluted share for the third fiscal quarter of 2005. Meta Payment Systems' results for the current period included non-recurring pre-tax fee income of \$2.57 million, which is discussed below. For the nine month period ended June 30, 2006, Meta Payment Systems recorded net income of \$3.42 million, or \$1.36 per diluted share, compared to a loss of \$0.87 million, or \$0.35 per diluted share, for the nine month period ended June 30, 2005.

Net interest income. Meta Financial Group's net interest income for the third quarter of fiscal year 2006 was \$5.12 million, compared to \$5.12 million for the same quarter in fiscal year 2005. For the nine month period ended June 30, 2006 net interest income totaled \$14.83 million compared to \$14.79 million for the same period in 2005. While net interest income has remained relatively unchanged on a comparable period basis, the current period's results reflect higher margins on decreased average assets. Margin improvement has arisen from a more favorable funding mix, resulting primarily from growth in the Company's low-cost demand deposits, a decrease in low-margin wholesale investments and borrowings, and a rising interest rate environment.

The primary driver of the Company's higher net interest margin has been the improvement of the Company's funding mix toward low- or no-cost demand deposits and away from higher costing time and public funds deposits. Similarly, the decrease in wholesale borrowings and investments has improved the Company's capital and risk profile, while reducing reliance on lower spread assets and funding vehicles. Additionally, much of the Company's loan portfolio adjusts with the Prime rate of interest. As the Prime rate has increased over the past year, loan yields have risen accordingly, positively impacting the Company's margin.

The following table presents the Company's average interest earning assets, interest bearing liabilities, net interest spread, and net interest margin for the three-month periods ended June 30, 2006 and June 30, 2005, respectively.

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

(Dollars in thousands)	Average Balance	2006 Interest	Annualized Yield/Rate	Average Balance	2005 Interest	Annualized Yield
<b>Interest-earning assets:</b>						
Loans receivable	\$413,200	\$ 7,526	7.30%	\$457,398	\$ 7,932	
Mortgage-backed securities	174,566	1,667	3.82	250,616	2,418	
Other investments	105,087	1,122	4.27	35,089	463	
<b>Total interest-earning assets</b>	<b>\$692,853</b>	<b>\$ 10,315</b>	<b>5.97%</b>	<b>\$743,103</b>	<b>\$ 10,813</b>	
Non-interest-earning assets	56,364			50,104		
<b>Total assets</b>	<b>\$749,217</b>			<b>\$793,207</b>		
Non-interest bearing deposits	\$170,464	--	--	\$ 31,306	--	
<b>Interest-bearing liabilities:</b>						
Deposits	386,770	3,414	3.54	466,215	3,106	
Other borrowings	145,460	1,777	4.83	247,696	2,591	
<b>Total interest-bearing liabilities</b>	<b>\$532,230</b>	<b>\$ 5,191</b>	<b>3.89%</b>	<b>\$713,911</b>	<b>\$ 5,697</b>	
Total deposits and interest-bearing liabilities	\$702,694	\$ 5,191	2.95%	\$745,217	\$ 5,697	
Other non-interest bearing liabilities	3,714			3,355		
<b>Total liabilities</b>	<b>\$706,408</b>			<b>\$748,572</b>		
Stockholders' equity	42,809			44,635		
<b>Total liabilities and stockholders' equity</b>	<b>\$749,217</b>			<b>\$793,207</b>		
Net interest income and net interest rate spread including non-interest bearing deposits		\$ 5,124	3.02%		\$ 5,116	
Net interest margin			2.97%			

21

The following table presents the Company's average interest earning assets, interest bearing liabilities, net interest spread, and net interest margin for the nine-month periods ended June 30, 2006 and June 30, 2005, respectively.

(Dollars in thousands)	Average Balance	2006 Interest	Annualized Yield/Rate	Average Balance	2005 Interest	Annualized Yield
<b>Interest-earning assets:</b>						
Loans receivable	\$423,325	\$ 22,578	7.13%	\$440,359	\$ 22,031	
Mortgage-backed securities	188,719	5,322	3.76	271,865	7,747	
Other investments	90,833	2,786	4.09	36,478	1,192	

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

Total interest-earning assets	\$702,877	\$ 30,686	5.83%	\$748,702	\$ 30,970
Non-interest-earning assets	49,660			47,958	
	-----			-----	
Total assets	\$752,537			\$796,660	
	=====			=====	
Non-interest bearing deposits	\$139,477	--	--	\$ 26,978	--
Interest-bearing liabilities:					
Deposits	406,817	10,097	3.32	466,997	8,694
Other borrowings	162,184	5,755	4.68	253,613	7,484
	-----	-----	-----	-----	-----
Total interest-bearing liabilities	\$569,001	\$ 15,852	3.71%	\$720,610	\$ 16,178
Total deposits and interest-bearing liabilities	\$708,478	\$ 15,852	2.98%	\$747,588	\$ 16,178
Other non-interest bearing liabilities	1,357			3,300	
	-----			-----	
Total liabilities	\$709,835			\$750,888	
Stockholders' equity	42,702			45,772	
Total liabilities and stockholders' equity	\$752,537			\$796,660	
	=====			=====	
Net interest income and net interest rate spread including non-interest bearing deposits		\$ 14,834	2.85%		\$ 14,792
		=====	=====		=====
Net interest margin			2.83%		
			=====		=====

Provision for loan loss. During the third fiscal quarter of 2006, Meta Financial Group recorded no provision for loan losses. During the third fiscal quarter of 2005, the Company recorded a provision for loan losses of \$4.96 million stemming primarily from loans to three companies involved in the sales, service, and financing of automobiles.

During the nine month period ended June 30, 2006, the Company recorded a negative loan loss provision of \$0.31 million. The Company recorded a provision for loan losses of \$5.39 million for the same period in 2005. See "Non-Performing Assets and Allowance for Loan Losses" herein.

Non-interest income. For the three months ended June 30, 2006, non-interest income totaled \$5.74 million, compared to \$0.95 million for the three months ended June 30, 2005. A large portion of the \$4.79 million increase arose from non-recurring fee income at Meta Payment Systems of \$2.57 million. The non-recurring income relates to charges on a purchased portfolio of prepaid debit cards. Absent this non-recurring item, non-interest income for the third fiscal quarter of 2006 totaled \$3.17 million, compared to \$0.95 million for the same period in 2005. The majority of this increase relates to card fee income from Meta Payment Systems, and is attributable to the significant growth in that division. For the nine months ended June 30, 2006, non-interest income totaled \$9.78 million, compared to \$2.23 million for the same period in 2005. As of June 2006, the Company had over 5.2 million active prepaid debit cards.

Non-interest expense. Non-interest expense for the third fiscal quarter of 2006 totaled \$6.92 million, compared to \$4.66 million for the same quarter in fiscal year 2005. Higher compensation expense, card processing expense, and

legal and consulting expense were the main contributors to this increase. For the nine months ended June 30, 2006, non-interest expense totaled \$19.92 million, compared to \$14.01 million for the same period in the prior year.



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

The Company's compensation expense for the third fiscal quarter of 2006 totaled \$3.68 million, which reflected a \$0.75 million increase compared to the same quarter in fiscal 2005. For the first nine months of fiscal year 2006, compensation expense totaled \$10.30 million, which reflected an increase of \$1.69 million compared to the same period in fiscal year 2005. The increase was primarily the result of staff acquisition costs and recruitment expenses related to the growth at Meta Payment Systems, non-recurring severance expenses, and the full-staffing of two de novo branch facilities in the Sioux Falls market.

The Company also incurred higher legal and consulting expenses in the third fiscal quarter of 2006. These expenses rose \$0.76 million from \$0.09 million in the third fiscal quarter of 2005 to \$0.85 million. The vast majority of the increase in the third quarter arose from consulting work related to section 404 of the Sarbanes-Oxley Act. The Company has contracted with an outside consulting firm to complete its internal audit work and implementation work relating to the Sarbanes-Oxley Act. These expenses are not expected to continue at this level over the long-term. For the nine month period ended June 30, 2006, legal and consulting expenses rose \$2.15 million from \$0.25 million for the same period in fiscal year 2005 to \$2.40 million. In addition to higher consulting expenses from Sarbanes-Oxley implementation, the Company also incurred higher legal expenses related to the aforementioned auto-related loans. The Company has been named in several lawsuits by participant banks related to these loans, and the Company is vigorously defending these claims. See "Legal Proceedings" herein. At this time, the Company continues to expect that total cash expenditures on collection efforts related to these loans will range between \$750,000 and \$1,100,000.

Income tax expense. Income tax expense was \$1.45 million for the three months ended June 30, 2006, compared to a net benefit of \$1.24 million for the same period in 2005. Income tax expense for the nine-month period ended June 30, 2006 was \$1.75 million, compared to a net benefit of \$0.91 million for the same period in fiscal year 2005.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans, investments, and mortgage-backed securities, and funds provided by other operating activities. While scheduled payments on loans, mortgage-backed securities, and short-term investments are relatively predictable sources of funds, deposit flows and early loan repayments are greatly influenced by general interest rates, 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, 2006, the Company had commitments to originate and purchase loans totaling \$50.4 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.

Regulations require MetaBank and MetaBank WC 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 and MetaBank WC's actual capital and required capital amounts and ratios at June 30, 2006 which, at that date, exceeded the minimum capital adequacy requirements.

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

At June 30, 2006 -----	Actual		Minimum Requirements For Capital	
	Amount -----	Ratio -----	Adequacy Amount -----	Purpose Ratio -----
(Dollars in thousands)				
MetaBank -----				
Tier 1 (Core) Capital (to adjusted total assets)	\$48,550	6.90%	\$28,164	4.00
Total Risk Based Capital (to risk weighted assets)	54,441	11.21	38,842	8.00
MetaBank West Central -----				
Tier 1 Capital (to average assets)	3,993	8.93	1,788	4.00
Tier 1 Risk Based Capital (to risk weighted assets)	3,993	13.82	1,156	4.00
Total Risk Based Capital (to risk weighted assets)	4,285	14.83	2,312	8.00

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. At June 30, 2006, the Company, MetaBank, and MetaBank WC exceeded minimum requirements for the well-capitalized category.

FORWARD LOOKING STATEMENTS

The Company, and its wholly-owned subsidiaries, MetaBank and MetaBank WC, may from time to time make written or oral "forward-looking statements," including statements contained in its filings with the Securities and Exchange Commission, 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 may address: future operating results; customer growth and retention; loan and other product demand; earnings growth and expectations; new products and services, such as those offered by the Meta Payment Systems Division; 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; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users; the impact of changes in financial services' laws and regulations; technological changes; acquisitions; litigation; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default and managing the risks involved in the foregoing.

The foregoing list of factors is not exclusive. Additional discussions of

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

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.

24

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 currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate loan products and fixed-rate loan products with relatively short terms to maturity. This allows the Company to maintain a portfolio of loans that will be sensitive to changes in the level of interest rates while providing a reasonable spread to the cost of liabilities used to fund the loans.

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 changes to the Company's asset/liability mix. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between minimizing risk while maximizing yield, the need to provide collateral for borrowings, and to fulfill the Company's asset/liability management goals.

The Company's cost of funds responds to changes in interest rates due to the relatively short-term nature of its deposit portfolio. Consequently, the results of operations are generally influenced by the level of short-term interest rates. The Company offers a range of maturities on its deposit products at competitive rates and monitors the maturities on an ongoing basis.

The Company emphasizes and promotes its savings, money market, and checking accounts and, subject to market conditions, certificates of deposit with maturities of three months through five years, principally from its primary market area. The checking and savings accounts tend to be less susceptible to rapid changes in interest rates. As discussed previously, the bank continues to emphasize such deposits due to their low cost as well as their relative stability in volatile interest rate environments.

In managing its asset/liability mix, the Company, at times, depending on the relationship between long- and short-term interest rates, market conditions and consumer preference, may place somewhat greater emphasis on maximizing its net interest margin than on strictly matching the interest rate sensitivity of its assets and liabilities. Management believes that the increased net income which may result from an acceptable mismatch in the actual maturity or repricing of its asset and liability portfolios can provide sufficient returns to justify the increased exposure to sudden and unexpected increases in interest rates which may result from such a mismatch. The Company has established limits, which may change from time to time, 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

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

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 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.

Presented below, as of June 30, 2006 and September 30, 2005, is an analysis of the Company's interest rate risk profile 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. As interest rates have moved higher during this fiscal year, the Company's interest rate risk profile has shifted from one more exposed to downward rate movements as of September 30, 2005 to a more balanced position as of June 30, 2006. This shift is primarily the result of the

25

Company's Base Case position moving along the market value curve as rates have risen. Between September 30, 2005, and June 30, 2006, the Federal Funds rate rose 150 bp from 3.75% to 5.25%. Similarly, the 10 year Treasury note yield rose 81 bp from 4.33% on September 30, 2005 to 5.14% on June 30, 2006. As a consequence, what was the Company's Base Case position at September 30, 2005 is more similar to the Company's Down 100 position as of June 30, 2006.

Some changes in company's balance sheet since September 30, 2005 have also created shifts in the Company's interest rate risk profile. The decrease in mortgage-backed securities and callable wholesale borrowings has reduced the company's exposure to option risk. As of June 30, 2006 and September 30, 2005, the Company and its subsidiaries were within the interest rate risk limits set forth by the Board of Directors and banking regulations.

Change in Interest Rates ----- (Basis Points) -----	Board Limit ----- % Change -----	At June 30, 2006 -----		At September 30, 2005 -----	
		\$ Change -----	% Change -----	\$ Change -----	% Change -----
		(Dollars in thousands)			
+200 bp	(40)%	\$ (3,546)	(5)%	\$ (1,904)	(3)%
+100 bp	(25)	(1,291)	(2)	(411)	(1)
0 bp (Base Case)	--	--	--	--	--
-100 bp	(25)	(580)	(1)	(2,773)	(5)
-200 bp	(40)	(5,342)	(7)	(9,183)	(16)

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 which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayments and early withdrawal levels would likely deviate from those assumed in calculating the tables. Finally, the ability of some borrowers to service

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

their debt may decrease in the event of an interest rate increase. The Company considers all of these factors in monitoring its exposure to interest rate risk.

26

Part I. Financial Information  
Item 4. 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, 2006 our disclosure controls and procedures were effective.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

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.

27

META FINANCIAL GROUP, INC.

PART II - OTHER INFORMATION

FORM 10-Q

Item 1. Legal Proceedings - On June 11, 2004, the Sioux Falls School  
-----

District filed suit in the Second Judicial Circuit Court alleging that MetaBank, a wholly-owned subsidiary of the Company, improperly allowed funds, which belonged to the school district, to be deposited into, and subsequently withdrawn from, a corporate account established by an employee of the school district. The school district is seeking in excess of \$600,000. MetaBank has submitted the claim to its insurance carrier, and is working with counsel to vigorously contest the suit.

On or about March 10, 2006, plaintiffs filed five class-action suits on behalf of themselves and all other purchasers of vehicles from

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

Prairie Auto Group, Inc., Dan Nelson Automotive Group, Inc.'s Rapid City, South Dakota location, and other not-yet-identified auto sales entities owned or operated by defendants. The complaints are styled as follows: Ronald Archuleta, et al. v. Prairie Auto Group, Inc., et al. - In the Tribal Court for the Oglala Sioux Tribe, Pine Ridge Indian Reservation; Cedar Around Him, et al. v. Prairie Auto Group, Inc., et al. - In the Tribal Court for the Rosebud Sioux Tribe, Rosebud Indian Reservation; Chris Dengler, et al. v. Prairie Auto Group, Inc. - Circuit Court of the Second Judicial Circuit, Minnehaha County, South Dakota; Lucinda Janis, et al. v. Prairie Auto Group, Inc., et al. - File No. C-157-04; In the Tribal Court for the Cheyenne River Sioux Indian Reservation, Eagle Butte, South Dakota; and Kali Treetop, et al. v. Prairie Auto Group, Inc., et al. - File No. 01-970; Circuit Court for the Seventh Judicial Circuit, Pennington County, South Dakota. Except for the named plaintiffs, each of the complaints is essentially identical to the others. The nature of the allegations are the same, and the same fourteen legal claims are sought to be pled in each.

Each complaint states that it is a "companion" to the other four and names the same defendants (approximately twenty-five) including the Registrant and affiliates thereof (the "MetaBank Defendants"). None of these complaints has yet been served on any of the MetaBank Defendants. The thrust of the complaints is that plaintiffs allegedly suffered damages as a result of a scheme by defendants to use fraudulent statements, misrepresentations and omissions to sell vehicles and extended warranties to plaintiffs. Plaintiffs claim that they and other similarly situated purchasers paid too much for their vehicles and were induced to buy warranties that were not honored and otherwise proved worthless. Plaintiffs allege that defendants reaped considerable profits through fraudulent sales methods; by refusing to make warrantied repairs; and by engaging in usurious repossession and resale practices. Plaintiffs allege that these practices were part of a business plan that originated with the franchisor-defendants and was purchased and employed by the franchisee-defendants. It appears that the principal basis for naming the MetaBank Defendants is that they loaned money to finance some of the defendants' business operations, purportedly with some degree of knowledge about the defendants' allegedly abusive consumer practices.

The complaints allege that the described transactions are typical of defendants' business and were part of a deliberate scheme directed primarily at Native American customers. The complaints allege that the franchisee-defendants engaged in coercive, fraudulent and other illegal activities in connection with the automobile sales, and each seeks to state claims for: (1) breach of express warranty; (2) breach of implied warranty of merchantability; (3) deceit/fraud; (4) violation of applicable deceptive trade laws; (5) breach of the implied covenant of good faith and fair dealing; (6) conversion; (7) civil conspiracy under tribal and state common law; (8) negligent hiring, training and supervision of employees; (9) violation of the Federal Equal Credit Opportunity Act; (10) invasion of privacy; (11) violation of the Racketeer Influenced and Corrupt Organizations Act (RICO); (12)

violation of the Magnuson-Moss Act; (13) violation of the Federal Truth and Lending Act's (TILA) Three Day Rescission Period; and (14) violation of TILA's Disclosure of Finance Cost Requirement.

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

In addition to seeking certification as a class, plaintiffs seek cancellation of the automobile purchase contracts; monetary damages including the initial purchase price warranty charges, finance costs and related repossession and other charges; costs of allegedly warranted repairs that were not made by defendants; consequential damages relating to the alleged wrongful repossession of vehicles and deficiency judgments associated therewith; damages for emotional and mental suffering; punitive and treble damages; and attorneys' fees. The amount of the alleged damages is not specified in the complaints.

With respect to the first matter described under "Corporate Development in Fiscal 2005" in the Company's Annual Report of Form 10-K for the fiscal year ended September 30, 2005 in Part II, Item 7 thereof, each participation agreement with the ten participant banks provides that the participant bank shall own a specified percentage of the outstanding loan balance at any give time. Each agreement also recites the maximum amount that can be loaned by MetaBank on that particular loan. MetaBank allocated to some participants an ownership in the outstanding loan balance in excess of the percentage specified in the participation agreement. MetaBank believes that in each instance this was done with the full knowledge and consent of the participant. Several participants have demanded that their participations be adjusted to match the percentage specified in the participant agreement. Based on the total loan recoveries projected as of March 31, 2006, MetaBank calculated that it would cost approximately \$953,000 to adjust these participations as the participants would have them adjusted. A few participants have more recently asserted that MetaBank owes them additional monies based on additional legal theories. MetaBank denies any obligation to make the requested adjustments on these or related claims. Other than as disclosed below, MetaBank cannot predict at this time whether any of these claims will be the subject of litigation.

During the three months ended June 30, 2006 or shortly thereafter four lawsuits were filed against the Company's MetaBank subsidiary. Three of the complaints are related to the Company's alleged actions in connection with its activities as lead lender to three companies involved in auto sales, service, and financing and their owner. The fourth complaint alleges patent infringement. All four actions are in their infancy and materiality cannot be determined at this time. The Company intends, however, to vigorously defend its actions.

First Midwest Bank-Deerfield Branches and Mid-Country Bank v. MetaBank (Civ. No. 06-2241). On June 28, 2006, First Midwest Bank-Deerfield Branches and Mid-Country Bank filed suit against MetaBank in South Dakota's Second Judicial Circuit Court, Minnehaha County, in the above titled action. The complaint alleges that plaintiff banks, who were participating lenders with MetaBank on a series of loans made to Dan Nelson Automotive Group ("DNAG") and South Dakota Acceptance Corporation ("SDAC"), suffered damages exceeding \$1 million as a result of MetaBank's placement and administration of the loans that were the subject of the loan participation agreements. The complaint sounds in breach of contract, negligence, gross negligence, negligent misrepresentation, fraud in the inducement, unjust enrichment and breach of fiduciary duty. On July 17, 2006, MetaBank removed the case from state court to the United States District Court for the District of South Dakota, where the action has been assigned case no. Civ. 06-4114.

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

First Premier Bank v. MetaBank (Civ. No. 06-2277). On July 5, 2006, First Premier Bank filed suit against MetaBank in South Dakota's Second Judicial Circuit Court, Minnehaha County in the above titled action. The complaint alleges that First Premier, a participating lender with MetaBank on a series of loans made to SDAC, has suffered damages in an as yet undetermined amount as a result of MetaBank's actions in selling to First Premier a participation in a loan made to SDAC and

29

MetaBank's actions in administering that loan. The complaint sounds in breach of contract, breach of covenant of good faith and fair dealing, fraudulent inducement, fraud, deceit, negligent misrepresentation, fraudulent misrepresentation, conversion, negligence, gross negligence, breach of fiduciary duty and unjust enrichment. On July 17, 2006, MetaBank removed the case from state court to the United States District Court for the District of South Dakota, where the action has been assigned case no. Civ. 06-4115.

Home Federal Bank v. J. Tyler Haahr, Daniel A. Nelson and MetaBank (Civ. No. 06-2230). On June 26, 2006, Home Federal Bank filed suit against MetaBank and two individuals, J. Tyler Haahr and Daniel A. Nelson, in South Dakota's Second Judicial Circuit Court, Minnehaha County in the above titled action. The complaint alleges that Home Federal, a participating lender with MetaBank on a series of loans made to DNAG and SDAC, suffered damages exceeding \$3.8 million as a result of failure to make disclosures regarding an investigation of Nelson, DNAG and SDAC by the Iowa Attorney General at the time Home Federal agreed to an extension of the loan participation agreements. The complaint sounds in fraud, negligent misrepresentation, breach of fiduciary duty, conspiracy and breach of duty of good faith and fair dealing.

Subject to a reservation of rights, our insurance carrier has agreed to cover the three claims described above.

Meridian Enterprises Corporation v. Bank of America Corporation et al. (Case No. 4:06-cv-01117CDP). On July 21, 2006, Meridian Enterprises Corporation ("Meridian") filed suit against Meta Financial Group, Inc. (Meta Payment Systems division) ("Meta") and other banks and financial institutions in the U.S. District Court for the Eastern District of Missouri in the above-titled action. Meridian is the owner of U.S. Patent No. 5,025,372 (the "'372 Patent"). The complaint alleges that Meta and the co-defendants each sell, administer, process and/or sponsor an incentive program where cards are provided to participants in the incentive program that can be presented to retailers to make a purchase. The complaint further alleges, inter alia, that Meta and the co-defendants each use a computer to determine whether or not a participant's performance under the incentive program entitles the participant to an award, in which the computer also determines the amount of the award, and the amount of the award is based upon the level of the participant's performance in the incentive program. Accordingly, the complaint sounds in infringement, inducement of infringement, and contributory infringement of one or more claims of the '372 Patent.

There are no other material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.



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

Item 1.A. Risk Factors - Other than the risk factors described below, there  
-----

have been no material changes from those described in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the period ended September 30, 2005.

On March 15, 2006, the Federal Housing Finance Board, the federal regulator of the 12 Federal Home Loan Banks, published for comment a proposal that would (i) establish a minimum retained earnings requirement for each Federal Home Loan Bank, (ii) limit the amount of excess stock that a Bank could have outstanding, and (iii) impose new restrictions on the timing and form of dividend payment. If adopted, dividends paid to the Company by the FHLB of Des Moines, of which the Company is a member, could be reduced, thereby negatively impacting the Company's earnings.

In connection with the previously disclosed bankruptcy of certain borrowers of MetaBank, MetaBank has experienced loan losses, which have, in part, been passed on to various entities that participated with MetaBank, which was the lead lender at the time the loans were made. Several of the participant

30

banks have recently contended, over and above the allocation issue raised by the participants and described in previous filings of the Registrant, that MetaBank owes such participants additional monies, and have threatened MetaBank with legal action, or have already filed such legal action, to recover said monies. In addition, five lawsuits, all containing virtually identical allegations to each of the others, have been filed naming several defendants, including MetaBank and affiliates, on behalf of the purchasers of automobiles from the borrowers. It is contended by the plaintiffs in these five lawsuits that MetaBank and its affiliates conspired with the borrowers to defraud such purchasers. See Footnote 9 to the Financial Statements and Part II - Other Information, Item 1. Legal Proceedings herein. If the Company is forced to defend itself against this pending and threatened litigation, the Company would incur additional legal expenses, which cannot be reasonably estimated at this time, but would affect overall profitability.

Item 2. Unregistered Sale 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.

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 14, 2006  
-----

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

Date: August 14, 2006  
-----

By: /s/ Jonathan M. Gaiser  
-----  
Jonathan M. Gaiser, Senior Vice President,  
Secretary, Treasurer, and Chief Financial  
Officer