META FINANCIAL GROUP INC
Form 10-Q
May 15, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

o 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. ®

(Exact name of registrant as specified in its charter)

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

121 East Fifth Street, Storm Lake, Iowa 50588

(Address of principal executive offices)

(712) 732-4117

(Registrant s telephone number, including area code)

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class:	Outstanding at May 14, 2008:
Common Stock, $.01 par value	2,596,084 Common Shares

META FINANCIAL GROUP, INC.

FORM 10-Q

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META FINANCIAL GROUP, INC.®

AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition (Unaudited)

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

	March 31, 2008	September 30, 2007
ASSETS		
Cash and due from banks	$ 1,671	$ 1,210
Interest-bearing deposits in other financial institutions	62,881	10,110
Total cash and cash equivalents	64,552	11,320
Federal funds sold		75,000
Investment securities available for sale	23,512	25,960
Mortgage-backed securities available for sale	225,750	132,741
Loans receivable - net of allowance for loan losses of $4,581 at March 31, 2008 and $4,493 at September 30, 2007	403,954	355,612
Federal Home Loan and Federal Reserve Bank stock, at cost	7,570	4,015
Accrued interest receivable	3,900	4,189
Bond insurance receivable	4,193	
Premises and equipment, net	22,071	19,707
Bank-owned life insurance	12,507	12,261
Assets related to discontinued operations, held for sale		35,770
Goodwill	1,933	1,508
Other assets	40,593	7,997
Total assets	$ 810,535	$ 686,080
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Non-interest-bearing checking	$ 357,037	$ 260,098
Interest-bearing checking	17,226	14,600
Savings deposits	10,406	10,265
Money market deposits	68,883	81,292
Time certificates of deposit	140,371	156,723
Total deposits	593,923	522,978
Advances from Federal Home Loan Bank	55,000	68,000
Securities sold under agreements to repurchase	82,214	224
Subordinated debentures	10,310	10,310
Accrued interest payable	760	842
Contingent liability	4,218	
Liabilities related to discontinued operations, held for sale		30,949
Accrued expenses and other liabilities	11,234	4,679
Total liabilities	757,659	637,982
SHAREHOLDERS EQUITY		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value; 5,200,000 shares authorized, 2,957,999 shares issued, 2,596,084 and 2,589,717 shares outstanding at March 31, 2008 and September 30, 2007, respectively	30	30
Additional paid-in capital	22,299	21,958

Retained earnings - substantially restricted		38,435		36,805
Accumulated other comprehensive (loss)		(833)		(3,345)
Unearned Employee Stock Ownership Plan shares		(160)		(377)
Treasury stock, 361,915 and 368,282 common shares, at cost, at March 31, 2008 and September 30, 2007, respectively		(6,895)		(6,973)
Total shareholders equity		52,876		48,098
Total liabilities and shareholders equity	$	810,535	$	686,080

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC. ®

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Condensed Consolidated Statements of Operations (Unaudited)

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007 (As Restated)	Six Months Ended March 31, 2008	Six Months Ended March 31, 2007 (As Restated)
Interest and dividend income:				
Loans receivable, including fees	$ 6,599	$ 6,297	$ 12,877	$ 12,782
Mortgage-backed securities	2,339	1,391	3,846	2,867
Other investments	957	2,032	2,071	3,854
	9,895	9,720	18,794	19,503
Interest expense:				
Deposits	2,031	2,975	4,455	6,282
FHLB advances and other borrowings	1,648	1,302	2,849	2,787
	3,679	4,277	7,304	9,069
Net interest income	6,216	5,443	11,490	10,434
Provision for loan losses	200	(225)	70	3,838
Net interest income after provision for loan losses	6,016	5,668	11,420	6,596
Non-interest income:				
Card fees	11,514	3,671	16,957	7,257
Loan fees	207	244	405	480
Deposit fees	177	129	371	154
Bank-owned life insurance income	124	120	246	194
Gain on sale of securites available for sale, net	198		207	
Other income	65	229	229	409
Total non-interest income	12,285	4,393	18,415	8,494
Non-interest expense:				
Compensation and benefits	6,451	4,483	12,168	8,415
Card processing expense	5,044	1,589	8,101	3,242
Occupancy and equipment expense	1,795	1,024	3,040	1,939
Legal and consulting expense	790	780	1,229	1,516
Marketing	394	289	738	455
Data processing expense	322	107	582	332
Other expense	1,559	738	3,283	1,694
Total non-interest expense	16,355	9,010	29,141	17,593
Income (loss) from continuing operations before income tax expense (benefit)	1,946	1,051	694	(2,503)
Income tax expense (benefit) from continuing operations	743	412	281	(847)
Income (loss) from continuing operations	1,203	639	413	(1,656)

Gain on sale from discontinued operations before taxes		2,309				2,309		
Income (loss) from discontinued operations before taxes		4		152		76		(501)
Income tax expense (benefit) from discontinued operations		478		56		500		(188)
Income (loss) from discontinued operations		1,835		96		1,885		(313)
Net Income (loss)	$	3,038	$	735	$	2,298	$	(1,969)
Basic earnings (loss) per common share:								
Income (loss) from continuing operations	$	0.47	$	0.25	$	0.16	$	(0.66)
Income (loss) from discontinued operations		0.71		0.04		0.73		(0.12)
Net income (loss)	$	1.18	$	0.29	$	0.89	$	(0.78)
Diluted earnings (loss) per common share:								
Income (loss) from continuing operations	$	0.46	$	0.24	$	0.16	$	(0.66)
Income (loss) from discontinued operations		0.70		0.04		0.71		(0.12)
Net income (loss)	$	1.16	$	0.28	$	0.87	$	(0.78)
Dividends declared per common share:	$	0.13	$	0.13	$	0.26	$	0.26

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP INC.®

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

(Dollars in Thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007 (As Restated)	Six Months Ended March 31, 2008	Six Months Ended March 31, 2007 (As Restated)
Net income (loss)	$ 3,038	$ 735	$ 2,298	$ (1,969)
Other comprehensive gain (loss)				
Change in net unrealized gains (losses) on securities available for sale	1,749	774	3,800	3,495
Gains realized in net income	198		207	
	1,947	774	4,007	3,495
Deferred income tax effect	726	289	1,495	1,303
Total other comprehensive income (loss)	1,221	485	2,512	2,192
Total comprehensive income (loss)	$ 4,259	$ 1,220	$ 4,810	$ 223

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP, INC.®

AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders Equity (Unaudited)

For the Six Months Ended March 31, 2008 and 2007 (RESTATED)

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss), Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders Equity
Balance, September 30, 2006	$ 30	$ 20,969	$ 36,953	$ (4,548)	$ (509)	$ (7,796)	$ 45,099
Cash dividends declared on common stock ($.26 per share)			(663)				(663)
Issuance of 5,636 common shares from treasury stock due to exercise of stock options		(227)				339	112
Stock compensation		170					170
3,999 common shares committed to be released under the ESOP		46			185		231
Change in net unrealized gains on securities available for sale, net				2,192			2,192
Net loss for six months ended March 31, 2007			(1,969)				(1,969)
Balance, March 31, 2007	$ 30	$ 20,958	$ 34,321	$ (2,356)	$ (324)	$ (7,457)	$ 45,172
Balance, September 30, 2007	$ 30	$ 21,958	$ 36,805	$ (3,345)	$ (377)	$ (6,973)	$ 48,098
Cash dividends declared on common stock ($.26 per share)			(668)				(668)
Issuance of 3,967 common shares from treasury stock due to exercise of stock options		10				78	88
Stock compensation		224					224
		107			217		324

6,378 common shares committed to be released under the ESOP							
Net change in unrealized gains on securities available for sale, net of income taxes				2,512			2,512
Net income for six months ended March 31, 2008			2,298				2,298
Balance, March 31, 2008	$ 30	$ 22,299	$ 38,435	$ (833)	$ (160)	$ (6,895)	$ 52,876

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP, INC.®

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended March 31, 2008	2007 (As Restated)
Cash flows from operating activities:		
Net income (loss)	$ 2,298	$ (1,969)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Effect of contribution to employee stock ownership plan	324	231
Depreciation, amortization and accretion, net	1,545	1,206
Provision for loan losses	70	3,838
Stock compensation	224	170
(Gain) on sale of other	(52)	(48)
Net change in accrued interest receivable	289	464
Net change in other assets	(1,741)	(817)
Net change in accrued interest payable	(82)	207
Net change in accrued expenses and other liabilities	(20,176)	(1,218)
Net cash (used in) provided by operating activities-continuing operations	(17,301)	2,064
Net cash provided by operating activities-discontinued operations	6,029	598
Net cash (used in) provided by operating activities	(11,272)	2,662
Cash flow from investing activities:		
Purchase of securities available for sale	(102,790)	
Net change in federal funds sold	75,000	(100,000)
Net change in securities purchased under agreement to resell		5,891
Proceeds from maturities and principal repayments of securities available for sale	15,725	12,732
Loans purchased	(7,313)	(54,840)
Net change in loans receivable	(41,348)	57,104
Proceeds from sales of foreclosed real estate	329	33
Net change in FHLB / FRB stock	(3,555)	713
Proceeds from the sale of premises and equipment	97	
Purchase of premises and equipment	(3,759)	(1,393)
Other, net	(1,208)	358
Net cash (used in) investing activities-continuing operations	(68,822)	(79,402)
Net cash provided by investing activities-discontinued operations	17,598	2,874
Net cash (used in) investing activities	(51,224)	(76,528)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	87,297	19,261
Net change in time deposits	(16,352)	(6,990)
Net repayments of advances from Federal Home Loan Bank	(13,000)	(13,000)
Net change in securities sold under agreements to repurchase	81,990	(9,896)
Cash dividends paid	(668)	(663)
Proceeds from exercise of stock options	88	112
Other, net		(245)
Net cash provided by (used in) financing activities-continuing operations	139,355	(11,421)
Net cash (used in) provided by financing activities-discontinued operations	(33,210)	419
Net cash provided by (used in) financing activities	106,145	(11,002)

Net change in cash and cash equivalents		43,649		(84,868)
Cash and cash equivalents at beginning of period		20,903		109,353
Cash and cash equivalents at end of period	$	64,552	$	24,485
Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Interest	$	7,984	$	9,521
Income taxes				582
Supplemental schedule of non-cash investing and financing activities:				
Loans transferred to foreclosed real estate	$	301	$	
Cash received on sale of commercial bank		8,224		

See Notes to Consolidated Financial Statements.

META FINANCIAL GROUP, INC. ®

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Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1. BASIS OF PRESENTATION

The interim unaudited condensed consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2007, filed as Exhibit 13 to Meta Financial Group, Inc. s (Meta Group or the Company) Form 10-K filed with the Securities and Exchange Commission on January 11, 2008. Accordingly, footnote disclosures, which would substantially duplicate the disclosure contained in the audited consolidated financial statements, have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the interim period ended March 31, 2008, are not necessarily indicative of the results expected for the year ending September 30, 2008.

NOTE 2. DISCONTINUED BANK OPERATIONS

Sale of MetaBank West Central

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

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

NOTE 3. ALLOWANCE FOR LOAN LOSSES

At March 31, 2008 the Company s allowance for loan losses was $4.6 million, an increase of $100,000 from $4.5 million at September 30, 2007. During the six months ended March 31, 2008 the Company recorded a provision for loan losses of $70,000, which was directly related to loan growth and continued improvement in the Company s loan portfolio as compared to the same period in the prior fiscal year. During the three months ended March 31, 2008 the Company recorded a provision for loan losses of $200,000. The Company s net charge-offs for the three and six months ended March 31, 2008 were minimal. Further discussion of this change in the allowance is included in Non-performing Assets and Allowance for Loan Loss in Management s Discussion and Analysis.

NOTE 4. EARNINGS PER COMMON SHARE (EPS)

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

A reconciliation of the income (loss) and common stock share used in the computation of basic and diluted EPS for the three and six months ended March 31, 2008 and 2007 is presented below.

Three Months Ended March 31, **(Dollars in Thousands, Except Share and Per Share Data)**		**2008**		**2007** **(As Restated)**
Earnings				
Income from continuing operations	$	1,203	$	639
Discontinued operations, net of tax		1,835		96
Net income	$	3,038	$	735
Basic EPS				
Weighted average common shares outstanding		2,595,165		2,549,631
Less weighted average unallocated ESOP and nonvested shares		(19,334)		(25,283)
Weighted average common shares outstanding		2,575,831		2,524,348
Earnings Per Common Share				
Income from continuing operations	$	0.47	$	0.25
Discontinued operations, net of tax		0.71		0.04
Net income	$	1.18	$	0.29
Diluted EPS				
Weighted average common shares outstanding for basic earnings per common share		2,575,831		2,524,348
Add dilutive effect of assumed exercises of stock options, net of tax benefits		44,634		96,366
Weighted average common and dilutive potential common shares outstanding		2,620,465		2,620,714
Earnings Per Common Share				
Income from continuing operations	$	0.46	$	0.24

Discontinued operations, net of tax		0.70		0.04
Net income	$	1.16	$	0.28

Six Months Ended March 31, **(Dollars in Thousands, Except Share and Per Share Data)**		**2008**		**2007** **(As Restated)**
Earnings (Loss)				
Income (loss) from continuing operations	$	413	$	(1,656)
Discontinued operations, net of tax		1,885		(313)
Net income (loss)	$	2,298	$	(1,969)
Basic EPS				
Weighted average common shares outstanding		2,593,860		2,542,440
Less weighted average unallocated ESOP and nonvested shares		(19,758)		(27,174)
Weighted average common shares outstanding		2,574,102		2,515,266
Earnings (Loss) Per Common Share				
Income (loss) from continuing operations	$	0.16	$	(0.66)
Discontinued operations, net of tax		0.73		(0.12)
Net income (loss)	$	0.89	$	(0.78)
Diluted EPS				
Weighted average common shares outstanding for basic earnings per common share		2,574,102		2,515,266
Add dilutive effect of assumed exercises of stock options, net of tax benefits		64,231		
Weighted average common and dilutive potential common shares outstanding		2,638,333		2,515,266
Earnings (Loss) Per Common Share				
Income (loss) from continuing operations	$	0.16	$	(0.66)
Discontinued operations, net of tax		0.71		(0.12)
Net income (loss)	$	0.87	$	(0.78)

The calculation of the diluted loss per share for the six months ended March 31, 2007 does not reflect the assumed exercise of 89,207 stock options because the effect would have been anti-dilutive due to the net loss for the period. Stock options totaling 125,018 were not considered in computing diluted EPS for the three months ended March 31, 2008 because they were not dilutive. Stock options totaling 111,018 and 6,000 were not considered in computing diluted EPS for the six months ended March 31, 2008 and 2007, respectively, because they were not dilutive.

NOTE 5. COMMITMENTS AND CONTINGENCIES

At March 31, 2008 and September 30, 2007, the Company had outstanding commitments to originate and purchase loans totaling $64.7 million and $50.3 million, respectively. It is expected that outstanding loan commitments will be funded with existing liquid assets. At March 31, 2008, the Company had no commitments to purchase or sell securities available for sale.

Legal Proceedings

MetaBank (the Bank) has been named in several lawsuits whose eventual outcome could have an adverse effect on the consolidated financial position or results of operations of the Company. Because the likelihood or amount of an adverse resolution to these matters cannot currently be reasonably estimated, the Company has not recorded a contingent liability related to these potential claims.

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 case has been settled and dismissed with no consequences to MetaBank.

A lawsuit was filed by a number of plaintiffs who had purchased vehicles naming MetaBank together with a number of other defendants. MetaBank, in conjunction with a roster of participating banks, had provided a series of loans and lines of credit to Dan Nelson Auto Group (DNAG) and South Dakota Acceptance Corporation (SDAC). Plaintiffs allege that the defendants, including MetaBank, participated in the fraudulent scheme by virtue of providing these lines of credit and loans despite being aware of the predatory consumer practices of the Nelson companies, and that MetaBank profited by receiving undisclosed special benefits for providing these loans. DNAG, SDAC and Nelson have since filed for bankruptcy. Plaintiffs also allege that MetaBank did not vigorously pursue claims against Nelson and fellow DNAG executive Chris Tapken in their respective personal bankruptcies in order to allow these individuals to emerge with control over assets of their former companies. The claims against J. Tyler Haahr personally and the MetaBank entities were dismissed with prejudice on January 4, 2008, and this matter is now on appeal.

In addition, as noted below, four banks have filed suit seeking recovery of loss they suffered when the Nelson Companies, including SDAC and DNAG, went out of business.

During the three months ended June 30, 2006 or shortly thereafter three 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. An additional bank, North American Banking Company, joined the First Midwest Bank-Deerfield Branches case, and these three bank plaintiffs were then joined in the action brought by First Premier Bank against MetaBank. All four of these banks are now plaintiffs in one consolidated federal lawsuit, as discussed below. In addition, Home Federal Bank has brought a separate action, discussed below, in state court.

First Premier Bank, North American Banking Company, First Midwest Bank-Deerfield Branches and Mid-Country Bank v. MetaBank (Civ. No. 06-4114). 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. These consolidated complaints allege that plaintiff banks, who were participating lenders with MetaBank on a series of loans made to DNAG and SDAC, suffered damages 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. Plaintiff(s) moved to remand the case back to state court, but this motion was denied. As noted above, North American Banking Company has been allowed by the United States District Court to join this action with similar claims and allegations against MetaBank. Discovery is continuing and the case has been scheduled for trial later in 2008.

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. Discovery is continuing and the case has been scheduled for trial later in 2008.

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These actions are currently in discovery proceedings, and the amount of costs associated with these actions cannot be determined at this time. The Company intends, however, to vigorously defend its actions. Subject to a reservation of rights, the Company s insurance carrier has agreed to cover the four claims described above and is currently paying for counsel to defend all four actions.

Visa Litigation Matters. The Company is a member of the Visa USA network. During our 2008 first fiscal quarter, we were informed that VISA Inc. had reached a settlement in connection with the lawsuit brought against Visa by American Express in 2004 and had established a reserve related to an expected similar settlement with Discover Financial Services. In addition, the Visa organization of affiliated entities had previously announced that it had completed a series of global restructuring transactions to combine its affiliated operating companies, including Visa USA, under a single holding company, Visa Inc. Visa Inc. intends to issue and sell a majority of its shares to the public in an initial public offering. Subsequent to the settlement announcement, the accounting treatment by member banks for the Visa restructuring transactions, including judgment sharing agreements previously executed among the Company and Visa Inc. (Visa) and certain other member banks of the Visa USA network has been addressed by the ABA. Pursuant to this guidance, the Company will potentially have litigation liabilities associated with indemnification obligations under these agreements. Based on the Company s 0.00271% membership share of Visa USA and the accounting guidance we have received, we have recorded a litigation liability and corresponding expense of $158,000 for the first fiscal quarter ending December 31, 2007. The Company also recorded a gain during the second fiscal quarter of 2008 for the redemption of its shares related to Visa s initial public offering of $197,700 and a reversal of litigation expense of $73,500 related to the Visa IPO.

First Federal Bank Littlefield Texas ssb, formerly known as, First Federal Savings and Loan Association, Littlefield, Texas v. MetaBank, formerly known as First Federal Savings Bank of the Midwest. (Cause No. 17435). *The Frost National Bank v. MetaBank and Meta Financial Group, Inc.* (Cause No. 3:08-CV-625-M). On April 3, 2008, First Federal Bank, filed suit against MetaBank in Texas State Court in Lubbock seeking recovery of a purported MetaBank certificate of deposit (CD) that it claims it had purchased. On April 11, 2008, Frost National Bank, filed suit against MetaBank in the United States District Court for the District of Texas seeking a similar recovery. Earlier, MetaBank had been contacted by another institution, but could find no record of the CD it had allegedly purchased, and commenced an investigation. As a result of that investigation, it now appears that a former MetaBank employee had been selling fraudulent CDs, using MetaBank s name and standard form of CD, to various financial institutions through an independent broker and instructing purchasers to wire the purchase money into one of a number of false accounts she had created at MetaBank. MetaBank has received a number of demands from purchasers of these fraudulent CDs in addition to the lawsuits listed above. All evidence currently available indicates that the former employee ran this fraud for her own benefit and regularly took money from the MetaBank accounts to which the purchase monies had been wired. As a result of the interruption of this fraud, there are some $4.2 million of bogus CDs still outstanding to various financial institutions. As the former employee was apparently using the funds of new victims to pay off the previous victims of her scheme, it does not appear at this time that she stole any MetaBank money as part of this fraud. MetaBank therefore does not appear at this time to have suffered any direct loss as a result of the fraud, but it may suffer a loss to the extent it is exposed to liability for claims such as these. There are unresolved questions as whether, under what theory and to what degree MetaBank might be liable for the former employee s actions. At this time, MetaBank s insurer has agreed to provide a defense to the two litigations in Texas under a reservation of rights.

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

NOTE 6. STOCK OPTION PLAN

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

In accordance with SFAS No. 123(R), compensation expense for share based awards is recorded over the vesting period at the fair value of the award at the time of grant. The exercise price of options or fair value of nonvested shares granted under the Company s incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock based compensation, since actual historical forfeiture rates on its stock based incentive awards has been negligible.

A summary of option activity for the six months ended March 31, 2008 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
	(Dollars in Thousands, Except Share and Per Share Data)			
Options outstanding, September 30, 2007	424,269	$ 25.81	7.71	$ 5,971
Granted	5,000	32.44		
Exercised	(3,967)	25.19		
Forfeited or expired	(8,900)	27.84		
Options outstanding, March 31, 2008	416,402	$ 25.88	7.39	$ 5,854
Options exercisable at March 31, 2008	268,702	$ 23.87	6.82	$ 4,291

A summary of nonvested share activity for the six months ended March 31, 2008 is presented below:

	Number of Shares	Weighted Average Fair Market Value At Grant
	(Dollars in Thousands, Except Share and Per Share Data)	
Nonvested shares outstanding, September 30, 2007	6,666	$ 24.43
Granted		
Vested		
Forfeited or expired		
Nonvested shares outstanding, March 31, 2008	6,666	$ 24.43

As of March 31, 2008, stock based compensation expense not yet recognized in income totaled $983,000 which is expected to be recognized over a weighted average remaining period of 1.13 years.

NOTE 7. SEGMENT INFORMATION

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose results are reviewed by the chief operating decision-maker. Operating segments are aggregated into reportable segments if certain criteria are met. The Company has determined that it has two reportable segments. The traditional banking segment consisting of its two banking subsidiaries, MetaBank and MetaBank WC, and Meta Payment Systems® (MPS), a division of MetaBank. MetaBank and MetaBank WC 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. MPS 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 debit cards, sponsorship of ATMs into the debit networks, ACH origination services, a gift card program, rebate programs and tax related programs. Other programs are in the process of development. The remaining grouping under the caption All Others consists of the operations of Meta Financial Group, Inc. and Meta Trust Company. MetaBank WC is accounted for as discontinued bank operations. It was reported as part of the traditional banking segment and has been separately classified to show the effect of continuing operations. Transactions between affiliates, the resulting revenues of which are shown in the intersegment revenue category, are conducted at market prices, meaning prices that would be paid if the companies were not affiliates. The following tables present segment data for the Company for the three and six months ended March 31, 2008 and 2007, respectively.

	Traditional Banking	Meta Payment Systems®	All Others	Total
Three Months Ended March 31, 2008				
Net interest income (loss)	$ 3,069	$ 3,226	$ (79)	$ 6,216
Provision for loan losses	200			$ 200
Non-interest income	693	11,528	64	$ 12,285
Non-interest expense	4,449	11,588	318	$ 16,355
Income (loss) from continuing operations before tax	(887)	3,166	(333)	$ 1,946
Income tax expense (benefit)	(157)	1,009	(109)	$ 743
Income (loss) from continuing operations	$ (730)	$ 2,157	$ (224)	$ 1,203
Inter-segment revenue (expense)	$ (1,448)	$ 1,448	$	$
Total assets	457,923	349,610	3,002	$ 810,535
Total deposits	258,721	335,202		$ 593,923

	West Central
Three Months Ended March 31, 2008	
Net interest income	$ 91
Provision for loan losses	(21)
Non-interest income, including gain on sale	2,346
Non-interest expense	145
Income from discontinued operations before tax	2,313
Income tax expense	478
Income from discontinued operations	$ 1,835
Inter-segment revenue (expense)	$ 83
Total assets	
Total deposits	

	Traditional Banking	Meta Payment Systems®	All Others	Total
		(Dollars in Thousands)		
Three Months Ended March 31, 2007 (As Restated)				
Net interest income (expense)	$ 3,984	$ 1,697	$ (238)	$ 5,443
Provision for loan losses	(225)			(225)
Non-interest income	678	3,691	24	4,393
Non-interest expense	4,281	4,370	359	9,010
Net income (loss) before tax	606	1,018	(573)	1,051
Income tax expense (benefit)	225	347	(160)	412
Net income (loss)	$ 381	$ 671	$ (413)	$ 639
Inter-segment revenue (expense)	$ (1,699)	$ 1,699	$	$
Total assets	460,784	229,466	(1,812)	688,438
Total deposits	326,933	223,507		550,440

	West Central
Three Months Ended March 31, 2007	
Net interest income (loss)	$ 231
Provision for loan losses	(55)
Non-interest income	48
Non-interest expense	182
Income from discontinued operations before tax	152
Income tax expense	56
Income from discontinued operations	$ 96
Inter-segment revenue (expense)	$
Total assets	40,988
Total deposits	28,430

	Traditional Banking	Meta Payment Systems®	All Others	Total
Six Months Ended March 31, 2008				
Net interest income (loss)	$ 5,512	$ 6,277	$ (299)	$ 11,490
Provision for loan losses	70			$ 70
Non-interest income	1,276	17,038	101	$ 18,415
Non-interest expense	8,604	20,116	421	$ 29,141
Income (loss) from continuing operations before tax	(1,886)	3,199	(619)	$ 694
Income tax expense (benefit)	(631)	1,119	(207)	$ 281
Income (loss) from continuing operations	$ (1,255)	$ 2,080	$ (412)	$ 413
Inter-segment revenue (expense)	$ (2,671)	$ 2,671	$	$
Total assets	457,923	349,610	3,002	$ 810,535
Total deposits	258,721	335,202		$ 593,923

	West Central
Six Months Ended March 31, 2008	
Net interest income	$ 262
Provision for loan losses	(57)
Non-interest income, including gain on sale	2,440
Non-interest expense	374
Income from discontinued operations before tax	2,385

Income tax expense		500
Income from discontinued operations	$	1,885
Inter-segment revenue (expense)	$	175
Total assets		
Total deposits		

	Traditional Banking	Meta Payment Systems®	All Others	Total
		(Dollars in Thousands)		
Six Months Ended March 31, 2007 (As Restated)				
Net interest income (expense)	$ 7,821	$ 3,084	$ (471)	$ 10,434
Provision for loan losses	3,838			3,838
Non-interest income	1,114	7,331	49	8,494
Non-interest expense	8,533	8,321	739	17,593
Net income (loss) before tax	(3,436)	2,094	(1,161)	(2,503)
Income tax expense (benefit)	(1,200)	704	(351)	(847)
Net income (loss)	$ (2,236)	$ 1,390	$ (810)	$ (1,656)
Inter-segment revenue (expense)	$ (3,066)	$ 3,066	$	$
Total assets	460,784	229,466	(1,812)	688,438
Total deposits	326,933	223,507		550,440

	West Central
Six Months Ended March 31, 2007	
Net interest income (loss)	$ 499
Provision for loan losses	657
Non-interest income	86
Non-interest expense	429
Income from discontinued operations before tax	(501)
Income tax expense	(188)
Income from discontinued operations	$ (313)
Inter-segment revenue (expense)	$
Total assets	40,988
Total deposits	28,430

NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

At its September 2006 meeting, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under Statement No. 106 (SFAS No. 106) or Accounting Principles Board (APB) Opinion No. 12, *Omnibus Opinion - 1967*. The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for the Company beginning October 1, 2008. The Company has endorsement split-dollar life insurance policies and is currently assessing the financial statement impact of implementing EITF 06-04.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities   Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting principles. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Statement is effective for financial statements issued for the year beginning after November 15, 2007. The Company is currently evaluating the impact that the Statement will have on its consolidated financial statements.

At its March 2007 meeting, the EITF reached a final consensus on Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*. A consensus was reached that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee s retirement or provide the employee with a death benefit based on the substantive agreement with the employee. A consensus also was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The consensuses are effective for the Company beginning October 1, 2008, including interim periods within those fiscal years, with early application permitted. The Company has endorsement split-dollar life insurance policies and is currently assessing the financial statement impact of implementing EITF 06-10.

In September 2006, the FASB issued Statement No. 157, (SFAS No. 157), *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of SFAS No. 157 will have a material impact on its financial position, results of operation and cash flows.

Part I. Financial Information

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

META FINANCIAL GROUP, INC®.

AND SUBSIDIARIES

FORWARD LOOKING STATEMENTS

The Company, and its wholly-owned subsidiaries, MetaBank and Meta Trust, 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 address the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company s balance sheet and income statements; growth and expansion; new products and services, such as those offered by MPS or MetaBank; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company s financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services offered by the Company as well as risks (including litigation) attendant thereto and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third-party vendors; the impact of changes in financial services laws and regulations; technological changes, including but not limited to the protection of electronic files or databases; acquisitions; risk in general, including but not limited to those risks involving the MPS division; the growth of the Company s business as well as expenses related thereto; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default.

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

GENERAL

Meta Group is a unitary savings and loan holding company whose primary subsidiary is MetaBank. The Company was incorporated in 1993 as a unitary non-diversified savings and loan holding company that, on September 20 of that year, acquired all of the capital stock of MetaBank, a federal savings bank, in connection with MetaBank 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 MetaBank WC, a state-chartered commercial bank. Finally, in connection with a transaction that closed on March 28, 2008, whereby Meta Financial sold its ownership interest in MetaBank WC, Meta Financial again became a unitary savings and loan holding company regulated by the Office of Thrift Supervision. The sale of MetaBank WC has been accounted for as discontinued bank operations.

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at March 31, 2008, compared to September 30, 2007 and the consolidated results of operations for the three and six months ended March 31, 2008 and 2007. This discussion should be read in conjunction with the Company s consolidated financial statements, and notes thereto, for the year ended September 30, 2007.

CORPORATE DEVELOPMENTS AND OVERVIEW

The Bank s MPS division delivered record revenues and profits in the Company s 2008 fiscal second quarter. The division was created in May 2004 and is now recognized as an industry leader in a number of different areas within the payment systems industry including prepaid debit cards, ATMs, other payment products and services.

MPS launched new programs with Jackson Hewitt, AAA and H&R Block, experienced growth in rebate cards, and saw exciting adoption rates on iAdvance, its new patent-pending micro-credit product. On a business segment basis, its revenues (interest income plus non-interest income) grew by 179% over the same quarter a year ago and now comprise 68% of the Company s total revenue from continuing operations compared to 38% in the second quarter of the prior year. Although prepaid card-related deposits increased during the quarter, the average transfer pricing yield realized by MPS on these deposits dropped by 132 basis points, or 28%, in line with market conditions. MPS will have some seasonality in its results going forward from its relationships in the tax industry.

MPS also continued to demonstrate industry leadership and positive results from its ongoing investment in innovation and infrastructure. The Company filed 5 patents in the quarter and received several industry awards, including Most Innovative Product (iAdvance), Best Promotion Card Program (Hasbro/Young America), and the divisions top officers, Brad Hanson and Scott Galit received Industry Leadership awards.

The Bank continues to emphasize expansion in the growing metropolitan areas of Sioux Falls, South Dakota and Des Moines, Iowa. The Bank has added seven branches in approximately the past seven years in these markets. The Company focuses primarily on establishing lending and deposit relationships with commercial businesses and commercial real estate developers in these communities. During the quarter, the Company sold its commercial banking subsidiary, MetaBank WC, which included three branches in rural West-Central Iowa. The transaction closed March 28, 2008. The Company is now a unitary savings and loan holding company, and not a bank holding company, and is subject to the jurisdiction of the Office of Thrift Supervision (OTS). These transactions allow the Company to increase its focus on higher growth markets and business lines. The Bank now operates 13 retail banking branches: in Brookings (1) and Sioux Falls (4), South Dakota, in Des Moines (6) and Storm Lake (2), Iowa and a non-retail service branch in Memphis, Tennessee.

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

FINANCIAL CONDITION

As of March 31, 2008, the Company had assets totaling $810.5 million compared to $686.1 million at September 30, 2007, even with the sale of approximately $41.0 million of assets as part of the MetaBank WC sale. The increase in assets of $124.4 million, or 18.1%, resulted primarily from increases in the Company s securities, loan portfolios and other assets offset in part by decreases in the Company s cash and assets related to discontinued operations.

Total cash and cash equivalents and federal funds sold were $64.5 million at March 31, 2008, a decrease of $21.8 million, or 25.2%, from $86.3 million at September 30, 2007. The decrease was primarily the result of the Company s loan growth and decision to purchase mortgage-backed securities during the first two quarters. In general, the Company maintains its cash investments in interest-bearing overnight deposits with various correspondent banks. Federal funds sold deposits are maintained at various large commercial banks.

Investment securities available for sale, including mortgage-backed securities, increased $90.6 million, or 57.1%, to $249.3 million at March 31, 2008, as investment purchases exceeded related maturities, sales, and principal paydowns. The Company s portfolio of investment securities available for sale consists primarily of mortgage-backed securities with balloon maturities, which have relatively short expected lives and limited maturity extension risk. During the six month period ended March 31, 2008, the Company purchased $102.8 million of mortgage-backed securities with average lives of three to four years or stated finals of approximately eleven years or less.

The Company s portfolio of net loans receivable increased $48.4 million, or 13.6%, to $404.0 million at March 31, 2008, even with the sale of approximately $8.0 million of loans as part of the MetaBank WC sale. The Company s loan growth primarily relates to strong demand for commercial real estate loans.

Bond insurance receivable increased $4.2 million at March 31, 2008 due to the Company recording a receivable during the first quarter of fiscal 2008 from our insurance company related to a potential recovery of certificate of deposit fraud.

Other assets increased $32.6 million to $40.6 million at March 31, 2008 from $8.0 million at September 30, 2007. The increase was primarily related to an increase in prepaid card funding in transit items at MPS.

Assets related to discontinued operations, held for sale, decreased 100.0% or $35.8 million from the levels at September 30, 2007 due to the sale of MetaBank WC on March 28, 2008. See Note 2 to the Notes to Condensed Consolidated Financial Statements for further discussion on discontinued operations.

Total deposits increased $70.9 million, or 13.6%, to $593.9 million at March 31, 2008, even with the sale of approximately $29.0 million of deposits as part of the MetaBank WC sale. The majority of this increase related to an increase in non-interest-bearing checking deposits due to growth at MPS, though non-MPS deposits grew as well. The Company s deposit mix continues to shift from higher costing certificates of deposit and money market deposits toward low- and no-cost checking deposits.

Total borrowings increased $69.0 million, or 101.1%, much of which is due to a short-term borrowing need at the end of the quarter, from $78.5 million at September 30, 2007 to $147.5 million at March 31, 2008.

The Company s contingent liability for potential loss on a certificates of deposit fraud increased $4.2 million for the six month period ended March 31, 2008 as compared to the prior year. This liability is offset by the above referenced bond insurance receivable recorded during the first quarter of fiscal 2008.

Liabilities related to discontinued operations, held for sale, decreased 100.0% or $30.9 million from the levels at September 30, 2007 due to the sale of MetaBank WC on March 28, 2008. See Note 2 to the Notes to Condensed Consolidated Financial Statements for further discussion on discontinued operations.

At March 31, 2008, the Company s shareholders equity totaled $52.9 million, up $4.8 million from $48.1 million at September 30, 2007. The increase was related to an increase in unrealized gain in the Company s available for sale securities portfolio and the fiscal 2008 year-to-date net income (see Results of Operations below) partially offset by the payment of dividends on the Company s common stock. At March 31, 2008, MetaBank continues to meet regulatory requirements for classification as well-capitalized institution.

Non-performing Assets and Allowance for Loan Losses

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

At March 31, 2008, the Company s loan portfolio exhibited strong credit quality with 30+ day delinquencies of $5.8 million, or 1.4% of total loans compared to $7.2 million, or 1.9% of total loans, at September 30, 2007.

At March 31, 2008, commercial and multi-family real estate 30+ day delinquencies totaled $1.4 million, or 0.35% of total loans. This compares to $1.6 million or 0.45% of total loans at September 30, 2007. Multi-family and commercial real estate loans generally present different risks than loans secured by one-to-four family residences, including, but not limited to, 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.

At March 31, 2008, commercial business 30+ day delinquencies totaled $2.7 million, or 0.67% of total loans. This compares to $4.8 million, or 1.32% of total loans, at September 30, 2007. Risks associated with commercial business lending include, but are not limited to: payments on loans are typically dependent on the cash flows derived from the operation or management of the business to which the loan is made, and 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.

At December 31, 2007, agricultural 30+ day delinquencies totaled $400,000, or 0.10% of total loans. This compares to $163,000, or 0.05% of total loans, at September 30, 2007. Agricultural lending also typically involves 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 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.

The table below sets forth the amounts and categories of non-performing assets in the Company s loan portfolio. Foreclosed assets include assets acquired in settlement of loans. Balances related to discontinued bank operations have been eliminated for all periods presented.

	Non-performing Assets As Of March 31, 2008	(Dollars in Thousands) September 30, 2007
Non-accruing loans:		
One- to four-family	$ 967	$ 243
Agricultural real estate		13
Consumer	2	5
Commercial business	1,769	1,867
Total	2,738	2,128
Accruing loans delinquent 90 days or more:		
Total		
Restructured loans:		
Agricultural operating	121	150
Commercial business		15
Total	121	165
Foreclosed assets:		
One- to four-family	267	
Commercial and multi-family		229
Consumer		24
Commercial business		65
Total	267	318
Less: Allowance for losses		
Foreclosed assets, net	267	318
Total non-performing assets	$ 3,126	$ 2,611
Non-performing assets as a percentage of total assets	0.39%	0.38%

Classified assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the OTS to be of lessor quality as substandard , doubtful or loss. An asset is considered substandard if it is inadequately protected by the current ne worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the savings association will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such minimal value that their continuance as assets without the establishment of a specific reserve is not warranted. When assets are classified as either substandard or doubtful, the Bank may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When assets are classified as loss, the Bank is required either to establish a specific allowance for loan losses equal to 100% of that portion of the asset so classified or to charge-off such amount. The Bank s determination as to the classification of its assets and the amount of its valuation allowances are subject to review by its regulatory authorities, who may require the establishment of additional general or specific loss allowances. The discovery of additional information in the future may also affect both the level of classification and the amount of loss allowances.

On the basis of management s review of its loans and other assets, at March 31, 2008, the Company had classified (from continuing operations) a total of $3.7 million of its assets as substandard, $78,000 as doubtful and none as loss. This compares to classifications at September 30, 2007 of $6.0 million substandard, $82,000 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 Company and its borrowers operate.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime mortgage loans, management has previously expressed its concern that developments in the sub-prime mortgage market may have a ripple effect on residential real estate prices. In addition, the economic slowdown and increase in energy prices are straining the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Over the past six years, loss rates in the commercial and multi-family real estate market have remained moderate. Management recognizes that low charge-off rates over the past several years reflect the strong economic environment and are not indicative of likely losses over a full business cycle. This observation, as well as the aforementioned concerns regarding economic slowdown, has led management to the conclusion that future losses in this portfolio may be somewhat higher than recent historical experience, excluding loan losses related to fraud by borrowers. On the other hand, current trends in agricultural markets continue to be positive. Higher commodity prices as well as higher yields have created strong economic conditions for most farmers. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the slowdown in economic growth during this fiscal year may also negatively impact consumers repayment capacities. Additionally, a sizable portion of the Company s consumer loan portfolio is secured by residential real estate, as discussed above, is an area to be closely monitored by management in view of its stated concerns. Notwithstanding these concerns, the loan portfolios delinquency trends strengthened during the quarter.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at March 31, 2008 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company s determination of the allowance for loan losses is subject to review by its regulatory agencies, which can require the establishment of additional general or specific allowances.

At March 31, 2008, the Company has established an allowance for loan losses totaling $4.6 million, or 160% of non-performing loans, compared to $4.5 million, or 196% of non-performing loans at September 30, 2007.

The following table sets forth an analysis of the activity in the Company s allowance for loan losses for the three and six months ended March 31, 2008 and 2007.

		Three Months Ended March 31,	Six Months Ended March 31,
(Dollars in Thousands)	**2008**		