AIRGAS INC
Form DEFA14A
July 21, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

x Soliciting Material Pursuant to §240.14a-12

Airgas, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 240.0-11 and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Earnings Teleconference
Earnings Teleconference
First Quarter Ended June 30, 2010
First Quarter Ended June 30, 2010
July 21, 2010
July 21, 2010

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FORWARD-LOOKING STATEMENTS
This presentation contains statements that are forward looking.
Forward-looking statements include the statements identified as forward-looking in the
Company s press release announcing its quarterly earnings, as well as any statement that is not based on historical fact, includ
containing the words believes,
may,
plans,
will,
could,
should,
estimates,
continues,
anticipates,
intends,
expects
and similar
expressions. All forward-looking statements are based on current expectations regarding important risk factors and should not
representation by us or any other person that the results expressed therein will be achieved. Airgas assumes no obligation to re
forward-looking statements for any reason, except as required by law. Important factors that could cause actual results to diffe
contained in any forward-looking statement include the factors identified in the Company s press release announcing its quart
other factors described in the Company's reports, including its March 31, 2010 Form 10-K and other forms filed by the Compa
Exchange Commission. The Company notes that forward-looking statements made in connection with a tender offer are not su
created by the Private Securities Litigation Reform Act of 1995.
The Company is not waiving any other defenses that may be available under applicable
law.
ADDITIONAL INFORMATION
This press release does not constitute an offer to buy or solicitation of an offer to sell any securities. In response to the tender o
Products Distribution, Inc., a wholly owned subsidiary of Air Products and Chemicals, Inc., Airgas has filed a solicitation/reco
Schedule 14D-9 with the U.S. Securities and Exchange Commission ("SEC"). INVESTORS AND SECURITY HOLDERS O
THESE AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY IN THEIR ENTIRETY BECAUSE THEY CO
Investors and security holders may obtain free copies of these documents and other documents filed with the SEC by Airgas th
maintained by the SEC at http://www.sec.gov. Also, materials related to Air Products' Unsolicited Proposals are available in th
section of the Company's website at www.airgas.com, or through the following web address: http://investor.shareholder.com/a
In addition, Airgas has filed a preliminary proxy statement on Schedule 14A with the SEC on July 8, 2010 in connection with t
the 2010 Annual Meeting of Airgas stockholders. Airgas expects to file a definitive proxy statement with the SEC in connectio
proxies for the 2010 annual meeting of Airgas stockholders and may file other proxy solicitation material in connection therew
statement will be mailed to stockholders of Airgas. INVESTORS AND SECURITY HOLDERS OF AIRGAS ARE URGED T
DOCUMENTS FILED WITH THE SEC CAREFULLY IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BEC
INFORMATION. Investors and security holders will be able to obtain free copies of these documents (when available) and ot
SEC by Airgas through the web site maintained by the SEC at http://www.sec.gov.
CERTAIN INFORMATION REGARDING PARTICIPANTS
Airgas
and
certain
of

its directors and executive officers may be deemed to be participants under the rules of the SEC. Security holders may obtain information regarding the names, affiliations and interests of Airgas' directors and executive officers in Airgas' Annual Report on Form 10-K for the year ended March 31, 2010, which was filed with the SEC on May 27, 2010, and its proxy statement for the 2009 Annual Meeting, on July 13, 2009 and its preliminary proxy statement for the 2010 Annual Meeting, which was filed with the SEC on July 8, 2010. To the extent holdings of Airgas securities have changed, such changes have been or will be reflected on Statements of Change in Ownership on Forn These documents can be obtained free of charge from the sources indicated above. Additional information regarding the interests of these participants in any proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will also be included in any proxy statement and other relevant materials to be filed with the SEC if and when they become available.

Strong performance as economy emerges from recession

1Q11 Adjusted EPS* $0.83

Second-best earnings quarter in Airgas history

Revenues not yet recovered to pre-recessionary levels

Same-store sales up +6% YoY

Daily sales improved +5% sequentially

Broad-based momentum, led by manufacturing

Strategic Accounts sales up 12%; now represent 20% of total sales

Adjusted Operating Margin* 12.3% (up 130 bps YoY)

Strong operating leverage on sales growth

Raised FY11 Adj. EPS* guidance by more than 7% to $3.15 to $3.30

Represents 21% to 27% growth before SAP costs

Free Cash Flow* of $113 million

Adjusted Debt* reduction of $83 million

Increased 2Q11 dividend by 14% to 25¢

First Quarter Recap

First Quarter Recap

2

2

* See attached reconciliations of non-GAAP measures

3
3
Strategic Products Overview
Strategic Products Overview
1Q11: Broad-based increase in customer activity, most pronounced in manufacturing; continued strong existing customer penetration
Long-term: Strong cross-sell, customer base under-penetrated
1Q11: Sequential and YoY
improvement in industrial mfg, including steel, and

auto; continued strength in food-freezing
Long-term: Application growth, engineering solutions, sales force presence in the field
1Q11: Relatively resilient throughout downturn; slowing in elective and non-critical procedures more than offset by new customer signings
Long-term: Population demographics for respiratory therapy, full range of supply modes, strong cross-sell
1Q11: Sequential improvement due to normal seasonality of business
Long-term: Food product applications, beverage market
1Q11: Higher YoY
volumes; sequential improvement in demand for core spec
gases, including EPA protocols
Long-term: Application growth, environmental regulations, enhanced capabilities
1Q11
1Q11
Organic
Organic
Growth
Growth
Strategic Products represent more than 40% of total
sales and have strong growth profiles due to:
Favorable customer segments
Application development
Increasing environmental regulation
Strong cross-sell
Quart***erly***
Quarterly
Sales
Commentary
/
Long-Term
Growth
Accelerators
Strategic Products
Strategic Products
1Q11
1Q11
Organic
Organic
Growth
Growth
1Q11
1Q11
Seq. DSR
Seq. DSR
Growth
Growth
1Q11
1Q11

Seq. DSR
Seq. DSR
Growth
Growth
Total Strategic Products
Total Strategic Products
+9%
+9%
+7%
+7%
+6%
+6%
+5%
+5%
+15%
+15%
+8%
+8%
+4%
+4%
+8%
+8%
+3%
+3%
+3%
+3%
+3%
+3%
+5%
+5%
+7%
+7%
+19%
+19%
Safety Products
Safety Products
Bulk Gas
Bulk Gas
Medical Sales
Medical Sales
Specialty Gas
Specialty Gas
CO
CO
2
2
/Dry Ice
/Dry Ice
Total
Same-Store

Sales

Consolidated Results
Consolidated Results
4
4
* See attached reconciliations of non-GAAP measures
Note: Certain reclassifications have been made to prior period financial statements to conform to the current presentation.
($ in millions, except per share amounts)

	1Q11	4Q10	Seq. Var.	1Q10	YoY Var.
Sales	$ 1,053	$ 983	+7%	$ 982	+7%

Gas & Rent Sales Mix
64.2%
63.8%
65.0%
Same-Store Sales
+6%
Price
+1%
Volume
+5%
Gas & Rent SSS
+5%
Hardgoods SSS
+8%
Acquired Sales Contribution
+1%
Gross Profit
$ 578
$ 535
$ 543
Gross Margin
54.9%
54.4%
+ 50 bps
55.3%
-40 bps
Adjusted Operating Income*
$ 130
$ 105
+24%
$ 108
+20%
Adjusted Operating Margin*
12.3%
10.7%
+ 160 bps
11.0%
+ 130 bps
EPS
$ 0.76
$ 0.47
+62%
$ 0.66
+15%
Significant Charges Included in EPS:
Costs related to unsolicited takeover attempt
0.03
0.18
-

Loss on early extinguishment of debt
0.02
0.07
-

Multi-employer pension plan withdrawal
0.02
-
-

Income tax benefit
-
(0.03)
-

Adjusted EPS*
$ 0.83
$ 0.69
+20%
$ 0.66
+26%
Weighted Average Shares Outstanding
85.3
84.7
+1%
83.3
+2%
Return on Capital (LTM) *
10.5%
10.0%
11.8%
Free Cash Flow *
$ 113
$ 121
$ 119
Adjusted Debt *
$ 1,721
$ 1,805
$ 1,981

Incremental
selling day

Daily Sales Rate
+5% seq.

Segment Results
Segment Results
5
5
Distribution
($ in millions)
1Q11
4Q10
Seq. Var.
1Q10
YoY Var.
Sales
$ 932
$ 889
+5%
$ 875
+7%
Gas & Rent Sales Mix
59.7%
60.1%
60.9%
Same-Store Sales
+5%
Price
+1%
Volume
+4%
Gas & Rent SSS
+3%
Hardgoods SSS
+8%
Gross Profit
$ 517
$ 491
$ 490
Gross Margin
55.5%
55.3%
+ 20 bps
56.1%
-60 bps

Adjusted Operating Income*
$ 107
$ 100
+7%
$ 90
+19%
Adjusted Operating Margin*
11.5%
11.2%
+ 30 bps
10.3%
+ 120 bps
All Other Operations
($ in millions)
1Q11
4Q10
Seq. Var.
1Q10
YoY Var.
Sales
$ 128
$ 100
+28%
$ 113
+14%
Same-Store Sales
+13%
Gross Margin
46.9%
43.3%
+ 360 bps
46.7%
+ 20 bps
Operating Income
$ 23
$ 5
+317%
$ 18
+25%
Operating Margin
17.7%
5.4%
+ 1230 bps
16.1%
+ 160 bps

Incremental
selling day

Daily Sales Rate

+3% seq.

* See attached reconciliations of non-GAAP measures

Note: Certain reclassifications have been made to prior period financial statements to conform to the current presentation.

6
6
($ in millions)
1Q11
1Q10

Cylinders and Bulk Tanks
$ 19
$ 16
Machinery and Equipment
13
14
Computers
1
2
Rental Welders
-
-
Construction-in-Process, Buildings & Land
22
27
Other ^
6
8
TOTAL
$ 61
$ 67
% of Sales
5.8%
6.9%
^ Includes Vehicles, Furniture & Fixtures and other items not specifically identified.
Capital Expenditures
Capital Expenditures

Guidance

Assumptions

Tax rate 38%-39%

Includes SAP implementation costs

Includes acquisitions closed through 7/20/10

Does not incorporate the impact of debt extinguishment or multi-employer pension plan withdrawal charges, if any, or future costs related to unsolicited takeover attempt
7
7
2Q11 & FY11 Guidance Summary
2Q11 & FY11 Guidance Summary
2Q11
FY11 (Updated)
Adjusted EPS
$0.78 to $0.82
$3.15 to $3.30
YoY
% Growth
+15% to +21%
+18% to +23%
SAP implementation costs
included in guidance
$0.03
$0.10
YoY
% Growth ex-
SAP costs
+19% to +25%
+21% to +27%
Operating Margin
12.0% to 12.5%
Capex
~5.5% of Sales
Same-Store Sales Growth
High
Single Digits
Mid to High
Single Digits
Ahead of schedule on mid-term earnings goal
Ahead of schedule on mid-term earnings goal
of $4.20+ per share in calendar 2012
of $4.20+ per share in calendar 2012

8
8
Path to 2Q11 & FY11 EPS Guidance
Path to 2Q11 & FY11 EPS Guidance
1Q11 Adjusted EPS*
$0.83
Refrigerants &
Rental Welder Business
SAP Implementation
(0.01)
Sales Growth / Price Increase
Improving Economy
Operating Efficiencies

EPS Guidance
$0.78 - $0.82
(0.05)
0.01 - 0.05
(+1% to +6%)
2Q11
* See attached reconciliations of non-GAAP measures
FY10 Adjusted EPS*
$2.68
Variable Compensation Reset
(Bonus/Commissions)
SAP Implementation
(0.10)
Tax Rate / Share Count
(0.06)
Sales Growth / Price Increase
Improving Economy
Operating Efficiencies
Adjusted EPS* Guidance
$3.15 - $3.30
0.73 - 0.88
(+27% to +33%)
FY11 (Updated)
(0.10)

9
9
Post-Recession EPS Growth
Post-Recession EPS Growth
* See attached reconciliations of non-GAAP measures
Note: CAGR
= Compound Annual Growth Rate
$4.20+
(CY12 Goal)
$2.67*

$1.53
$0.94
16% CAGR
18% CAGR
FY11
FY11
Guidance*
Guidance*
(Updated)
(Updated)
$3.30
$3.15

EPS

Adj. EPS*

10
10
10
10
Significant Upside Remains
Significant Upside Remains
for Airgas Shareholders
for Airgas Shareholders

Acquisition opportunities still abundant in a highly-fragmented industry
considerable leverage to our premier distribution infrastructure

Sales & marketing alignment by customer segment only recently
expanded
to
all
target
segments

tremendous leverage to fast-growing
Strategic Accounts program

Customer-centric operating culture will enhance cross-sell opportunities
for an already compelling product and service offering

Strategic Products growth will continue to outperform the core business
during the economic recovery

SAP platform to unlock significant yet-to-be-quantified incremental
benefits
provide upside to our mid-term financial targets

Agility
to
identify
and
quickly
integrate
adjacencies

opportunities
for
additional adjacencies

Non-GAAP Reconciliations:
Non-GAAP Reconciliations:
Adjusted Operating Income & Adjusted Operating Margin
Adjusted Operating Income & Adjusted Operating Margin
11
11
Consolidated Airgas
June 30,
March 31,
June 30,
(Dollars in thousands)
2010
2010
2009

Net sales
1,052,656
$
983,308
$
981,991
$
Operating income
122,751
$
81,883
$
107,909
$
Operating margin
11.7%
8.3%
11.0%
Plus:
Costs related to unsolicited
takeover attempt
3,787
23,435
-
Multi-employer pension plan
withdrawal charges
3,204
-
-
Adjusted operating income
129,742
$
105,318
$
107,909
$
Adjusted operating margin
12.3%
10.7%
11.0%
Distribution Segment
June 30,
March 31,
December 31,
September 30,
June 30,
(Dollars in thousands)
2010
2010
2009

2009
2009
Net sales
931,840
$
889,139
$
854,476
$
860,267
$
874,592
$
Operating income
$ 103,844
99,875
$
89,306
$
92,388
$
89,749
$
Operating margin
11.1%
11.2%
10.5%
10.7%
10.3%
Plus:
Multi-employer pension plan
withdrawal charges
3,204
-
4,950
1,700
-
Adjusted operating income
107,048
$
99,875
$
94,256
$
94,088
$
89,749
$
Adjusted operating margin
11.5%

11.2%
11.0%
10.9%
10.3%
Three Months Ended
Three Months Ended

The Company believes the above adjusted operating income and adjusted operating margin computations help investors assess performance without the impact of charges associated with the Company s withdrawal from multi-employer pension plans and unsolicited takeover attempt. Non-GAAP numbers should be read in conjunction with GAAP financial measures, as non-GAA supplement to, and not a replacement for, GAAP financial measures. It should be noted as well that our adjusted operating inc margin computations may be different from the adjusted operating income and adjusted operating margin computations provid Certain reclassifications have been made to prior period financial statements to conform to the current presentation.

Non-GAAP Reconciliations:
Non-GAAP Reconciliations:
Adjusted Earnings Per Diluted Share
Adjusted Earnings Per Diluted Share
12
12
Quarterly
June
30,
2010
March
31,
2010

September
30,
2009
June
30,
2009
Earnings per diluted share
Adjustments to earnings per
diluted share:
Costs related to unsolicited
takeover attempt
0.03
0.18
-
-
Loss on debt extinguishment
0.02
0.07
0.02
-
Multi-employer
pension plan withdrawal charges
0.02
-
0.01
-
Non-recurring tax benefit
-
(0.03)
-
-
Adjusted earnings per diluted share
0.83
$
0.69
$
0.68
$
0.66
$
Three Months Ended
Annual
Year Ended
March
31,
2010
Low
YoY
Change
High

YoY
Change
Earnings per diluted share
Adjustments to earnings per
diluted share:
Costs related to unsolicited
takeover attempt
0.18
0.03
0.03
Loss on debt extinguishment
0.14
0.02
0.02
Multi-employer
pension plan withdrawal charges
0.05
0.02
0.02
Non-recurring tax benefit
(0.03)
-
-
Adjusted earnings per diluted share
2.68
$
3.15
$
18%
3.30
$
23%
(Guidance Range)
Year Ended March 31, 2011
0.47
$
0.65
$
0.66
$
2.34
$
3.08
$
3.23
$
0.76
The Company believes that adjusted earnings per diluted share above provide investors meaningful insight into the Company's
extinguishment charges, multi-employer pension plan withdrawal charges, and costs related to the unsolicited takeover attempt
conjunction with GAAP financial measures, as non-GAAP metrics are merely a supplement to, and not a replacement for, GA

well that our adjusted earnings per diluted share metric may be different from adjusted earnings per diluted share metrics provi

Non-GAAP Reconciliations:
Non-GAAP Reconciliations:
Adjusted
Adjusted
Earnings
Earnings
Per
Per
Diluted
Diluted
Share
Share

Calendar
Calendar
Year
Year
Basis
Basis
13
13

The Company believes that adjusted earnings per diluted share above provide investors meaningful insight into the Company's
impact of debt extinguishment charges, multi-employer pension plan withdrawal charges, the settlement of material litigation,
gains, fire losses, the costs of the BOC acquisition integration, employee separation costs, hurricane losses and losses from dis
GAAP numbers should be read in conjunction with GAAP financial measures, as non-GAAP metrics are merely a supplement
GAAP financial measures. It should be noted as well that our adjusted earnings per diluted share metric may be different from
share metrics provided by other companies.
2009
2005
2004
2003
2002
Earnings per diluted share
2.55
$
1.48
$
1.18
$
1.04
$
0.82
$
Adjustments:
Loss on debt extinguishment
0.07
-
-
-
-
Multi-employer pension plan withdrawal charges
0.05
-
-
-
-
Legal Settlement
-
-
-
-
0.08
Restructuring charge (recovery)
-
-
(0.01)
-
0.03
Insurance gain
-
-

-
(0.02)
-
Fire Losses
-
-
-
0.02
-
Acquisition integration costs
-
0.01
0.03
-
-
Employee separation costs
-
0.01
-
-
-
Hurricane losses
-
0.02
-
-
-
Losses from discontinued operations
-
0.01
-
0.01
0.01
Adjusted earnings per diluted share
2.67
$
1.53
$
1.20
$
1.05
$
0.94
$
Calendar Year Ended December 31,

Non-GAAP Reconciliations:
Non-GAAP Reconciliations:
Adjusted Cash from Operations,
Adjusted Cash from Operations,
Adjusted Capital Expenditures & Free Cash Flow
Adjusted Capital Expenditures & Free Cash Flow
14
14
June 30,
March 31,
June 30,
(Amounts in thousands)
2010
2010
2009
Net cash (used) provided by operating activities
(129,679)
$
188,312

$
162,259
$
Adjustments to cash provided by operating activities:
Cash used by the securitization of trade receivables
295,000

(27,100)

15,900

Stock issued for employee stock purchase plan
3,580

4,092

3,888

Tax benefit realized from the exercise of stock options
1,952

11,620

1,334

Adjusted cash from operations
170,853
$
176,924
$
183,381
$
Capital expenditures
(61,121)
$
(61,154)
$
(67,312)
$
Adjustments to capital expenditures:
Proceeds from sales of plant & equipment
3,338

5,577

2,510

Adjusted capital expenditures
(57,783)
$

(55,577)
$
(64,802)
$
Free Cash Flow
113,070
$
121,347
$
118,579
$
Three Months Ended
The Company believes that free cash flow and adjusted cash from operations provide investors meaningful insight into the Cor
cash from operations, which is available for servicing debt obligations and for the execution of its business strategy, including
of debt, the payment of dividends, or to support other investing and financing activities. Non-GAAP numbers should be read i
financial measures, as non-GAAP metrics are merely a supplement to, and not a replacement for, GAAP financial measures. I
our free cash flow and adjusted cash from operations metrics may be different from free cash flow and adjusted cash from oper
other companies.

Non-GAAP Reconciliations:
Non-GAAP Reconciliations:
Return on Capital & Adjusted Debt
Return on Capital & Adjusted Debt
15
15
The Company believes this return on capital computation helps investors assess how effectively the Company uses the capital
Our management uses return on capital as one of the metrics for determining employee compensation. Non-GAAP numbers s
with GAAP financial measures, as non-GAAP metrics are merely a supplement to, and not a replacement for, GAAP financial
as well that our return on capital computation information may be different from the return on capital computations provided b
(In thousands)
June 30, 2010
March 31, 2010
June 30, 2009

Adjusted operating Income - Trailing Four Quarters
451,496
$
429,683
$
497,922
$
Five Quarter Average of Total Assets
4,507,863
$
4,428,239
$
4,320,704
$
Five Quarter Average of Securitized Trade Receivables
217,577

288,500

337,380

Five Quarter Average of Current Liabilities (exclusive of debt)
(425,637)

(419,959)

(444,625)

Five Quarter Average Capital Employed
4,299,803
$
4,296,780
$
4,213,459
$
Return on Capital
10.5%

10.0%

11.8%

(In thousands)
June 30, 2010
March 31, 2010
June 30, 2009
Current portion of long-term debt
9,589
$
10,255

$
11,033
$
Long-term debt, excluding current portion
1,711,630

1,499,384

1,675,194

Net debt
1,721,219

1,509,639

1,686,227

Securitization of trade receivables
-
295,000

295,000

Adjusted debt
1,721,219
$
1,804,639
$
1,981,227
$

Prior to April 1, 2010, the Company used adjusted debt to provide investors with a more meaningful measure of the Company
for funds received under the trade receivables securitization program, the outstanding amounts of which were previously not re
balance sheet. On April 1, 2010, the Company adopted new accounting guidance which affected the presentation of its trade re
program. Under the new guidance, proceeds received under the securitization are treated as secured borrowings, and therefore
balances sheet. Previously, they were treated as proceeds from the sale of trade receivables.

FONT-SIZE: 8pt; FONT-FAMILY: times new roman"> (2,995)
Total comprehensive income
17,985
ESOP activity, net
1,039 505 1,544
RRP activity, net
3 3
Stock based compensation - stock options and RRP
61 70 131
Acquisition of treasury stock
75,778 (2,292) (2,292)
Dividends on common stock to stockholders ($0.79 per public share)
(16,670) (16,670)
Balance, December 31, 2009
91,512,287 $915 $453,975 $(7,561) $(260) $785,914 $30,875 17,488,710 $(321,859) $941,999

See notes to consolidated financial statements

CAPITOL FEDERAL FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Quarter ended December 31, (unaudited)		For the Year Ended September 30,		
	2009	2008	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 20,980	$ 15,852	$ 66,298	$ 50,954	$ 32,296
Adjustments to reconcile net income to net cash provided by operating activities:					
FHLB stock dividends	(1,000)	(780)	(3,344)	(6,921)	(10,017)
Provision (recovery) for loan losses	3,115	549	6,391	2,051	(225)
Originations of loans receivable held-for-sale (“LHFS”)	(1,701)	(738)	(851)	(47,062)	(4,062)
Proceeds from sales of LHFS	575	1,508	97,838	48,444	3,405
Amortization and accretion of premiums and discounts on MBS and investment securities	1,453	220	2,644	717	(177)
Principal collected on trading securities	—	—	—	—	7,729
Proceeds from sale of trading securities	—	—	—	—	389,209
Depreciation and amortization of premises and equipment	1,272	1,156	5,132	5,428	4,510
Deferred gain on termination of interest rate swaps	—	—	—	1,665	—
Amortization of deferred amounts related to FHLB advances, net	1,644	(165)	3,829	(536)	—
Common stock committed to be released for allocation - ESOP	1,544	2,170	7,929	7,487	7,513
Stock based compensation - stock options and RRP	131	177	604	722	669
Gain on the sale of trading securities received in the loan swap transaction	(6,454)	—	—	—	—
Prepaid federal insurance premium	(25,735)	—	—	—	—
Provision for deferred income taxes	2,589	1,049	3,548	8,160	18,714
Other, net	(537)	66	(1,947)	(1,271)	(648)
Changes in:					
Accrued interest receivable	1,592	1,280	1,064	2,165	2,163
Other assets	(387)	1,303	2,784	(4,871)	2,241
Income taxes payable/receivable	7,868	4,806	8	12,978	(1,239)
Accounts payable and accrued expenses	(5,257)	(1,327)	(1,209)	1,610	(5,367)
Net cash provided by operating activities	1,692	27,126	190,718	81,720	446,714

(Continued)

CAPITOL FEDERAL FINANCIAL AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Quarter ended December 31 (unaudited),		For the Year Ended September 30,		
	2009	2008	2009	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sale of trading securities received in the loan swap transaction	199,144	—	—	—	—
Proceeds from maturities or calls of investment securities AFS	23	28	70,057	99,810	88,990
Purchases of investment securities AFS	—	—	(255,046)	(49,248)	(1,520)
Proceeds from maturities or calls of investment securities HTM	1,010	37,400	39,703	514,208	511,500
Purchases of investment securities HTM	(173,431)	(886)	(193,507)	(185,138)	(689,519)
Principal collected on MBS AFS	78,991	49,459	326,044	233,225	230,934
Purchases of MBS AFS	—	—	(169,452)	(1,324,872)	(91,294)
Proceeds from sale of MBS AFS	—	—	—	—	15,237
Principal collected on MBS HTM	33,389	40,735	168,888	266,853	256,083
Purchases of MBS HTM	(2,990)	—	(21,756)	(5,483)	(136,798)
Proceeds from the redemption of capital stock of FHLB	—	2,958	3,688	35,261	38,287
Purchases of capital stock of FHLB	—	(9,002)	(9,002)	(13,085)	(2,801)
Loan originations, net of principal collected	(5,082)	(25,289)	(293,947)	(92,656)	(144,710)
Loan purchases, net of principal collected	(13,151)	(112,860)	(102,939)	51,872	71,399
Purchase of BOLI	—	—	—	—	(50,000)
Net deferred fee activity	(925)	(35)	2,101	195	574
Purchases of premises and equipment	(3,473)	(3,088)	(13,053)	(8,721)	(4,625)
Proceeds from sales of REO	3,124	2,131	7,669	5,197	4,929
Net cash provided by (used in) investing activities	116,629	(18,449)	(440,552)	(472,582)	96,666
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividends paid	(16,670)	(12,737)	(44,069)	(41,426)	(43,000)
Dividends in excess of debt service cost of ESOP, net	—	—	—	—	670
Deposits, net of withdrawals	(1,357)	(56,579)	304,726	1,101	22,351
Proceeds from advances/line of credit from FHLB	—	312,682	1,561,612	834,700	206,901
Repayments on advances/line of credit from FHLB	—	(162,682)	(1,581,612)	(1,134,700)	(756,901)
Deferred FHLB prepayment penalty	—	—	(38,388)	—	—

Proceeds from repurchase agreements	—	—	—	660,000	—
Change in advance payments by borrowers for taxes and insurance	(34,028)	(33,883)	2,154	2,104	2,756
Acquisitions of treasury stock	(2,292)	(859)	(2,426)	(7,307)	(3,198)
Stock options exercised and excess tax benefits from stock options	—	1,377	1,853	737	6,590
Net cash (used in) provided by financing activities	(54,347)	47,319	203,850	315,209	(563,831)

(Continued)

CAPITOL FEDERAL FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Quarter ended December 31 (unaudited),		For the Year Ended September 30,		
	2009	2008	2009	2008	2007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,974	55,996	(45,984)	(75,653)	(20,451)
CASH AND CASH EQUIVALENTS:					
Beginning of Period	41,154	87,138	87,138	162,791	183,242
End of Period	$ 105,128	$ 143,134	$41,154	$87,138	$ 162,791
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:					
Income tax payments, net of refunds	$ 682	$ 3,417	$35,334	$8,050	$ 711
Interest payments, net of interest credited to deposits of $23,725, $29,589 $102,245, $134,545 and $143,383, respectively	$ 30,004	$ 36,542	$133,892	$140,774	$ 163,158
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:					
Loans transferred to REO	$ 2,196	$ 1,846	$10,730	$8,159	$ 4,008
Market value change related to fair value hedge:					
Interest rate swaps hedging FHLB advances	$ —	$ —	$—	$(13,817)	$ (13,478)
Transfer of loans receivable to LHFS, net	$ —	$ —	$94,672	$—	$ —
Swap of loans for trading securities	$ 193,889	$ —	$—	$—	$ —

(Concluded)

See notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS QUARTER ENDED DECEMBER 31, 2009 (UNAUDITED) AND YEARS ENDED SEPTEMBER 30, 2009, 2008, and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business – Capitol Federal Financial (the "Company") provides a full range of retail banking services through its wholly-owned subsidiary Capitol Federal Savings Bank (the "Bank") which has 34 traditional and 10 in-store banking offices serving primarily the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and a portion of the metropolitan area of greater Kansas City. The Bank emphasizes mortgage lending, primarily originating and purchasing one- to four-family mortgage loans and providing personal retail financial services. The Bank is subject to competition from other financial institutions and other companies that provide financial services. The Company is subject to the regulations of the Office of Thrift Supervision (the "OTS") and the Federal Deposit Insurance Corporation (the "FDIC") and undergoes periodic examinations by those regulatory authorities.

The Bank has an expense sharing agreement with the Company that covers the reimbursement of certain expenses that are allocable to the Company. These expenses include compensation, rent for leased office space and general overhead expenses.

The Company's ability to pay dividends is dependent, in part, upon its ability to obtain capital distributions from the Bank. The future dividend policy of the Company is subject to the discretion of the board of directors and will depend upon a number of factors, including the Company's financial condition and results of operations, Bank's regulatory capital requirements, regulatory limitations on the Bank's ability to make capital distributions to the Company, the amount of cash at the holding company and the continued waiver of dividends by Capitol Federal Savings Bank MHC (the "MHC"). Holders of common stock will be entitled to receive dividends as and when declared by the board of directors of the Company out of funds legally available for that purpose.

Basis of Presentation - The Company is organized as a mid-tier holding company chartered as a federal savings and loan holding company. The Company owns 100% of the stock of the Bank. The Company is majority owned by MHC, a federally chartered mutual holding company. At December 31, 2009 (unaudited), MHC owned approximately 70% of the stock of the Company. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank. The Bank has a wholly owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated.

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the allowance for loan losses and other-than-temporary impairments in the fair value of securities. Actual results could differ from those estimates. Interim results are not necessarily indicative of results for a full year. In preparing these financial statements, management has evaluated events occurring subsequent to December 31, 2009 (unaudited), for potential recognition and disclosure. There have been no material events or transactions which would require adjustments and/or disclosures to the consolidated financial statements at December 31, 2009 (unaudited).

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and amounts due from banks. The Bank has acknowledged informal agreements with other banks where it maintains deposits. Under these agreements, service fees charged to the Bank are waived provided certain average compensating balances are maintained throughout each month. Federal Reserve Board ("FRB") regulations require federally chartered savings banks to maintain cash reserves against their transaction accounts. Required reserves must be maintained in the form of vault cash, an account at a Federal Reserve Bank, or a pass-through account as defined by the FRB. The Bank is in compliance with the FRB requirements. Effective October 9, 2008, as part of the Emergency Economic Stabilization Act of 2008 (the "EESA"), the Federal Reserve Bank may pay interest on balances held at the Federal Reserve Bank to satisfy reserve requirements and on balances held in excess of required reserve balances and clearing balances. For the quarter ended December 31, 2009 (unaudited) and the years ended September 30, 2009 and 2008, the average balance of required reserves at the Federal Reserve Bank was $12.0 million, $11.6 million and $25.0 million, respectively.

Securities - Securities include mortgage-backed and agency securities issued primarily by United States Government Sponsored Enterprises ("GSE"), including Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and FHLB, United States Government agencies, including Government National Mortgage Association ("GNMA"), and municipal bonds. Securities are classified as HTM, AFS, or trading based on management's intention on the date of purchase. Generally, classifications are made in response to liquidity needs, asset/liability management strategies, and the market interest rate environment at the time of purchase.

Securities that management has the intent and ability to hold to maturity are classified as HTM and reported at amortized cost. Such securities are adjusted for amortization of premiums and discounts which are recognized as adjustments to interest income over the life of the securities using the level-yield method.

Securities that management may sell if necessary for liquidity or asset management purposes are classified as AFS and reported at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss), within stockholders' equity net of deferred income taxes. Premiums and discounts are recognized as adjustments to interest income over the life of the securities using the level-yield method. Gains or losses on the disposition of AFS securities are recognized using the specific identification method. Estimated fair values of AFS securities are based on one of three methods: 1) quoted market prices where available, 2) quoted market prices for similar instruments if quoted market prices are not available, and 3) unobservable data that represents the Bank's assumptions about items that market participants would consider in determining fair value where no market data is available. See additional discussion of fair value of AFS securities in Note 15.

Securities that are purchased and held principally for resale in the near future are classified as trading securities and are reported at fair value, with unrealized gains and losses included in other income in the consolidated statements of income. During the quarter ended, December 31, 2009 (unaudited), the Bank held $193.9 million of trading securities for a limited time. The securities were received in conjunction with swapping originated fixed-rate mortgage loans with the Federal Home Loan Mortgage Corporation ("FHLMC"). For the years ended September 30, 2009 and 2008 we did not maintain a trading portfolio.

Management monitors the securities portfolio for impairment on an ongoing basis and performs a formal review quarterly. The process involves monitoring market events and other items that could impact issuers. The evaluation includes, but is not limited to, such factors as: the nature of the investment, the length of time the security has had a fair value less than the amortized cost basis, the cause(s) and severity of the loss, expectation of an anticipated recovery period, recent events specific to the issuer or industry including the issuer's financial condition and current ability to make future payments in a timely manner, external credit ratings and recent downgrades in such ratings, management's intent to sell and whether it is more likely than not management would be required to sell prior to recovery for debt securities. Management determines whether other-than-temporary losses should be recognized for impaired securities by assessing all known facts and circumstances surrounding the securities. If management intends to sell an impaired security or if it is more likely than not that management will be required to sell an impaired security before recovery of its amortized cost basis, an other-than-temporary impairment ("OTTI") has occurred and the difference between amortized cost and fair value will be recognized as a loss in earnings. Such losses would be included in other income in the consolidated statements of income.

Loans Receivable - Loans receivable that management has the intent and ability to hold for the foreseeable future are carried at the amount of unpaid principal, net of allowance for loan losses, undisbursed loan funds, unamortized premiums and discounts, and deferred loan origination fees and costs. Net loan origination fees and costs and premiums and discounts are amortized as yield adjustments to interest income using the level-yield method, adjusted for the estimated prepayment speeds of the related loans when applicable. Interest on loans is credited to income as earned and accrued only if deemed collectible.

Existing loan customers, whose loans have not been sold to third parties and who have been current on their contractual loan payments for the previous 12 months, have the opportunity, for a fee, to modify their original loan terms to terms currently offered for fixed-rate products with an equal or reduced period to maturity than the current remaining period of their existing loan. The modified terms of these loans are similar to the terms offered to new customers. The fee assessed for modifying the mortgage loan is deferred and amortized over the life of the modified loan using the level-yield method and is reflected as an adjustment to interest income. Each modification is examined on a loan-by-loan basis and if the modification of terms represents a more than minor change to the loan, then pre-modification deferred fees or costs associated with the mortgage loan are recognized in interest income at the time of the modification. If the modification of terms does not represent a more than minor change to the loan, then the pre-modification deferred fees or costs continue to be deferred.

A loan is considered delinquent when payment has not been received within 30 days of its contractual due date. The accrual of income on loans is generally discontinued when interest or principal payments are 90 days in arrears or when the timely collection of such income is doubtful. Loans on which the accrual of income has been discontinued are designated as non-accrual loans and outstanding interest previously credited beyond 90 days is reversed. A non-accrual loan is returned to accrual status when factors indicating doubtful collection no longer exist.

A condition in which the Bank grants a concession to a borrower due to financial difficulties that it would not otherwise consider is a troubled debt restructuring. The majority of the Bank’s troubled debt restructurings involve a modification in loan terms such as a temporary reduction in the payment amount to require only interest and escrow (if required) and extending the maturity date of the loan.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. Management considers all non-accrual loans and troubled debt restructurings that have not been performing under the new terms for 12 consecutive months to be impaired loans.

Allowance for Loan Losses - The allowance for loan losses represents management’s best estimate of the amount of known and inherent losses in the loan portfolio as of the balance sheet date. Management’s methodology for assessing the appropriateness of the allowance for loan losses consists of a formula analysis for general valuation allowances and specific valuations for identified problem loans and portfolio segments. Management considers quantitative and qualitative factors when determining the appropriateness of the allowance for loan losses. Such factors include changes in the Bank’s underwriting standards, credit quality trends, trends in collateral values, loan volumes and concentrations, historical charge-offs, results of foreclosed property transactions, changes in interest rates and the current status and trends of local and national economies and housing markets. Management maintains the allowance for loan losses through provisions for loan losses that are charged to income.

The Bank’s primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties and, to a lesser extent, second mortgage loans on one- to four-family residential properties resulting in a loan concentration in residential first mortgage loans. As a result of the Bank’s lending practices, the Bank also has a concentration of loans secured by real property located in Kansas and Missouri. Based on the composition of the loan portfolio, management believes the primary credit risks inherent in the loan portfolio are increases in interest rates as applicable to adjustable-rate loans, a decline in the economy, an increase in unemployment and a decline in real estate market values. Any one or a combination of these events may adversely affect the credit quality of the loan portfolio resulting in increased delinquencies, charge-offs and future loan loss provisions.

Each quarter, the loan portfolio is segregated into categories in the formula analysis based on certain risk characteristics such as loan type (one- to four-family, multi-family, etc.), interest payments (fixed-rate, adjustable-rate), loan source (originated or purchased), loan-to-value ratios, borrower’s credit scores and payment status (i.e., current or number of days delinquent). Consumer loans, such as second mortgages and home equity lines of credit, with the same underlying collateral as a one- to four-family loan are combined with the one- to four-family loan in the formula analysis to calculate a combined loan-to-value ratio. Loss factors are assigned to each category in the formula analysis based on management’s assessment of the potential risk inherent in each category. The greater the risks associated with a particular category, the higher the loss factor. These factors are periodically reviewed by management for appropriateness giving consideration to historical loss experience, delinquency and non-performing loan trends, the results of foreclosed property transactions, and the status of the local and national economies and housing markets, in order to ascertain that the loss factors cover probable and estimable losses inherent in the loan portfolio. Impaired loans are not included in the formula analysis.

Specific valuation allowances are established in connection with individual loan reviews of specifically identified problem loans and impaired loans. Evaluations of loans for which full collectability is not reasonably assured include evaluation of the estimated fair value of the underlying collateral based on current appraisals, real estate broker values or list prices. Additionally, trends and composition of similar non-performing loans, results of foreclosed property transactions and the current status and trends in economic and market conditions are also considered. Specific valuation allowances are established if the estimated fair value, less estimated selling costs, is less than the current loan balance.

Loans with an outstanding balance of $1.5 million or more are reviewed annually if secured by property in one of the following categories: multi-family (five or more units) property, unimproved land, other improved commercial property, acquisition and development of land projects, developed building lots, office building, single-use building, or retail building. Specific valuation allowances are established if the individual loan review determines a quantifiable impairment.

Assessing the adequacy of the allowance for loan losses is inherently subjective. Actual results could differ from estimates as a result of changes in economic or market conditions. Changes in estimates could result in a material change in the allowance for loan losses. In the opinion of management, the allowance for loan losses, when taken as a whole, is adequate to absorb estimated losses inherent in the loan portfolio. However, future adjustments may be necessary if portfolio performance or economic or market conditions differ substantially from the conditions that existed at the time of the initial determinations.

Capital Stock of Federal Home Loan Bank – As a member of the FHLB Topeka, the Bank is required to acquire and hold shares of FHLB stock. The Bank's holding requirement varies based on the Bank's activities, primarily the Bank's outstanding advances, with the FHLB. FHLB stock is carried at cost. Management conducts a periodic review and evaluation of the Bank's investment in FHLB stock to determine if any impairment exists. Dividends received on FHLB stock are reflected as interest and dividend income in the consolidated statements of income.

Premises and Equipment - Land is carried at cost. Buildings, leasehold improvements and furniture, fixtures and equipment are carried at cost less accumulated depreciation and leasehold amortization. Buildings, furniture, fixtures and equipment are depreciated over their estimated useful lives using the straight-line or accelerated method. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the respective leases. The costs for major improvements and renovations are capitalized, while maintenance, repairs and minor improvements are charged to operating expenses as incurred. Gains and losses on dispositions are recorded as other income or other expense as incurred.

Real Estate Owned - REO represents foreclosed assets held for sale and is reported at the lower of cost or estimated fair value less estimated selling costs ("realizable value.") At acquisition, write downs to realizable value are charged to the allowance for loan losses. After acquisition, any additional write downs are charged to operations in the period they are identified and are recorded in other expenses on the consolidated statements of income. Costs and expenses related to major additions and improvements are capitalized while maintenance and repairs which do not improve or extend the lives of the respective assets are expensed. Gains and losses on the sale of REO are recognized upon disposition of the property and are recorded in other expenses in the consolidated statements of income.

Income Taxes - The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The provision for deferred income taxes represents the change in deferred income tax assets and liabilities excluding the tax effects of the change in net unrealized gain (loss) on AFS securities and changes in the market value of vested RRP shares.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Certain tax benefits attributable to stock options and RRP shares are credited to additional paid-in capital. The Company will record a valuation allowance to reduce its deferred income tax assets when there is uncertainty regarding the ability to realize their benefit.

The Company adopted the section of Accounting Standards Codification 740 Income Taxes related to the accounting for uncertainty in income taxes on October 1, 2007. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. Accruals of interest and penalties related to unrecognized tax benefits are recognized in income tax expense.

Employee Stock Ownership Plan - The funds borrowed by the ESOP from the Company to purchase the Company's common stock are being repaid from the Bank's contributions and dividends paid on unallocated ESOP shares. The shares pledged as collateral are reported as a reduction of stockholders' equity at cost. As ESOP shares are committed to be released from collateral each quarter, the Company records compensation expense based on the average market price of the Company's stock during the quarter. Additionally, the shares become outstanding for earnings per share computations once they are committed to be released.

Stock-based Compensation - At December 31, 2009 (unaudited), the Company had a Stock Option and Incentive Plan (the "Option Plan") and an RRP which are considered share-based payment awards. Compensation expense is recognized over the service period of each share-based payment award. The Company applies a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. On October 1, 2005, the Company adopted the modified prospective method in which compensation cost is recognized over the service period for all awards granted subsequent to the Company's adoption of the modified prospective method, as well as, for the unvested portion of shares outstanding on the adoption date.

Borrowed Funds - The Bank enters into sales of securities under agreements to repurchase with selected brokers ("repurchase agreements"). These agreements are recorded as financing transactions as the Bank maintains effective control over the transferred securities. The dollar amount of the securities underlying the agreements continues to be carried in the Bank's securities portfolio. The obligations to repurchase the securities are reported as a liability in the consolidated balance sheet. The securities underlying the agreements are delivered to the party with whom each transaction is executed. They agree to resell to the Bank the same securities at the maturity of the agreement. The Bank retains the right to substitute similar or like securities throughout the terms of the agreements. The collateral is subject to valuation at current market levels and the Bank may ask for the return of excess collateral or be required to post additional collateral due to market value changes.

The Bank has also obtained advances from FHLB. FHLB advances are secured by certain qualifying mortgage loans pursuant to a blanket collateral agreement with FHLB and all of the capital stock of FHLB owned by the Bank. Per the FHLB lending guidelines, total FHLB borrowings cannot exceed 40% of total Bank assets without pre-approval from the FHLB president.

The Bank is authorized to borrow from the Federal Reserve Bank's "discount window." The Bank had no outstanding Federal Reserve Bank borrowings at December 31, 2009 (unaudited), September 30, 2009 or 2008.

Derivative Instruments - The Bank uses derivative instruments as a means of managing interest rate risk. Before entering into a derivative instrument, management formally documents its risk management objectives, strategy and the relationship between the hedging instruments and the hedged items. For those derivative instruments that are designated and qualify as hedging instruments, management designates the hedging instrument as either a fair value or cash flow hedge, based upon the exposure being hedged. Both at the inception of the hedge and on an ongoing basis, management evaluates the effectiveness of its hedging relationships in accordance with its risk management policy.

Interest rate swaps are derivative instruments the Bank has used as part of its interest rate risk management strategy. Interest rate swaps are contractual agreements between two parties to exchange interest payments, based on a common notional amount and maturity date. The interest rate swaps in effect for a portion of the year during fiscal year 2008 were designated and qualified as fair value hedges. The Bank assumed no ineffectiveness in the hedging relationship as all of the terms in the interest rate swap agreements matched the terms of the FHLB advances. The Bank accounted for the interest rate swap agreements using the shortcut method, whereby any gain or loss in the fair value of the interest rate swaps was offset by the gain or loss on the hedged FHLB advances.

The Bank may enter into fixed commitments to originate and sell mortgage loans held for sale when the market conditions are appropriate or for risk management purposes, such as instances where holding the loans would increase interest rate or credit risk to levels above which management believes are appropriate for the Bank. Pursuant to clarifying guidance, such commitments are considered derivative instruments. All related derivatives are reported as either assets or liabilities on the balance sheet and are measured at fair value. As of December 31, 2009 (unaudited), September 30, 2009 and 2008, there were no significant loan-related commitments that met the definition of derivatives or commitments to sell mortgage loans.

Comprehensive Income - Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes changes in unrealized gains and losses on securities AFS, net of tax. Comprehensive income is presented in the consolidated statements of changes in stockholders' equity.

Segment Information - As a community-oriented financial institution, substantially all of the Bank's operations involve the delivery of loan and deposit products to customers. Management makes operating decisions and assesses performance based on an ongoing review of these community banking operations, which constitute the Company's only operating segment for financial reporting purposes.

Earnings Per Share ("EPS") - Basic EPS is computed by dividing income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options) were exercised or resulted in the issuance of common stock. These potentially dilutive shares would then be included in the weighted average number of shares outstanding for the period using the treasury stock method. Shares issued and shares reacquired during any period are weighted for the portion of the period that they were outstanding.

In computing both basic and diluted EPS, the weighted average number of common shares outstanding includes the ESOP shares previously allocated to participants and shares committed to be released for allocation to participants and the RRP shares which have vested or have been allocated to participants. ESOP and RRP shares that have not been committed to be released or have not vested are excluded from the computation of basic and diluted EPS.

Public Shares - Shares eligible to receive dividends because of the waiver of dividends by MHC. Public shares represent voting shares less unvested ESOP shares and MHC shares. The following table shows the number of shares eligible to receive dividends ("public shares") because of the waiver of dividends by MHC at December 31, 2009 (unaudited).

Total voting shares outstanding at December 31, 2009	74,023,577
Unvested shares in ESOP	(806,556)
Shares held by MHC	(52,192,817)
Total public shares at December 31, 2009	21,024,204

Recent Accounting Pronouncements - In June 2009, the Financial Accounting Standards Board ("FASB") issued ASC 105, Generally Accepted Accounting Principles. This standard establishes the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009, which for the Company was September 30, 2009. The adoption of the standard as of September 30, 2009 did not have a material impact on the Company's consolidated financial position or results of operations as it did not alter existing U.S. GAAP. All references to specific U.S. GAAP contained within the consolidated financial statements, notes thereto and information contained in the Company's filings with the SEC have been changed.

In September 2006, the FASB issued ASC 820, Fair Value Measurements and Disclosures. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This standard establishes a fair value hierarchy for the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. No additional fair value measurements are required under this standard. The Company adopted this standard effective October 1, 2008. Since the provisions of the standard are disclosure related, the Company's adoption of this standard did not have an impact on its financial condition or results of operations.

In February 2007, FASB issued ASC 825, Financial Instruments. This standard permits an entity to measure certain financial assets and financial liabilities at fair value. The objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. If elected, the standard is effective for fiscal years beginning after November 15, 2007, which for the Company was October 1, 2008. Upon adoption of this standard, the Company elected not to use the fair value option for any financial asset or liability.

In December 2007, the FASB issued ASC 805, Business Combinations and ASC 810, Consolidation. The standards change the way companies account for business combinations and noncontrolling interests (minority interests in current GAAP.) These standards should both be applied prospectively for fiscal years beginning on or after December 15, 2008, which for the Company was October 1, 2009. However, ASC 810 requires entities to apply the presentation and disclosure requirements retrospectively to comparative financial statements, if presented. Both standards prohibit early adoption. The Company's adoption of these standards did not have a material impact on its financial condition or results of operations.

In March 2008, the FASB issued ASC 815, Derivatives and Hedging. The standard requires an entity with derivatives to describe how and why it uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect the entity's financial position, financial performance, and cash flows. This standard was effective for the Company beginning January 1, 2009. The Company's adoption of this standard did not have a material impact on its financial condition or results of operations.

Effective October 1, 2009, the Company adopted new authoritative accounting guidance under ASC 260, Earnings Per Share, which provides that unvested share-based payment awards containing nonforfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of earnings per share pursuant to the two-class method. The Company determined that its unvested RRP awards are participating securities. This new guidance requires retrospective adjustment to all prior-period EPS data presented. The Company has participating securities related to the Company's stock incentive plans in the form of unvested restricted common shares. However, these participating securities do not have an impact on the Company's EPS.

In January 2009, the FASB issued ASC 310, Loans and Debt Securities. This standard eliminates the requirement that a security holder's best estimate of cash flows be based upon those that "a market participant" would use. Instead, an OTTI should be recognized as a realized loss through earnings when it is probable there has been an adverse change in the security holder's estimated cash flows from previous projections. This treatment is consistent with the impairment model in ASC 320 Investments – Debt and Equity Securities. This standard was effective for the Company beginning in the period ended December 31, 2008. The Company's adoption of this standard did not have a material impact on its financial condition or results of operations.

In April 2009, the FASB issued ASC 820, Fair Value Measurements and Disclosures. This standard provides additional guidance for estimating fair value in accordance with ASC 820, when the transaction volume and level of market activity for the asset or liability have significantly decreased. This standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. The standard emphasizes that the notation of exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions remains unchanged. The standard was effective for the Company beginning with the quarter ended June 30, 2009. The Company's adoption of the standard did not have a material impact on its financial condition or results of operations.

In April 2009, the FASB issued ASC 320, Investments – Debt and Equity Securities. This standard amends the OTTI guidance in U.S. GAAP for debt securities to make it more operational and to improve the presentation and disclosure of OTTI on debt and equity securities. An OTTI exists for a security which has a fair value less than amortized cost if an entity has the intent to sell the impaired security, it is more likely than not that the entity will be required to sell the impaired security before recovery, or if the entity does not expect to recover the entire amortized cost basis of the impaired security. If the entity has the intent to sell the security or it is more likely than not that it will be required to sell the security, the entire impairment (amortized cost basis over fair value) should be recognized in earnings as an impairment. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security, the credit component of the impairment should be recognized in earnings, and the non-credit component should be recognized in other comprehensive income. The standard does not amend existing recognition and measurement guidance related to OTTI of equity securities. The standard expands and increases the frequency of existing disclosures about OTTI for debt and equity securities and requires new disclosures to help users of financial statements understand the significant inputs used in determining credit losses, as well as a rollforward of that amount each period. The standard was effective for the Company beginning with the quarter ended June 30, 2009. The Company's adoption of this standard did not have a material impact on its financial condition or results of operations.

In April 2009, the FASB issued ASC 825, Financial Instruments. This standard requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This standard also amends ASC 270, Interim Reporting, to require those disclosures in summarized financial information at interim reporting periods. The standard requires an entity to disclose in the body or in the accompanying footnotes of its interim financial statements and its annual financial statements the fair value of all financial instruments, whether recognized or not recognized in the consolidated balance sheet. The standard also requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments, and to disclose significant changes in methods or assumptions used to estimate fair values. The standard was effective for the Company beginning with the quarter ended June 30, 2009. Since the provisions of the standard are disclosure related, the Company's adoption of this standard did not have an impact on its financial condition or results of operations. See related disclosure in Note 15.

In May 2009, the FASB issued ASC 855, Subsequent Events. This standard is intended to assist management in assessing and disclosing subsequent events by establishing general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Financial statements are considered to be available to be issued when they are complete in a form and format that complies with U.S. GAAP and all necessary approvals for issuance, such as from management, the board of directors, and/or significant shareholders, have been obtained. The date through which an entity has evaluated subsequent events and the basis for that date should also be disclosed. Management must perform its assessment of subsequent events for both interim and annual financial reporting periods. The standard was effective for the Company beginning with the quarter ended June 30, 2009. The Company's adoption of the standard did not have a material impact on its financial condition or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 166, Accounting for Transfers of Financial Assets an Amendment of FASB Statement No. 140. SFAS No. 166 amends ASC 860, Transfers of Servicing Assets. The objective of SFAS No. 166 is to improve the relevance, representational faithfulness, and comparability of the information provided in the financial statements related to the transfer of financial assets; the effects of a transfer on the company's financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. SFAS No. 166 is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009, which for the Company is October 1, 2010. Early adoption is prohibited. The Company has not yet completed its assessment of the impact of SFAS No. 166.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 167 has not been included in the ASC and does not change many of the key principles for determining whether an entity is a variable interest entity consistent with the ASC on "Consolidation." SFAS No. 167 does amend many important provisions of the existing guidance on "Consolidation." SFAS No. 167 is effective as of the beginning of the first fiscal year that begins after November 15, 2009, which for the Company is October 1, 2010. Early adoption is prohibited. The Company has not yet completed its assessment of the impact of SFAS No. 167.

2. EARNINGS PER SHARE

The Company accounts for the 3,024,574 shares acquired by its ESOP and the shares awarded pursuant to its RRP in accordance with ASC 260, which requires that our unvested RRP awards that contain nonforfeitable rights to dividends be treated as participating securities in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation that determines EPS for each class of common stock and participating security. Shares acquired by the ESOP are not considered in the basic average shares outstanding until the shares are committed for allocation or vested to an employee's individual account. The following is a reconciliation of the numerators and denominators of the basic and diluted EPS calculations (Dollars in thousands).

	For the Quarter ended December 31 (unaudited),		For the Year Ended September 30,		
	2009	2008	2009	2008	2007
Net income(1)	$20,980	$15,852	$66,298	$50,954	$32,296
Average common shares outstanding	73,266,128	73,062,337	73,067,880	72,862,705	72,772,859
Average committed ESOP shares outstanding	548	548	76,236	76,166	76,236
Total basic average common shares outstanding	73,266,676	73,062,885	73,144,116	72,938,871	72,849,095
Effect of dilutive RRP	5,396	8,716	5,378	5,460	5,902
Effect of dilutive stock options	5,833	90,443	58,607	68,335	115,391
Total diluted average common shares outstanding	73,277,905	73,162,044	73,208,101	73,012,666	72,970,388
Net EPS:					
Basic	$0.29	$0.22	$0.91	$0.70	$0.44
Diluted	$0.29	$0.22	$0.91	$0.70	$0.44
Antidilutive stock options and RRP, excluded from the diluted average common shares outstanding calculation	243,350	25,500	74,050	31,100	31,500

(1) Net income available to participating securities (unvested RRP shares) was inconsequential for the quarter ended December 31, 2009 and 2008 (unaudited) and for the years ended September 30, 2009, 2008 and 2007.

3. SECURITIES

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at December 31, 2009 (unaudited), September 30, 2009 and 2008. The majority of the securities portfolio is composed of securities issued by U.S. government-sponsored enterprises.

	December 31, 2009 (unaudited)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
U.S. government-sponsored enterprises	$ 228,075	$ 766	$ 1	$ 228,840
Municipal bonds	2,663	103	13	2,753
Trust preferred securities	3,762	—	1,354	2,408
MBS	1,254,958	50,339	201	1,305,096
	1,489,458	51,208	1,569	1,539,097
HTM:				
U.S. government-sponsored enterprises	348,623	245	628	348,240
Municipal bonds	69,319	1,893	100	71,112
MBS	572,873	21,628	136	594,365
	990,815	23,766	864	1,013,717
	$ 2,480,273	$ 74,974	$ 2,433	$ 2,552,814

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
U.S. government-sponsored enterprises	$ 228,743	$ 1,132	$ —	$ 229,875
Municipal bonds	2,668	131	—	2,799
Trust preferred securities	3,774	—	1,664	2,110
MBS	1,334,357	55,552	698	1,389,211
	1,569,542	56,815	2,362	1,623,995
HTM:				
U.S. government-sponsored enterprises	175,394	535	—	175,929
Municipal bonds	70,526	2,514	40	73,000
MBS	603,256	24,645	72	627,829
	849,176	27,694	112	876,758
	$ 2,418,718	$ 84,509	$ 2,474	$ 2,500,753

	September 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
U.S. government-sponsored enterprises	$ 45,155	$ —	$ 967	$ 44,188
Municipal bonds	2,686	61	4	2,743
Trust preferred securities	3,859	—	1,204	2,655
MBS	1,491,536	3,940	11,421	1,484,055
	1,543,236	4,001	13,596	1,533,641
HTM:				
U.S. government-sponsored enterprises	37,397	19	647	36,769
Municipal bonds	55,376	408	342	55,442
MBS	750,284	2,105	8,625	743,764
	843,057	2,532	9,614	835,975
	$ 2,386,293	$ 6,533	$ 23,210	$ 2,369,616

The following table presents the taxable and non-taxable components of interest income on investment securities for the quarters ended December 31, 2009 and 2008 (unaudited) and for the fiscal years ended September 30, 2009, 2008 and 2007.

	For the Quarter ended December 31 (unaudited),		For the Year Ended September 30,		
	2009	2008	2009	2008	2007
	(Dollars in thousands)				
Taxable	$ 2,024	$ 841	$ 3,526	$ 8,313	$ 30,444
Non-taxable	535	485	2,007	1,604	405
	$ 2,559	$ 1,326	$ 5,533	$ 9,917	$ 30,849

The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at December 31, 2009 (unaudited), September 30, 2009 and 2008 was reported and the continuous unrealized loss position for the twelve months prior to December 31, 2009 (unaudited), September 30, 2009 and 2008 or for a shorter period of time, as applicable.

	December 31, 2009 (unaudited)					
	Less Than 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
U.S. government-sponsored enterprises	1	$ 25,025	$ 1	—	$ —	$ —
Municipal bonds	1	412	13	—	—	—
Trust preferred securities	—	—	—	1	2,408	1,354
MBS	44	87,014	181	11	2,063	20
	46	$ 112,451	$ 195	12	$ 4,471	$ 1,374
HTM:						
U.S. government-sponsored enterprises	4	$ 97,495	$ 627	—	$ —	$ —
Municipal bonds	8	3,336	36	2	1,316	65
MBS	5	28,943	135	1	54	1
	17	$ 129,774	$ 798	3	$ 1,370	$ 66

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	September 30, 2009					
	Less Than 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
Trust preferred securities	—	$ —	$ —	1	$ 2,110	$ 1,664
MBS	16	57,157	600	37	15,804	98
	16	$ 57,157	$ 600	38	$ 17,914	$ 1,762
HTM:						
Municipal bonds	4	$ 1,930	$ 36	1	$ 495	$ 4
MBS	3	5,563	26	4	11,043	46
	7	$ 7,493	$ 62	5	$ 11,538	$ 50

	September 30, 2008					
	Less Than 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
U.S. government-sponsored enterprises	2	$ 44,189	$ 967	—	$ —	$ —
Municipal bonds	2	491	4	—	—	—
Trust preferred securities	1	2,655	1,204	—	—	—
MBS	150	956,968	10,191	62	51,515	1,230
	155	$ 1,004,303	$ 12,366	62	$ 51,515	$ 1,230
HTM:						
U.S. government-sponsored enterprises	1	$ 24,353	$ 647	—	$ —	$ —
Municipal bonds	47	24,522	342	—	—	—
MBS	42	417,400	5,004	30	166,807	3,621
	90	$ 466,275	$ 5,993	30	$ 166,807	$ 3,621

On a quarterly basis, management conducts a formal review of securities for the presence of OTTI. Management assesses whether an OTTI is present when the fair value of a security is less than its amortized cost basis at the balance sheet date. For such securities, OTTI is considered to have occurred if the Company intends to sell the security, if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis or if the present value of expected cash flows is not sufficient to recover the entire amortized cost.

The unrealized losses at December 31, 2009 (unaudited), September 30, 2009 and 2008 are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity.

The amortized cost and estimated fair value of securities by remaining contractual maturity without consideration for call features or pre-refunding dates are shown below. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalties. Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments.

	December 31, 2009 (unaudited)					
	AFS		HTM		Total	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)					
One year or less	$ 25,740	$ 25,999	$ 1,506	$ 1,536	$ 27,246	$ 27,535
One year through five years	202,918	203,434	367,861	368,044	570,779	571,478
Five years through ten years	105,593	111,744	353,048	367,809	458,641	479,553
Ten years and thereafter	1,155,207	1,197,920	268,400	276,328	1,423,607	1,474,248
	$ 1,489,458	$ 1,539,097	$ 990,815	$ 1,013,717	$ 2,480,273	$ 2,552,814

	September 30, 2009					
	AFS		HTM		Total	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)					
One year or less	$ —	$ —	$ 247	$ 251	$ 247	$ 251
One year through five years	229,118	230,260	196,386	197,492	425,504	427,752
Five years through ten years	97,211	103,487	371,221	389,827	468,432	493,314
Ten years and thereafter	1,243,213	1,290,248	281,322	289,188	1,524,535	1,579,436
	$ 1,569,542	$ 1,623,995	$ 849,176	$ 876,758	$ 2,418,718	$ 2,500,753

Issuers of certain investment securities have the right to call and prepay obligations with or without prepayment penalties. As of December 31, 2009 (unaudited) and September 30, 2009, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled $534.2 million and $334.1 million, respectively.

As of December 31, 2009 (unaudited), September 30, 2009 and 2008, the Bank had pledged AFS and HTM MBS with an amortized cost of $734.3 million, $764.4 million and $744.7 million, respectively, and an estimated fair value of $765.3 million, $797.0 million and $742.7 million, respectively, as collateral for the repurchase agreements. The securities pledged as collateral for the repurchase agreements can be repledged by the counterparties. As of December 31, 2009 (unaudited), September 30, 2009 and 2008, the Bank also had pledged AFS and HTM MBS with an amortized cost of $198.6 million, $193.6 million and $59.1 million, respectively, and an estimated fair value of $207.3 million, $202.8 million and $58.2 million, respectively, as collateral for public unit depositors and the Federal Reserve Bank.

During the quarter ended December 31, 2009 (unaudited), the Bank swapped $194.8 million of originated fixed-rate mortgage loans with the Federal Home Loan Mortgage Corporation (“FHLMC”) for MBS (“loan swap transaction”). The MBS received in the loan swap transaction were classified as trading securities prior to the sale. Proceeds from the sale of these securities were $199.1 million, resulting in a gross realized gain of $6.5 million. The gain is included in gains on securities and loans receivable, net in the consolidated statements of income for the quarter.

During the year ended September 30, 2007, proceeds from the sale of securities from the trading portfolio totaled $389.2 million, resulting in gross realized gains of $2.8 million and gross realized losses of $1.7 million. Also during the year ended September 30, 2007, proceeds from the sale of AFS securities totaled $15.2 million, resulting in a gross loss of $47 thousand. The gross realized gains and losses are included in gains on securities and loans receivable, net in the consolidated statements of income. All dispositions of securities during 2009 and 2008 were the result of principal repayments or maturities.

4. LOANS RECEIVABLE and ALLOWANCE FOR LOAN LOSSES

Loans receivable, net at December 31, 2009 (unaudited), September 30, 2009 and 2008 is summarized as follows:

	December 31, 2009 (unaudited)	September 30, 2009	September 30, 2008
		(Dollars in thousands)	
Mortgage loans:			
Residential - one- to-four family	$ 5,155,773	$ 5,321,935	$ 5,026,358
Multi-family and commercial	71,395	80,493	56,081
Construction	33,403	39,535	85,178
	5,260,571	5,441,963	5,167,617
Other loans:			
Home equity	193,987	195,557	202,956
Other	9,186	9,430	9,272
	203,173	204,987	212,228
Less:			
Undisbursed loan funds	(17,089)	(20,649)	(43,186)
Allowance for loan losses	(12,207)	(10,150)	(5,791)
Unearned loan fees and deferred costs	(10,525)	(12,186)	(10,088)
	$ 5,423,923	$ 5,603,965	$ 5,320,780

Originating and purchasing loans secured by one- to four-family mortgage loans on residential properties is the Bank’s primary business, resulting in a loan concentration in residential first mortgage loans. As a result of the Bank’s lending practices, the Bank also has a concentration of loans secured by real property located in Kansas and Missouri. At December 31, 2009 (unaudited), September 30, 2009 and 2008, approximately 70% and approximately 15% of the Bank’s loans were located in Kansas and Missouri, respectively.

There were no originations of commercial real estate or business loans for the quarter ended December 31, 2009 (unaudited). The Bank originated $6.0 million of commercial real estate and business loans during the quarter ended December 31, 2008 (unaudited). The Bank originated $15.3 million, $975 thousand, and $16.7 million of commercial real estate and business loans during the years ended September 30, 2009, 2008, and 2007, respectively.

The Bank is subject to numerous lending-related regulations. Under the Financial Institutions Reform, Recovery, and Enforcement Act, the Bank may not make real estate loans to one borrower in excess of the greater of 15% of its unimpaired capital and surplus or $500 thousand. As of December 31, 2009 (unaudited), the Bank was in compliance with this limitation.

Aggregate loans to executive officers, directors and their associates did not exceed 5% of stockholders' equity as of December 31, 2009 (unaudited), September 30, 2009 and 2008. Such loans were made under terms and conditions substantially the same as loans made to parties not affiliated with the Bank.

As of December 31, 2009 (unaudited), September 30, 2009 and 2008, the Bank serviced loans for others aggregating approximately $742.7 million, $576.0 million and $623.0 million, respectively. Such loans are not included in the accompanying consolidated balance sheets. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income includes servicing fees withheld from investors and certain charges collected from borrowers, such as late payment fees. The Bank held borrowers' escrow balances on loans serviced for others of $3.8 million, $7.9 million and $8.4 million as of December 31, 2009 (unaudited), September 30, 2009 and 2008, respectively.

As of December 31, 2009 (unaudited), September 30, 2009, 2008 and 2007, loans totaling approximately $32.8 million, $30.9 million, $13.7 million and $7.4 million, respectively, were on nonaccrual status. Gross interest income would have increased by $298 thousand and $123 thousand for the quarters ended December 31, 2009 and 2008 (unaudited). Gross interest income would have increased by $603 thousand, $178 thousand, and $101 thousand for the years ended September 30, 2009, 2008, and 2007, respectively, if these nonaccrual status loans were not classified as such. The balance of non-performing loans continues to remain at historically high levels due to the continued elevated level of unemployment coupled with the decline in real estate values, particularly in some of the states in which we have purchased loans.

Management considers all non-accrual loans and troubled debt restructurings that have not been performing satisfactorily under the new terms for 12 consecutive months to be impaired loans. The following is a summary of information pertaining to impaired loans.

	December 31, 2009 (unaudited)	September 30, 2009	September 30, 2008
	(Dollars in thousands)		
Impaired loans without a specific valuation allowance	$ 24,165	$ 19,052	$ 7,646
Impaired loans with a specific valuation allowance	23,262	22,347	6,020
	$ 47,427	$ 41,399	$ 13,666
Specific valuation allowance related to impaired loans	$ 4,035	$ 4,596	$ 758

	For the Quarter Ended December 31 (unaudited), 2009	2008	For the Year Ended September 30, 2009	2008	2007
	(Dollars in thousands)				
Average investment in impaired loans	$ 31,908	$ 13,570	$ 25,156	$ 10,878	$ 6,606
Interest income recognized on impaired loans	$ 239	$ 61	$ 473	$ 150	$ 111

No additional principal is committed to be advanced in connection with impaired loans.

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At December 31, 2009 (unaudited), September 30, 2009, 2008 and 2007, loans totaling $15.2 million, $10.8 million, $918 thousand and $230 thousand, respectively, were troubled debt restructurings that have been under the terms of the restructured loan for less than 12 months.

Continued declines in real estate values could adversely impact the property used as collateral for the Bank's loans. Adverse changes in the economy and increasing unemployment rates may have a negative effect on the ability of the Bank's borrowers to make timely loan payments, which would likely increase delinquencies and have an adverse impact on the Bank's earnings. Further increases in delinquencies will decrease net interest income and will likely adversely impact the Bank's loan loss experience, resulting in an increase in the Bank's allowance for loan losses and provision for loan losses. Although management believes the allowance for loan losses was at an adequate level to absorb known and inherent losses in the loan portfolio at December 31, 2009 (unaudited), the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term changes. Additions to the allowance for loan losses may be necessary if future economic and other conditions differ substantially from the current environment.

A summary of the activity in the allowance for loan losses for the quarters ended December 31, 2009 and 2008 (unaudited) and for the years ended September 30, 2009, 2008 and 2007 is as follows:

	For the Quarter Ended December 31 (unaudited),		For the Year Ended September 30,		
	2009	2008	2009	2008	2007
	(Dollars in thousands)				
Balance at beginning of period	$ 10,150	$ 5,791	$ 5,791	$ 4,181	$ 4,433
Provision (recovery) charged to expense	3,115	549	6,391	2,051	(225)
Charge-offs:					
Residential - one- to four-family	(895)	(192)	(2,007)	(407)	(8)
Home equity	(23)	—	(1)	(2)	(3)
Other loans	(5)	(11)	(24)	(32)	(16)
Total charge-offs	(923)	(203)	(2,032)	(441)	(27)
Recoveries	—	—	—	—	—
Allowance on loans in the loan swap transaction	(135)	—	—	—	—
Balance at end of period	$ 12,207	$ 6,137	$ 10,150	$ 5,791	$ 4,181

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5. PREMISES AND EQUIPMENT, Net

A summary of the net carrying value of banking premises and equipment at December 31, 2009 (unaudited) and September 30, 2009 and 2008 is as follows:

	December 31 (unaudited), 2009	September 30, 2009	September 30, 2008
	(Dollars in thousands)		
Land	$ 7,872	$ 7,866	$ 7,618
Building and improvements	42,120	40,167	31,027
Furniture, fixtures and equipment	36,873	35,874	32,419
	86,865	83,907	71,064
Less accumulated depreciation	(46,964)	(46,198)	(41,190)
	$ 39,901	$ 37,709	$ 29,874

Depreciation and amortization expense for the quarters ended December 31, 2009 and 2008 (unaudited) was $1.3 million and $1.2 million, respectively. Depreciation and amortization expense for the years ended September 30, 2009, 2008, and 2007 was $5.1 million, $5.4 million, and $4.5 million, respectively.

The Bank has entered into non-cancelable operating lease agreements with respect to banking premises and equipment. It is expected that many agreements will be renewed at expiration in the normal course of business. Rental expense was $307 thousand and $290 thousand for the quarters ended December 31, 2009 and 2008 (unaudited), respectively. Rental expense was $1.2 million, $1.2 million, and $1.1 million for the years ended September 30, 2009, 2008, and 2007, respectively. Future minimum rental commitments by fiscal year, rounded to the nearest thousand, required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2009 (unaudited) are as follows (dollars in thousands):

2010	$903
2011	1,029
2012	899
2013	775
2014	763
2015	708
Thereafter	7,732
	$12,809

Future minimum rental commitments, rounded to the nearest thousand, required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year, as of September 30, 2009 are as follows (dollars in thousands):

2010	$1,129
2011	990
2012	861
2013	748
2014	706

Thereafter	8,334
	$12,768

6. DEPOSITS

Deposits at December 31, 2009 (unaudited), September 30, 2009 and 2008 are summarized as follows:

	December 31, 2009 (unaudited)			September 30, 2009			September 30, 2008		
	Amount	Weighted Average Rate	% of Total	Amount	Weighted Average Rate	% of Total	Amount	Weighted Average Rate	% of Total
	(Dollars in thousands)								
Non-certificates:									
Checking	$491,619	0.13 %	11.7 %	$439,975	0.17 %	10.4 %	$400,461	0.21 %	10.2 %
Savings	225,383	0.56	5.3	226,396	0.66	5.4	232,103	1.51	5.9
Money market	888,131	0.73	21.0	848,157	0.82	20.1	772,323	1.48	19.7
Total non-certificates	1,605,133	0.52	38.0	1,514,528	0.61	35.9	1,404,887	1.12	35.8
Certificates of deposit:									
0.00 – 0.99%	97,315	0.44	2.3	78,036	0.55	1.8	114	0.59	—
1.00 – 1.99%	493,527	1.54	11.7	254,846	1.55	6.0	7,426	1.98	0.2
2.00 – 2.99%	905,202	2.40	21.4	971,605	2.42	23.0	413,102	2.78	10.5
3.00 – 3.99%	684,727	3.47	16.2	848,991	3.45	20.1	935,470	3.39	23.8
4.00 – 4.99%	282,351	4.43	6.7	326,087	4.41	7.7	747,612	4.52	19.1
5.00 – 5.99%	158,041	5.16	3.7	233,572	5.17	5.5	414,347	5.17	10.6
6.00 – 6.99%	956	6.48	—	944	6.48	—	925	6.47	—
Total certificates of deposit	2,622,119	2.83	62.0	2,714,081	3.09	64.1	2,518,996	3.91	64.2
	$4,227,252	1.95 %	100.0%	$4,228,609	2.20 %	100.0%	$3,923,883	2.91 %	100.0%

As of December 31, 2009 (unaudited) and September 30, 2009, certificates of deposit mature as follows:

	December 31, 2009 (unaudited)		September 30, 2009	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Within one year or less	$ 1,446,540	2.61 %	$ 1,634,399	2.97 %
Between one and two years	770,863	3.07	609,704	3.15
Between two and three years	242,479	3.19	333,648	3.49
Between three and four years	134,029	3.11	115,465	3.22
Between four and five years	26,949	3.07	19,744	3.15
Thereafter	1,259	3.52	1,121	3.61
	$ 2,622,119	2.83 %	$ 2,714,081	3.09 %

The amount of noninterest-bearing deposits was $79.6 million, $71.7 million and $66.8 million as of December 31, 2009 (unaudited), September 30, 2009 and 2008, respectively. Certificates of deposit with a minimum denomination of $100 thousand were $726.2 million, $790.8 million and $686.3 million as of December 31, 2009 (unaudited), September 30, 2009 and 2008, respectively. The aggregate amount of deposits that were reclassified as loans receivable due to customer overdrafts was $151 thousand, $235 thousand and $296 thousand as of December 31, 2009 (unaudited), September 30, 2009 and 2008, respectively.

7. BORROWED FUNDS

At December 31, 2009 (unaudited) and September 30, 2009 and 2008, the Company's borrowed funds consisted of FHLB advances and other borrowings. Included in other borrowings are repurchase agreements and Junior Subordinated Deferrable Interest Debentures (the "Debentures").

FHLB Advances – FHLB advances at December 31, 2009 (unaudited), September 30, 2009 and 2008 were comprised of the following:

	December 31, 2009 (unaudited)	September 30, 2009	September 30, 2008
	(Dollars in thousands)		
Fixed-rate FHLB advances	$ 2,426,000	$ 2,426,000	$ 2,446,000
Deferred prepayment penalty	(32,542)	(34,227)	—
Deferred gain on terminated interest rate swaps	756	797	1,129
	$ 2,394,214	$ 2,392,570	$ 2,447,129
Weighted average contractual interest rate on FHLB advances	3.79 %	3.79 %	4.77 %
Weighted average effective interest rate on FHLB advances(1)	4.13 %	4.13 %	4.75 %

(1) The effective rate includes the net impact of the amortization of deferred prepayment penalties related to the prepayment of certain FHLB advances and deferred gains related to the termination of interest rate swaps.

During the first quarter of fiscal year 2008, management terminated interest rate swap agreements with total notional amounts of $575.0 million. As a result of the termination, the Bank received cash proceeds of $1.7 million and recorded a deferred gain for the proceeds. The gain is being amortized to interest expense on FHLB advances over the remaining life of the FHLB advances that were originally hedged by the terminated interest rate swap agreements. The Bank had no interest rate swap agreements outstanding at December 31, 2009 (unaudited), September 30, 2009 or 2008.

During fiscal year 2009, the Bank prepaid $875.0 million of fixed-rate FHLB advances with a weighted average interest rate of 5.65% and a weighted average remaining term to maturity of 11 months. The prepaid FHLB advances were replaced with $875.0 million of fixed-rate FHLB advances, with a weighted average contractual interest rate of 3.41% and an average term of 69 months. The Bank paid a $38.4 million penalty to the FHLB as a result of prepaying the FHLB advances. The prepayment penalty was deferred as an adjustment to the carrying value of the new advances as the new FHLB advances were not "substantially different," from the prepaid FHLB advances. The present value of the cash flows under the terms of the new FHLB advances was not more than 10% different from the present value of the cash flows under the terms of the prepaid FHLB advances (including the prepayment penalty) and there were no embedded conversion options in the prepaid FHLB advances or in the new FHLB advances. The prepayment penalty effectively increased the interest rate on the new advances 96 basis points at the time of the transaction. The deferred prepayment penalty will be recognized in interest expense over the life of the new FHLB advances. The benefit of prepaying the advances was an immediate decrease in interest expense, and a decrease in interest rate sensitivity, as the maturities of the refinanced advances were extended at a lower rate.

The FHLB advances are secured by certain qualifying mortgage loans pursuant to a blanket collateral agreement with the FHLB and all of the capital stock of FHLB owned by the Bank. Per the FHLB's lending guidelines, total FHLB borrowings cannot exceed 40% of total Bank assets without the pre-approval of the FHLB president. At December 31, 2009 (unaudited) and September 30, 2009, the Bank's ratio of FHLB advances to total assets, as reported to the OTS, was 29% and 28%, respectively.

At December 31, 2009 (unaudited), the Bank had access to a line of credit with the FHLB set to expire on November 26, 2010, at which time the line of credit is expected to be renewed automatically by the FHLB for a one year period. At December 31, 2009 (unaudited), there were no borrowings on the FHLB line of credit. Any borrowings on the line of credit would be included in total FHLB borrowings in calculating the ratio of FHLB borrowings to total Bank assets, which generally could not exceed 40% of total Bank assets at December 31, 2009 (unaudited).

Other Borrowings –The following summarizes the components of other borrowings as of December 31, 2009 (unaudited), September 30, 2009 and 2008:

	December 31, 2009 (unaudited)		September 30, 2009		2008	
	Amount	Weighted Average Contractual Rate	Amount	Weighted Average Contractual Rate	Amount	Weighted Average Contractual Rate
	(Dollars in thousands)					
Repurchase agreements	$ 660,000	3.97 %	$ 660,000	3.97 %	$ 660,000	3.97 %
Debentures	53,609	3.03	53,609	3.26	53,581	5.54
	$ 713,609	3.90 %	$ 713,609	3.91 %	$ 713,581	4.09 %

Repurchase Agreements - During fiscal year 2008, the Bank entered into repurchase agreements totaling $660.0 million. Repurchase agreements are made at mutually agreed upon terms between counterparties and the Bank. The use of repurchase agreements allows for the diversification of funding sources and the use of securities that were not being leveraged as collateral. The Bank has pledged AFS and HTM MBS with an estimated fair value of $765.3 million, at December 31, 2009 (unaudited), as collateral for the repurchase agreements.

Debentures - The Company has established a Delaware statutory trust, Capitol Federal Financial Trust I (the “Trust”), of which the Company owns 100% of the common securities, or slightly more than 3% of the Trust (“Trust Common Securities”). The Trust was formed for the purpose of issuing Company obligated mandatorily redeemable preferred securities (“Trust Preferred Securities”). Outside investors own 100% of the Trust Preferred Securities, or slightly less than 97% of the Trust. The Trust issued $53.6 million of Trust Preferred Securities. The Company purchased $1.6 million of the Trust Common Securities which are reported in Other Assets in the December 31, 2009 (unaudited), September 30, 2009 and 2008 consolidated balance sheets. When the Trust Preferred and Trust Common Securities were issued, the Trust used the proceeds to purchase a like amount of Debentures of the Company. The Debentures bear the same terms and interest rates as the Trust Preferred and Trust Common Securities. Interest is due quarterly in January, April, July and October until the maturity date of April 7, 2034. The interest rate, which resets at each interest payment, is based upon the three month LIBOR rate plus 275 basis points. Principal is due at maturity. The Debentures were callable, in part or whole, beginning on April 7, 2009, at par. Any such redemption of the Debentures by the Company will cause redemption of a like amount of the Trust Preferred and Trust Common Securities by the Trust. The Company has guaranteed the obligations of the Trust. The Trust is not included in the consolidated financial statements. The Debentures are the sole assets of the Trust. There are certain covenants of the Debentures that the Company is required to comply with. These covenants include a prohibition on cash dividends in the event of default or if the Company elects to defer the payment of interest on the Debentures, annual certifications to the Trust and other covenants related to the payment of interest and principal and maintenance of the Trust. The Company was in compliance with all covenants at December 31, 2009 (unaudited) and September 30, 2009.

Maturity of Borrowed Funds – At December 31, 2009 (unaudited) and September 30, 2009, the FHLB advances, repurchase agreements and Debentures mature as follows:

At December 31, 2009 (unaudited)

	FHLB Advances Amount	Repurchase Agreements Amount	Debentures Amount	Total Borrowings Amount	Weighted Average Contractual Rate	Weighted Average Effective Rate
	(Dollars in thousands)					
2010	$ 350,000	$ 45,000	$ —	$ 395,000	4.33 %	4.33 %
2011	276,000	200,000	—	476,000	4.42	4.42
2012	350,000	150,000	—	500,000	3.67	3.67
2013	525,000	145,000	—	670,000	3.74	4.00
2014	450,000	100,000	—	550,000	3.33	3.96
2015	200,000	20,000	—	220,000	3.50	4.16
Thereafter	275,000	—	53,609	328,609	3.72	4.17
	$ 2,426,000	$ 660,000	$ 53,609	$ 3,139,609	3.82 %	4.07 %

At September 30, 2009

	FHLB Advances Amount	Repurchase Agreements Amount	Debentures Amount	Total Borrowings Amount	Weighted Average Contractual Rate	Weighted Average Effective Rate
	(Dollars in thousands)					
2010	$ 350,000	$ 45,000	$ —	$ 395,000	4.33 %	4.33 %
2011	276,000	200,000	—	476,000	4.42	4.42
2012	350,000	150,000	—	500,000	3.67	3.67
2013	525,000	145,000	—	670,000	3.74	4.00
2014	450,000	100,000	—	550,000	3.33	3.96
2015	200,000	20,000	—	220,000	3.50	4.16
Thereafter	275,000	—	53,609	328,609	3.76	4.21
	$ 2,426,000	$ 660,000	$ 53,609	$ 3,139,609	3.82 %	4.08 %

Of the $350.0 million FHLB advances maturing in fiscal year 2010, $100.0 million is due in the third quarter of fiscal year 2010 and $250.0 million is due in the fourth quarter of fiscal year 2010. The $45.0 million of repurchase agreements maturing in fiscal year 2010 are due in the fourth quarter of fiscal year 2010.

8. INCOME TAXES

Income tax expense for the quarters ended December 31, 2009 and 2008 (unaudited), and for the years ended September 30, 2009, 2008, and 2007 consisted of the following:

	December 31 (unaudited),		September 30,		
	2009	2008	2009	2008	2007
	(Dollars in thousands)				
Current:					
Federal	$ 7,858	$ 7,570	$ 32,590	$ 19,523	$ 1,563
State	694	653	2,788	1,518	333
	8,552	8,223	35,378	21,041	1,896
Deferred:					
Federal	2,397	971	3,285	7,556	17,328
State	192	78	263	604	1,386
	2,589	1,049	3,548	8,160	18,714
	$ 11,141	$ 9,272	$ 38,926	$ 29,201	$ 20,610

Income tax expense has been provided at effective rates of 34.7% and 36.9% for the quarters ended December 31, 2009 and 2008 (unaudited), respectively, and 37.0%, 36.4%, and 39.0% for the years ended September 30, 2009, 2008, and 2007, respectively. The differences between such effective rates and the statutory Federal income tax rate computed on income before income tax expense result from the following:

	December 31 (unaudited),				September 30,					
	2009		2008		2009		2008		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Federal income tax expense computed at statutory Federal rate	$ 11,242	35.0%	$ 8,793	35.0%	$ 36,828	35.0%	$ 28,054	35.0%	$ 18,517	35.0%
Increases in taxes resulting from:										
State taxes, net of Federal tax effect	899	2.8	708	2.8	3,051	2.9	2,122	2.6	1,719	3.3
Other	(1,000)	(3.1)	(229)	(0.9)	(953)	(0.9)	(975)	(1.2)	374	0.7
	$ 11,141	34.7%	$ 9,272	36.9%	$ 38,926	37.0%	$ 29,201	36.4%	$ 20,610	39.0%

Deferred income tax expense results from temporary differences in the recognition of revenue and expenses for tax and financial statement purposes. The sources of these differences and the tax effect of each for the quarters ended December 31, 2009 and 2008 (unaudited) and the years ended September 30, 2009, 2008 and 2007 were as follows:

	December 31, (unaudited)		September 30,		
	2009	2008	2009	2008	2007
	(Dollars in thousands)				
FHLB prepayment penalty	$ 321	$ 1,153	$ 4,601	$ 10,586	$ 21,225
FHLB stock dividends	1,810	(123)	694	(1,901)	(440)
Allowance for loan losses	—	—	(1,628)	(611)	117
Other, net	458	19	(119)	86	(2,188)
	$ 2,589	$ 1,049	$ 3,548	$ 8,160	$ 18,714

The components of the net deferred income tax (liabilities) assets as of December 31, 2009 (unaudited), September 30, 2009 and 2008 are as follows:

	December 31, 2009 (unaudited)	September 30, 2009	September 30, 2008
	(Dollars in thousands)		
Deferred income tax assets:			
FHLB prepayment penalty	$ 962	$ 1,283	$ 5,884
Unrealized loss on AFS securities	—	—	3,627
Salaries and employee benefits	1,268	1,259	1,567
Allowance for loan losses	1,895	1,895	267
ESOP compensation	887	887	977
Other	1,934	2,401	2,018
Gross deferred income tax assets	6,946	7,725	14,340
Valuation allowance	(261)	(261)	(241)
Gross deferred income tax asset, net of valuation allowance	6,685	7,464	14,099
Deferred income tax liabilities:			
Unrealized gain on AFS securities	18,764	20,583	—
FHLB stock dividends	17,000	15,190	14,496
Other	2,661	2,661	2,826
Gross deferred income tax liabilities	38,425	38,434	17,322
Net deferred tax liabilities	$ (31,740)	$ (30,970)	$ (3,223)

The Company assesses the available positive and negative evidence surrounding the recoverability of the deferred tax assets and applies its judgment in estimating the amount of valuation allowance necessary under the circumstances. As of December 31, 2009 (unaudited), September 30, 2009 and 2008, the Company recorded a valuation allowance of $261 thousand, $261 thousand and $241 thousand, respectively, related to net operating losses generated by the Company's consolidated Kansas corporate income tax return. The Company's consolidated Kansas corporate income tax return includes MHC, the Company, and Capitol Funds, Inc., as the Bank files a Kansas privilege tax return. Based on the nature of operations of the noted entities, management believes there will not be sufficient taxable income for the foreseeable future on the Company's consolidated Kansas corporate income tax return to utilize the net operating losses.

The Company adopted the section of ASC 740 Income Taxes related to the accounting for uncertainty in income taxes on October 1, 2007. This section of ASC 740 prescribes a process by which the likelihood of a tax position is gauged based upon the technical merits of the position, and then a subsequent measurement relates the maximum benefit and the degree of likelihood to determine the amount of benefit to recognize in the financial statements.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the periods ended December 31, 2009 (unaudited), September 30, 2009 and 2008 is as follows. The amounts have not been reduced by the federal deferred tax effects of unrecognized tax benefits.

	December 31, 2009 (unaudited)	September 30, 2009	2008
	(Dollars in thousands)		
Balance at beginning of period	$ 2,848	$ 2,409	$ 3,773
Additions for tax positions related to the current period	—	109	—
Additions for tax positions of prior years	4	888	130
Reductions for tax positions of prior years	(194)	—	(915)
Reductions relating to settlement with taxing authorities	—	(97)	—
Lapse of statute of limitations	(2,557)	(461)	(579)
Balance at end of period	$ 101	$ 2,848	$ 2,409

Included in the unrecognized tax benefits above is accrued penalties and interest of $4 thousand for the quarter ended December 31, 2009 (unaudited), and accrued penalties and interest of $763 thousand and $609 thousand for the years ended September 30, 2009 and 2008, respectively. The reversal of penalties and interest expense due to the lapse of statute of limitations and settlements with taxing authorities for the quarters ended December 31, 2009 and 2008 (unaudited) were $471 thousand and $4 thousand, respectively. Estimated penalties and interest expense for the years ended September 30, 2009 and 2008 were $87 thousand and $81 thousand, respectively. Estimated penalties and interest expense are included in income tax expense in the consolidated statements of income. Interest income related to state and federal tax return refunds for the year ended September 30, 2008 was $235 thousand, which is included in other income in the consolidated statements of income. We do not expect a material change in unrecognized tax benefits in the next 12 months.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Kansas, as well as other states where it has nexus. In many cases, uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. With few exceptions, the Company is no longer subject to U.S. federal and state examinations by tax authorities for fiscal years before 2007.

9. EMPLOYEE BENEFIT PLANS

The Company has a profit sharing plan (“PIT”) and an employee stock ownership plan (“ESOP”). The plans cover all employees with a minimum of one year of service, at least age 21, and at least 1,000 hours of employment in each plan year.

Profit Sharing Plan – The PIT provides for two types of discretionary contributions. The first type is an optional Bank contribution and may be 0% or any percentage above that, as determined by the board of directors, of an eligible employee’s eligible compensation during the fiscal year. The second contribution may be 0% or any percentage above that, as determined by the board of directors, of an eligible employee’s eligible compensation during the fiscal year if the employee matches 50.0% (on an after-tax basis) of the Bank’s second contribution. The PIT qualifies as a thrift and profit sharing plan for purposes of Internal Revenue Codes 401(a), 402, 412, and 417. The Bank accrued $51 thousand and $47 thousand at December 31, 2009 and 2008 (unaudited), respectively, related to PIT contributions. Total Bank contributions to the PIT amounted to $102 thousand, $93 thousand, and $89 thousand for the years ended September 30, 2009, 2008, and 2007, respectively.

ESOP – The ESOP Trust acquired 3,024,574 shares of common stock in the Company's initial public offering with proceeds from a loan from the Company. The Bank makes cash contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required annual loan payments to the Company at September 30.

The loan referenced above bears interest at a fixed-rate of 5.80% with interest payable annually and future principal and interest payable in four remaining fixed installments, as of December 31, 2009 (unaudited), of $3.0 million. Payments of $3.0 million consisting of principal of $2.3 million, $2.1 million, and $2.0 million and interest of $700 thousand, $900 thousand, and $1.0 million were made on September 30, 2009, 2008, and 2007, respectively. The loan is secured by the shares of Company stock purchased.

As the debt is repaid, 201,638 shares are released from collateral annually at September 30 and allocated to qualified employees based on the proportion of their qualifying compensation to total qualifying compensation. As ESOP shares are committed to be released from collateral, the Company records compensation expense. Compensation expense related to the ESOP was $1.5 million for the quarter ended December 31, 2009 (unaudited), $2.2 million for the quarter ended December 31, 2008 (unaudited), $7.9 million for the year ended September 30, 2009 and $7.5 million for each of the years ended September 30, 2008 and 2007. Dividends on unallocated ESOP shares are recorded as a reduction of debt, up to a total of $3.0 million.

During the years ended September 30, 2009, 2008, and 2007, the Bank paid $863 thousand, $571 thousand, and $41 thousand, respectively, of the ESOP debt payment because dividends on unallocated shares were insufficient to pay the scheduled debt payment as they had been in previous years. Dividends paid to participants on allocated ESOP shares were $1.4 million for the quarter ended December 31, 2009 (unaudited), $967 thousand for the quarter ended December 31, 2008 (unaudited), $3.3 million for the year ended September 30, 2009 and $2.9 million for each of the years ended September 30, 2008 and 2007.

Participants have the option to receive the dividends in cash or leave the dividend in the ESOP. Dividends are reinvested in Company stock for those participants who choose to leave their dividends in the ESOP or who do not make an election. The purchase of Company stock for reinvestment of dividends is made in the open market on or about the date of the cash disbursement to the participants who opt to take dividends in cash.

Shares may be withdrawn from the ESOP Trust due to retirement, termination or death of the participant. Following is a summary of shares held in the ESOP Trust as of December 31, 2009 (unaudited), September 30, 2009, and 2008:

	December 31, 2009 (unaudited)	September 30, 2009	September 30, 2008
	(Dollars in thousands)		
Allocated ESOP shares	1,732,923	1,751,474	1,604,939
Unreleased ESOP shares	806,556	806,556	1,008,194
Total ESOP shares	2,539,479	2,558,030	2,613,133
Fair value of unreleased ESOP shares	$ 25,374	$ 26,552	$ 44,693

10. STOCK BASED COMPENSATION

At December 31, 2009 (unaudited) and September 30, 2009, the Company had a Stock Option and Incentive Plan and an RRP which are considered share-based plans. Compensation expense is recognized over the service period of the share-based payment award. The Company utilizes a fair-value-based measurement method in accounting for the share-based payment transactions with employees, except for equity instruments held by employee share ownership plans.

Stock Option Plan – The purpose of the Option Plan is to provide additional incentive to certain officers, directors and key employees by facilitating their purchase of a stock interest in the Company. Pursuant to the Option Plan, subject to adjustment as described below, 3,780,718 shares of common stock were reserved for issuance by the Company upon exercise of stock options granted to officers, directors and employees of the Company and the Bank from time to time under the Option Plan. The Company may issue both incentive and nonqualified stock options under the Option Plan. The Company may also award stock appreciation rights under the Option Plan, although to date no stock appreciation rights have been awarded under the Option Plan. The incentive stock options expire no later than ten years and the nonqualified stock options expire no later than fifteen years from the date of grant. The date on which the options are first exercisable is determined by the Stock Benefits Committee ("sub-committee"), a sub-committee of the Compensation Committee ("committee") of the board of directors. The vesting period of the options generally ranges from three to five years. The option price is equal to the market value at the date of the grant as defined by the Option Plan.

Under the Option Plan, incentive stock options may not be granted after April 2010 and nonqualified stock options may not be granted after April 2015. At December 31, 2009 (unaudited) and September 30, 2009, the Company had 1,293,915 shares and 1,303,915 shares, respectively, available for future grants under the Option Plan. This includes 1,044,380 shares added back to the Option Plan through the reload feature of the plan, which provides that the maximum number of shares with respect to which awards may be made under the plan shall be increased by (i) the number of shares of common stock repurchased by the Company with an aggregate price no greater than the cash proceeds received by the Company from the exercise of options under the Option Plan; and (ii) the number of shares surrendered to the Company in payment of the exercise price of options granted under the Option Plan.

The Option Plan is administered by the sub-committee, which selects the employees and non-employee directors to whom options are to be granted and the number of shares to be granted. The exercise price may be paid in cash, shares of the common stock, or a combination of both. The option price may not be less than 100% of the fair market value of the shares on the date of the grant. In the case of any employee who is granted an incentive stock option who owns more than 10% of the outstanding common stock at the time the option is granted, the option price may not be less than 110% of the fair market value of the shares on the date of the grant, and the option shall not be exercisable after the expiration of five years from the grant date. Historically, the Company has issued shares held in treasury upon the exercise of stock options.

The fair value of stock option grants are estimated on the date of the grant using the Black-Scholes option pricing model. The weighted average grant-date fair value of stock options granted during the quarters ended December 31, 2009 and 2008 (unaudited) was $3.09 and $5.27, respectively. The weighted average grant-date fair value of stock options granted during the fiscal years ended September 30, 2009, 2008, and 2007 was $5.03, $3.20 and $5.61 per share, respectively. Compensation expense attributable to stock options awards during the quarters ended December 31, 2009 and 2008 (unaudited) totaled $61 thousand ($51 thousand, net of tax) and $92 thousand ($79 thousand, net of tax), respectively. Compensation expense attributable to stock options awards during the years ended September 30, 2009, 2008 and 2007 totaled $281 thousand ($240 thousand, net of tax), $323 thousand ($205 thousand, net of tax), and $294 thousand ($179 thousand, net of tax), respectively. The following weighted average assumptions were used for valuing stock option grants for the periods noted:

	Quarter Ended December 31 (unaudited),				Year Ended September 30,					
	2009		2008		2009		2008		2007	
Risk-free interest rate	2.0	%	2.4	%	2.1	%	3.2	%	4.8	%
Expected life (years)	4		4		4		5		6	
Expected volatility	25	%	23	%	24	%	22	%	21	%
Dividend yield	6.5	%	4.6	%	4.8	%	6.2	%	5.2	%
Estimated forfeitures	13.5	%	14.5	%	10.5	%	3.0	%	6.2	%

The risk-free interest rate was determined using the yield available on the option grant date for a zero-coupon U.S. Treasury security with a term equivalent to the expected life of the option. The expected life for options granted during the quarters ended December 31, 2009 and 2008 (unaudited) and the years ended September 30, 2009 and 2008 was based upon historical experience. The expected life for options granted during the year ended September 30, 2007 represents the period the option is expected to be outstanding and was determined by applying the simplified method. The expected volatility was determined using historical volatilities based on historical stock prices. The dividend yield was determined based upon historical quarterly dividends and the Company’s stock price on the option grant date. Estimated forfeitures were determined based upon voluntary termination behavior and actual option forfeitures.

A summary of option activity for the quarters ended December 31, 2009 and 2008 (unaudited) and the years ended September 30, 2009, 2008 and 2007 follows:

December 31 (unaudited),			
2009		2008	
Number	Weighted Average Exercise	Number	Weighted Average Exercise

	of Options	Price	of Options	Price
Options outstanding at beginning of period:	372,022	$ 33.28	403,322	$ 29.66
Granted	10,000	30.75	25,500	43.46
Forfeited	—	—	—	—
Exercised	—	—	(49,075)	20.76
Options outstanding at end of period	382,022	$ 33.21	379,747	$ 31.74

	September 30,					
	2009		2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding at beginning of year:	403,322	$ 29.66	382,855	$ 28.13	668,457	$ 20.43
Granted	41,750	42.05	56,500	32.19	34,000	38.77
Forfeited	—	—	(100)	25.66	(8,967)	29.37
Exercised	(73,050)	18.31	(35,933)	17.34	(310,635)	12.69
Options outstanding at end of year	372,022	$ 33.28	403,322	$ 29.66	382,855	$ 28.13

Shares issued upon the exercise of stock options are issued from treasury stock. The Company has an adequate number of treasury shares available for sale for future stock option exercises.

There were no stock options exercised during the quarter ended December 31, 2009 (unaudited). During the quarter ended December 31, 2008 (unaudited), the total pretax intrinsic value of stock options exercised was $1.1 million, and the tax benefits realized from the exercise of stock options were $345 thousand. During the years ended September 30, 2009, 2008, and 2007, the total pretax intrinsic value of stock options exercised was $1.7 million, $755 thousand, and $8.1 million, respectively, and the tax benefits realized from the exercise of stock options were $515 thousand, $114 thousand, and $2.6 million, respectively. The fair value of stock options vested during the quarters ended December 31, 2009 and 2008 (unaudited) was $61 thousand and $64 thousand, respectively. The fair value of stock options vested during the years ended September 30, 2009, 2008, and 2007 was $297 thousand, $281 thousand, and $338 thousand, respectively.

The following summarizes information about the stock options outstanding and exercisable as of December 31, 2009 (unaudited):

	Options Outstanding			
Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
	(Dollars in thousands, except per share amounts) (unaudited)			
$9.22	19,381	1.30	$ 9.22	$ 431
14.03 - 19.68	4,291	1.43	18.13	57
25.66 - 28.78	2,500	2.67	26.91	11
30.19 – 39.83	330,350	8.70	34.07	26
43.46	25,500	8.83	43.46	—
	382,022	8.21	$ 33.21	$ 525

	Options Exercisable			
Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
	(Dollars in thousands, except per share amounts) (unaudited)			
$9.22	19,381	1.30	$ 9.22	$ 431
14.03 - 19.68	4,291	1.43	18.13	57
25.66 - 28.78	2,500	2.67	26.91	11
30.19 – 39.83	241,650	8.62	33.99	20
43.46	10,200	8.83	43.46	—
	278,022	7.95	$ 32.30	$ 519

The following summarizes information about the stock options outstanding and exercisable as of September 30, 2009:

	Options Outstanding			
Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
	(Dollars in thousands, except per share amounts)			

$9.22	19,381	1.55	$ 9.22	$ 459
14.03 - 19.68	4,291	1.68	18.13	63
25.66 - 28.78	2,500	2.92	26.91	15
30.19 – 38.77	320,350	8.92	34.18	123
43.46	25,500	9.08	43.46	—
	372,022	8.42	$ 33.28	$ 660

	Options Exercisable			
Exercise Price	Number of Options Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
	(Dollars in thousands, except per share amounts)			
$9.22	19,381	1.55	$ 9.22	$ 459
14.03 - 19.68	4,291	1.68	18.13	63
25.66 - 28.78	2,500	2.92	26.91	15
30.19 – 38.77	232,450	8.91	34.05	90
43.46	5,100	9.08	43.46	—
	263,722	8.19	$ 32.08	$ 627

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of $31.46 and $32.92 as of December 31, 2009 (unaudited) and September 30, 2009, respectively, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of December 31, 2009 (unaudited) and September 30, 2009 was 42,672 and 141,272, respectively.

As of December 31, 2009 (unaudited) and September 30, 2009, the total estimated future compensation cost related to non-vested stock options not yet recognized in the consolidated statements of income was $250 thousand and $283 thousand, respectively, and the weighted average period over which these awards are expected to be recognized was 2.3 years and 2.2 years, respectively.

Recognition and Retention Plan – The objective of the RRP is to enable the Company and the Bank to retain personnel of experience and ability in key positions of responsibility. Employees and directors of the Bank are eligible to receive benefits under the RRP at the sole discretion of the sub-committee. The total number of shares originally eligible to be granted under the RRP was 1,512,287. At December 31, 2009 (unaudited) and September 30, 2009, the Company had 163,487 shares available for future grants under the RRP. The RRP expires in April 2015. No additional grants may be made after expiration, but outstanding grants continue until they are individually exercised, forfeited, or expire.

Compensation expense in the amount of the fair market value of the common stock at the date of the grant, as defined by the RRP, to the employee is recognized over the period during which the shares vest. Compensation expense attributable to RRP awards during the quarters ended December 31, 2009 and 2008 (unaudited) totaled $70 thousand ($44 thousand, net of tax) and $85 thousand ($54 thousand, net of tax), respectively. Compensation expense attributable to RRP awards during the years ended September 30, 2009, 2008 and 2007 totaled $323 thousand ($204 thousand, net of tax), $399 thousand ($253 thousand, net of tax), and $375 thousand ($229 thousand, net of tax), respectively. A recipient of such restricted stock will be entitled to all voting and other stockholder rights (including the right to receive dividends on vested and non-vested shares), except that the shares, while restricted, may not be sold, pledged or otherwise disposed of and are required to be held in escrow by the Company. If a holder of such restricted stock terminates employment for reasons other than death or disability, the employee forfeits all rights to the non-vested shares under restriction. If the participant's service terminates as a result of death, disability, or if a change in control of the Bank occurs, all restrictions expire and all non-vested shares become unrestricted. A summary of

RRP share activity for the quarters ended December 31, 2009 and 2008 (unaudited) and for the years ended September 30, 2009, 2008 and 2007 follows:

	December 31 (unaudited), 2009		2008	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested RRP shares at beginning of period:	15,100	$ 34.35	23,200	$ 33.68
Granted	—	—	—	—
Vested	(1,000)	33.25	(1,000)	33.25
Forfeited	—	—	—	—
Unvested RRP shares at end of period	14,100	$ 34.42	22,200	$ 33.69

	Year Ended September 30, 2009		2008		2007	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested RRP shares at beginning of year:	23,200	$ 33.68	24,300	$ 34.46	30,800	$ 33.37
Granted	2,500	39.95	10,000	32.26	5,000	38.77
Vested	(10,600)	34.20	(11,100)	34.12	(11,100)	33.35
Forfeited	—	—	—	—	(400)	35.42
Unvested RRP shares at end of year	15,100	$ 34.35	23,200	$ 33.68	24,300	$ 34.46

The estimated forfeiture rate for the RRP shares granted during the quarters ended December 31, 2009 and 2008 (unaudited) and the years ended September 30, 2009, 2008, and 2007 was 0% based upon voluntary termination behavior and actual forfeitures. The fair value of RRP shares that vested during the quarters ended December 31, 2009 and 2008 (unaudited) totaled $33 thousand for both periods. The fair value of RRP shares that vested during the years ended September 30, 2009, 2008, and 2007 totaled $363 thousand, $379 thousand, and $370 thousand, respectively. As of December 31, 2009 (unaudited) and September 30, 2009, there was $260 thousand and $330 thousand, respectively, of unrecognized compensation cost related to non-vested RRP shares to be recognized over a weighted average period of 2.1 years.

11. PERFORMANCE BASED COMPENSATION

The Company and the Bank have a short-term performance plan for all officers and a deferred incentive bonus plan for senior officers. The short-term performance plan has a component tied to Company performance and a component tied to individual participant performance. Individual performance criteria are established by executive management for eligible non-executive employees of the Bank; individual performances of executive officers are reviewed by the committee. Company performance criteria are approved by the committee. Short-term performance plan awards are granted based upon a performance review by the committee. The committee may exercise its discretion and reduce or not grant awards. The deferred incentive bonus plan is intended to operate in conjunction with the short-term performance plan. A participant in the deferred incentive bonus plan can elect to defer into an account between $2 thousand and up to 50% of the short-term performance plan award up to but not exceeding $100 thousand. The amount deferred receives an employer match of up to 50%. The deferral period is three years. Earnings on the amount deferred by the employee and the employer match are tied to the performance of the Company's common stock and cash dividends paid thereon during the deferral period. The total amount of short-term performance plan awards provided for the years ended September 30, 2009, 2008, and 2007 amounted to $1.1 million, $2.1 million, and $1.1 million, respectively, of which $137 thousand, $165 thousand, and $66 thousand, respectively, was deferred under the deferred incentive bonus plan. The deferrals and any earnings on those deferrals will be paid in 2011, 2012, and 2013, respectively. During the quarters ended December 31, 2009 and 2008 (unaudited), the amount expensed in conjunction with the earnings on the deferred amounts was $21 thousand and $61 thousand, respectively. During fiscal years 2009, 2008, and 2007, the amount expensed in conjunction with the earnings on the deferred amounts was $51 thousand, $332 thousand, and $82 thousand, respectively.

12. DEFERRED COMPENSATION

The Bank has deferred compensation agreements with certain officers and retired officers whereby stipulated amounts will be paid to them over a period of 20 years upon their retirement or termination. Amounts accrued under these agreements aggregate $332 thousand, $337 thousand and $363 thousand as of December 31, 2009 (unaudited) and September 30, 2009 and 2008, respectively, and are accrued over the period of active employment and are funded by life insurance contracts.

13. COMMITMENTS AND CONTINGENCIES

The Bank had commitments outstanding to originate and purchase first and second mortgage loans as of December 31, 2009 (unaudited), September 30, 2009 and 2008 as follows:

	December 31, 2009 (unaudited)	September 30, 2009	2008
	(Dollars in thousands)		
Originate fixed-rate	$ 67,670	$ 105,316	$ 105,419
Originate adjustable-rate	13,005	8,945	16,302
Purchase fixed-rate	15,947	12,948	14,366
Purchase adjustable-rate	8,794	9,000	133,153

$ 105,416	$ 136,209	$ 269,240

As of December 31, 2009 (unaudited), the Bank had commitments to originate non-mortgage loans approximating $7 thousand, all of which were fixed-rate. As of September 30, 2009 and 2008, the Bank had commitments to originate non-mortgage loans approximating $134 thousand and $72 thousand, respectively, all of which were fixed-rate.

As of December 31, 2009 (unaudited), September 30, 2009 and 2008, the Bank had approved but unadvanced home equity lines of credit of $270.1 million, $270.3 million and $269.0 million, respectively. Approval of lines of credit is based upon underwriting standards that do not allow total borrowings, including existing mortgages and lines of credit, to exceed 95% of the estimated market value of the customer's home. In order to minimize risk of loss, home equity loans that are greater than 80% of the value of the property, when combined with the first mortgage, require private mortgage insurance.

Commitments to originate mortgage and non-mortgage loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a rate lock fee. Some of the commitments are expected to expire without being fully drawn upon; therefore the amount of total commitments disclosed above does not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Bank, upon extension of credit is based on management's credit evaluation of the customer. As of December 31, 2009 (unaudited), September 30, 2009 and 2008, there were no significant loan-related commitments that met the definition of derivatives or commitments to sell mortgage loans.

14. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a material adverse effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

The Bank's primary regulatory agency, the OTS, requires that the Bank maintain minimum ratios of tangible equity of 1.5%, Tier 1 (core) capital of 4%, and total risk-based capital of 8%. As of December 31, 2009 (unaudited) and September 30, 2009 and 2008, the most recent guidelines from the OTS categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Tier 1 (core) capital, Tier 1 risked based capital and total risk-based capital ratios as set forth in the table below. Management believes, as of December 31, 2009 (unaudited), that the Bank meets all capital adequacy requirements to which it is subject and there were no conditions or events subsequent to December 31, 2009 (unaudited), that would change the Bank's category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2009 (unaudited):						
Tangible equity	$ 844,959	10.1 %	$ 125,133	1.5 %	N/A	N/A
Tier 1 (core) capital	844,959	10.1	333,687	4.0	$ 417,109	5.0 %
Tier I risk-based capital	844,959	23.8	N/A	N/A	213,118	6.0
Total risk-based capital	853,139	24.0	284,157	8.0	355,196	10.0
As of September 30, 2009:						
Tangible equity	$ 834,879	10.0 %	$ 125,505	1.5 %	N/A	N/A
Tier 1 (core) capital	834,879	10.0	334,681	4.0	$ 418,351	5.0 %
Tier I risk-based capital	834,879	23.2	N/A	N/A	216,029	6.0
Total risk-based capital	840,439	23.3	288,039	8.0	360,048	10.0
As of September 30, 2008:						
Tangible equity	$ 806,708	10.0 %	$ 121,197	1.5 %	N/A	N/A
Tier 1 (core) capital	806,708	10.0	323,192	4.0	$ 403,990	5.0 %
Tier I risk-based capital	806,708	23.1	N/A	N/A	209,357	6.0
Total risk-based capital	801,886	23.0	279,143	8.0	348,929	10.0

A reconciliation of the Bank's equity under GAAP to regulatory capital amounts as of December 31, 2009 (unaudited) and September 30, 2009 and 2008 is as follows:

	December 31, 2009 (unaudited)	September 30, 2009	September 30, 2008
	(Dollars in thousands)		
Total Bank equity as reported under GAAP	$ 876,290	$ 869,029	$ 803,643
Unrealized (gains) losses on AFS securities	(30,875)	(33,870)	5,968
Other	(456)	(280)	(2,903)
Total tangible equity and Tier 1 (core) capital	844,959	834,879	806,708

Allowance for loan losses	8,180	5,560	5,008
Other	—	—	(9,830)
Total risk based capital	$ 853,139	$ 840,439	$ 801,886

Under OTS regulations, there are limitations on the amount of capital the Bank may distribute to the Company. Generally, this is limited to the earnings of the previous two calendar years and current year-to-date earnings. Under OTS safe harbor regulations, the Bank may distribute to the Company capital not exceeding net income for the current calendar year and the prior two calendar years. At December 31, 2009 (unaudited) and September 30, 2009, the Bank was in compliance with the OTS safe harbor regulations. The Bank has received a waiver from the OTS to distribute capital from the Bank to the Company, not to exceed 100% of the Bank's net quarterly earnings, through June 30, 2010. So long as the Bank continues to remain "well capitalized" after each capital distribution, operate in a safe and sound manner, provide the OTS with updated capital levels, and non-performing asset balances and ALLL information as requested, and comply with the interest rate risk management guidelines of the OTS, it is management's belief that the Bank will continue to receive waivers allowing it to distribute the net income of the Bank to the Company, although no assurance can be given in this regard.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements - ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. ASC 820 was issued to increase consistency and comparability in reporting fair values.

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at December 31, 2009 (unaudited) and September 30, 2009. The Company's AFS securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as REO, LHFS, and impaired loans. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

In accordance with ASC 820, the Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.

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

Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

The Company bases its fair values on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As required by ASC 820, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

AFS Securities
The Company's AFS securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. The Company's major security types based on the nature and risks of the securities are included in the table below. The majority of the securities within the AFS portfolio are issued by U.S. government sponsored enterprises. The fair values for all AFS securities are based on quoted prices for similar securities. Various modeling techniques are used to determine pricing for the Company's securities, including option pricing and discounted cash flow models. The inputs to these models may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. There are some AFS securities in the AFS portfolio that have significant unobservable inputs requiring the independent pricing services to use some judgment in pricing the related securities. These AFS securities are classified as Level 3. All other AFS securities are classified as Level 2.

The following tables provide the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a recurring basis, which consists of AFS securities, at December 31, 2009 (unaudited) and September 30, 2009.

	December 31, 2009 (unaudited)			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(1)
	(Dollars in thousands)			
AFS Securities:				
U.S. government-sponsored enterprises	$ 228,840	$ —	$ 228,840	$ —
Municipal bonds	2,753	—	2,753	—
Trust preferred securities	2,408	—	—	2,408
MBS	1,305,096	—	1,305,096	—
	$ 1,539,097	$ —	$ 1,536,689	$ 2,408

	September 30, 2009			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(1)
	(Dollars in thousands)			
AFS Securities:				
U.S. government-sponsored enterprises	$ 229,875	$ —	$ 229,875	$ —
Municipal bonds	2,799	—	2,799	—
Trust preferred securities	2,110	—	—	2,110
MBS	1,389,211	—	1,389,211	—
	$ 1,623,995	$ —	$ 1,621,885	$ 2,110

(1) The Company’s Level 3 AFS securities were not significant at December 31, 2009 (unaudited) or September 30, 2009 and had no material activity during the quarter ended December 31, 2009 (unaudited) and the year ended September 30, 2009.

The following is a description of valuation methodologies used for significant assets measured at fair value on a non-recurring basis.

Loans Receivable

Loans which meet certain criteria are evaluated individually for impairment. A loan is considered impaired when, based upon current information and events, it is probable the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Impaired loans at December 31, 2009 (unaudited) and September 30, 2009 were $47.4 million and $41.4 million, respectively. Substantially all of the Bank's impaired loans at December 31, 2009 (unaudited) and September 30, 2009 are secured by residential real estate. These impaired loans are individually assessed to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair value is estimated through current appraisals, real estate brokers or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. Based on this evaluation, the Company maintained an allowance for loan losses of $4.0 million at December 31, 2009 (unaudited) and $4.6 million at September 30, 2009, respectively, for such impaired loans.

REO

REO represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at the lower of cost or fair value less estimated selling costs. Fair value is estimated through current appraisals, real estate brokers or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. REO at December 31, 2009 (unaudited) and September 30, 2009 was $6.6 million and $7.4 million, respectively. During the quarter ended December 31, 2009 (unaudited), and the year ended September 30, 2009, charge-offs to the allowance for loan losses related to loans that were transferred to REO were $437 thousand and $1.5 million, respectively. Write downs related to REO that were charged to other expense were $173 thousand for the quarter ended December 31, 2009 (unaudited) and $959 thousand for the year ended September 30, 2009.

The following tables provide the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a non-recurring basis at December 31, 2009 (unaudited) and September 30, 2009.

		December 31, 2009 (unaudited)		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Impaired loans	$ 47,427	$ —	$ —	$ 47,427
REO	6,637	—	—	6,637
	$ 54,064	$ —	$ —	$ 54,064

		September 30, 2009		
		Quoted Prices in Active Markets	Significant Other	Significant Unobservable

	Carrying Value	for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
	(Dollars in thousands)			
Impaired loans	$ 41,399	$ —	$ —	$ 41,399
REO	7,404	—	—	7,404
	$ 48,803	$ —	$ —	$ 48,803

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Fair Value Disclosures

The Company determined estimated fair value amounts using available market information and a selection from a variety of valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2009 (unaudited), September 30, 2009 and 2008. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates.

The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2009 (unaudited), September 30, 2009 and 2008 were as follows:

	December 31, 2009 (unaudited)		September 30, 2009		September 30, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)					
Financial Assets:						
Cash and cash equivalents	$ 105,128	$ 105,128	$ 41,154	$ 41,154	$ 87,138	$ 87,138
Investment securities:						
AFS	234,001	234,001	234,784	234,784	49,586	49,586
HTM	417,942	419,352	245,920	248,929	92,773	92,211
MBS:						
AFS	1,305,096	1,305,096	1,389,211	1,389,211	1,484,055	1,484,055
HTM	572,873	594,365	603,256	627,829	750,284	743,764
Loans receivable	5,423,923	5,589,283	5,603,965	5,801,724	5,320,780	5,301,179
BOLI	53,777	53,777	53,509	53,509	52,350	52,350
Capital stock of FHLB	134,064	134,064	133,064	133,064	124,406	124,406
Financial Liabilities:						
Deposits	4,227,252	4,282,549	4,228,609	4,294,454	3,923,883	3,934,188
Advances from FHLB	2,394,214	2,528,034	2,392,570	2,554,206	2,447,129	2,485,545
Other borrowings	713,609	738,653	713,609	742,301	713,581	716,951

The following methods and assumptions were used to estimate the fair value of the financial instruments:

Cash and Cash Equivalents - The carrying amounts of cash and cash equivalents are considered to approximate their fair value due to the nature of the financial asset.

Investment Securities and MBS - Estimated fair values of securities are based on one of three methods: 1) quoted market prices where available, 2) quoted market prices for similar instruments if quoted market prices are not available, 3) unobservable data that represents the Bank's assumptions about items that market participants would consider in determining fair value where no market data is available. AFS securities are carried at estimated fair value. HTM securities are carried at amortized cost.

Loans Receivable - Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as one- to four-family residential mortgages, multi-family residential mortgages, nonresidential and installment loans. Each loan category is further segmented into fixed and adjustable interest rate categories. Market pricing sources are used to approximate the estimated fair value of fixed and adjustable-rate one- to four-family residential mortgages. For all other loan categories, future cash flows are discounted using the LIBOR curve plus a margin at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity.

BOLI - The carrying value of BOLI is considered to approximate its fair value due to the nature of the financial asset.

Capital Stock of FHLB - The carrying value of FHLB stock equals cost. The fair value is based on redemption at par value.

Deposits - The estimated fair value of demand deposits, savings and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using a margin to the LIBOR curve.

Advances from FHLB - The estimated fair value of advances from FHLB is determined by discounting the future cash flows of each advance using a margin to the LIBOR curve.

Other Borrowings - Other borrowings consists of repurchase agreements and the debentures. The estimated fair value of the repurchase agreements is determined by discounting the future cash flows of each agreement using a margin to the LIBOR curve. The debentures have a variable rate structure, with the ability to redeem at par; therefore, the carrying value of the debentures approximates their estimated fair value.

16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents summarized quarterly data for each of the fiscal years indicated for the Company.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars and counts in thousands, except per share amounts)				
2010					
Total interest and dividend income	$ 98,887	n/a	n/a	n/a	$ 98,887
Net interest and dividend income	44,854	n/a	n/a	n/a	44,854
Provision for loan losses	3,115	n/a	n/a	n/a	3,115
Net income	20,980	n/a	n/a	n/a	20,980
Basic earnings per share	0.29	n/a	n/a	n/a	0.29
Diluted earnings per share	0.29	n/a	n/a	n/a	0.29
Dividends paid per public share	0.79	n/a	n/a	n/a	0.79
Average number of shares outstanding	73,267	n/a	n/a	n/a	73,267
2009					
Total interest and dividend income	$ 105,273	$ 104,335	$ 103,078	$ 100,100	$ 412,786
Net interest and dividend income	41,218	45,862	45,922	43,640	176,642
Provision for loan losses	549	2,107	3,112	623	6,391
Net income	15,852	18,132	15,476	16,838	66,298
Basic earnings per share	0.22	0.25	0.21	0.23	0.91
Diluted earnings per share	0.22	0.25	0.21	0.23	0.91
Dividends paid per public share	0.61	0.50	0.50	0.50	2.11
Average number of shares outstanding	73,063	73,113	73,173	73,227	73,144
2008					
Total interest and dividend income	$ 101,028	$ 101,816	$ 102,785	$ 105,177	$ 410,806
Net interest and dividend income	26,627	31,002	36,681	39,858	134,168
Provision for loan losses	—	119	1,602	330	2,051
Net income	9,113	11,727	14,355	15,759	50,954
Basic earnings per share	0.12	0.16	0.20	0.22	0.70
Diluted earnings per share	0.12	0.16	0.20	0.22	0.70
Dividends paid per public share	0.50	0.50	0.50	0.50	2.00
Average number of shares outstanding	72,956	72,875	72,933	72,990	72,939

17. PARENT COMPANY FINANCIAL INFORMATION (PARENT COMPANY ONLY)

The Company serves as the holding company for the Bank (see Note 1). The Company's (parent company only) balance sheets as of December 31, 2009 (unaudited), September 30, 2009 and 2008, and the related statements of income and cash flows for the quarters ended December 31, 2009 and 2008 (unaudited), and for each of the three years in the period ended September 30, 2009 are as follows:

BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 2009 (unaudited)	September 30, 2009	September 30, 2008
ASSETS			
Cash and cash equivalents	$ 47,943	$ 54,101	$ 44,508
Investment in the Bank	876,290	869,028	803,643
Investment in certificates of deposit at the Bank	60,000	60,000	60,000
Note receivable - ESOP	10,411	10,411	12,667
Other assets	1,772	1,622	4,621
Income tax receivable	53	162	67
TOTAL ASSETS	$ 996,469	$ 995,324	$ 925,506
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Accounts payable and accrued expenses	$ 861	$ 417	$ 709
Other borrowings	53,609	53,609	53,581
Total liabilities	54,470	54,026	54,290
STOCKHOLDERS' EQUITY:			
Preferred stock, $.01 par value; 50,000,000 shares authorized, no shares issued or outstanding	—	—	—
Common stock, $.01 par value; 450,000,000 shares authorized, 91,512,287 shares issued; 74,023,577, 74,099,355 and 74,079,868 shares outstanding as of December 31, 2009 (unaudited), September 30, 2009 and September 30, 2008, respectively	915	915	915
Additional paid-in capital	453,975	452,872	445,391
Unearned compensation - ESOP	(7,561)	(8,066)	(10,082)
Unearned compensation - RRP	(260)	(330)	(553)
Retained earnings	785,914	781,604	759,375
Accumulated other comprehensive income (loss)	30,875	33,870	(5,968)
	1,263,858	1,260,865	1,189,078
Treasury stock, at cost, 17,488,710, 17,412,932 and 17,432,419 shares as of December 31, 2009 (unaudited), September 30, 2009 and September 30, 2008, respectively	(321,859)	(319,567)	(317,862)
Total stockholders' equity	941,999	941,298	871,216

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 996,469	$ 995,324	$ 925,506

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STATEMENTS OF INCOME

(in thousands)

	For the Quarter ended December 31(unaudited),		For the Years Ended September 30,		
	2009	2008	2009	2008	2007
INTEREST AND DIVIDEND INCOME:					
Dividend income from the Bank	$ 12,500	$ 15,754	$ 50,056	$ 41,511	$ 35,956
Interest income from other investments	760	987	3,612	4,683	5,751
Total interest and dividend income	13,260	16,741	53,668	46,194	41,707
INTEREST EXPENSE	418	1,033	2,573	3,624	4,468
NET INTEREST AND DIVIDEND INCOME	12,842	15,708	51,095	42,570	37,239
OTHER INCOME	13	31	76	107	132
OTHER EXPENSES:					
Salaries and employee benefits	245	271	1,108	975	945
Other, net	262	75	471	380	438
Total other expenses	507	346	1,579	1,355	1,383
INCOME BEFORE INCOME TAX (BENEFIT) EXPENSE AND EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY (EXCESS OF DISTRIBUTION OVER)	12,348	15,393	49,592	41,322	35,988
INCOME TAX (BENEFIT) EXPENSE	(53)	(126)	(162)	(66)	11
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY (EXCESS OF DISTRIBUTION OVER)	12,401	15,519	49,754	41,388	35,977
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY (EXCESS OF DISTRIBUTION OVER)	8,579	333	16,544	9,566	(3,681)
NET INCOME	$ 20,980	$ 15,852	$ 66,298	$ 50,954	$ 32,296

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STATEMENTS OF CASH FLOWS
(in thousands)

	For the Quarter ended December 31 (unaudited),		For the Years Ended September 30,		
	2009	2008	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income	$ 20,980	$ 15,852	$ 66,298	$ 50,954	$ 32,296
Adjustments to reconcile net income to net cash provided by operating activities:					
Equity in excess of distribution over/(undistributed) earnings of subsidiary	(8,579)	(333)	(16,544)	(9,566)	3,681
Amortization of deferred debt issuance costs	—	14	28	57	57
Other, net	—	(14)	14	3	(5)
Changes in:					
Other assets	(150)	2,799	2,999	(2,982)	33
Income taxes receivable/payable	109	(59)	(95)	(295)	351
Accounts payable and accrued expenses	444	260	(292)	(1,669)	1,321
Net cash flows provided by operating activities	12,804	18,519	52,408	36,502	37,734
CASH FLOWS FROM INVESTING ACTIVITIES:					
Principal collected on notes receivable from ESOP	—	—	2,256	2,132	2,016
Net cash flows provided by investing activities	—	—	2,256	2,132	2,016
CASH FLOWS FROM FINANCING ACTIVITIES:					
Payment from subsidiary for sale of treasury stock related to RRP shares	—	—	87	322	180
Dividends paid	(16,670)	(12,737)	(44,069)	(41,426)	(43,000)
Acquisition of treasury stock	(2,292)	(859)	(2,426)	(7,307)	(3,198)
Stock options exercised	—	1,032	1,337	623	3,942
Net cash flows used in financing activities	(18,962)	(12,564)	(45,071)	(47,788)	(42,076)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,158)	5,955	9,593	(9,154)	(2,326)
CASH AND CASH EQUIVALENTS:					
Beginning of year	54,101	44,508	44,508	53,662	55,988
End of year	$ 47,943	$ 50,463	$ 54,101	$ 44,508	$ 53,662

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:					
Interest payments	$ 447	$ 1,743	$ 2,866	$ 3,929	$ 4,511

18. SUBSEQUENT EVENTS – PLAN OF CONVERSION AND REORGANIZATION – (Unaudited)

The Board of Directors of MHC, the Company and the Bank adopted a Plan of conversion and reorganization (the "Plan") on May 5, 2010. Pursuant to the Plan, MHC will convert from the mutual holding company form of organization to a stock form of organization. MHC will be merged into the Company, and MHC will no longer exist. Pursuant to the Plan, the Company, which owns 100% of the Bank, also will be succeeded by a new Maryland corporation, named Capitol Federal Financial, Inc. As part of the conversion, MHC's ownership interest of the Company will be offered for sale in a public offering. The existing publicly held shares of the Company, which represents the remaining ownership interest in the Company, will be exchanged for new shares of common stock of Capitol Federal Financial, Inc. the new Maryland corporation. The exchange ratio will ensure that immediately after the conversion and public offering, the public shareholders of the Company will own the same aggregate percentage of Capitol Federal Financial, Inc. common stock that they owned immediately prior to that time. When the conversion and public offering are completed, all of the capital stock of the Bank will be owned by Capitol Federal Financial, Inc. and Capitol Federal Financial, Inc. will be owned by the public.

The Plan provides for the establishment, upon the completion of the reorganization, of special "liquidation accounts" at Capitol Federal Financial, Inc. and at the Bank for the benefit of certain depositors of the Bank in an amount equal to MHC's ownership interest in the retained earnings of the Company as of the date of the latest balance sheet contained in the prospectus. Following the completion of the reorganization, under the rules of the Office of Thrift Supervision, neither Capitol Federal Financial, Inc. nor the Bank, will be permitted to pay dividends on its capital stock to its stockholders, if stockholders' equity would be reduced below the amount of its liquidation account.

In addition, Capitol Federal Financial, Inc. intends to fund an additional contribution to the Bank's charitable foundation in connection with the conversion totaling $40.0 million in cash (unaudited).

Direct costs of the conversion and public offering will be deferred and reduce the proceeds from the shares sold in the public offering. If the conversion and public offering are not completed, all costs will be charged to expense in the period in which the public offering is terminated. No costs have been incurred related to the conversion as of December 31, 2009 (unaudited).

No person has been authorized to give any information or to make any representation other than as contained in this prospectus and, if given or made, such other information or representation must not be relied upon as having been authorized by Capitol Federal Financial, Inc. or Capitol Federal Savings Bank. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby to any person in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this prospectus nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of Capitol Federal Financial, Inc. or Capitol Federal Savings Bank since any of the dates as of which information is furnished herein or since the date hereof.

Up to 212,750,000 Shares

Capitol Federal Financial, Inc.

(Proposed Holding Company for
Capitol Federal Savings Bank)

COMMON STOCK
par value $0.01 per share

PROSPECTUS

Sandler O'Neill + Partners, L.P.

The date of this prospectus is _______________, 2010.

These securities are not deposits or savings accounts and are not federally insured or guaranteed.

Until ______________, 2010, all dealers effecting transactions in the registered securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PROXY STATEMENT/
PROSPECTUS
TO BE
FILED BY AMENDMENT

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

Set forth below is an estimate of the amount of fees and expenses (other than underwriting discounts and commissions) to be incurred in connection with the issuance of the shares.

Registrant’s Counsel Fees and Expenses	$2,400,000
Registrant’s Accounting Fees and Expenses	425,000
Appraisal Fees and Expenses	385,000
Business Plan Preparation Fees and Expenses	85,000
Marketing Agent Commission and Records Management Fees(1)	71,146
Marketing Agent Fees (Including Legal Fees and Expenses) (2)	350,000
Printing, EDGAR, Postage and Mailing	1,575,000
Filing Fees (FINRA, Nasdaq, SEC and OTS)	270,000
Blue Sky Fees	5,000
Transfer Agent and Registrar Fees and Expenses	100,000
Other	10,000
TOTAL	$76,40,000(3)

———

(1) Capitol Federal Financial, Inc. has retained Sandler O'Neill + Partners, L.P. to assist in the sale of common stock on a best efforts basis in the offerings, and to serve as records management agent in connection with the conversion and offering. Fees are estimated at the maximum, as adjusted, of the offering range, assuming 30% of the shares are sold in the Subscription and Community Offering (including approximately 4.0% to directors, executive officers and tax-qualified employee benefit plans) and the remaining 70% of the shares are sold in the Syndicated Offering.
(2) Credited against Marketing Agent commission if the offering is completed.
(3) Amount assumes completing of the offering.

Item 14. Indemnification of Directors and Officers

Articles 12 and 13 of the Articles of Incorporation of Capitol Federal Financial, Inc. (the “Corporation”) set forth circumstances under which directors, officers, employees and agents of the Corporation may be insured or indemnified against liability which they incur in their capacities as such:

ARTICLE 12. Indemnification, etc. of Directors and Officers.

A. Indemnification. The Corporation shall indemnify (1) its current and former directors and officers, whether serving the Corporation or at its request any other entity, to the fullest extent required or permitted by the Maryland General Corporation Law (the “MGCL”) now or hereafter in force, including the advancement of expenses under the procedures and to the fullest extent permitted by law, and (2) other employees and agents to such extent as shall be authorized by the Board of Directors and permitted by law; provided, however, that, except as provided in Section B hereof with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

B. Procedure. If a claim under Section A of this Article 12 is not paid in full by the Corporation within 60 days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall also be entitled to be reimbursed the expense of prosecuting or defending such suit. It shall be a defense to any action for advancement of expenses that the Corporation has not received both (i) an undertaking as required by law to repay such advances in the event it shall ultimately be determined that the standard of conduct has not been met and (ii) a written affirmation by the indemnitee of his good faith belief that the standard of conduct necessary for indemnification by the Corporation has been met. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met the applicable standard for indemnification set forth in the MGCL. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the MGCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article 12 or otherwise shall be on the Corporation.

C. Non-Exclusivity. The rights to indemnification and to the advancement of expenses conferred in this Article 12 shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Charter, the Corporation’s Bylaws, any agreement, any vote of stockholders or the Board of Directors, or otherwise.

D. Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the MGCL.

E. Miscellaneous. The Corporation shall not be liable for any payment under this Article 12 in connection with a claim made by any indemnitee to the extent such indemnitee has otherwise actually received payment under any insurance policy, agreement, or otherwise, of the amounts otherwise indemnifiable hereunder. The rights to indemnification and to the advancement of expenses conferred in Sections A and B of this Article 12 shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director or officer and shall inure to the benefit of the indemnitee's heirs, executors and administrators.

Any repeal or modification of this Article 12 shall not in any way diminish any rights to indemnification or advancement of expenses of such director or officer or the obligations of the Corporation arising hereunder with respect to events occurring, or claims made, while this Article 12 is in force.

ARTICLE 13. Limitation of Liability. An officer or director of the Corporation, as such, shall not be liable to the Corporation or its stockholders for money damages, except (A) to the extent that it is proved that the person actually received an improper benefit or profit in money, property or services for the amount of the benefit or profit in money, property or services actually received; (B) to the extent that a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person’s action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding; or (C) to the extent otherwise provided by the MGCL. If the MGCL is amended to further eliminate or limit the personal liability of officers and directors, then the liability of officers and directors of the Corporation shall be eliminated or limited to the fullest extent permitted by the MGCL, as so amended.

Item 15. Recent Sales of Unregistered Securities

Not Applicable.

Item 16. Exhibits and Financial Statement Schedules

(a) List of Exhibits: See the Exhibit Index filed as part of this Registration Statement.

(b) Financial Statement Schedules: No financial statement schedules are filed because the required information is not applicable or is included in the consolidated financial statements or related notes.

Item 17. Undertakings

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(5) That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein:

(6) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(7) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Topeka, State of Kansas, on May 6, 2010.

CAPITOL FEDERAL FINANCIAL, INC.

By: /s/ John B. Dicus
John B. Dicus, President and Chief Executive Officer
(Duly Authorized Representative)

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John B. Dicus his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

By: /s/ John B. Dicus
John B. Dicus, Chairman, President
and Chief Executive Officer
Principal Executive Officer)

Date: May 6, 2010

By: /s/ B. B. Andersen
B. B. Andersen, Director

Date: May 6, 2010

By: /s/ Michael T. McCoy, M.D.
Michael T. McCoy, M.D., Director

Date: May 6, 2010

By: /s/ Kent G. Townsend
Kent G. Townsend, Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)

Date: May 6, 2010

By: /s/ Marilyn S. Ward
Marilyn S. Ward, Director

Date: May 6, 2010

By: /s/ Jeffrey R. Thompson
Jeffrey R. Thompson, Director

Date: May 6, 2010

By: /s/ Tara D. Van Houweling

By: /s/ Jeffrey M. Johnson

Tara D. Van Houweling, First Vice President and Reporting Director (Principal Accounting Officer)	Jeffrey M. Johnson, Director
Date: May 6, 2010	Date: May 6, 2010
By: /s/ Morris J. Huey II Morris J. Huey, Director	
Date: May 6, 2010	

EXHIBIT INDEX

Exhibit Number	Document
1.1	Engagement Letter with Sandler O'Neill + Partners, L.P.
1.2	Form of Agency Agreement
2.0	Plan of Conversion and Reorganization
3.1	Articles of Incorporation of Capitol Federal Financial, Inc.
3.2	Bylaws of Capitol Federal Financial, Inc.
5.0	Opinion of Silver, Freedman & Taff, L.L.P. regarding the legality of the shares being registered
8.1	Opinion of Silver, Freedman & Taff, L.L.P. regarding federal tax matters
8.2	Opinion regarding state tax matters*
10.1(i)	Capitol Federal Financial Thrift Plan filed on November 29, 2007 as Exhibit 10.1(i) to the Annual Report on Form 10-K (File No. 000-25391) and incorporated herein by reference
10.1(ii)	Capitol Federal Financial Stock Ownership Plan filed on November 29, 2007 as Exhibit 10.1(ii) to the Annual Report on Form 10-K (File No. 000-25391) and incorporated herein by reference
10.2	Capitol Federal Financial 2000 Stock Option and Incentive Plan (the “Stock Option Plan”) filed on April 13, 2000 as Appendix A to Registrant’s Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference
10.3	Capitol Federal Financial 2000 Recognition and Retention Plan (the “RRP”) filed on April 13, 2000 as Appendix B to Registrant’s Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference
10.4	Capitol Federal Financial Deferred Incentive Bonus Plan, as amended, filed on May 5, 2009 as Exhibit 10.4 to the March 31, 2009 Form 10-Q (File No. 000-25391) and incorporated herein by reference
10.5	Form of Incentive Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.5 to the December 31, 2004 Form 10-Q (File No. 000-25391) and incorporated herein by reference
10.6	Form of Non-Qualified Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.6 to the December 31, 2004 Form 10-Q (File No. 000-25391) and incorporated herein by reference
10.7	Form of Restricted Stock Agreement under the RRP filed on February 4, 2005 as Exhibit 10.7 to the December 31, 2004 Form 10-Q (File No. 000-25391) and incorporated herein by reference
10.8	Description of Named Executive Officer Salary and Bonus Arrangements filed on November 30, 2009 as Exhibit 10.8 to the Capitol Federal Financial Annual Report on Form 10-K (File No. 000-25391) for the fiscal year ended September 30, 2009 and incorporated herein by reference
10.9	Description of Director Fee Arrangements filed on February 4, 2009 as Exhibit 10.9 to the Capitol Federal Financial December 31, 2008 Form 10-Q (File No. 000-25391) and incorporated herein by reference
10.10	Short-Term Performance Plan filed on December 1, 2008 as Exhibit 10.10 to the Capitol Federal Financial Annual Report on Form 10-K (File No. 000-25391) for the fiscal year ended September 30, 2008 and incorporated herein by reference
21.0	Subsidiaries of the Registrant filed on November 30, 2009 as Exhibit 21 to the Capitol Federal Financial Annual Report on Form 10-K (File No. 000-25391) for the fiscal year ended September 30, 2009 and incorporated herein by reference
23.1	Consent of Silver, Freedman & Taff, L.L.P. (contained in opinions included as Exhibits 5.0 and 8.1)
23.2	Consent of Deloitte & Touche, LLP
23.3	Consent of RP Financial, LP
24.0	Power of Attorney (set forth on signature page)
99.1	Appraisal Agreement with RP Financial, LP
99.2	Appraisal Report of RP Financial, LP

99.3	Letter of RP Financial, LP regarding subscription rights
99.4	Letter of RP Financial, LP regarding liquidation account
99.5	Subscription Order Form and Instructions*
99.6	Additional Solicitation Materials*
99.7	Form of Proxy for Capitol Federal Financial stockholders*

* To be filed supplementally or by amendment.