TEAM FINANCIAL INC /KS
Form 10-Q
August 13, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2003

Securities and Exchange Commission File Number: 000-26335

TEAM FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

KANSAS	**48-1017164**

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

48-1017164

8 West Peoria, Suite 200, Paola, Kansas 66071

(Address of principal executive offices) (Zip Code)

Registrant s telephone, including area code: (913) 294-9667

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý Noo

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act).

Yes o Noý

APPLICABLE ONLY TO CORPORATE ISSUES:

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

There were 4,094,305 shares of the Registrant s common stock, no par value, outstanding as of July 31, 2003.

Part I. Financial Information

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Financial Condition

(In Thousands)

(Unaudited)

	June 30, 2003	December 31, 2002
ASSETS		
Cash and due from banks	$ 23,997	$ 18,298
Federal funds sold and interest bearing bank deposits	1,415	17,260
Cash and cash equivalents	25,412	35,558
Investment securities		
Available for sale, at fair value (amortized cost of $221,062 and $218,037 at June 30, 2003 and December 31, 2002, respectively)	226,631	224,052
Total investment securities	226,631	224,052
Loans receivable, net of unearned fees	342,750	340,986
Allowance for loan losses	(4,644)	(4,611)
Net loans receivable	338,106	336,375
Accrued interest receivable	3,830	4,053
Premises and equipment, net	12,910	12,219
Assets acquired through foreclosure	1,366	1,770
Goodwill	14,538	14,407
Intangible assets, net of accumulated amortization	6,049	6,579
Bank owned life insurance policies	17,371	16,968
Other assets	3,294	3,888
Total assets	$ 649,507	$ 655,869
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Checking deposits	$ 164,248	$ 172,886
Savings deposits	32,616	31,212
Money market deposits	52,372	54,485
Certificates of deposit	201,504	197,022
Total deposits	450,740	455,605
Federal funds purchased and securities sold under agreements to repurchase	5,714	4,401
Federal Home Loan Bank advances	111,271	112,331
Notes payable	4,376	6,455
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures	15,525	15,525

Accrued expenses and other liabilities		9,055		9,724
Total liabilities		596,681		604,041
Commitments and contingencies				
Stockholders Equity:				
Preferred stock, no par value, 10,000,000 shares authorized, no shares issued				
Common stock, no par value, 50,000,000 shares authorized; 4,448,888 and 4,442,210 shares issued; 4,094,305 and 4,107,627 shares outstanding at June 30, 2003 and December 31, 2002, respectively		27,443		27,393
Capital surplus		182		211
Retained earnings		24,766		23,290
Treasury stock, 354,583 and 334,583 shares of common stock at cost at June 30, 2003, and December 31, 2002, respectively		(3,239)		(3,034)
Accumulated other comprehensive income		3,674		3,968
Total stockholders equity		52,826		51,828
Total liabilities and stockholders equity	$	649,507	$	655,869

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Operations

(Dollars In Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Interest Income:				
Interest and fees on loans	$ 5,802	$ 6,626	$ 11,767	$ 13,597
Taxable investment securities	1,715	2,482	3,669	4,866
Nontaxable investment securities	265	229	512	444
Other	34	88	82	197
Total interest income	7,816	9,425	16,030	19,104
Interest Expense:				
Deposits				
Checking deposits	143	266	316	552
Savings deposits	63	133	133	301
Money market deposits	151	254	320	490
Certificates of deposit	1,402	2,080	2,870	4,408
Federal funds purchased and securities sold under agreements to repurchase	11	15	22	29
FHLB advances payable	1,245	870	2,485	1,750
Notes payable	49	91	104	180
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures	377	377	754	754
Total interest expense	3,441	4,086	7,004	8,464
Net interest income before provision for loan losses	4,375	5,339	9,026	10,640
Provision for loan losses	142	178	487	334
Net interest income after provision for loan losses	4,233	5,161	8,539	10,306
Non-Interest Income:				
Service charges	896	951	1,701	1,805
Trust fees	145	145	274	287
Insurance agency commissions	1,174		2,310	
Gain on sales of mortgage loans	771	402	1,422	947
Gain (loss) on sales of investment securities	149	40	150	66

Gain on sale of branch assets				452				452
Other		652		643		1,334		1,232
Total non-interest income		3,787		2,633		7,191		4,789
Non-Interest Expenses:								
Salaries and employee benefits		3,539		2,925		6,983		5,864
Occupancy and equipment		672		578		1,389		1,156
Data processing		511		512		981		982
Professional fees		304		241		615		564
Marketing		107		64		198		116
Supplies		102		92		210		181
Intangible asset amortization		347		199		676		335
Disposal of branch assets		258				258		
Conversion		50		2		50		6
Other		911		902		1,818		1,713
Total non-interest expenses		6,801		5,515		13,178		10,917
Income before income taxes		1,219		2,279		2,552		4,178
Income taxes		245		1,148		587		1,689
Net income	$	974	$	1,131	$	1,965	$	2,489
Shares applicable to basic income per share		4,094,305		4,175,160		4,100,025		4,178,169
Basic income per share	$	0.24	$	0.27	$	0.48	$	0.60
Shares applicable to diluted income per share		4,121,775		4,200,551		4,127,620		4,195,698
Diluted income per share	$	0.24	$	0.27	$	0.48	$	0.59

See accompanying notes to the unaudited consolidated financial statements

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Team Financial, Inc. And Subsidiaries

Consolidated Statements of Comprehensive Income

(In Thousands)

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2003	**2002**	**2003**	**2002**
Net Income	$ 974	$ 1,131	$ 1,965	$ 2,489
Other comprehensive income, net of tax:				
Unrealized gains (losses) on investment securities available for sale net of tax of $339 and $1,007 for the three months ended June 30, 2003 and June 30, 2002, respectively; and net of tax $(101) and $845 for the six months ended June 30, 2003 and June 30, 2002, respectively	653	2,100	(195)	1,698
Reclassification adjustment for gains (losses) included in net income net of tax of $(51) and $(14) for the three months ended June 30, 2003 and June 30, 2002, respectively; and net of tax $(51) and $(22) for the six months ended June 30, 2003 and June 30, 2002, respectively	(98)	(26)	(99)	(44)
Other comprehensive income (loss), net	555	2,074	(294)	1,654
Comprehensive income	$ 1,529	$ 3,205	$ 1,671	$ 4,143

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Changes In Stockholders Equity

Six Months Ended June 30, 2003

(Dollars In Thousands, Except Per Share Amounts)

(Unaudited)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total stockholders equity
BALANCE, December 31, 2002	$ 27,393	$ 211	$ 23,290	$ (3,034)	$ 3,968	$ 51,828
Treasury stock purchased (20,000 shares)				(205)		(205)
Common stock issued in connection with compensation plans (6,678 shares)	50					50
Decrease in capital surplus in connection with compensation plans		(29)				(29)
Net Income			1,965			1,965
Dividends ($0.12 per share)			(489)			(489)
Other comprehensive income (loss) net of $(152) in taxes					(294)	(294)
BALANCE, June 30, 2003	$ 27,443	$ 182	$ 24,766	$ (3,239)	$ 3,674	$ 52,826

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements Of Cash Flows

(In thousands)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Cash flows from operating activities:		
Net income	$ 1,965	$ 2,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	487	334
Depreciation and amortization	2,611	1,189
Non-cash compensation expense	(29)	
Change in bank owned life insurance	(403)	94
Net gain on sales of investment securities	(150)	(66)
Net gain on sales of mortgage loans	(1,422)	(947)
Net loss on sales of assets acquired through foreclosure	57	6
Net gain on sale of branch assets		(452)
Disposal of branch assets	258	
Proceeds from sale of mortgage loans	68,571	59,438
Origination of mortgage loans for sale	(60,480)	(45,967)
Net decrease (increase) in other assets	379	(911)
Net decrease in accrued expenses and other liabilities	(516)	(137)
Net cash provided by operating activities	11,328	15,070
Cash flows from investing activities:		
Net (increase) decrease in loans	(9,063)	6,675
Proceeds from sale of investment securities available-for-sale	1,164	6,699
Proceeds from maturities and principal reductions of investment securities available-for-sale	68,379	24,813
Purchases of investment securities available-for-sale	(73,789)	(47,964)
Proceeds from maturities and principal reductions of investment securities held-to-maturity		
Purchase of premises and equipment, net	(1,468)	(536)
Proceeds from sales on assets acquired through foreclosure	639	282
Cash paid for acquisitions and dispositions, net		(30,493)
Net cash used in investing activities	(14,138)	(40,524)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(4,865)	20,743
Net increase (decrease) in federal funds purchased and securities sold under agreement to repurchase	1,313	(4,296)
Payments on Federal Home Loan Bank advances	(1,060)	(1,052)
Proceeds from Federal Home Loan Bank advances		

Payments on notes payable		(2,279)		(258)
Proceeds of notes payable		200		
Common stock issued		50		49
Purchase of treasury stock		(205)		(98)
Dividends paid on common stock		(490)		(209)
Net cash (used in) provided by financing activities		(7,336)		14,879
Net change in cash and cash equivalents		(10,146)		(10,575)
Cash and cash equivalents at beginning of the period		35,558		38,895
Cash and cash equivalents at end of the period	$	25,412	$	28,320
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	$	7,046	$	8,482
Income taxes		2,864		1,020
Noncash activities related to operations				
Transfer of loans to assets acquired through foreclosure	$	291	$	512

See accompanying notes to the consolidated financial statemenats

TEAM FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three and six month periods ended June 30, 2003 and 2002

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements of Team Financial, Inc. and Subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a comprehensive presentation of financial condition and results of operations required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of results have been included. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

The interim consolidated financial statements include the accounts of Team Financial, Inc. and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated. The December 31, 2002 statement of financial condition has been derived from the audited consolidated financial statements as of that date. The results of the interim periods ended June 30, 2003, are not necessarily indicative of the results that may occur for the year ending December 31, 2003.

Note 2: Income Per Share

Basic income per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

We account for employee options under the intrinsic-value method prescribed by Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees* with pro forma disclosures of net income and income per share, as if the fair value method of accounting defined in SFAS No. 123 *Accounting for Stock Based Compensation* had been applied. SFAS 123 establishes a fair value based method of accounting for stock based employee compensation plans. Under the fair value method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under SFAS No. 123, our net income and net income per share would have decreased as reflected in the following pro forma amounts.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(Dollars In Thousands, Except Per Share Data)			
Net income:				
As reported	$ 974	$ 1,131	$ 1,965	$ 2,489
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	93	120	246	251
Pro forma	$ 881	$ 1,011	$ 1,719	$ 2,238
Basic earnings per share				
As reported	$ 0.24	$ 0.27	$ 0.48	$ 0.60
Pro forma	0.22	0.24	0.42	0.54
Diluted earnings per share				
As reported	$ 0.24	$ 0.27	$ 0.48	$ 0.59
Pro forma	0.21	0.24	0.42	0.53
Shares utilized in basic earnings per share	4,094,305	4,175,160	4,100,025	4,178,169
Shares utilized in diluted earnings per share	4,121,775	4,200,551	4,127,620	4,195,698

Note 3: Stock Repurchase Program

Our Board of Directors approved a stock repurchase program in January 2001, authorizing the repurchase of up to 300,000 shares of our common stock. During the six month period ending June 30, 2003, we purchased 20,000 shares at an average price of $10.25 per share. As of June 30, 2003, we had repurchased 142,978 shares of our common stock under the program at an average price of $9.83 per share.

Note 4: Dividend Declared

On May 27, 2003, we declared a quarterly cash dividend of $0.06 per share to all shareholders of record on June 30, 2003, payable July 21, 2003.

Note 5: Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The provisions of this Statement are effective for exit or disposal activities initiated after December 31, 2002. We do not believe that the adoption of Statement No. 146 will have a significant impact on our consolidated financial statements.

In October 2002, the FASB issued Statement No. 147, *Acquisitions of Certain Financial Institutions*. This Statement provides guidance on the accounting for the acquisition of a financial institution and applies to all acquisitions except those between two or more mutual enterprises. Those transition provisions were effective on October 1, 2002. The scope of Statement No. 144 was amended to include long-term customer-relationship intangible assets such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. We do not believe that the adoption of Statement No. 147 will have a significant impact on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others*. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. We do not believe that the adoption of Interpretation No. 45 will have a significant impact on our consolidated financial statements.

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*. This Statement, which amends Statement No. 123, *Accounting for Stock-Based Compensation*, provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition it requires more prominent and more frequent disclosure in financial statements about the effects of stock-based compensation. We will continue to account for stock-based compensation in accordance with APB No. 25. We do not believe that the adoption of Statement No. 148 will have a significant impact of our consolidated statements.

In January 2003, FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*. This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, elaborates on the financial statement disclosures to be made by enterprises involved with variable interest entities, including requiring consolidation of entities in which an enterprise has a controlling financial interest that is not controlled through voting interests. The requirements in this Interpretation are effective for variable interest entities created after January 31, 2003, and the first fiscal or interim period beginning after June 15, 2003, for variable interest entities acquired before that date. We do not believe that the adoption of Interpretation No. 46 will have a significant impact on our consolidated financial statements.

We adopted SFAS No. 144 *Accounting for the Impairment of Disposal of Long-Lived Assets* on January 1, 2002. The Statement established a single accounting model for all long-lived assets to be disposed of by sale, which is to measure a long-lived asset classified as held for sale at the lower of its carrying amount or fair value less cost to sell and to cease depreciation. The Statement also establishes criteria to determine when a long-lived asset is held for sale and provides additional guidance on accounting for such specific circumstances. We do not believe that the adoption of Statement No. 144 will have a significant impact on our consolidated financial statements.

In May 2003, FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.* SFAS No. 150 establishes standards for how an issuer classifies, measures and discloses in its financial statements certain financial instruments with characteristics of both liabilities and equity. Statement No. 150 requires that an issuer classify financial instruments that are within its scope as a liability, in most circumstances. Such financial instruments include (i) financial instruments that are issued in the form of shares that are mandatorily redeemable; (ii) financial instruments that embody an obligation to repurchase the issuer s equity shares, or are indexed to such an obligation and that require the issuer to settle the obligation by transferring assets; (iii) financial instruments that embody an obligation that the issuers settle by issuing a variable number of its equity shares if, at inception, the monetary value of the obligations is predominately based on a fixed amount, variations in something other than the fair value of the issuer s equity share or variations inversely related to changes in the fair value of the issuer s equity shares; and (iv) certain freestanding financial instruments. Statement No. 150 is effective for contracts entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of Statement No. 150 on July 2003 did not have a significant impact on our consolidated financial statements.

Note 6: Acquisitions and Sale or Disposition of Branches

On May 5, 2003, we closed our 2809 South 160th Street branch location in Omaha, Nebraska. We recorded a $258,000 loss to terminate the building lease and dispose the assets of the facility. We intend to open a new branch in the Omaha, Nebraska market within the next 24 months.

On December 18, 2002, we completed the acquisition of The Quarles Agency, Inc., a 25-year old insurance agency. The name of the insurance agency was changed to Team Insurance Group in May of 2003. The total consideration paid to The Quarles Agency Inc. s shareholders was $6.9 million in the form of $5.0 million of cash at closing and the balance of the cash consideration of $1.9 million plus interest thereon at the Prime Rate published in the Wall Street Journal minus one percent shall be paid in two annual contingent payments of $925,000 each. The payment of such contingent consideration will be recorded as goodwill and agency expirations at the time of payment. During the six months ended June 30, 2003, there were no payments made related to the contingent consideration. The acquisition was accounted for using the purchase method of accounting, as required by SFAS 141 *Business Combinations*. The results of operations from the date of purchase have been included in the consolidated financial statements.

On June 21, 2002, our wholly owned subsidiary, Community Bank, sold its Chapman and Abilene, Kansas branch locations to First National Bank of Belleville, Kansas. We recorded a pre-tax gain on the sale of $452,000 and an after tax loss on the sale of $196,000. The after tax loss was due to a difference in the book versus tax basis on the reduction of $1.3 million in goodwill with the sale.

Note 7: Goodwill and Intangible Assets

Goodwill and intangible assets: Effective July 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 141 *Business Combinations.* Effective January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets.*

The following table summarizes our intangible assets as of June 30, 2003.

	June 30, 2003	
	Gross Carrying Amount	Accumulated Amortization
	(In Thousands)	
Core deposit intangible	$ 6,400	$ 2,387
Agency Expirations	1,349	72
Non-Compete Agreements	350	62
Mortgage servicing rights	2,050	1,579
Total intangible assets	$ 10,149	$ 4,100

The following table summarizes amortization expense on the intangible assets.

	Three Months Ended June 30,		Six Months Ened June 30,	
	2003	2002	2003	2002
	(In Thousands)			
Aggregate Amortization Expense	$ 347	$ 199	$ 676	$ 335

Estimated Amortization Expense			
Core Deposit Intangible	Mortgage Servicing Rights	Agency Expirations	Non-Compete Agreements

The following table summarizes our intangible assets as of June 30, 2003.