TEAM FINANCIAL INC /KS
Form 10-Q
November 14, 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 September 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.)**

8 West Peoria, Suite 200, Paola, Kansas 66071

(I.R.S. Employer Identification No.)

(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 No o

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

Yes o No ý

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 4,073,505 shares of the Registrant s common stock, no par value, outstanding as of October 31, 2003.

Part I. Financial Information

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Financial Condition

(In Thousands)

(Unaudited)

	September 30, 2003	December 31, 2002
ASSETS		
Cash and due from banks	$ 12,965	$ 18,298
Federal funds sold and interest bearing bank deposits	3,840	17,260
Cash and cash equivalents	16,805	35,558
Investment securities		
Available for sale, at fair value (amortized cost of $219,056 and $218,037 at September 30, 2003 and December 31, 2002, respectively)	222,000	224,052
Total investment securities	222,000	224,052
Loans receivable, net of unearned fees	338,285	340,986
Allowance for loan losses	(4,568)	(4,611)
Net loans receivable	333,717	336,375
Accrued interest receivable	4,040	4,053
Premises and equipment, net	13,926	12,219
Assets acquired through foreclosure	1,032	1,770
Goodwill	14,538	14,407
Intangible assets, net of accumulated amortization	6,077	6,579
Bank owned life insurance policies	17,563	16,968
Other assets	3,197	3,888
Total assets	$ 632,895	$ 655,869
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Checking deposits	$ 153,482	$ 172,886
Savings deposits	33,069	31,212
Money market deposits	51,159	54,485
Certificates of deposit	199,024	197,022
Total deposits	436,734	455,605
Federal funds purchased and securities sold under agreements to repurchase	5,660	4,401
Federal Home Loan Bank advances	111,273	112,331
Notes payable	3,719	6,455
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures	15,525	15,525

Accrued expenses and other liabilities		8,251		9,724
Total liabilities		581,162		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; 4,073,505 and 4,107,627 shares outstanding at September 30, 2003 and December 31, 2002, respectively		27,443		27,393
Capital surplus		195		211
Retained earnings		25,624		23,290
Treasury stock, 375,383 and 334,583 shares of common stock at cost at September 30, 2003, and December 31, 2002, respectively		(3,471)		(3,034)
Accumulated other comprehensive income		1,942		3,968
Total stockholders equity		51,733		51,828
Total liabilities and stockholders equity	$	632,895	$	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 September 30		Nine Months Ended September 30	
	2003	**2002**	**2003**	**2002**
Interest Income:				
Interest and fees on loans	$ 5,807	$ 6,249	$ 17,574	$ 19,846
Taxable investment securities	1,606	2,796	5,275	7,662
Nontaxable investment securities	292	226	804	670
Other	15	19	97	216
Total interest income	7,720	9,290	23,750	28,394
Interest Expense:				
Deposits				
Checking deposits	108	238	424	790
Savings deposits	56	92	189	393
Money market deposits	121	231	441	721
Certificates of deposit	1,307	1,771	4,177	6,179
Federal funds purchased and securities sold under agreements to repurchase	12	24	34	53
FHLB advances payable	1,259	1,226	3,744	2,976
Notes payable	37	81	141	261
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures	377	377	1,131	1,131
Total interest expense	3,277	4,040	10,281	12,504
Net interest income before provision for loan losses	4,443	5,250	13,469	15,890
Provision for loan losses	832	412	1,319	746
Net interest income after provision for loan losses	3,611	4,838	12,150	15,144
Non-Interest Income:				
Service charges	966	952	2,667	2,757
Trust fees	159	152	433	439
Insurance agency commissions	1,377		3,687	
Gain on sales of mortgage loans	946	516	2,368	1,463
Gain on sales of investment securities	145	3	295	69

Gain on sale of branch assets								452
Other		925		785		2,259		2,017
Total non-interest income		4,518		2,408		11,709		7,197
Non-Interest Expenses:								
Salaries and employee benefits		3,389		2,876		10,372		8,740
Occupancy and equipment		653		573		2,042		1,729
Data processing		577		457		1,558		1,439
Professional fees		292		275		907		839
Marketing		112		86		310		202
Supplies		121		94		331		275
Intangible asset amortization		309		335		985		670
Disposal of branch assets						258		
Conversion		4				54		6
Other		982		749		2,800		2,462
Total non-interest expenses		6,439		5,445		19,617		16,362
Income before income taxes		1,690		1,801		4,242		5,979
Income taxes		546		545		1,133		2,234
Net income	$	1,144	$	1,256	$	3,109	$	3,745
Shares applicable to basic income per share		4,091,169		4,166,785		4,097,041		4,178,169
Basic income per share	$	0.28	$	0.30	$	0.76	$	0.90
Shares applicable to diluted income per share		4,125,981		4,190,421		4,127,215		4,195,698
Diluted income per share	$	0.28	$	0.30	$	0.75	$	0.89

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Comprehensive Income

(In Thousands)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	**2002**	**2003**	**2002**
Net Income	$ 1,144	$ 1,256	$ 3,109	$ 3,745
Other comprehensive income, net of tax:				
Unrealized gains (losses) on investment securities available for sale net of tax of $(1) and $792 for the three months ended September 30, 2003 and September 30, 2002, respectively; and net of tax $(945) and $1,637 for the nine months ended September 30, 2003 and September 30, 2002, respectively	(1,081)	1,539	(1,831)	3,237
Reclassification adjustment for gains included in net income net of tax of $(49) and $(1) for the three months ended September 30, 2003 and September 30, 2002, respectively; and net of tax $(100) and $(23) for the nine months ended September 30, 2003 and September 30, 2002, respectively	(96)	(2)	(195)	(46)
Other comprehensive income (loss), net	(1,177)	1,537	(2,026)	3,191
Comprehensive income (loss), net	$ (32)	$ 2,793	$ 1,083	$ 6,936

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements of Changes In Stockholders Equity

Nine Months Ended September 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 (40,800 shares)				(437)		(437)
Common stock issued in connection with compensation plans (6,678 shares)	50					50
Decrease in capital surplus in connection with compensation plans		(16)				(16)
Net Income			3,109			3,109
Dividends ($0.19 per share)			(775)			(775)
Other comprehensive income (loss) net of $(1,045) in taxes					(2,026)	(2,026)
BALANCE, September 30, 2003	$ 27,443	$ 195	$ 25,624	$ (3,471)	$ 1,942	$ 51,733

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements Of Cash Flows

(In thousands)

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Cash flows from operating activities:		
Net income	$ 3,109	$ 3,745
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,319	746
Depreciation and amortization	3,883	2,114
Non-cash compensation expense	(16)	97
Change in bank owned life insurance	(623)	(556)
Net gain on sales of investment securities	(295)	(69)
Net gain on sales of mortgage loans	(2,368)	(1,463)
Net loss on sales of assets acquired through foreclosure	78	6
Net gain on sale of branch assets		(452)
Disposal of branch assets	258	
Proceeds from sale of mortgage loans	114,101	82,481
Origination of mortgage loans for sale	(103,368)	(73,884)
Net increase in other assets	(635)	(1,398)
Net decrease in accrued expenses and other liabilities	(427)	(616)
Net cash provided by operating activities	15,016	10,751
Cash flows from investing activities:		
Net (increase) decrease in loans	(6,631)	10,873
Proceeds from sale of investment securities available-for-sale	3,037	9,802
Proceeds from maturities and principal reductions of investment securities available-for-sale	107,722	41,677
Purchases of investment securities available-for-sale	(113,511)	(101,722)
Purchase of premises and equipment, net	(2,767)	(1,458)
Proceeds from sales on assets acquired through foreclosure	950	291
Cash paid for acquisitions and dispositions, net		(30,493)
Net cash used in investing activities	(11,200)	(71,030)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(18,871)	17,138
Net increase (decrease) in federal funds purchased and securities sold under agreement to repurchase	1,259	(5,499)
Payments on Federal Home Loan Bank advances	(1,058)	(1,055)
Proceeds from Federal Home Loan Bank advances		40,000
Payments on notes payable	(2,936)	(3,486)

Proceeds of notes payable		200		300
Common stock issued		50		49
Purchase of treasury stock		(437)		(809)
Dividends paid on common stock		(776)		(628)
Net cash (used in) provided by financing activities		(22,569)		46,010
Net change in cash and cash equivalents		(18,753)		(14,269)
Cash and cash equivalents at beginning of the period		35,558		38,895
Cash and cash equivalents at end of the period	$	16,805	$	24,626
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	$	10,420	$	12,891
Income taxes		3,065		1,044
Noncash activities related to operations				
Transfer of loans to assets acquired through foreclosure	$	339	$	978

See accompanying notes to the consolidated financial statements

TEAM FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three and nine month periods ended September 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 September 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,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(Dollars In Thousands, Except Per Share Data)			
Net income:				
As reported	$ 1,144	$ 1,256	$ 3,109	$ 3,745
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	255	105	501	356
Pro forma	$ 889	$ 1,151	$ 2,608	$ 3,389
Basic earnings per share				
As reported	$ 0.28	$ 0.30	$ 0.76	$ 0.90
Pro forma	0.22	0.28	0.64	0.81
Diluted earnings per share				
As reported	$ 0.28	$ 0.30	$ 0.75	$ 0.89
Pro forma	0.22	0.27	0.63	0.81
Shares utilized in basic earnings per share	4,091,169	4,166,785	4,097,041	4,178,169
Shares utilized in diluted earnings per share	4,125,981	4,190,421	4,127,215	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 nine-month period ended September 30, 2003, we purchased 40,800 shares at an average price of $10.71 per share. During the three-month period ended September 30, 2003, we purchased 20,800 shares at an average price of $11.16 per share. As of September 30, 2003, we had repurchased 163,778 shares of our common stock under the program at an average price of $10.00 per share.

Note 4: Dividend Declared

On September 27, 2003, we declared a quarterly cash dividend of $0.07 per share to all shareholders of record on September 30, 2003, payable October 20, 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. The adoption of Statement No. 147 did not 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. The adoption of Interpretation No. 45 did not 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*, an 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 (VIE), including requiring consolidation of entities in which an enterprise has a controlling financial interest that is not controlled through voting interests. FIN 46 established accounting guidance for consolidation of variable interest entities (VIE) that function to support the activities of the primary beneficiary. The primary beneficiary of a VIE entity is the entity that absorbs a majority of the VIE s expected losses, receives a majority of the VIE s expected residual returns, or both, as a result of ownership, controlling interest, contractual relationship or other business relationship with a VIE. Prior to the implementation of FIN 46, VIEs were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The provisions of FIN 46 were effective immediately for all arrangements entered into after January 31, 2003, and are otherwise effective at the beginning of the first interim period beginning after December 15, 2003. We have a statutory trust that was formed, prior to January 31, 2003, for the purpose of issuing Trust Preferred Securities (see note 11 to the annual consolidated financial statements). These statutory trust will be subjected to FIN 46 in the first quarter of 2004. We currently believe the continued consolidation of the trust is appropriate under FIN 46. However, the applications of FIN 46 to this type of trust are an emerging issue and a possible unintended consequence of FIN 46 is the deconsolidation of the trust. The deconsolidation of the statutory trust would not have a material effect on our consolidated balance sheet or our consolidated statement of operations. In July 2003, the Board of Governors of the Federal Reserve System issued a supervisory letter instructing bank holding companies to continue to include the trust preferred securities in their Tier I capital for regulatory Capital purposes until notice is given to the contrary. The Federal Reserve intends to review the regulatory implications of any accounting treatment changes and, if necessary or warranted, provide further appropriate guidance. There can be no assurance that the Federal Reserve will continue to allow institutions to include trust preferred securities in Tier I capital for regulatory capital purposes.

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 of the assets of the facility.

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 is contingent on meeting certain revenue targets defined with the acquisition agreement. The payment of such contingent consideration will be recorded as goodwill at the time of payment. During the nine months ended September 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, we 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 September 30, 2003.

	September 30, 2003 Gross Carrying Amount	September 30, 2003 Accumulated Amortization
	(In Thousands)	
Core deposit intangible	$ 6,400	$ 2,507
Agency Expirations	1,349	106
Non-Compete Agreements	350	91
Mortgage servicing rights	2,382	1,700
Total intangible assets	$ 10,481	$ 4,404

The following tables summarize actual and estimated amortization expense on the intangible assets for the three and nine months ended September 30, 2003 and 2002, and for future periods.

	Three Months Ended September 30,		Nine Months Ened September 30,	
	2003	2002	2003	2002
	(In Thousands)			
Aggregate Amortization Expense	$ 309	$ 335	$ 985	$ 670

	Estimated Amortization Expense				
	Core Deposit Intangible	Mortgage Servicing Rights	Agency Expirations	Non-Compete Agreements	Total
	(In Thousands)				
For the year ending December 31, 2003	$ 487	$ 616	$ 135	$ 115	$ 1,353
For the year ending December 31, 2004	468	240			