

TEAM FINANCIAL INC /KS  
Form 10-Q  
August 15, 2005

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-26335

**TEAM FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)



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(State or other jurisdiction)

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

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of incorporation or organization)

**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  No

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

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

There were 4,041,095 shares of the Registrant's common stock, no par value, outstanding as of August 1, 2005.

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Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes- Oxley Act of 2002

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350

Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350

## Team Financial, Inc. And Subsidiaries

## Unaudited Consolidated Statements of Financial Condition

(Dollars In Thousands)

|  | June 30,<br>2005  | December 31,<br>2004 |
|--|-------------------|----------------------|
| <b>Assets</b>  |                   |                      |
| Cash and due from banks  | \$ 12,983         | \$ 13,718            |
| Interest bearing bank deposits   | 6,350             | 21,023               |
| Cash and cash equivalents  | 19,333            | 34,741               |
| Investment securities:   |                   |                      |
| Available for sale, at fair value (amortized cost of \$197,403 and \$190,369 at June 30, 2005 and December 31, 2004, respectively)   | 197,872           | 191,842              |
| Total investment securities  | 197,872           | 191,842              |
| Loans receivable, net of unearned fees   | 403,275           | 378,771              |
| Allowance for loan losses  | (5,226)           | (4,898)              |
| Net loans receivable   | 398,049           | 373,873              |
| Accrued interest receivable  | 4,215             | 3,819                |
| Premises and equipment, net  | 16,204            | 15,317               |
| Assets acquired through foreclosure  | 176               | 408                  |
| Goodwill   | 10,700            | 10,700               |
| Intangible assets, net of accumulated amortization   | 3,506             | 3,811                |
| Bank owned life insurance policies   | 18,815            | 18,460               |
| Other assets   | 2,542             | 2,830                |
| Assets of discontinued operations  |                   | 8,282                |
| <b>Total assets</b>  | <b>\$ 671,412</b> | <b>\$ 664,083</b>    |
| <b>Liabilities and Stockholders Equity</b>   |                   |                      |
| Deposits:  |                   |                      |
| Checking deposits  | \$ 169,594        | \$ 183,650           |
| Savings deposits   | 33,195            | 32,749               |
| Money market deposits  | 46,036            | 49,931               |
| Certificates of deposit  | 229,344           | 201,620              |
| Total deposits   | 478,169           | 467,950              |
| Federal funds purchased and securities sold under agreements to repurchase   | 5,940             | 5,669                |
| Federal Home Loan Bank advances  | 111,765           | 111,915              |
| Notes payable and other borrowings   | 1,103             | 3,544                |
| Subordinated debentures  | 16,005            | 16,005               |
| Accrued expenses and other liabilities   | 4,891             | 4,864                |
| Liabilities of discontinued operations   |                   | 1,282                |
| <b>Total liabilities</b>   | <b>617,873</b>    | <b>611,229</b>       |
| 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; 4,499,470 and 4,496,753 shares issued; 4,041,095 and 4,034,178 shares outstanding at June 30, 2005 and December 31, 2004, respectively | 27,880            | 27,849               |
| Capital surplus  | 367               | 306                  |
| Retained earnings  | 29,472            | 28,264               |



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|   |            |            |
|---|------------|------------|
| Treasury stock, 458,375 and 462,575 shares of common stock at cost at June 30, 2005 and December 31, 2004, respectively | (4,489)    | (4,537)    |
| Accumulated other comprehensive income  | 309        | 972        |
| Total stockholders' equity  | 53,539     | 52,854     |
| Total liabilities and stockholders' equity  | \$ 671,412 | \$ 664,083 |

*See accompanying notes to the unaudited consolidated financial statements*

## Team Financial, Inc. And Subsidiaries

## Unaudited Consolidated Statements of Operations

(Dollars In Thousands, Except Per Share Data)

|  | Three Months Ended<br>June 30 |              | Six Months Ended<br>June 30 |               |
|--|-------------------------------|--------------|-----------------------------|---------------|
|  | 2005                          | 2004         | 2005                        | 2004          |
| <b>Interest Income:</b>  |                               |              |                             |               |
| Interest and fees on loans   | \$ 6,775                      | \$ 5,831     | \$ 13,005                   | \$ 11,422     |
| Taxable investment securities  | 1,858                         | 1,802        | 3,668                       | 3,687         |
| Non-taxable investment securities  | 289                           | 303          | 579                         | 601           |
| Other  | 86                            | 17           | 162                         | 49            |
| <b>Total interest income</b>   | <b>9,008</b>                  | <b>7,953</b> | <b>17,414</b>               | <b>15,759</b> |
| <b>Interest Expense:</b>   |                               |              |                             |               |
| Deposits   |                               |              |                             |               |
| Checking deposits  | 261                           | 127          | 487                         | 253           |
| Savings deposits   | 56                            | 53           | 108                         | 109           |
| Money market deposits  | 147                           | 115          | 287                         | 236           |
| Certificates of deposit  | 1,637                         | 1,104        | 2,984                       | 2,264         |
| Federal funds purchased and securities sold under agreements to repurchase | 33                            | 22           | 56                          | 34            |
| FHLB advances payable  | 1,176                         | 1,247        | 2,340                       | 2,485         |
| Notes payable and other borrowings   | 15                            | 26           | 47                          | 55            |
| Subordinated debentures  | 389                           | 389          | 777                         | 777           |
| <b>Total interest expense</b>  | <b>3,714</b>                  | <b>3,083</b> | <b>7,086</b>                | <b>6,213</b>  |
| <b>Net interest income before provision for loan losses</b>                | <b>5,294</b>                  | <b>4,870</b> | <b>10,328</b>               | <b>9,546</b>  |
| Provision for loan losses  | 267                           | 310          | 412                         | 560           |
| <b>Net interest income after provision for loan losses</b>                 | <b>5,027</b>                  | <b>4,560</b> | <b>9,916</b>                | <b>8,986</b>  |
| <b>Non-Interest Income:</b>  |                               |              |                             |               |
| Service charges  | 998                           | 1,012        | 1,902                       | 1,842         |
| Trust fees   | 183                           | 161          | 370                         | 312           |
| Gain on sales of mortgage loans  | 212                           | 377          | 427                         | 720           |
| Gain (loss) on sales of investment securities                              |                               | (35)         |                             | (29)          |
| Bank owned life insurance income   | 208                           | 210          | 416                         | 425           |
| Other  | 331                           | 351          | 652                         | 765           |
| <b>Total non-interest income</b>   | <b>1,932</b>                  | <b>2,076</b> | <b>3,767</b>                | <b>4,035</b>  |
| <b>Non-Interest Expenses:</b>  |                               |              |                             |               |
| Salaries and employee benefits   | 2,833                         | 2,665        | 5,450                       | 5,336         |
| Occupancy and equipment  | 695                           | 669          | 1,367                       | 1,332         |
| Data processing  | 722                           | 640          | 1,411                       | 1,252         |
| Professional fees  | 320                           | 355          | 655                         | 634           |
| Marketing  | 86                            | 95           | 147                         | 155           |
| Supplies   | 82                            | 81           | 161                         | 171           |
| Intangible asset amortization  | 157                           | 221          | 313                         | 428           |
| Other  | 805                           | 887          | 1,627                       | 1,755         |
| <b>Total non-interest expenses</b>   | <b>5,700</b>                  | <b>5,613</b> | <b>11,131</b>               | <b>11,063</b> |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Income from continuing operations before income taxes | 1,259     | 1,023     | 2,552     | 1,958     |
| Income tax expense                                    | 292       | 173       | 589       | 331       |
| Net income from continuing operations                 | 967       | 850       | 1,963     | 1,627     |
| Net loss from discontinued operations                 | (108)     | (96)      | (108)     | (45)      |
| Net income  | \$ 859    | \$ 754    | \$ 1,855  | \$ 1,582  |
| Basic income per share from continuing operations     | \$ 0.24   | \$ 0.21   | \$ 0.49   | \$ 0.40   |
| Diluted income per share from continuing operations   | \$ 0.24   | \$ 0.21   | \$ 0.48   | \$ 0.39   |
| Basic loss per share from discontinued operations     | \$ (0.03) | \$ (0.02) | \$ (0.03) | \$ (0.01) |
| Diluted loss per share from discontinued operations   | \$ (0.03) | \$ (0.02) | \$ (0.03) | \$ (0.01) |
| Basic income per share                                | \$ 0.21   | \$ 0.18   | \$ 0.46   | \$ 0.39   |
| Diluted income per share                              | \$ 0.21   | \$ 0.18   | \$ 0.45   | \$ 0.38   |
| Shares applicable to basic income per share           | 4,039,675 | 4,092,528 | 4,038,291 | 4,091,454 |
| Shares applicable to diluted income per share         | 4,093,333 | 4,141,463 | 4,092,261 | 4,138,600 |

*See accompanying notes to the unaudited consolidated financial statements*

## Team Financial, Inc. And Subsidiaries

## Unaudited Consolidated Statements of Comprehensive Income

(Dollars In Thousands)

|  | Three Months Ended<br>June 30 |            | Six Months Ended<br>June 30 |            |
|--|-------------------------------|------------|-----------------------------|------------|
|  | 2005                          | 2004       | 2005                        | 2004       |
| Net Income   | \$ 859                        | \$ 754     | \$ 1,855                    | \$ 1,582   |
| Other comprehensive income (loss), net of tax:   |                               |            |                             |            |
| Unrealized gains (losses) on investment securities available for sale net of tax of \$562 and \$(2,121) for the three months ended June 30, 2005 and 2004, respectively; and \$(341) and \$(1502) for the six months ended June 30, 2005 and 2004, respectively. | 1,087                         | (4,128)    | (663)                       | (2,909)    |
| Reclassification adjustment for gains included in net income net of tax of \$0 and \$12 for the three months ended June 30, 2005 and 2004, respectively; and \$0 and \$10 for the six months ended June 30, 2005 and 2004, respectively.                         |                               | 23         |                             | 19         |
| Other comprehensive income (loss), net   | 1,087                         | (4,105)    | (663)                       | (2,890)    |
| Comprehensive income (loss)  | \$ 1,946                      | \$ (3,351) | \$ 1,192                    | \$ (1,308) |

*See accompanying notes to the unaudited consolidated financial statements*

## Team Financial, Inc. And Subsidiaries

## Unaudited Consolidated Statements of Changes In Stockholders Equity

Six Months Ended June 30, 2005

(Dollars In Thousands, Except Per Share Data)

|   | Common<br>stock | Capital<br>surplus | Retained<br>earnings | Treasury<br>stock | Accumulated<br>other<br>comprehensive<br>income | Total<br>stockholders<br>equity |
|---|-----------------|--------------------|----------------------|-------------------|---|---------------------------------|
| Balance, December 31, 2004  | \$ 27,849       | \$ 306             | \$ 28,264            | \$ (4,537)        | \$ 972  | \$ 52,854                       |
| Common stock issued in connection<br>with compensation plans (2,717<br>shares)        | 31              |                    |                      |                   |   | 31                              |
| Issuance of treasury stock in<br>connection with compensation plans<br>(4,200 shares) |                 | (18)               |                      | 48                |   | 30                              |
| Increase in capital surplus in<br>connection with compensation plans                  |                 | 79                 |                      |                   |   | 79                              |
| Net income  |                 |                    | 1,855                |                   |   | 1,855                           |
| Dividends (\$0.16 per share)  |                 |                    | (647)                |                   |   | (647)                           |
| Other comprehensive loss net of<br>\$(341) in taxes                                   |                 |                    |                      |                   | (663)   | (663)                           |
| Balance, June 30, 2005  | \$ 27,880       | \$ 367             | \$ 29,472            | \$ (4,489)        | \$ 309  | \$ 53,539                       |

*See accompanying notes to the unaudited consolidated financial statements*

## Team Financial, Inc. And Subsidiaries

## Unaudited Consolidated Statements Of Cash Flows

(Dollars In Thousands)

|  | Six Months Ended June 30, |          |
|--|---------------------------|----------|
|  | 2005                      | 2004     |
| Cash flows from operating activities:  |                           |          |
| Net income   | \$ 1,855                  | \$ 1,582 |
| Net loss from discontinued operations  | 108                       | 45       |
| Adjustments to reconcile net income to net cash provided by operating activities of continuing operations: |                           |          |
| Provision for loan losses  | 412                       | 560      |
| Depreciation and amortization  | 1,253                     | 1,583    |
| Non-cash compensation expense  | 41                        |          |
| Change in bank owned life insurance  | (355)                     | (365)    |
| Net loss on sales of investment securities   |                           | 29       |
| FHLB stock dividends   | (155)                     | (96)     |
| Net gain on sales of mortgage loans  | (427)                     | (720)    |
| Net (gain) loss on sales of assets   | (52)                      | 94       |
| Proceeds from sale of mortgage loans   | 23,556                    | 34,796   |
| Origination of mortgage loans for sale   | (21,365)                  | (35,039) |
| Net (increase) decrease in other assets  | (7)                       | 444      |
| Net increase (decrease) in accrued expenses and other liabilities  | 1,332                     | (597)    |
| Net cash provided by operating activities of continuing operations   | 6,196                     | 2,316    |
| Net cash flows of discontinued operations  | 6,892                     | 275      |
| Net cash provided by operating activities  | 13,088                    | 2,591    |
| Cash flows from investing activities:  |                           |          |
| Net increase in loans  | (26,433)                  | (16,177) |
| Proceeds from sale of investment securities available-for-sale   |                           | 3,644    |
| Proceeds from maturities and principal reductions of investment securities available-for-sale              | 19,556                    | 42,611   |
| Purchases of investment securities available-for-sale  | (26,757)                  | (36,074) |
| Cash paid for acquisitions   | (925)                     | (925)    |
| Purchase of premises and equipment, net  | (1,520)                   | (2,356)  |
| Proceeds from sales on assets  | 270                       | 424      |
| Cash used in investing activities of discontinued operations   |                           | (210)    |
| Net cash used in investing activities  | (35,809)                  | (9,063)  |
| Cash flows from financing activities:  |                           |          |
| Net increase in deposits   | 10,219                    | 1,236    |
| Net increase in federal funds purchased and securities sold under agreement to repurchase                  | 271                       | 4,562    |
| Payments on Federal Home Loan Bank advances  | (150)                     | (39)     |
| Proceeds of Federal Home Loan Bank Advances  |                           | 780      |
| Payments on notes payable  | (5,571)                   | (4,956)  |
| Proceeds of notes payable  | 3,130                     | 5,167    |
| Common stock issued  | 31                        | 103      |
| Issuance of treasury stock   | 30                        |          |
| Purchase of treasury stock   |                           | (612)    |
| Dividends paid on common stock   | (647)                     | (655)    |

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|  |           |           |
|--|-----------|-----------|
| Net cash provided by (used in) financing activities  | 7,313     | 5,586     |
| Net change in cash and cash equivalents              | (15,408)  | (886)     |
| Cash and cash equivalents at beginning of the period | 34,741    | 18,590    |
| Cash and cash equivalents at end of the period       | \$ 19,333 | \$ 17,704 |

**Supplemental disclosures of cash flow information:**

Cash paid during the year for:

|              |          |          |
|--------------|----------|----------|
| Interest     | \$ 6,652 | \$ 6,045 |
| Income taxes | \$ 294   | \$ 846   |

Non-cash activities related to operations:

|  |        |        |
|--|--------|--------|
| Assets acquired through foreclosure                                      | \$ 280 | \$ 614 |
| Loans to facilitate the sale of real estate acquired through foreclosure | 309    | 377    |

*See accompanying notes to the unaudited consolidated financial statements*

**Team Financial, Inc. and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements**

**Three and six month periods ended June 30, 2005 and 2004**

**(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, 2004.

The interim consolidated financial statements include the accounts of Team Financial, Inc. and its wholly owned subsidiaries, Team Financial Acquisition Subsidiary, Inc., including TeamBank, N.A. and its subsidiaries, and Post Bancorp including Colorado National Bank. All material inter-company transactions, profits, and balances are eliminated in consolidation. The consolidated financial statements do not include the accounts of our wholly owned statutory trust, Team Financial Capital Trust I (the Trust). The Trust qualifies as a special purpose entity that is not required to be consolidated in the financial statements of Team Financial, Inc. The Trust Preferred Securities issued by the Trust is included in Tier I capital for regulatory capital purposes.

The December 31, 2004 statement of financial condition has been derived from the audited consolidated financial statements as of that date. Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation. The results of the interim periods ended June 30, 2005, are not necessarily indicative of the results that may occur for the year ending December 31, 2005.

**(2) Recent Accounting Pronouncements**

In December of 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payments*, ( SFAS 123R ). This statement requires that the cost resulting from all share-based transactions be recognized in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for share-based arrangements and requires all entities to apply a fair-value based measurement method in accounting for share based payments with employees except for equity instruments held by employee share ownership plans. SFAS 123R replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supercedes Accounting Principal Board Opinion No. 25, *Accounting for Stock Issued to Employees*, ( APB 25 ) and is effective as of the beginning of 2006. We apply APB 25 to account for stock incentive plans which requires compensation cost be recognized as the excess, if any, of the fair market value of our stock at the date of grant over the amount the employee must pay to acquire the stock. In accordance with SFAS 123, we report the effect on net income as if the transactions were accounted for using the fair value method in a footnote. The adoption of SFAS 123R will result in higher salaries and employee benefits expense in future periods.

**(3) Discontinued Operations**



On February 25, 2005, we completed the sale of our insurance agency subsidiary, Team Insurance Group, Inc. We sold all the issued and outstanding shares of the insurance agency subsidiary to an unaffiliated third party for total cash consideration of \$6,836,000. Our investment in Team Insurance Group, Inc. as of December 31, 2004 and February 25, 2005 was approximately \$7,000,000. The loss on the sale of the subsidiary of approximately \$164,000 was recorded in the second quarter of 2005 upon finalization of the selling price and is presented, net of tax, as loss from discontinued operations in the accompanying financial statements. The sale was effective December 31, 2004, and therefore, the operating activities of the insurance subsidiary during 2005 were assumed by the new owners. Pursuant to the terms of the agreement, the buyer has until August 25, 2006 to contest representations and warranties.

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As a result of the sale, the operations related to the insurance agency subsidiary during the three and six months ended June 30, 2004 have been reclassified as discontinued operations in the unaudited consolidated financial statements and notes to the unaudited consolidated financial statements.

Summarized results of operations of the insurance agency for the three and six months ended June 30, 2004 are as follows:

|   | <b>Three Months<br/>Ended June 30, 2004</b> | <b>Six Months<br/>Ended June 30, 2004</b> |
|---|---|---|
|   | (In thousands)                              |   |
| Insurance agency commissions                              | \$ 912                                      | 2,112                                     |
| Other interest income                                     | 19  | 41  |
| Total income  | 931   | 2,153                                     |
| Salary and employee benefits                              | 720   | 1,551                                     |
| Occupancy and equipment                                   | 91  | 168                                       |
| Professional fees   | 27  | 35  |
| Marketing   | 37  | 66  |
| Supplies  | 10  | 20  |
| Intangible asset amortization                             | 42  | 85  |
| Other   | 108   | 247                                       |
| Total expenses  | 1,035                                       | 2,172                                     |
| Net loss from discontinued operations before income taxes | (104)                                       | (19)                                      |
| Income tax (benefit) expense                              | (8)   | 26  |
| Net loss from discontinued operations, net of tax         | \$ (96)                                     | (45)                                      |

**(4) Stock Compensation and 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 period. Diluted income per share reflects the potential

dilution that would 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 Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation*, (SFAS 123) 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 vesting period. Under SFAS 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, |          |
|--|---|---------|---------------------------|----------|
|  | 2005  | 2004    | 2005                      | 2004     |
|  | (Dollars in thousands, except per share data) |         |                           |          |
| Net income:  |   |         |                           |          |
| As reported  | \$ 859  | \$ 754  | \$ 1,855                  | \$ 1,582 |
| Stock-based compensation expense included in reported net income, net of tax | 27  |         | 27                        |          |
| Compensation expense determined under fair value, net of tax                 | (48)  | (22)    | (69)                      | (44)     |
| Pro forma  | \$ 838  | \$ 732  | 1,813                     | 1,538    |
| Basic earnings per share:  |   |         |                           |          |
| As reported  | \$ 0.21                                       | \$ 0.18 | \$ 0.46                   | \$ 0.39  |
| Pro forma  | 0.21  | 0.18    | 0.45                      | 0.38     |
| Diluted earnings per share:  |   |         |                           |          |
| As reported  | \$ 0.21                                       | \$ 0.18 | \$ 0.45                   | \$ 0.38  |
| Pro forma  | 0.20  | 0.18    | 0.44                      | 0.37     |

#### (5) Stock Repurchase Program

At June 30, 2005, there were 383,230 shares of our common stock remaining to be repurchased under a stock repurchase program authorized by the Board of Directors. There were no purchases of our stock during the three or six months ended June 30, 2005.

#### (6) Dividends Declared

On May 24, 2005, we declared a quarterly cash dividend of \$0.08 per share to all shareholders of record on June 30, 2005, payable July 20, 2005.

#### (7) Investment Securities

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The following tables summarize the amortized cost, gross unrealized gains and losses, and fair value of investment securities at June 30, 2005 and December 31, 2004.

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|  | <b>June 30, 2005</b>  |                   |                   |                   |
|--|-----------------------|-------------------|-------------------|-------------------|
|  | <b>Amortized</b>      | <b>Gross</b>      | <b>Gross</b>      | <b>Fair</b>       |
|  | <b>Cost</b>           | <b>Unrealized</b> | <b>Unrealized</b> | <b>Value</b>      |
|  |                       | <b>Gains</b>      | <b>Losses</b>     |                   |
|  | <b>(In thousands)</b> |                   |                   |                   |
| <b>Debt securities:</b>                    |                       |                   |                   |                   |
| U.S. Agency securities                     | \$ 59,713             | \$ 127            | \$ (484)          | \$ 59,356         |
| Mortgage-backed securities                 | 91,660                | 659               | (524)             | 91,795            |
| Non-taxable Municipal securities           | 30,880                | 643               | (82)              | 31,441            |
| Taxable Municipal securities               | 970                   | 60                |                   | 1,030             |
| Other debt securities                      | 5,556                 | 58                | (28)              | 5,586             |
| <b>Total debt securities</b>               | <b>188,779</b>        | <b>1,547</b>      | <b>(1,118)</b>    | <b>189,208</b>    |
| Equity securities                          | 8,624                 | 48                | (8)               | 8,664             |
| <b>Total available for sale securities</b> | <b>\$ 197,403</b>     | <b>\$ 1,595</b>   | <b>\$ (1,126)</b> | <b>\$ 197,872</b> |

|                                  | <b>December 31, 2004</b> |                   |                   |              |
|----------------------------------|--------------------------|-------------------|-------------------|--------------|
|                                  | <b>Amortized</b>         | <b>Gross</b>      | <b>Gross</b>      | <b>Fair</b>  |
|                                  | <b>Cost</b>              | <b>Unrealized</b> | <b>Unrealized</b> | <b>Value</b> |
|                                  |                          | <b>Gains</b>      | <b>Losses</b>     |              |
|                                  | <b>(In thousands)</b>    |                   |                   |              |
| <b>Debt securities:</b>          |                          |                   |                   |              |
| U.S. Agency securities           | \$ 56,401                | \$ 270            | \$ (472)          | \$ 56,199    |
| Mortgage-backed securities       | 88,039                   | 1,062             | (435)             | 88,666       |
| Non-taxable Municipal securities | 30,442                   | 863               | (73)              | 31,232       |
| Taxable Municipal securities     | 971                      | 73                |                   | 1,044        |
| Other debt securities            | 6,057                    | 139               |                   | 6,196        |