

TEAM FINANCIAL INC /KS
Form 10-Q
November 14, 2001

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, 2001

Securities and Exchange Commission File Number: 000-26335

TEAM FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

48-1017164

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KANSAS

(State or other jurisdiction of incorporation or organization)

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

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 ☐

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 4,179,242 shares of the Registrant's common stock, no par value, outstanding as of November 9, 2001.

Part I. **Financial Information**

Item 1. **Financial Statements (Unaudited)**

Consolidated Statements of Financial Condition as of September 30, 2001 and December 31, 2000

Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2001 and 2000

Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2001 and 2000

Consolidated Statements of Changes In Stockholders' Equity for the Nine Months Ended September 30, 2001

Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2001 and 2000

Notes to Consolidated Financial Statements

Item 2. **Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

Item 3. **Quantitative And Qualitative Disclosure About Market Risk**

Part II. **Other Information**

Item 1. **Legal Proceedings**

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Team Financial, Inc. And Subsidiaries

Consolidated Statements of Financial Condition
(In Thousands)
(Unaudited)

| | September 30, 2001 | December 31, 2000 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$ 14,922 | \$ 8,702 |
| Federal funds sold and interest bearing bank deposits | 24,461 | 16,665 |
| Cash and cash equivalents | 39,383 | 25,367 |
| Investment securities | | |
| Available for sale, at fair value (amortized cost of \$152,755 and \$132,291 at September 30, 2001 and December 31, 2000, respectively) | 156,317 | 132,360 |
| Held to maturity, at cost (fair value of \$25,161 at December 31, 2000) | - | 24,864 |
| Total investment securities | 156,317 | 157,224 |
| Loans receivable, net of unearned fees | 351,980 | 331,931 |
| Allowance for loan losses | (4,253) | (3,911) |
| Net loans receivable | 347,727 | 328,020 |
| Accrued interest receivable | 5,257 | 5,453 |
| Premises and equipment, net | 11,206 | 10,007 |
| Assets acquired through foreclosure | 1,089 | 340 |
| Goodwill and core deposit intangible assets, net of accumulated amortization | 16,818 | 10,914 |
| Bank owned life insurance policies | 14,333 | - |
| Other assets | 3,820 | 2,280 |
| Total assets | \$ 595,950 | \$ 539,605 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits: | | |
| Checking deposits | \$ 149,809 | \$ 126,180 |
| Savings deposits | 35,623 | 21,028 |
| Money market deposits | 48,344 | 39,604 |
| Certificates of deposit | 252,097 | 255,383 |
| Total deposits | 485,873 | 442,195 |
| Federal funds purchased and securities sold under agreements to repurchase | 4,939 | 7,353 |
| Federal Home Loan Bank advances | 26,495 | 30,949 |
| Notes payable | 9,225 | 14,425 |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures | 15,525 | - |
| Accrued expenses and other liabilities | 7,628 | 4,884 |
| Total liabilities | 549,685 | 499,806 |

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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; 4,414,142 and 4,163,545 shares issued; 4,179,242 and 3,881,940 shares outstanding at September 30, 2001 and December 31, 2000 | 27,144 | 25,324 |
| Capital surplus | 68 | 103 |
| Retained earnings | 18,782 | 16,771 |
| Treasury stock, 234,900 and 281,605 shares of common stock at cost at September 30, 2001, and December 31, 2000, respectively | (2,056) | (2,442) |
| Accumulated other comprehensive income | 2,327 | 43 |
| Total stockholders' equity | 46,265 | 39,799 |
| Total liabilities and stockholders' equity | \$ 595,950 | \$ 539,605 |

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 | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30 | | September 30 | |
| | 2001 | 2000 | 2001 | 2000 |
| Interest Income: | | | | |
| Interest and fees on loans | \$ 7,369 | \$ 7,675 | \$ 22,576 | \$ 21,999 |
| Taxable investment securities | 1,830 | 2,408 | 5,976 | 7,184 |
| Nontaxable investment securities | 232 | 272 | 803 | 799 |
| Other | 173 | 28 | 518 | 202 |
| Total interest income | 9,604 | 10,383 | 29,873 | 30,184 |
| Interest Expense: | | | | |
| Deposits | | | | |
| Checking deposits | 448 | 542 | 1,394 | 1,628 |
| Savings deposits | 127 | 147 | 374 | 443 |
| Money market deposits | 340 | 423 | 1,005 | 1,244 |
| Certificates of deposit | 3,298 | 3,667 | 10,759 | 10,523 |
| Federal funds purchased and securities sold under agreements to repurchase | 42 | 152 | 182 | 453 |
| FHLB advances payable | 407 | 507 | 1,240 | 1,260 |
| Notes payable | 129 | 313 | 616 | 814 |
| Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures | 213 | - | 213 | - |
| Total interest expense | 5,004 | 5,751 | 15,783 | 16,365 |
| Net interest income before provision for loan losses | 4,600 | 4,632 | 14,090 | 13,819 |
| Provision for loan losses | 217 | 404 | 895 | 792 |
| Net interest income after provision for loan losses | 4,383 | 4,228 | 13,195 | 13,027 |
| Non-Interest Income: | | | | |
| Service charges | 917 | 935 | 2,655 | 2,493 |
| Trust fees | 138 | 136 | 418 | 421 |
| Gain on sales of mortgage loans | 464 | 177 | 1,259 | 357 |
| Gain (loss) on sales of investment securities | 3 | (79) | 6 | (85) |
| Other | 587 | 396 | 1,293 | 1,074 |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Total non-interest income | 2,109 | 1,565 | 5,631 | 4,260 |
| Non-Interest Expenses: | | | | |
| Salaries and employee benefits | 2,539 | 2,327 | 7,568 | 6,922 |
| Occupancy and equipment | 561 | 539 | 1,710 | 1,582 |
| Data processing | 453 | 441 | 1,265 | 1,398 |
| Professional fees | 341 | 331 | 908 | 687 |
| Marketing | 82 | 42 | 199 | 186 |
| Supplies | 100 | 84 | 264 | 231 |
| Goodwill and core deposit intangible asset amortization | 189 | 185 | 556 | 532 |
| Conversion | 80 | - | 149 | 62 |
| Other | 835 | 859 | 2,480 | 2,306 |
| Total non-interest expenses | 5,180 | 4,808 | 15,099 | 13,906 |
| Income before income taxes | 1,312 | 985 | 3,727 | 3,381 |
| Income taxes | 374 | 285 | 1,114 | 994 |
| Net income | \$ 938 | \$ 700 | \$ 2,613 | \$ 2,387 |
| Shares applicable to basic income per share | 3,962,068 | 3,874,436 | 3,925,020 | 3,936,625 |
| Basic income per share | \$ 0.24 | \$ 0.18 | \$ 0.67 | \$ 0.61 |
| Shares applicable to diluted income per share | 4,009,318 | 3,874,436 | 3,972,270 | 3,936,625 |
| Diluted income per share | \$ 0.23 | \$ 0.18 | \$ 0.66 | \$ 0.61 |

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 | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30 | | September 30 | |
| | 2001 | 2000 | 2001 | 2000 |
| Net Income | \$ 938 | \$ 700 | \$ 2,613 | \$ 2,387 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized gains (losses) on investment securities available for sale net of tax of \$464 and \$447 for the three months ended September 30, 2001 and September 30, 2000, respectively; and net of tax \$1,209 and \$209 for the nine months ended September 30, 2001 and September 30, 2000, respectively | 896 | 762 | 2,288 | 177 |
| Reclassification adjustment for gains (losses) included in net income net of tax of \$(1) and \$24 for the three months ended September 30, 2001 and September 30, 2000, respectively; and net of tax \$(2) and \$25 for the nine months ended September 30, 2001 and September 30, 2000, respectively | (2) | 55 | (4) | 60 |
| Other comprehensive income, net | 894 | 817 | 2,284 | 237 |
| Comprehensive income | \$ 1,832 | \$ 1,517 | \$ 4,897 | \$ 2,624 |

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, 2001
(In Thousands)
(Unaudited)

| | Common stock | Additional paid-in capital | Retained earnings | Treasury stock | Accumulated other comprehensive income | Total stockholders' equity |
|--|-------------------------|---|------------------------------|---------------------------|---|---|
| BALANCE, December 31, 2000 | \$ 25,324 | \$ 103 | \$ 16,771 | \$ (2,442) | \$ 43 | \$ 39,799 |
| Treasury stock purchased (3,295 shares) | | | | (24) | | (24) |
| Common stock issued in connection with compensation plans (597 shares) | 6 | | | | | 6 |
| Common stock issued for acquisitions (250,000 shares) | 1,814 | | | | | 1,814 |
| Contribution of shares of treasury stock to Company ESOP (50,000 shares) | | (35) | | 410 | | 375 |
| Net Income | | | 2,613 | | | 2,613 |
| Dividends (\$0.15 per share) | | | (602) | | | (602) |
| Other comprehensive income net of \$787 in taxes | | | | | 2,284 | 2,284 |
| BALANCE, September 30, 2001 | \$ 27,144 | \$ 68 | \$ 18,782 | \$ (2,056) | \$ 2,327 | \$ 46,265 |

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Consolidated Statements Of Cash Flows
(In thousands)
(Unaudited)

| | Nine Months Ended | |
|---|--------------------------|-------------|
| | 2001 | 2000 |
| Cash flows from operating activities: | | |
| Net income | \$ 2,613 | \$ 2,387 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 895 | 792 |
| Depreciation and amortization | 1,254 | 1,339 |
| Contribution of treasury stock to ESOP | 375 | - |
| Net (gain) loss on sales of investment securities | (6) | 85 |
| Net gain on sales of mortgage loans | (1,259) | (357) |
| Net (gain) loss on sales of assets acquired through foreclosure | (6) | 15 |
| Net gain on sale of credit card portfolio | (10) | - |
| Proceeds from sale of credit card portfolio | 1,187 | - |
| Proceeds from sale of mortgage loans | 38,869 | 11,703 |
| Origination of mortgage loans for sale | (41,204) | (11,879) |
| Net increase in other assets | (2,415) | (1,842) |
| Net increase in accrued expenses and other liabilities | 625 | 2,637 |
| Net cash provided by operating activities | 918 | 4,880 |
| Cash flows from investing activities: | | |
| Net decrease (increase) in loans | 11,060 | (6,652) |
| Proceeds from sale of investment securities available-for-sale | 34 | 15,708 |
| Proceeds from maturities and principal reductions of investment securities available-for-sale | 49,749 | 9,049 |
| Purchases of investment securities available-for-sale | (31,455) | (18,266) |
| Proceeds from maturities and principal reductions of investment securities held-to-maturity | - | 1,190 |
| Purchases of investment securities held-to-maturity | - | (413) |
| Purchase of premises and equipment, net | (537) | (616) |
| Proceeds from sales on assets acquired through foreclosure | 942 | 570 |
| Purchase of bank owned life insurance | (14,000) | - |
| Cash received (paid) for acquisitions, net | 8,370 | (2,731) |
| Net cash provided by (used in) investing activities | 24,163 | (2,161) |
| Cash flows from financing activities: | | |
| Net decrease in deposits | (13,916) | (18,135) |
| Net decrease in federal funds purchased and securities sold under agreement to repurchase | (2,414) | 3,022 |
| Payments on Federal Home Loan Bank advances | (4,454) | (11,051) |
| Proceeds from Federal Home Loan Bank advances | - | 19,500 |
| Payments on notes payable | (9,700) | (1,524) |
| Proceeds of notes payable | 4,500 | 5,950 |
| | 15,525 | - |

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Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures

| | | |
|--|-----------|-----------|
| Common stock issued | 6 | 56 |
| Purchase of treasury stock | (24) | (2,468) |
| Dividends paid on common stock | (588) | (597) |
| Net cash used in financing activities | (11,065) | (5,247) |
| Net change in cash and cash equivalents | 14,016 | (2,528) |
| Cash and cash equivalents at beginning of the period | 25,367 | 22,507 |
| Cash and cash equivalents at end of the period | \$ 39,383 | \$ 19,979 |

Supplemental disclosures of cash flow information:

| | | |
|--|-----------|--------|
| Transfer of securities from held-to-maturity to available-for-sale | \$ 24,864 | \$ - |
| Assets acquired through foreclosure | \$ 1,396 | \$ 296 |
| Loans to facilitate the sale of real estate acquired through foreclosure | \$ 204 | \$ - |

See accompanying notes to the unaudited consolidated financial statements

TEAM FINANCIAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine month periods ended September 30, 2001 and 2000

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements of Team Financial, Inc. and Subsidiaries (the Company) 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 the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

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, 2000 statement of financial condition has been derived from the audited consolidated financial statements as of that date. The results of the interim period ended September 30, 2001 are not necessarily indicative of the results expected for the year ending December 31, 2001.

Note 2: Earnings Per Common Share

Basic earnings per share is based upon the weighted average number of common shares outstanding during the periods presented. Diluted earnings 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.

Note 3: Stock Repurchase Program

The Board of Directors approved a stock repurchase program in January 2001, authorizing the repurchase of up to 300,000 shares of the Company's common stock. As of September 30, 2001, the Company had repurchased 3,295 shares of its common stock under the program at an average price of \$7.08 per share.

Note 4: Dividend Declared

On September 22, 2001, the Company declared a quarterly dividend of \$0.05 per share to all shareholders of record on September 30, 2001, payable October 19, 2001.

Note 5: Recent Accounting Pronouncements

In September 2000, FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* a replacement of SFAS No. 125. This statement is effective for transfers and servicing of financial assets and extinguishment of liabilities occurring after March 31, 2001. The adoption of the standard will not have a significant impact on the consolidated financial statements of the Company.

In July 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.

The provisions of SFAS No. 141 are required to be adopted immediately and SFAS No. 142 will be effective January 1, 2002. Furthermore, any goodwill and any intangible assets determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001, will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142.

SFAS No. 141 will require upon adoption of SFAS No. 142, the Company evaluate its existing intangible assets and goodwill that were acquired in prior purchase a business combinations, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition apart from goodwill. Upon adoption of SFAS No. 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible assets is identified as having an indefinite useful life, a test will be required to be made of the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, SFAS No. 142 will require an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. This will be accomplished through the identification of reporting units and determination of the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired then the second step of the transitional impairment test must be performed. In the second step, the implied fair value must be compare to the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to the carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, both no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the statement of earnings.

As of the date of adoption SFAS No. 142, the Company expects to have unamortized goodwill in the amount of \$16.1 million, all of which will be subject to the transition provisions of SFAS No. 141 and SFAS No. 142. Pre-tax amortization expense related to goodwill was \$722,000 and \$556,000 for the year ended December 31, 2000 and the nine months ended September 30, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS No. 141 and SFAS No. 142 it is not practicable to reasonably estimate whether any transitional impairment losses will be required to be recognized as the cumulative effect of change in accounting principle.

In October 2001, the FASB issued Statement No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. This Statement supersedes Statement No. 121 but retains many of its fundamental provisions. Additionally, this Statement expands the scope of discontinued operations to include more disposal transactions. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet completed its evaluation of the impact this Statement will have when adopted.

Note 6: Acquisitions and Subsequent Events

On September 18, 2001, the Company acquired 100% if the outstanding stock of Post Bancorp, Inc., owner of Colorado Springs National Bank for \$13.0 million, consisting of \$11.0 million in cash and \$2.0 million in common stock. The value of the 250,000 shares of common stock was determined based on the average market price of the Company's common shares over a three-day period beginning with the two days prior to the date that the terms of the acquisition were agreed to and announced. The acquisition was accounted for using the purchase method of accounting, as required by SFAS 141. The acquisition is the Company's first in the dynamic market of Colorado Springs, Colorado along the front range of the Colorado Rocky Mountains. The Company now has an established presence in the growing metropolitan areas of Kansas City, Kansas; Omaha, Nebraska; and Colorado Springs, Colorado. Colorado Springs National Bank offers community-banking services primarily to small to mid-size businesses in the Colorado Springs, Colorado metropolitan area.

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The results of Post Bancorp, Inc. operations have been included in the consolidated financial statements since September 18, 2001.

On August 10, 2001, the Company completed the issuance of 1,350,000, 9.50% Cumulative Trust Preferred Securities at \$10 per preferred security. In connection with the completion of the offering, the underwriters for the offering exercised their over-allotment option and purchased an additional 202,500, 9.50% Cumulative Trust Preferred Securities at the same price. The net proceeds were \$14,425,000 after deduction of offering expenses and underwriting commissions of \$1,100,000. The Company used approximately \$11,000,000 of the net proceeds from the sale of the debentures to pay the cash portion of the purchase price for Post Bancorp, Inc. The remaining net proceeds were used to pay down the Company's line of credit. The cumulative trust preferred securities trade on the NASDAQ national market under the symbol TFINP.

Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Team Financial, Inc. (the "Company") is a financial holding company incorporated in the State of Kansas. The Company offers full service community banking and financial services through 20 locations in the Kansas City metropolitan area, southeastern Kansas, western Missouri, the Omaha, Nebraska metropolitan area, and in Colorado Springs, Colorado. The Company's presence in Kansas consists of six locations in the Kansas City metro area, which includes the growth market of Johnson County, four locations in southeast Kansas and two locations along the I-70 corridor. The Company operates two locations in western Missouri, five in the growing metropolitan area of Omaha, Nebraska, and one in the growth market of Colorado Springs, Colorado. The Company's growth over recent years has been achieved primarily through purchases of branches of large banks and through acquisitions of community banks. Additional asset growth has occurred through internal growth at existing banks as well as from opening three new branches. The Company's common stock is listed on the Nasdaq National Market ("NASDAQ") under the symbol "TFIN".

The Company's results of operations depend primarily on net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. The Company's operations are also affected by non-interest income, such as service charges, loan fees, and gains and losses from the sale of newly originated mortgage loans. The Company's principal operating expenses, aside from interest expense, consist of salaries and employee benefits, occupancy costs, data processing expense and provisions for loan losses.

FINANCIAL CONDITION

Total assets of the Company at September 30, 2001, were \$596.0 million compared to \$539.6 million at December 31, 2000. The increase of \$56.4 million was primarily due to \$71.3 million in assets purchased with the acquisition of Post Bancorp, Inc. and its subsidiary Colorado Springs National Bank during the third quarter. Net of the acquired assets, total assets decreased \$15.0 million. This decrease was the result of a decrease in investment securities of \$14.5 million and a decrease in loans receivable of \$10.4 million. Deposit balances decreased \$14.0 million and Federal Home Loan Bank advances decreased \$4.5 million.

Investment Securities: On January 1, 2001, the Company adopted SFAS No. 133, *Accounting for Derivative Financial Instruments and Hedging Activities* as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Upon adoption of the accounting standard, the Company reclassified its held to maturity investment security portfolio to available for sale.

Total investment securities were \$156.3 million at September 30, 2001 compared to \$157.2 million at December 31, 2000, an increase of \$907,000, or 0.6%. The Company purchased \$13.6 million of investment securities with the acquisition of Colorado Springs National Bank. Excluding the increase from the acquisition, total investment securities decreased \$14.5 million, or 9.2%, primarily due to investment securities being called from the Company by the debt issuers, as the debt issuers chose to re-finance the debt at more favorable rates, and from accelerated principal payments received from the Company's mortgage backed securities.

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The Company's securities portfolio serves as a source of liquidity and earnings and contributes to the management of interest rate risk. The debt securities portfolio is comprised primarily of obligations collateralized by U.S. Government agencies (mainly in the form of mortgage-backed securities), U.S. Government agency securities, U.S. Treasury securities, and municipal obligations. With the exception of municipal obligations, the maturity structure of the debt securities portfolio is generally short-term in nature or indexed to variable rates.

Loans Receivable: Loans receivable increased \$20.1 million, or 6.0%, to \$352.0 million at September 30, 2001, compared to \$331.9 million at December 31, 2000. Contributing to the increase in loans receivable were \$30.5 million in loans purchased with the acquisition of Colorado Springs National Bank during the third quarter.

The Company's commercial loans totaled \$158.5 million at September 30, 2001, an increase of \$35.7 million, or 29.1%, from \$122.8 million at December 31, 2000. The Company's internal growth in commercial loans was \$8.5 million net of the acquisition of Colorado Springs National Bank. Colorado Springs National Bank offers community-banking services primarily to small to mid-size businesses in the Colorado Springs, Colorado metropolitan area. This compliments the Company's continued emphasis on serving small to mid-sized businesses in the metropolitan markets as evidenced by past acquisitions in the Kansas City and Omaha metropolitan markets and the increase of its commercial lending staff in the Kansas City metropolitan area during 2000. This positioning has allowed the Company to increase its commercial loan portfolio and its mix of commercial loans as a percent of its total loan portfolio. Commercial loans have increased \$52.3 million from December 31, 1999 to September 30, 2001 and comprise 45% of the loan portfolio at September 30, 2001 versus 34% of the loan portfolio at January 1, 2000.

The Company's installment loans decreased \$6.7 million, or 1.7%, net of acquired assets, to \$33.8 million at September 30, 2001, compared to \$40.5 million at December 31, 2000, as the Company completed the sale of its credit card portfolio during the second quarter. The Company sold the credit card portfolio for \$1.2 million and recorded a gain on the sale of \$10,000.

The Company's one to four family residential loans decreased \$6.3 million, or 5.4%, at September 30, 2001 to \$109.6 million, compared to \$115.9 million at December 31, 2000. The decrease is the result of increased customer refinancing of these loans to fix rate loans due to the favorable fixed rate mortgage rates. The Company's general practice is to sell fixed rate one to four family residential loan originations and retain servicing rights to maintain the balance of its servicing assets to support its current servicing operations.

The substantial majority of the Company's residential mortgage loan production is underwritten in compliance with the requirements for sale to or conversion to mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and the Government National Mortgage Association (GNMA). The majority of the Company's commercial loans include loans to service, retail, wholesale, and light manufacturing businesses. These loans are made at rates based on the prevailing national prime interest rate, as well as fixed rates for terms generally ranging from three to five years. Installment loans include automobile, residential, and other personal loans. The majority of the installment loans are loans with fixed interest rates.

Non-performing Assets: Non-performing assets consist of loans 90 days or more delinquent and still accruing interest, non-accrual loans and other real estate owned (OREO). OREO represents real estate properties acquired through foreclosure or by deed in lieu of foreclosure and is classified as assets acquired through foreclosure on the statement of financial condition until the property is sold. Commercial loans, residential real estate loans, and installment loans are generally placed on non-accrual status when principal or interest is 90 days or more past due, unless the loans are well-secured and in the process of collection. Loans may be placed on non-accrual status earlier when, in the opinion of management, reasonable doubt exists as to the full, timely collection of interest or principal.

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The following table summarizes the Company's non-performing assets:

| | September 30, 2001 | December 31, 2000 |
|---|-----------------------|-------------------|
| Non-performing assets: | (In Thousands) | |
| Non-accrual loans | | |
| Real estate loans | \$ 1,789 | \$ 862 |
| Commercial, industrial, and agricultural | 754 | 1,116 |
| Installment loans | 493 | 650 |
| Lease financing receivables | - | 77 |
| Total non-accrual loans | 3,036 | 2,705 |
| Loans past due 90 days or more still accruing | | |
| Real estate loans | \$ 392 | \$ 326 |
| Commercial, industrial, and agricultural | 437 | 1,119 |
| Installment loans | 75 | 63 |
| Total past due 90 days or more still accruing | 904 | 1,508 |
| Total non-performing loans | 3,940 | 4,213 |
| Assets acquired through foreclosure | 1,089 | 340 |
| Total non-performing assets | \$ 5,029 | \$ 4,553 |
| Non-performing loans to total loans | 1.12% | 1.27% |
| Non-performing assets to total assets | 0.84% | 0.84% |

Non-performing assets totaled \$5.0 million at September 30, 2001, compared to \$4.6 million at December 31, 2000, representing an increase of \$476,000, or 10.5%.

Non-performing loans totaled \$3.9 million at September 30, 2001, decreasing \$273,000, or 6.5%, from \$4.2 million at December 31, 2000. The decrease in non-performing loans was primarily the result of a \$525,000 decrease in accounts receivable loans past due 90 days and still accruing, as the Company sold the loans back to the customer. The Company's accounts receivable loans are purchased with recourse, allowing the Company the option to sell the loans back to the customer. Also contributing to the variance at September 30, 2001 from December 31, 2000 were six commercial and real estate credits with an aggregate balance of \$1.1 million removed from non-performing loans, with four commercial and real estate credits with an aggregate balance of \$1.4 million added to non-performing loans. One of the commercial credits added to non-performing loans totaling \$687,000 is partially backed by a Small Business Administration guarantee.

Assets acquired through foreclosure increased \$749,000, or 220.3%, to \$1.1 million at September 30, 2001, compared to \$340,000 at December 31, 2000. These assets consist of 12 properties at September 30, 2001 versus 9 properties at December 31, 2000. The \$1.1 million balance of assets acquired through foreclosure was primarily concentrated in three properties with an aggregate balance of \$714,099.

As of September 30, 2001, there were no significant loans excluded from non-performing loans set forth above, where known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in such loans becoming non-performing.

Allowance for loan losses: Management maintains its allowance for loan losses based on industry standards, historical experience, and an evaluation of economic conditions. The Company regularly reviews delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for probable loan losses based upon a percentage of the outstanding balances and for specific loans if their ultimate collectibility is considered questionable.

The following table summarizes the Company's allowance for loan and lease losses:

| | Nine Months Ended September 30, | |
|--|---------------------------------|----------|
| | 2001 | 2000 |
| | (Dollars In Thousands) | |
| Balance, beginning of period | \$ 3,911 | \$ 3,320 |
| Provision for loan losses | 895 | 792 |
| Charge-offs | (1,218) | (671) |
| Recoveries | 283 | 162 |
| Allowance of acquired banks | 382 | 353 |
| Balance, end of period | \$ 4,253 | \$ 3,956 |
| Allowance for loan losses as a percent of total loans | 1.21% | 1.20% |
| Allowance for loan losses as a percent of non-performing loans | 107.94% | 109.83% |
| Net charge-offs as a percent of total loans | 0.27% | 0.15% |

Allowance for loan losses was 1.21% of total loans at September 30, 2001, an increase from 1.20% at September 30, 2000. The Company experienced net charge-offs of \$935,000, or 0.27% of total loans, for the nine months ended September 30, 2001, versus \$509,000, or 0.15% of total loans, for the corresponding period in 2000. The \$935,000 in net charge-offs was primarily the result of installment loan net charge-offs of \$480,000, a real estate development loan charge-off of \$109,000, and commercial loan net charge-offs of \$198,000. The increase in installment loan charge-offs was partially attributable to additional credit card portfolio charge-offs in preparation for the sale of the credit card portfolio, which was disposed of during the second quarter, charge-offs generated in conjunction with normal review and analysis which was completed after the merger of the bank charters occurring during the first quarter, and a general increase in installment loan charge-offs.

Bank owned life insurance policies: During the second quarter of 2000, the Company made a \$14.0 million investment in bank owned life insurance covering certain executives within the Company. The Company will record income from the investment to the extent the earnings offset the cost of the insurance and related deferred compensation benefits to the executives covered in the plan.

Other Assets: Other assets totaled \$3.8 million at September 30, 2001, an increase of \$1.5 million from \$2.3 million at December 31, 2000. The increase was primarily attributable to the acquisition of Colorado Springs National Bank.

Deposits: Total deposits increased \$43.7 million, or 9.9%, to \$485.9 million at September 30, 2001, from \$442.2 million at December 31, 2000. The increase in deposits was due to the assumption of \$57.6 million in deposits in conjunction with the acquisition of Colorado Springs National Bank. Excluding the acquisition, total deposits decreased \$13.9 million. This decrease was primarily the result of a \$15.1 million decrease in certificates of deposit, which was attributable to the decrease in wholesale public fund deposits the Company replaced with the proceeds from the called investment securities.

Federal Home Loan Bank Advances: Federal Home Loan Bank advances decreased \$4.5 million to a balance of \$26.5 million at September 30, 2001. The decrease was due to advances paid off with the proceeds from the called investment securities.

Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Subordinated Debentures: On August 10, 2001 the Company completed the issuance of 1,350,000, 9.50% Cumulative Trust Preferred Securities at \$10 per preferred security. In connection with the completion of the offering, the underwriters for the offering exercised their over-allotment option and purchased an additional 202,500, Preferred Securities at the same price. The net proceeds were \$14,425,000 after deduction of offering expenses and underwriting commissions of \$1,100,000. The Company used approximately \$11,000,000 of the net proceeds from the sale of the debentures to pay the cash portion of the purchase price for Post Bancorp, Inc. The remaining net proceeds were be used to pay down the Company's line of credit.

Notes Payable: Notes payable decreased \$5.2 million to \$9.2 million at September 30, 2001, from \$14.4 million December 31, 2000. The Company used \$4.0 million of the net proceeds from the issuance of Cumulative Trust Preferred Securities to pay down the Company's line of credit. The remaining decrease of \$1.2 million was attributable to the normal quarterly principal payment of \$125,000 and further pay down on the Company's line of credit as a function of cash management.

Equity: The Company issued 250,000 shares of common stock in conjunction with the acquisition of Colorado Springs National Bank, increasing common stock by \$1.8 million to \$27.1 million at September 30, 2001. The Company's Board of Directors approved a stock repurchase program in January 2001, authorizing the repurchase of up to 300,000 shares of the Company's common stock. As of September 30, 2001, the Company had repurchased 3,295 shares under the program at an average price of \$7.08 per share.

Regulatory Capital: The Company is subject to regulatory capital requirements administered by Federal Reserve, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency. Failure to meet the regulatory capital guidelines may result in the initiation by the Federal Reserve of appropriate supervisory or enforcement actions. As of September 30, 2001, the Company met all capital adequacy requirements to which it is subject and management does not anticipate any difficulty in meeting these requirements on an ongoing basis. The Company's ratios at September 30, 2001, were as follows:

| <u>Ratio</u> | At September 30, 2001 | |
|---------------------------------------|-----------------------|------------------|
| | Actual | Minimum Required |
| Total capital to risk weighted assets | 11.68% | 8.00% |
| Core capital to risk weighted assets | 10.58% | 4.00% |
| Core capital to average assets | 7.13% | 4.00% |

Liquidity

The Company continuously forecasts and manages its liquidity in order to satisfy cash flow requirements of depositors and borrowers and allow the Company to meet its own cash flow needs. The Company has developed internal and external sources of liquidity to meet its continued growth needs. These include, but are not limited to, the ability to raise deposits through branch promotional campaigns, maturity of overnight funds, short term investment securities classified as available-for-sale and draws on credit facilities established through the Federal Home Loan Bank. The Company's most liquid assets are cash and cash equivalents and investment securities available-for-sale. The levels of these assets are dependent on the Company's operating, financing, lending, and investing activities during any given period. At September 30, 2001 and December 31, 2000, these liquid assets totaled \$195.7 million and \$157.7 million, respectively. Management believes the Company's sources of liquidity are adequate to meet expected cash needs for the foreseeable future.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income before provision for loan losses for the three and nine months ended September 30, 2001 totaled \$4.6 million and \$14.1 million, respectively, compared to \$4.6 million and \$13.8 million for the same periods in 2000.

The Company's net interest margin as a percent of average earning assets was 3.91% for the three months ended September 30, 2001 and 2000. Favorably impacting net interest margin for the three months ended September 30, 2001, was a shift in the mix of assets from investment securities with an average rate of 6.70% to loans receivable with an average rate of 8.85%. The average balance of loans receivable increased \$7.8 million for the three months ended September 30, 2001 to \$330.5 million, from \$322.7 million for the same period in 2000. Also favorably impacting earnings was a 62 basis point decrease in the cost of deposits to 4.51% for the three months ended September 30, 2001, versus 5.13% for the three months ended September 30, 2000. Contributing to the reduction in the cost of deposits was a 53 basis point decrease on the average rate paid on savings deposits and interest bearing checking deposits, a 54 basis point decrease on the average rate paid on time deposits, and a 163 basis point decrease on the average rate paid on the Company's notes payable. Unfavorably impacting the Company's cost of funds was \$213,000 in interest expense paid on the Preferred Securities issued during the quarter.

For the nine months ended September 30, 2001 net interest margin as a percent of average earning assets was 3.96%, compared to 3.91% for the nine months ended September 30, 2000. Favorably impacting net interest margin as a percent of earning assets for the nine months ended September 30, 2001 was a shift in the mix of assets from investment securities to higher yielding loans receivable. The average balance of loans receivable increased \$13.3 million to \$334.7 million for the nine months ended September 30, 2001, compared to \$321.4 million for the same period in 2000. The Company's cost of funds decreased 15 basis points for the nine months ended September 30, 2001 to 4.76%, compared to 4.91% for the nine months ended September 30, 2000.

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The following tables present certain information relating to net interest income for the three and nine months ended September 30, 2001 and 2000. The average rates are derived by dividing annualized interest income or expense by the average balance of assets and liabilities, respectively, for the periods shown.

| | Three Months Ended September 30, 2001 | | | Three Months Ended September 30, 2000 | | |
|---|---------------------------------------|----------|-----------------|---------------------------------------|----------|-----------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| (Dollars In Thousands) | | | | | | |
| Interest earning assets: | | | | | | |
| Loans receivable, net (1) (2) (3) | \$ 330,471 | \$ 7,369 | 8.85% | \$ 322,674 | \$ 7,675 | 9.46% |
| Investment securities-taxable | 108,361 | 1,830 | 6.70% | 138,950 | 2,408 | 6.89% |
| Investment securities-nontaxable (4) | 24,982 | 422 | 6.70% | 22,902 | 445 | 7.73% |
| Federal funds sold and interest-bearing deposits | 22,443 | 173 | 3.06% | 4,725 | 28 | 2.36% |
| Total interest earning assets | \$ 486,257 | 9,794 | 7.99% | \$ 489,251 | 10,556 | 8.58% |
| Interest bearing liabilities: | | | | | | |
| Savings deposits and interest bearing checking | \$ 146,787 | 915 | 2.47% | \$ 147,300 | 1,112 | 3.00% |
| Time deposits | 243,093 | 3,298 | 5.38% | 246,474 | 3,667 | 5.92% |
| Federal funds purchased and securities sold under agreements to repurchase | 5,260 | 42 | 3.17% | 9,374 | 152 | 6.45% |
| Notes Payable and Federal Home Loan Bank Advances | 36,045 | 536 | 5.90% | 43,313 | 820 | 7.53% |
| Company obligated mandatorily redeemable preferred of subsidiary trust holding solely subordinated debentures | 8,699 | 213 | 9.71% | - | - | 0.00% |
| Total interest bearing liabilities | \$ 439,884 | 5,004 | 4.51% | \$ 446,461 | 5,751 | 5.13% |
| Net interest income (tax equivalent) | | \$ 4,790 | | | \$ 4,805 | |
| Interest rate spread | | | 3.48% | | | 3.46% |
| Net interest earning assets | \$ 46,373 | | | \$ 42,790 | | |
| Net interest margin | | | 3.91% | | | 3.91% |
| Ratio of average interest bearing liabilities to average interest earning assets | 90.46% | | | 91.25% | | |

(1) Loans are net of deferred loan fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) The Company includes loan fees in interest income. These fees for the three months ended September 30, 2001 and 2000 were \$192,000 and \$203,000, respectively.

(4) Yield is adjusted for the tax effect of tax exempt securities. The tax effects for the three months ended September 30, 2001 and 2000 were \$190,000 and \$173,000, respectively.

| | Nine Months Ended September 30, 2001 | | | Nine Months Ended September 30, 2000 | | |
|---|--------------------------------------|-----------|-----------------|--------------------------------------|-----------|-----------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| (Dollars In Thousands) | | | | | | |
| Interest earning assets: | | | | | | |
| Loans receivable, net (1) (2) (3) | \$ 334,668 | \$ 22,576 | 9.02% | \$ 321,406 | \$ 21,999 | 9.14% |
| Investment securities-taxable | 118,499 | 5,976 | 6.74% | 140,061 | 7,184 | 6.85% |
| Investment securities-nontaxable (4) | 24,211 | 1,337 | 7.38% | 22,929 | 1,336 | 7.78% |
| Federal funds sold and interest-bearing deposits | 16,261 | 518 | 4.26% | 5,493 | 202 | 4.91% |
| Total interest earning assets | \$ 493,639 | 30,407 | 8.24% | \$ 489,889 | 30,721 | 8.38% |
| Interest bearing liabilities: | | | | | | |
| Savings deposits and interest bearing checking | \$ 143,275 | 2,773 | 2.59% | 146,799 | 3,315 | 3.02% |
| Time deposits | 250,859 | 10,759 | 5.73% | 244,087 | 10,523 | 5.76% |
| Federal funds purchased and securities sold under agreements to repurchase | 5,773 | 182 | 4.22% | 12,382 | 453 | 4.89% |
| Notes payable and Federal Home Loan Bank advances | 40,071 | 1,856 | 6.19% | 41,918 | 2,074 | 6.61% |
| Company obligated mandatorily redeemable preferred of subsidiary trust holding solely subordinated debentures | 2,932 | 213 | 9.71% | - | - | 0.00% |
| Total interest bearing liabilities | \$ 442,910 | 15,783 | 4.76% | \$ 445,186 | 16,365 | 4.91% |
| Net interest income (tax equivalent) | | \$ 14,624 | | | \$ 14,356 | |
| Interest rate spread | | % | 3.47% | | | 3.47% |
| Net interest earning assets | \$ 50,729 | | | \$ 44,703 | | |
| Net interest margin (4) | | | 3.96% | | | 3.91% |
| Ratio of average interest bearing liabilities to average interest earning assets | 89.72% | | | 90.87% | | |

(1) Loans are net of deferred loan fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) The Company includes loan fees in interest income. These fees for the nine months ended September 30, 2001 and 2000 were \$589,000 and \$639,000, respectively.

(4) Yield is adjusted for the tax effect of tax exempt securities. The tax effects for the nine months ended September 30, 2001 and 2000 were \$534,000 and \$537,000, respectively.

The following table presents the components of changes in the Company's net interest income, on a tax equivalent basis, attributed to volume and rate. Changes in interest income or interest expense attributable to volume changes are calculated by multiplying the change in volume by the prior fiscal year's average interest rate. The changes in interest income or interest expense attributable to change in interest rates are calculated by multiplying the change in interest rate by the prior fiscal year average volume. The changes in interest income or interest expense attributable to the combined impact of changes in volume and change in interest rate are calculated by multiplying the change in rate by the change in volume.

**Three Months Ended September 30, 2001
Compared To
Three Months Ended September 30, 2000**

| | Increase (Decrease) Due To: | | |
|---|------------------------------------|-------------|------------|
| | Volume | Rate | Net |
| Interest Income: | (In Thousands) | | |
| Loans receivable, net (1) (2) (3) | \$ 208 | \$ (514) | \$ (306) |
| Investment securities-taxable | (531) | (47) | (578) |
| Investment securities-nontaxable (4) | 42 | (65) | (23) |
| Federal funds sold and interest-bearing deposits | 105 | 40 | 145 |
| Total Interest Income | (176) | (586) | (762) |
| Interest Expense: | | | |
| Savings deposits and interest bearing checking | (1) | (196) | (197) |
| Time deposits | (40) | (329) | (369) |
| Federal funds purchased and securities sold under agreements to repurchase | (66) | (44) | (110) |
| Notes Payable and Federal Home Loan Bank Advances | (136) | (148) | (284) |
| Company obligated mandatorily redeemable preferred of subsidiary trust holding solely subordinated debentures | - | 213 | 213 |
| Total Interest Expense | (243) | (504) | (747) |
| Net change in net interest income | \$ 67 | \$ (82) | \$ (15) |

(1) Loans are net of deferred loan fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) The Company includes loan fees in interest income. These fees for the three months ended September 30, 2001 and 2000 were \$206,000 and \$244,000, respectively.

(4) Yield is adjusted for the tax effect of tax exempt securities. The tax effects for the three months ended September 30, 2001 and 2000 were \$175,000 and \$175,000, respectively.

Nine Months Ended September 30, 2001
Compared To
Nine Months Ended September 30, 2000

Increase (Decrease) Due To:

| | Volume | Rate | Net |
|---|-----------------------|-----------------|---------------|
| Interest Income: | (In Thousands) | | |
| Loans receivable, net (1) (2) (3) | \$ 887 | \$ (310) | \$ 577 |
| Investment securities-taxable | (1,112) | (96) | (1,208) |
| Investment securities-nontaxable (4) | 73 | (72) | 1 |
| Federal funds sold and interest-bearing deposits | 395 | (79) | 316 |
| Total Interest Income | 243 | (557) | (314) |
| | | | |
| Interest Expense: | | | |
| Savings deposits and interest bearing checking | \$ (83) | (459) | (542) |
| Time deposits | 283 | (47) | 236 |
| Federal funds purchased and securities sold under agreements to repurchase | (242) | (29) | (271) |
| Notes Payable and Federal Home Loan Bank Advances | (93) | (125) | (218) |
| Company obligated mandatorily redeemable preferred of subsidiary trust holding solely subordinated debentures | - | 213 | 213 |
| Total Interest Expense | (135) | (447) | (582) |
| | | | |
| Net change in net interest income | \$ 378 | \$ (110) | \$ 268 |

(1) Loans are net of deferred loan fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) The Company includes loan fees in interest income. These fees for the nine months ended September 30, 2001, and 2000 were \$589,000 and \$639,000, respectively.

(4) Yield is adjusted for the tax effect of tax exempt securities. The tax effects for the nine months ended September 30, 2001 and 2000 were \$534,000 and \$537,000, respectively.

Non-Interest Income

Non-interest income for the three months ended September 30, 2001, was \$2.1 million, an increase of \$544,000, or 34.8%, over the three-month period ended September 30, 2000. For the nine months ended September 30, 2001, non-interest income was \$5.6 million, an increase of \$1.4 million, or 32.2%, versus the nine months ended September 30, 2000. The increases for the three and nine months ended were primarily attributable to the increase of gain on sales of mortgage loans, and to a lesser extent, attributable to the earnings on the \$14.0 million investment in bank owned life insurance covering executives within the Company, which contributed \$227,000 for the respective three and nine months ended.

For the three months ended September 30, 2001, gains on sales of mortgage loans increased \$287,000, or 162.1%, to \$464,000 compared to the three months ended September 30, 2000. For the nine months ended September 30, 2001, gain on sales of mortgage loans increased \$902,000, or 252.7%, to \$1.3 million compared to the nine months ended September 30, 2000. The increase of gain on sales of mortgage loans was the result of the increase in the volume of loans refinanced and originated and sold, due to a lower interest rate environment during the three and nine months ended September 30, 2001, compared to the same periods a year ago.

For the three months ended September 30, 2001, service charge income decreased \$18,000, or 1.7%, to \$917,000 compared to the three months ended September 30, 2000. For the nine months ended September 30, 2001 service charge income increased \$162,000, or 6.5%, to \$2.7 million compared to the nine months ended September 30, 2000. The increase of service charge income was related to additional fee based services offered on deposit account and limitations on fee waivers.

Non-Interest Expense

Non-interest expense increased \$372,000 to \$5.2 million, or 7.8%, for the three months ended September 30, 2001, compared to \$4.8 million for the three months ended September 30, 2000. Non-interest expense increased \$1.2 million to \$15.1 million for the nine months ended September 30, 2001 compared to \$13.9 million for the nine months ended September 30, 2000.

The Company's salary and benefits increased \$212,000 and \$646,000 for the respective three and nine months ended September 30, 2001 compared to the same periods a year ago. The increase was largely related to commissions paid to real estate mortgage originators due to the increased in originations from the lower interest rate environment, general annual increases averaging 3.0%, and additional expense from the operations of Fort Calhoun State Bank during the first quarter of 2000, and Colorado Springs National Bank acquired this quarter.

Professional fees were \$341,000 for the three months ended September 30, 2001, an increase of \$10,000 from \$331,000 for the three months ended September 30, 2000. For the nine months ended professional fees were \$908,000, an increase of \$221,000, from \$687,000 for the nine months ended September 30, 2000. The increase in professional fees is primarily attributable to consulting fees based on a percentage of the service charge income generated from the additional deposit account services provided to customers, consulting fees paid for the establishment of real estate investment trusts, as well as consulting fees related to a salary administration review designed to ensure the Company's salary rates are competitive with the market place.

Income Tax Expense

The Company recorded income tax expense of \$374,000 for the three months ended September 30, 2001; an increase of \$89,000 compared to an income tax expense of \$285,000 for the three months ended September 30, 2000. For the nine months ended September 30, 2001, income tax expense was \$1.1 million, an increase of \$120,000 from \$994,000 for the nine months ended September 30, 2000. The increase in the effective tax rate for the nine months ended September 30, 2001 to 29.89% from 29.40% for the nine months ended September 30, 2000, was primarily the result of the higher effective tax rate from the operations of Fort Calhoun State Bank, acquired in the first quarter of 2000. The Company's effective tax rate is less than the statutory federal rate of 34% due primarily to municipal interest income and the income tax benefit resulting from dividends passed through the ESOP to the ESOP participants.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management

Asset and liability management refers to management's efforts to minimize fluctuations in net interest income caused by interest rate changes. This is accomplished by managing the repricing of interest rate sensitive interest-bearing assets and interest-bearing liabilities. Controlling the maturity of repricing of an institution's liabilities and assets in order to minimize interest rate risk is commonly referred to as gap management. Close matching of repricing assets and liabilities will normally result in little change in net interest income when interest rates change.

The following table indicates that at September 30, 2001, if there had been a sudden and sustained increase in prevailing market interest rates, the Company's 2001 interest income would be expected to decrease, while a decrease in rates would indicate an increase in income.

| <u>Change in Interest Rates</u> | Net Interest Income | (Decrease) Increase | Percent Change |
|---------------------------------|--------------------------------|--------------------------------|---------------------------|
| | | (Dollars In Thousands) | |
| 200 basis point rise | \$ 18,986 | \$ (1,883) | (9.02)% |
| 100 basis point rise | 20,325 | (543) | (2.60) |
| base rate scenario | 20,869 | - | - |
| 100 basis point decline | 21,416 | 547 | 2.62 |
| 200 basis point decline | 21,961 | 1,093 | 5.24 |

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is from time to time involved in routine litigation incidental to the conduct of its business. The Company believes that no pending litigation to which it is a party will have a material adverse effect on its liquidity, financial condition, or results of operations.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

| Exhibit Number | Description |
|---------------------------|---|
| 2.1 | Acquisition Agreement and Plan of Merger dated October 1, 1999 among Team Financial, Inc., Team Financial Acquisition Subsidiary, Inc., and ComBankshares, Inc. (2) |
| 3.1 | Restated and Amended Articles of Incorporation of Team Financial, Inc. (3) |
| 3.2 | Amended Bylaws of Team Financial, Inc. (3) |
| 4.1 | Form of Indenture. (1) |
| 4.2 | Form of Subordinated Debenture (included as Exhibit A to Exhibit 4.1). (1) |
| 4.3 | Certificate of Trust. (1) |
| 4.4 | Trust Agreement. (1) |
| 4.5 | Form of Amended and Restated Trust Agreement. (1) |
| 4.6 | Form of Preferred Securities Certificate (included as Exhibit D to Exhibit 4.5). (1) |
| 4.7 | Form of Preferred Securities Guarantee Agreement. (1) |
| 4.8 | Form of Agreement as to Expenses and Liabilities (included as Exhibit C to Exhibit 4.5). (1) |
| 10.1 | Employment Agreement between Team Financial, Inc. and Robert J. Weatherbie dated January 1, 2001. (1) |
| 10.2 | Employment Agreement between Team Financial, Inc. and Michael L. Gibson dated January 1, 2001. (1) |
| 10.3 | Employment Agreement between Team Financial, Inc. and Rick P. Bartley dated January 1, 2001. (1) |
| 10.4 | Laser Pro License and Maintenance Agreement between Miami County National Bank (now TeamBank N.A.) and CFI Bankers Service Group, Inc. dated March 17, 1999. (3) |
| 10.5 | Data Processing Services Agreement between Team Financial, Inc. and Metavante Corporation dated March 1, 2001. (1) |
| 10.6 | 401K Plan of Team Financial, Inc. 401(k) Trust, effective January 1, 1999 and administered by Nationwide Life Insurance Company. (3) |
| 10.7-10.10 | Exhibit numbers intentionally not used. |
| 10.11 | Team Financial, Inc. Employee Stock Ownership Plan Summary. (3) |
| 10.12 | Team Financial, Inc. 1999 Stock Incentive Plan. (3) |
| 10.13 | Rights Agreement between Team Financial, Inc. and American Securities Transfer & Trust, Inc. dated June 3, 1999. (3) |
| 10.14 | Team Financial, Inc. Employee Stock Purchase Plan. (3) |
| 10.15 | Loan agreement between Team Financial, Inc. and Mercantile Bank dated December 3, 1999. (4) |
| 10.16 | Acquisition Agreement and Plan of Merger by and among Team Financial, Inc., Team Financial, Inc. Acquisition Subsidiary II and Post Bancorp, Inc. date April 30, 2001 and amendment dated July 25, 2001 (1) |
| 11.1 | Statement regarding Computation of per share earnings see consolidated financial statements. (1) |

- (1) Filed under the same exhibit number with Registration Statement on Form S-1, as amended, (Registration Statement No. 333-64934) and incorporated herein by reference.
 - (2) Filed with the Form 8-K/A dated December 30, 1999 (File No. 000-26335) and incorporated herein by reference.
 - (3) Filed under the same exhibit number with the Registration Statement on Form S-1, as amended, (Registration Statement No. 333-76163) and incorporated herein by reference.
 - (4) Filed with the Quarterly Report on Form 10-Q for the period ended September 30, 2000 (File No. 000-26335) and incorporated herein by reference.
-
- (b) Reports on Form 8-K Filed During the Quarter Ended September 30, 2001
-
- (b.1.) Current Report on Form 8-K filed on September 18, 2001 reporting the acquisition of Post Bancorp, Inc.

SIGNATURES

Pursuant to the requirements of The Securities Exchange Act of 1934,
the registrant has duly caused this report to be signed
on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2001

By: /s/ Robert J. Weatherbie
Robert J. Weatherbie
Chairman
Chief Executive Officer

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Date: November 9, 2001

By: /s/ Michael L. Gibson
President of Investments
Chief Financial Officer