TEAM FINANCIAL INC /KS
Form 10-Q
May 16, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

o 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)

KANSAS	**48-1017164**

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

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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 3,596,103 shares of the Registrant s common stock, no par value, outstanding as of May 15, 2008.

TEAM FINANCIAL, INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Financial Condition

(Dollars in thousands)

	March 31, 2008	December 31, 2007
Assets		
Cash and due from banks	$ 15,866	$ 20,258
Federal funds sold and interest bearing bank deposits	39,536	9,926
Cash and cash equivalents	55,402	30,184
Investment securities:		
Available for sale, at fair value (amortized cost of $150,898 and $166,369 at March 31, 2008 and December 31, 2007, respectively)	153,403	165,848
Non-marketable equity securities (amortized cost of $9,579 and $9,493 at March 31, 2008 and December 31, 2007, respectively)	9,579	9,493
Total investment securities	162,982	175,341
Loans receivable, net of unearned fees	578,545	560,861
Allowance for loan losses	(8,261)	(5,987)
Net loans receivable	570,284	554,874
Accrued interest receivable	5,385	5,599
Premises and equipment, net	21,877	22,083
Assets acquired through foreclosure	955	934
Goodwill	4,708	10,700
Intangible assets, net of accumulated amortization	2,376	2,523
Bank owned life insurance policies	20,949	20,739
Other assets	2,604	2,087
Total assets	$ 847,522	$ 825,064
Liabilities and Stockholders Equity		
Deposits:		
Checking deposits	$ 174,429	$ 187,356
Savings deposits	28,129	25,848
Money market deposits	67,883	68,472
Certificates of deposit	386,154	347,710
Total deposits	656,595	629,386
Federal funds purchased and securities sold under agreements to repurchase	2,354	2,969
Federal Home Loan Bank advances	107,993	108,005
Notes payable	2,096	2,195
Subordinated debentures	22,681	22,681
Accrued expenses and other liabilities	7,173	6,777
Total liabilities	798,892	772,013
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; 4,506,830 and 4,502,791 shares issued; 3,596,103 and 3,575,064 shares outstanding at March 31, 2008 and December 31, 2007, respectively	27,972	27,916
Capital surplus	275	308
Retained earnings	30,449	37,149

Treasury stock, 910,727 and 927,727 shares of common stock at cost at March 31, 2008, and December 31, 2007, respectively		(11,719)		(11,978)
Accumulated other comprehensive income (loss)		1,653		(344)
Total stockholders equity		48,630		53,051
Total liabilities and stockholders equity	$	847,522	$	825,064

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 March 31, 2008	Three Months Ended March 31, 2007
Interest Income:		
Interest and fees on loans	$ 10,572	$ 9,930
Taxable investment securities	1,800	2,003
Nontaxable investment securities	321	287
Other	190	174
Total interest income	12,883	12,394
Interest Expense:		
Deposits:		
Checking deposits	291	544
Savings deposits	45	52
Money market deposits	426	514
Certificates of deposit	4,156	3,544
Federal funds purchased and securities sold under agreements to repurchase	13	2
Federal Home Loan Bank advances payable	1,166	1,113
Notes payable and other borrowings	31	4
Subordinated debentures	343	402
Total interest expense	6,471	6,175
Net interest income before provision for loan losses	6,412	6,219
Provision for loan losses	2,574	230
Net interest income after provision for loan losses	3,838	5,989
Non-Interest Income:		
Service charges	830	817
Trust fees	161	169
Gain on sales of mortgage loans	180	145
Gain on sales of investment securities	158	
Bank-owned life insurance income	245	237
Other	401	367
Total non-interest income	1,975	1,735
Non-Interest Expenses:		
Salaries and employee benefits	3,503	3,130
Occupancy and equipment	842	735
Data processing	719	737
Professional fees	391	450
Marketing	78	110
Supplies	78	81
Intangible asset amortization	156	140
Goodwill impairment	5,992	
Other	975	786

Total non-interest expenses		12,734		6,169
Income (loss) before income taxes		(6,921)		1,555
Income tax expense (benefit)		(509)		387
Net income (loss)	$	(6,412)	$	1,168
Basic income (loss) per share	$	(1.79)	$	0.32
Diluted income (loss) per share	$	(1.77)	$	0.32
Shares applicable to basic income per share		3,579,486		3,595,103
Shares applicable to diluted income per share		3,628,586		3,697,358

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net income (loss)	$ (6,412)	$ 1,168
Other comprehensive income, net of tax:		
Unrealized gains on investment securities available for sale net of tax of $1,083 and $162 for the three months ended March 31, 2008 and March 31, 2007, respectively	2,101	311
Reclassification adjustment for gains included in net income net of tax of $(54) and $0 for the three months ended March 31, 2008 and March 31, 2007, respectively	(104)	
Other comprehensive income, net	1,997	311
Comprehensive income (loss)	$ (4,415)	$ 1,479

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. And Subsidiaries

Unaudited Consolidated Statements of Changes In Stockholders Equity

Three Months Ended March 31, 2008

(Dollars in thousands, except per share amounts)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stockholders equity
BALANCE, December 31, 2007	$ 27,916	$ 308	$ 37,149	$ (11,978)	$ (344)	$ 53,051
Treasury stock purchased (7,600 shares)				(102)		(102)
Common stock issued in connection with employee benefit plans (4,039 shares)	56					56
Contribution of shares of treasury stock to Company ESOP (17,000 shares)				249		249
Issuance of Treasury stock in connection with compensation plans (7,600 shares)		(65)		112		47
Recognition of stock-based compensation		32				32
Net loss			(6,412)			(6,412)
Dividends ($0.08 per share)			(288)			(288)
Other comprehensive income net of $1,029 in taxes					1,997	1,997
BALANCE, March 31, 2008	$ 27,972	$ 275	$ 30,449	$ (11,719)	$ 1,653	$ 48,630

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc. and Subsidiaries

Unaudited Consolidated Statements Of Cash Flows

(Dollars In thousands)

	Three Months Ended March 31, 2008	2007
Cash flows from operating activities:		
Net income (loss)	$ (6,412)	$ 1,168
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Goodwill impairment	5,992	
Provision for loan losses	2,574	230
Depreciation and amortization	517	499
Impairment of assets	7	10
Contribution of treasury shares to ESOP	249	
Stock-based compensation expense	32	68
Change in bank owned life insurance	(210)	(204)
Net gain on sales of investment securities	(158)	
Stock dividends	(86)	(105)
Net gain on sales of mortgage loans	(180)	(142)
Net gain on sales of assets	(7)	(8)
Proceeds from sale of mortgage loans	14,354	9,658
Origination of mortgage loans for sale	(12,889)	(8,347)
Net increase (decrease) in other assets	(349)	334
Net increase in accrued expenses and other liabilities	(588)	(381)
Net cash provided by operating activities	2,846	2,780
Cash flows from investing activities:		
Net increase in loans	(19,372)	(18,980)
Proceeds from sale of VISA Initial Public Offering	111	
Proceeds from maturities and principal reductions of investment securities	31,967	3,687
Purchases of investment securities	(16,499)	(7,938)
Purchase of premises and equipment, net	(151)	(1,918)
Proceeds from sales of assets	117	223
Net cash used in investing activities	(3,827)	(24,926)
Cash flows from financing activities:		
Net increase in deposits	27,209	1,412
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(615)	(106)
Payments on Federal Home Loan Bank advances	(12)	(156,155)
Proceeds from Federal Home Loan Bank advances		156,144
Payments on notes payable	(1,421)	(1,461)
Proceeds from notes payable	1,322	1,369
Common stock issued	56	15
Purchase of treasury stock	(102)	(348)
Issuance of treasury stock	47	
Dividends paid on common stock	(286)	(287)
Net cash provided by financing activities	26,199	583
Net change in cash and cash equivalents	25,218	(21,563)
Cash and cash equivalents at beginning of the period	30,184	37,150

Cash and cash equivalents at end of the period	$	55,402	$	15,587
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	6,052	$	5,955
Income taxes (net of refunds)		567		806
Noncash activities related to operations				
Assets acquired through foreclosure	$	139	$	

See accompanying notes to the unaudited consolidated financial statements

Team Financial, Inc and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Three month periods ended March 31, 2008 and 2007

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Team Financial, Inc. and Subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles 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/A for the year ended December 31, 2007.

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 of which are collectively considered one segment. 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 II (the Trust). In accordance with Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46 R), adopted in December 2003, 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 was formed in 2006 for the purpose of issuing $22 million of Trust Preferred Securities. We continue to include the Trust Preferred Securities issued by the Trust in Tier I capital for regulatory capital purposes.

The December 31, 2007 statement of financial condition has been derived from the audited consolidated financial statements as of that date. Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation. The results of the quarter ended March 31, 2008, are not necessarily indicative of the results that may occur for the year ending December 31, 2008.

(2) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Statement was effective for the Company on January 1, 2008 and did not have a significant impact on the Company s financial position, operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. Statement

No. 159 was effective for the Company on January 1, 2008 and did not have a significant impact on the Company s financial position, operations or cash flows.

In September 2006, the FASB ratified the consensus reached by the FASB s Emerging Issues Task Force (EITF) relating to EITF 06-4, Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. This EITF requires employers accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods to recognize a liability for future benefits in accordance with FASB Statement of Financial Accounting Standards No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board (APB) Opinion No. 12, Omnibus Opinion 1967. Entities should recognize the effects of applying this issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. This EITF was effective for the Company on January 1, 2008 and did not have a significant impact on the Company s financial position, operations or cash flows.

(3) Stock Based Compensation

The Company s 1999 Stock Incentive Plan and 2007 Stock Incentive Plan provide for the following stock and stock-based awards: restricted stock, stock options, stock appreciation rights and performance shares. As of March 31, 2008, up to 15,100 shares of our common stock were available to be issued under the 1999 Stock Incentive Plan and up to 343,750 shares of our common stock were available to be issued under the 2007 Stock Incentive Plan. All employees, directors and consultants are eligible to participate in these plans. The Company generally grants stock options with either a one-year cliff vesting schedule and a ten-year expiration from the date of grant, or with a three-year potential vesting schedule and a ten-year expiration from the date of grant, with vesting at the discretion of the Compensation Committee of the Board of Directors, which administers both plans.

The Company accounts for all share-based transactions according to the provisions set forth in Statement of Financial Accounting Standards No. 123(R), *Share-Based Payments*, (SFAS No. 123(R)). This statement requires that the cost resulting from all share-based transactions be recognized in the financial statements. SFAS 123(R) 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. During the three months ended March 31, 2008 and 2007, the Company recognized share-based compensation expense of approximately $32,000 and $68,000, respectively.

Stock-based compensation expense for options with a vesting period during the three months ended March 31, 2008 was estimated using the Black-Scholes option pricing model with the following assumptions:

	One-year options	Three-year options
Expected life in years	5	8
Expected volatility	17.29%	17.45%
Risk-fee interest rate	3.45%	2.47%
Annual rate of quarterly dividends	2.09%	2.42%

The following table summarizes option activity for the three months ended March 31, 2008:

	Number of optioned shares	Weighted average exercise price per share	Weighted average remaining contractual life in years	Aggregate Intrinsic Value
Outstanding at December 31, 2007	335,700	$ 12.17		
Granted	45,000	14.81		
Exercised	(7,600)	10.43		
Expired or forfeited	(1,750)	14.81		
Outstanding at March 31, 2008	371,350	12.45	6.5	$ 1.65
Exercisable at March 31, 2008	272,100	11.49	5.5	2.25

A summary of the Company s nonvested options as of March 31, 2008 and changes during the quarter then ended are presented below:

	Number of shares	Weighted average grant date fair value
Nonvested at December 31, 2007	56,000	$ 2.72
Granted	45,000	1.61
Nonvested at March 31, 2008	101,000	2.61

On March 31, 2008, there was approximately $76,000 of unrecognized compensation cost related to nonvested stock-based compensation awards, which the Company expects to recognize over a weighted-average period of 1.2 years.

(4) Stock Repurchase Program

There were 7,600 shares of common stock repurchased during the quarter ended March 31, 2008 at an average price of $13.46 per share under a stock repurchase program authorized by the Board of Directors that allows the repurchase of up to 400,000 shares. At March 31, 2008, there were 194,678 shares of our common stock remaining for possible repurchase. See Note 13, Subsequent Events for more information on potential impacts to this program.

(5) Dividend Declared

On March 3, 2008, we declared a quarterly cash dividend of $0.08 per share to all common shareholders of record on March 31, 2008, payable on April 18, 2008. See Note 13, Subsequent Events for more information on potential impacts to future dividends.

(6) Investment Securities

The following tables summarize the amortized cost, gross unrealized gains and losses, and fair value of investment securities at March 31, 2008 and December 31, 2007.

	March 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Investment securities available for sale:				
U.S. Agency Securities	$ 24,409	$ 846	$	$ 25,255
Mortgage-backed securities	86,801	1,763	(147)	88,417
Nontaxable Municipal Securities	31,147	514	(199)	31,462
Taxable Municipal Securities	4,435	384		4,819
Other debt securities	3,976		(683)	3,293
Total investment securities available for sale	150,768	3,507	(1,029)	153,246
Equity securities:				
Marketable	130	39	(12)	157
Non-marketable	9,579			9,579
Total investment securities	$ 160,477	$ 3,546	$ (1,041)	$ 162,982

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
	(In thousands)			
Investment securities available for sale:				
U.S. Agency Securities	$ 50,842	$ 414	$ (31)	$ 51,225
Mortgage-backed securities	78,672	486	(1,156)	78,002
Nontaxable Municipal Securities	28,151	301	(133)	28,319
Taxable Municipal Securities	4,435	28	(95)	4,368
Other debt securities	4,139		(366)	3,773
Total investment securities available for sale	166,239	1,229	(1,781)	165,687
Equity securities:				
Marketable	130	42	(11)	161
Non-marketable	9,493			9,493
Total investment securities	$ 175,862	$ 1,271	$ (1,792)	$ 175,341

Management does not believe that any of the securities with unrealized losses at March 31, 2008 are other than temporarily impaired due to changes in market rate from the date of purchase. These unrealized losses are considered temporary based on our ability and intent to hold until values recover.

(7) Loans

Major classifications of loans at March 31, 2008 and December 31, 2008 are as follows:

	March 31, 2008		December 31, 2007	
	Principal Balance	Percent of Total	Principal Balance	Percent of Total
Loans secured by real estate:				
One to four family	$ 74,032	12.8%	$ 77,961	13.9%
Construction and land development	224,040	38.5	210,083	37.4
Commercial	165,934	28.7	156,085	27.7

Farmland	28,297	4.9	28,380	5.1
Multifamily	3,943	0.7	3,855	0.7
Commercial and industrial	58,932	10.2	59,770	10.7
Agricultural	7,876	1.4	8,350	1.5
Installment loans	9,760	1.7	10,506	1.9
Obligations of state and political subdivisions	5,645	1.0	5,628	1.0
Lease financing receivables	881	0.2	993	0.2
Gross loans	579,340	100.1	561,611	100.1
Less unearned fees	(795)	(0.1)	(750)	(0.1)
Total loans receivable	$ 578,545	100.0%	$ 560,861	100.0%

Included in one-to-four family real estate loans were loans held for sale of approximately $570,000 at March 31, 2008 and $1.9 million at December 31, 2007.

A summary of non-performing assets is as follows for the dates indicated:

	March 31, 2008	December 31, 2007
Non-performing assets:	(Dollars in thousands)	
Non-accrual loans	$ 11,787	$ 6,069
Loans 90 days past due and still accruing	1,302	233
Restructured loans	660	669
Non-performing loans	13,749	6,971
Other real estate owned	955	934
Total non-performing assets	$ 14,704	$ 7,905
Non-performing loans as a percentage of total loans	2.38%	1.24%
Non-performing assets as a percentage of total assets	1.73%	0.96%

Information regarding impaired loans is summarized as follows:

	March 31, 2008	December 31, 2007
Impaired loans for which a related allowance has been provided	$ 9,622	$ 5,471
Impaired loans for which a related allowance has not been provided	2,165	1,439
Total impaired loans	$ 11,787	$ 6,910
Allowance related to impaired loans	$ 1,513	$ 648

(8) Allowances for Loan Losses

A summary of the allowances for loan losses for the three months ended March 31, 2008 and 2007 is as follows:

Three Months Ended March 31,

		2008		2007
		(Dollars In thousands)		
Allowance at beginning of period	$	5,987	$	5,715
Provision for loan losses		2,574		230
Loans charged off		(358)		(140)
Recoveries		58		28
Allowance at end of period	$	8,261	$	5,833

(9) Commitments and Contingencies

Commitments to extend credit to our customers with unused approved lines of credit were approximately $125.1 million at March 31, 2008. Additionally, the contractual amount of standby letters of credit at March 31, 2008 was approximately $6.9 million. These commitments involve credit risk in excess of the amount stated in the consolidated balance sheet. Exposure to credit loss in the event of nonperformance by the customer is represented by the contractual amount of those instruments.

(10) Income Taxes

As a result of the Company s net operating loss for the three months ended March 31, 2008, the Company had an income tax benefit of $509,000 for the three months ended March 31, 2008, compared to income tax expense of $387,000 for the three months ended March 31, 2007. The effective tax (benefit)/expense rate for the three months ended March 31, 2008, was (7.4%), compared to a 24.9% for the three months ended March 31, 2007. The effective tax rate is typically less than the statutory federal rate of 34.0% due primarily to municipal interest income and income from the investment in bank owned life insurance.

In accordance with FIN 48, the Company has performed an analysis and has taken the position that it is not more likely than not that certain state tax benefits will be recognized in the future. As of the three months ended March 31, 2008 approximately $759,000 of unrecognized tax benefits related to certain state tax benefits, and approximately $7,000 of unrecognized tax benefits related to acquisition costs were included in other liabilities within the consolidated balance sheet. During the first quarter of 2008, a total of approximately $59,000 was added to these reserves. If recognized, all of the tax benefits would increase net income, decreasing the effective tax rate.

The Company accrues tax expense, including interest and penalties, for unrecognized tax benefits related to certain state tax positions based on the applicable tax rates, and subsequently recognizes those state tax benefits when the related position is effectively settled or the statute of limitations expires. During the fourth quarter of 2008, when the 2004 related statute of limitations expires, the Company expects to recognize approximately $79,000 of state tax benefits associated with these state tax positions.

The Company recognizes any interest and penalties related to unrecognized tax benefits in the provision for income taxes, which therefore has an impact on the effective tax rate. Interest and penalties associated with the above-mentioned unrecognized tax benefits approximated $240,000 ($218,000 after-tax) at March 31, 2008.

The Company s federal and various state income tax returns for the years 2004 through 2007 remain subject to review by the various tax authorities.

(11) Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value within generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 identifies three primary valuation techniques: the market approach, the income approach and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts such as cash flows or earnings, to a single present amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset.

SFAS No. 157 establishes a fair value hierarchy and prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The maximization of observable inputs and the minimization of the use of unobservable inputs are required. Classification within the fair value hierarchy is based upon the objectivity of the inputs that are significant to the valuation of an asset or liability as of the measurement date. The three levels within the fair value hierarchy are characterized as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the Company s own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed