TEAM FINANCIAL INC /KS
Form 10-K
March 30, 2004

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

**Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2003**

Commission File Number: 000-26335

TEAM FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

KANSAS	**48-1017164**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8 West Peoria, Suite 200, Paola, Kansas, 66071
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(g) of the Act:
Common stock, no par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes o No ý.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

The aggregate market value of the voting stock held by "nonaffiliates" of the registrant, based on a June 30, 2003 closing price of $11 as reported on the NASDAQ National Market, was $28,950,680.

There were 4,089,470 shares of the Registrant's common stock, no par value, outstanding as of March 22, 2004.

DOCUMENTS TO BE INCORPORATED BY REFERENCE

Portions of Registrant's definitive proxy statement for its 2004 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2003, will be incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

General Description

Team Financial, Inc. is a financial holding company incorporated in the State of Kansas. Our common stock is listed on the Nasdaq National Market (NASDAQ) under the symbol "TFIN".

We offer full service community banking and financial services through 17 locations in Kansas, Missouri, Nebraska, Oklahoma and Colorado through our wholly owned banking subsidiaries, TeamBank N.A and Colorado National Bank. Our presence in Kansas consists of seven locations in the Kansas City metropolitan area and three locations in southeast Kansas. We operate two locations in western Missouri, three in the metropolitan area of Omaha, Nebraska, and one in Colorado Springs, Colorado. A second location in Colorado Springs, Colorado will be opened in March 2004. Additionally, we provide insurance services in the Tulsa, Oklahoma metropolitan area.

We were formed in 1986 when our founders, along with an Employee Stock Ownership Plan (ESOP) purchased a one-bank holding company in Paola, Kansas, in a leveraged transaction. Since formation, we have grown from $85 million in assets to $650 million in assets as of December 31, 2003. This growth was achieved through a combination of bank and branch acquisitions, the establishment of new branches, and by internal growth. In mid 1999, our common stock began trading on NASDAQ upon completion of a public offering.

The ESOP owned 25.31% of outstanding common stock as of December 31, 2003. Management believes the ESOP reflects our corporate culture in that employees are the integral component of a financial institution. Management intends to continue the ESOP, as it is a significant incentive to attract and retain qualified employees.

We serve the needs and cater to the economic strengths of the local communities in which we operate and strive to provide a high level of personal and professional customer service. We offer a variety of financial services to our retail and commercial banking customers. These services include personal and corporate banking services, mortgage banking, employee benefit insurance and property and casualty coverage, trust and estate planning, and personal investment financial counseling services.

Our full complement of lending services includes:

- a broad array of residential mortgage products, both fixed and adjustable rate;
- consumer loans, including home equity lines of credit, auto loans, recreational vehicle, and other secured and unsecured loans;
- specialized financing programs to support community development;
- mortgages for multi-family real estate;
- commercial real estate loans;
- commercial loans to businesses, including revolving lines of credit and term loans;
- real estate development;
- construction lending; and
- agricultural lending.

We also provide a broad selection of deposit instruments. These include:

- multiple checking and NOW accounts for both personal and business accounts;
- various savings accounts, including those for minors;

- money market accounts;
- tax qualified deposit accounts such as Individual Retirement Accounts; and
- a broad array of certificate of deposit products.

We also support our customers by providing services such as:

- functioning as a federal tax depository;
- providing access to merchant bankcard services;
- supplying various forms of electronic funds transfer;
- providing debit cards and credit cards; and
- providing telephone and internet banking.

We also offer a full complement of employee benefit insurance and property and casualty coverage to both businesses and individuals.

Through our trust and estate planning and our personal investment financial counseling services, we offer a wide variety of mutual funds, equity investments, and fixed and variable annuities.

We participate in the wholesale capital markets through the management of our security portfolio and our use of various forms of wholesale funding. Our security portfolio contains a variety of instruments, including callable debentures, taxable and nontaxable debentures, fixed and adjustable rate mortgage backed securities, and collateralized mortgage obligations.

Our 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. Our operations are also affected by non-interest income, such as service charges, insurance commissions, loan fees, and gains and losses from the sale of mortgage loans. Our principal operating expenses, aside from interest expense, consist of compensation and employee benefits, occupancy costs, data processing expenses, and provisions for loan losses.

Recent Acquisitions and Developments

On September 18, 2001, we acquired 100% of the outstanding stock of Post Bancorp, Inc., owner of Colorado National Bank for $12.8 million, consisting of $11.0 million in cash and $1.8 million in common stock. The cash portion of the purchase price was financed through the issuance of 1,552,500, 9.50% Cumulative Trust Preferred Securities at $10 per preferred security. The Trust Preferred Securities trade on the NASDAQ under the symbol "TFINP". In January 2003, we changed the name of Colorado Springs National Bank to Colorado National Bank to reflect our expansion plans to other markets beyond Colorado Springs, Colorado along the front range of the Rocky Mountains.

On June 21, 2002 our wholly owned subsidiary, Community Bank, sold its Chapman and Abilene, Kansas branch locations to First National Bank of Belleville, Kansas for a premium of $1.7 million. We recorded a pre-tax gain on the sale of $452,000 and an after tax loss on the sale of $196,000. The after tax loss was due to a difference in the book versus tax basis on the reduction of $1.3 million in goodwill with the sale. The Community Bank charter was merged into TeamBank, N.A. after the branch sale.

On December 18, 2002, we completed the acquisition of The Quarles Agency, Inc., a 25-year old insurance agency located in Tulsa, Oklahoma. The total consideration paid to The Quarles Agency Inc.'s shareholders was $6,850,000 in the form of $5,000,000 of cash at closing and the balance of the cash consideration of $1,850,000 plus interest thereon at one percent under the Prime Rate published in the Wall Street Journal to

be paid in two annual contingent payments of $925,000 each. The first payment of $925,000 is distributable in 2004 based on 2003 insurance services earnings. The Quarles Agency Inc., now

called Team Insurance Group, Inc., operates as a subsidiary of TeamBank, N.A. See footnote 17, *Commitments, Contingencies and Off-Balance Sheet Risks*, in the consolidated financial statements for further information regarding the contingent payments.

On May 5, 2003, we closed one of our banking locations in Omaha, Nebraska. We recorded a $258,000 loss to terminate the building lease and dispose of the assets of the facility. Customers will continue to be serviced from the other three Omaha metropolitan locations.

Competition

We face a high degree of competition. In our market areas, there are numerous small banks and several larger national and regional financial banking groups. We also compete with insurance companies, insurance agencies, savings and loan associations, credit unions, leasing companies, mortgage companies, and other financial service providers. Many of these competitors have capital resources and legal lending limits substantially in excess of our capital resources and legal lending limits.

We compete for loans and deposits principally based on the availability and quality of services provided, responsiveness to customers, interest rates, loan fees and office locations. We actively solicit deposit customers and compete by offering them high quality customer service and a complete product line. We believe our personalized customer service, broad product line, and banking franchise enables us to compete effectively in our market area.

In order to compete with other financial service providers, we rely upon local community involvement, personal service, and the resulting personal relationships of our staff and customers, and the development and sale of products and services tailored to meet our customers' needs.

We face competition for our personnel. We compete through our emphasis as a community banking culture and through the use of our ESOP. Management believes that we are able to compete for personnel effectively in our market areas because the ESOP provides incentives for employees to join us as well as motivation to enhance shareholder value.

We will also face significant competition from other financial institutions in any potential acquisitions. This competition can increase purchase prices to levels beyond our financial capability or to levels that would not result in economical returns on our investment.

We have two wholly owned bank subsidiaries. The table below presents information concerning these subsidiaries.

Name of Bank	Number of locations	Lending Limit	Asset size at December 31, 2003
		(In millions)	
TeamBank, N.A. Paola, Kansas a national banking association	16	$ 6.5	$ 549
Colorado National Bank Colorado Springs, Colorado, a national banking association	1	1.3	99

Market Areas Served

TeamBank, N.A.

TeamBank, N.A. has banking locations in Kansas, Missouri, and Nebraska and an insurance services office in Tulsa, Oklahoma. TeamBank, N.A.'s primary Kansas service area is in Miami County, Kansas. Located in the Kansas City metropolitan area, Miami County adjoins Johnson County, Kansas.

TeamBank, N.A.'s Miami County branches are located in Paola, the county seat of Miami County, Osawatomie, the second largest city in the county and Spring Hill, a community developed across the Miami County and Johnson County border. TeamBank, N.A. also operates a branch in Ottawa, Kansas, the county seat of adjoining Franklin County; Iola Kansas, the county seat of Allen County; and operates two branches in Parsons, Kansas of Labette County. TeamBank, N.A. operates one branch in Johnson County, Kansas. TeamBank, N.A.'s Missouri service areas are in Barton and Vernon counties, which adjoin each other and are located in the southwest section of Missouri along the Kansas-Missouri border. TeamBank, N.A. also operates three facilities in the Omaha, Nebraska metropolitan area. The primary Nebraska service areas are in Washington and Sarpy Counties.

Team Insurance Group Inc., located in Tulsa, Oklahoma, offers a full complement of employee benefit insurance and property and casualty coverage to both businesses and individuals in Tulsa and the surrounding communities.

Colorado National Bank

Colorado National Bank located in Colorado Springs, Colorado services El Paso County and Teller County along the front range of the Colorado Rocky Mountains. In January 2003, we changed the name of Colorado Springs National Bank to Colorado National Bank to reflect our expansion plans to other markets beyond Colorado Springs along the front range of the Colorado Rocky Mountains. The bank opened a second location, a full service branch, in March 2004, north of the main location in Colorado Springs. The bank is scheduled to open a third branch in the fourth quarter of 2004 located in Monument, Colorado, which is a community located between Denver and Colorado Springs, along the growing I-25 corridor.

Growth and Operating Strategies

Our operating strategy is to serve the needs and cater to the economic strengths of the local communities in which we operate and strive to provide a high level of personal and professional customer service. We offer a variety of financial services to our retail and commercial banking and insurance customers.

Our growth strategy is focused on a combination of acquisitions and expansion in our existing markets through internal growth as well as establishing new branch and insurance service locations.

Acquisitions

Management believes that the consolidation in the banking and insurance agency industries, along with the easing of branch banking throughout Kansas, Missouri, Nebraska, Colorado, and Oklahoma, as well as increased regulatory requirements, concerns about technology and marketing, are likely to lead owners of community banks and insurance agencies within these areas to explore the possibility of sale or combination with a broader-based financial service companies such as ourselves.

In addition, branching opportunities have arisen from time to time as a result of divestiture of branches by large national and regional bank holding companies of certain overlapping branches resulting from consolidations. As a result, branch locations have become available for purchase. We completed three branch acquisitions and three bank holding company acquisitions from 1997 through 2003.

Management's strategy in assimilating acquisitions is to emphasize revenue growth as well as to continuously review the operations of the acquired entities and streamline operations where feasible. Management does not believe that implementing wholesale administrative cost reductions in acquired institutions is beneficial to our long-term growth, because significant administrative changes in community banks can have an adverse impact on customer satisfaction in the acquired institution's community. However, management has determined that certain human resource, operations, and accounting functions can be consolidated immediately upon acquisition to achieve higher productivity levels without

compromising customer service. Increases in revenue growth are emphasized by offering customers a broader product line consistent with full service banking.

Branch and Insurance Location Expansion

Management has actively pursued opportunities to expand through acquisition of branches or developing de novo branches. Because of the economic growth in the Omaha, Nebraska area, the Colorado Springs, Colorado area, as well as Johnson County, Kansas, over the past several years, management may consider further branch expansion in these areas. However, we do not rule out branch expansion in other areas experiencing economic growth. As discussed above, we opened a new branch location in Colorado Springs, Colorado in March 2004 and anticipate opening another branch in Monument, Colorado in the fourth quarter of 2004.

We consider a variety of criteria when evaluating potential acquisition candidates or branching opportunities. These include:

- the market location of the potential acquisition target or branch and demographics of the surrounding community;
- the financial soundness of a potential acquisition target;
- opportunities to improve the efficiency and/or asset quality of an acquisition target;
- the effect of the acquisition on earnings per share and book value, undertaking acquisitions that will be accretive to earnings within 18 months of the acquisition;
- whether we have sufficient management and other resources to integrate or add the operations of the target or branch; and
- the investment required for, and opportunity costs of, the acquisition or branch.

Internal Growth

We believe that our largest source of internal growth is through our ongoing solicitation program conducted by bank presidents and lending officers, followed by referrals from customers. The primary reason for referrals is positive customer feedback regarding our customer service and response time.

Our goal in continuing our expansion is to maintain a profitable, customer-focused financial institution. We believe that our existing structure, management, data and operational systems are sufficient to achieve further internal growth in asset size, revenues, and capital without proportionate increases in operating costs. This growth should also allow us to increase the legal lending limits of our banks, thereby enabling us to increase our ability to serve the needs of existing and new customers. Our operating strategy has always been to provide high quality community banking services to our customers and increase market share through active solicitation of new business, repeat business, and referrals from customers, and continuation of selected promotional strategies.

For the most part, our banking customers seek a banking relationship with a service-oriented community banking organization. Our operational systems have been designed to facilitate personalized service. Management believes our banking locations have an atmosphere which facilitates personalized services and decision-making, yet are of sufficient financial size with broad product lines to meet customers' needs. Management also believes that economic expansion in our market areas will continue to contribute to internal growth. Through our primary emphasis on customer service and our management's banking experience, we intend to continue internal growth by attracting customers and primarily focusing on the following:

- ***Products Offered*** We offer personal and corporate banking services, employee benefit and property and casualty insurance services, trust and estate planning, mortgage origination, mortgage servicing,

personal investment, and financial counseling services as well as internet and telephone banking. We offer a full range of commercial banking services, checking accounts, ATM's, checking accounts with interest, savings accounts, money market accounts, certificates of deposit, NOW accounts, Individual Retirement Accounts, brokerage and residential mortgage

services, branch banking, and debit and credit cards. We also offer installment loans, including auto, recreational vehicle, and other secured and unsecured loans sourced directly by our branches. See "Loans" below for a discussion of products we provide to commercial accounts.

Operational Efficiencies We seek to maximize operational and support efficiencies consistent with maintaining high quality customer service. Where feasible, our banks share a common information system designed to enhance customer service and improve efficiencies by providing system-wide voice and data communication connections. We have consolidated loan processing, bank balancing, financial reporting, investment management, information systems, payroll and benefit management, loan review, and audits.

Marketing Activities We focus on a proactive solicitation program for new business, as well as identifying and developing products and services that satisfy customer needs. We actively sponsor community events within our branch areas. We believe that active community involvement contributes to our long-term success.

Loans

We provide a broad range of commercial and retail lending services. Our banks follow a uniform credit policy, which contains underwriting and loan administration criteria, levels of loan commitment, loan types, credit criteria, concentration limits, loan administration, loan review and grading and related matters. In addition, we provide ongoing loan officer training and operate a centralized processing and servicing center for loans. Each loan portfolio is subject to loan review by our Loan Review department. At December 31, 2003, substantially all loans outstanding were to customers within our market areas.

Loan Administration

We maintain a loan committee approach to lending, which we believe yields positive results in both responsiveness to customer needs and asset quality. Each of our subsidiary banks and some branches have a loan committee, which meets at least once per week to review and discuss loans. Each bank and some branches also have a loan level threshold, which, if exceeded, requires the approval of our holding company loan committee, which meets on an on-call basis. Loans greater than $2.5 million are reviewed by Team Financial, Inc.'s board of directors.

Interest rates charged on loans vary with the degree of risk, maturity, costs of underwriting and servicing, loan amount, and extent of other banking relationships maintained with customers, and are further subject to competitive pressures, availability of funds and government regulations.

Commercial Loans

These loans consist primarily of loans to businesses for various purposes, including revolving lines of credit, equipment financing, and accounts receivable factoring. Commercial loans secured by collateral other than real estate generally mature within one year, have adjustable interest rates and are secured by inventory, accounts receivable, machinery, government guarantees, or other commercial assets. Revolving lines of credit are generally for business purposes, mature annually and have adjustable interest rates. The primary repayment risk of commercial loans is the failure of the borrower's business due to economic or financial factors.

Real Estate Loans

These loans include various types of loans for which we hold real property as collateral. Interest rates on these loans typically adjust annually. Real estate construction loans include commercial and residential real estate construction loans, but are principally made to builders to construct business buildings or single and multi-family residences. Real estate construction loans typically have maturities of six to 12 months, and charge origination fees. Terms may vary depending upon many factors, including the type of project and financial condition of the borrower. It is our standard practice in making commercial loans to receive real estate as collateral in addition to other appropriate collateral. Therefore, loans categorized in the other real estate loan category can be characterized as commercial loans, which are secured by real estate. Commercial loans secured by real estate typically have adjustable interest rates. The primary risks of real estate mortgage loans include the borrower's inability to pay and deterioration in value of real estate that is held as collateral.

Agricultural Loans

We make a variety of agricultural loans which are included in real estate and commercial loans. These loans relate to equipment, livestock, crops, and farmland. The primary risks of agricultural loans include the prices of crops and livestock, as well as weather conditions.

Installment Loans

Installment loans are primarily to individuals, are typically secured by the financed assets, generally have terms of two to five years and bear interest at fixed rates. These loans usually are secured by motor vehicles or other personal assets and in some instances are unsecured. The primary risk of consumer lending relates to the personal circumstances of the borrower.

Letters of Credit

In the ordinary course of business, we issue letters of credit. See note 17 to Item 8 Financial Statements. We apply the same credit standards to these commitments as we use in all our lending activities and have included these commitments in our lending risk evaluations. Our exposure to credit loss under letters of credit is represented by the amount of these commitments.

Employees

As of December 31, 2003, we had approximately 275 full-time equivalent employees. Neither our company nor any of our subsidiaries is a party to any collective bargaining agreement.

Principal Sources of Revenue

Our 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. Our operations are also affected by non-interest income, such as service charges, loan fees, insurance commissions, and gains and losses from the sale of mortgage loans. Our principal operating expenses, aside from interest expense, consist of compensation and employee benefits, occupancy costs, data processing expense and provisions for loan losses.

Supervision and Regulation

Government Regulation

We are extensively regulated under federal and state law. These laws and regulations are primarily intended to protect depositors and the deposit insurance fund of the Federal Deposit Insurance Corporation, not our shareholders. The following information is qualified in its entirety by reference to the

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particular statutory and regulatory provisions. Any change in applicable laws, regulations or regulatory policies may have a material effect on our business, operations, and prospects. We are unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls or new federal or state legislation may have on our business and earnings in the future.

The Company

General

We operate as a financial holding company registered under the Gramm-Leach-Bliley Act (GLBA). This law permits former bank holding companies that have registered as financial services companies to affiliate with securities firms and insurance companies and engage in other activities that are financial in nature.

No regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The GLBA defines "financial in nature" to include securities underwriting, dealing, and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Board has determined to be closely related to banking. A national bank also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory Community Reinvestment Act (CRA) rating.

Although it preserves the Federal Reserve as the umbrella supervisor of financial holding companies, the GLBA defers the administration of the nonbanking activities to the customary regulators of insurers, broker-dealers, investment companies and banks. Thus, the various state and federal regulators of a financial holding company's operating subsidiaries would retain their jurisdiction and authority over such operating entities. As the umbrella supervisor, however, the Federal Reserve has the potential to affect the operations and activities of financial holding companies' subsidiaries through its power over the financial holding company parent. The GLBA contains restrictions on financial institutions regarding the sharing of customer nonpublic personal information with nonaffiliated third parties unless the customer has had an opportunity to opt out of the disclosure. The GLBA also imposes periodic disclosure requirements concerning a financial institution's policies and practices regarding data sharing with affiliated and nonaffiliated parties.

Subsidiary banks of a financial holding company or national banks with financial subsidiaries must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has CRA rating of satisfactory or better.

Acquisitions

As a financial holding company, we are required to obtain the prior approval of the Federal Reserve before acquiring direct or indirect ownership or control of more than 5% of the voting shares of a bank or financial holding company. The Federal Reserve will not approve any acquisition, merger, or consolidation that would have a substantial anti-competitive effect, unless the anti-competitive effects of the proposed transaction are outweighed by a greater public interest in meeting the needs and convenience of the community. The Federal Reserve also considers managerial resources, current and projected capital positions and other financial factors in acting on acquisition or merger applications.

Capital Adequacy

The Federal Reserve monitors the regulatory capital adequacy of financial holding companies. As discussed below, our banks are also subject to the regulatory capital adequacy requirements of the Federal Deposit Insurance Corporation and the Comptroller of the Currency, as applicable. The Federal Reserve uses a combination of risk-based guidelines and leverage ratios to evaluate our regulatory capital adequacy.

The Federal Reserve has adopted a system using risk-based capital adequacy guidelines to evaluate the regulatory capital adequacy of financial holding companies. The guidelines apply on a consolidated basis to financial holding companies with consolidated assets of at least $150 million. Under the risk-based capital guidelines, different categories of assets are assigned to different risk categories based generally on the perceived credit risk of the asset. The risk weights of the particular category are multiplied by the corresponding asset balances and added together to determine a risk-weighted asset base. Some off balance sheet items, such as loan commitments in excess of one year, mortgage loans sold with recourse and letters of credit, are added to the risk-weighted asset base by converting them to a credit equivalent and assigning them to the appropriate risk category. For purposes of the Federal Reserve's regulatory risk-based capital guidelines, total capital is defined as the sum of core and secondary capital elements, with secondary capital being limited to 100% of core capital. For financial holding companies, core capital, also known as Tier 1 capital, generally includes common shareholders' equity, perpetual preferred stock and minority interests in consolidated subsidiaries, less goodwill and other intangible assets. No more than 25% of core capital elements may consist of cumulative preferred stock. Secondary capital, also known as Tier 2 capital, generally includes the allowance for loan losses limited to 1.25% of weighted risk assets, certain forms of perpetual preferred stock, as well as hybrid capital instruments. The Federal Reserve's regulatory guidelines require a minimum ratio of qualifying total capital to weighted risk assets of 8%, of which at least 4% should be in the form of core capital. At December 31, 2003, our core capital was $46.3 million.

In addition to the risk-based capital guidelines, the Federal Reserve, the Federal Deposit Insurance Corporation and the Comptroller of the Currency use a leverage ratio as an additional tool to evaluate capital adequacy. The leverage ratio is defined by the Federal Reserve to be a company's core capital divided by its average total consolidated assets, and the Comptroller of the Currency's and Federal Deposit Insurance Corporation's definitions are similar. Based upon our current capital status, the applicable minimum required leverage ratio is 4%.

The table below presents certain ratios at December 31, 2003.

Ratio	Actual	Minimum required
Total capital to risk weighted assets	12.16%	8.00%

Ratio	Actual	Minimum required
Core capital to risk weighted assets	11.08%	4.00%
Core capital to average assets	7.46%	4.00%

Failure to meet the regulatory capital guidelines may result in the initiation by the Federal Reserve of appropriate supervisory or enforcement actions, including but not limited to delaying or denying pending or future applications to acquire additional financial or bank holding companies.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act (the Act), signed into law in 2002, addresses issues related to corporate governance of publicly traded companies. The Act requires, among other items, certification of the quality of financial reporting by the Chief Executive Officer and Chief Financial Officer, enhanced and timely disclosure of financial reporting and strengthens the rules regarding auditor and audit committee

independence. Certain provisions of the Act were effective immediately and others became effective or are in process of becoming effective through Securities and Exchange Commission rulings.

The Banks

General

We own two national chartered banks. TeamBank, N.A. and Colorado National Bank, as national banks, are subject to regulations by the Office of the Comptroller of the Currency. The deposits of all of the banks are insured by the Federal Deposit Insurance Corporation.

Community Reinvestment Act (CRA)

Under the federal Community Reinvestment Act, financial institutions have a continuing and affirmative obligation, consistent with safe and sound operations of such institutions, to serve the "convenience and needs" of the communities in which they are chartered to do business, including low- and moderate-income neighborhoods. The Community Reinvestment Act currently requires that regulators consider an applicant's Community Reinvestment Act record when evaluating certain applications, including charters, branches, and relocations, as well as mergers and consolidations. The applicable federal regulators regularly conduct Community Reinvestment Act examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. During their last examinations, ratings of at least satisfactory were received by all of our banks. As a result, management believes that the performance of our banks under the Community Reinvestment Act will not impede regulatory approvals of any proposed acquisitions or branching opportunities.

Dividend Restrictions

Dividends paid by our banks to the holding company provide a substantial amount of our operating and investing cash flow.

With respect to national banks, the directors may declare dividends of so much of the bank's undivided profits as they deem expedient, except until the bank's surplus fund equals its common capital at which time, no dividends may be declared unless the bank has carried to the surplus fund at least one-tenth of the bank's net income of the preceding half year in the case of quarterly or semiannual dividends, or at least one-tenth of its net income of the preceding two consecutive half-year periods in the case of annual dividends. However, the Comptroller of the Currency's approval is required if the total of all dividends declared by a bank in any calendar year exceeds the total of its net income of that year combined with its retained net income of the preceding two years, less any required transfers to surplus or a fund for the retirement of any preferred stock.

Examinations

The primary federal banking regulators examine our banks from time to time. Based upon an evaluation, the examining regulator may revalue a bank's assets and require that it establish specific reserves to compensate for the difference between the value determined by the regulator and the book value of the assets.

Capital Adequacy

The Federal Deposit Insurance Corporation and the Comptroller of the Currency have adopted regulations establishing minimum requirements for the capital adequacy of insured institutions. The requirements address both risk-based capital and leverage capital, with risk-based assets and core and secondary capital being determined in basically the same manner as described above for financial holding companies. The Federal Deposit Insurance Corporation or the Comptroller of the Currency may establish

higher minimum requirements if, for example, a bank has previously received special attention or has a high susceptibility to interest rate risk.

The Comptroller of the Currency risk-based capital guidelines require national banks to maintain a minimum ratio of total capital, after deductions, to weighted risk assets of 8%, and national banks and state nonmember banks must have and maintain core capital in an amount equal to at least 3% of adjusted total assets; but for all but the most highly rated banks, the minimum core leverage ratio is to be 3% plus an additional cushion of at least 100 to 200 basis points. The applicable guideline for TeamBank, N.A. and Colorado National Bank is 4%.

The table below presents the regulatory capital ratios of TeamBank N.A. and Colorado National Bank at December 31, 2003.

	TeamBank, N.A.		Colorado National Bank	
Ratio	**Actual**	**Minimum Required**	**Actual**	**Minimum Required**
Total capital to risk weighted assets	11.96%	8.00%	16.72%	8.00%
Core capital to risk weighted assets	10.87%	4.00%	15.71%	4.00%
Core capital to average assets	7.53%	4.00%	8.74%	4.00%

Banks with regulatory capital ratios below the required minimum are subject to administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

The Federal Deposit Insurance Corporation and Comptroller of the Currency regulators have adopted regulations that define five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. An institution is well capitalized if it has a total risk-based capital ratio of 10% or greater, core risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the institution is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. An institution is adequately capitalized if it has a total risk-based capital ratio of 8% or greater, a core risk-based capital ratio of 4% or greater, and a leverage ratio of 4% or greater. Currently, our banks are well capitalized.

The Federal Deposit Insurance Corporation Improvement Act requires the federal banking regulators to take prompt corrective action to resolve the problems of insured depository institutions, including capital-deficient institutions. In addition to requiring the submission of a capital restoration plan, the Federal Deposit Insurance Corporation Improvement Act contains broad restrictions on activities of institutions that are not adequately capitalized involving asset growth, acquisitions, branch establishment, and expansion into new lines of business. With limited exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any distribution or payment.

As an institution's capital decreases, the powers of the federal regulators become greater. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. The regulators have limited discretion in dealing with a critically undercapitalized institution and are virtually required to appoint a receiver or conservator if the capital deficiency is not promptly corrected.

Real Estate Lending Evaluations

The federal regulators have adopted uniform standards for evaluations of loans secured by real estate or made to finance improvements to real estate. Banks are required to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its operations. The regulations establish loan to value ratio limitations on real estate loans, which generally are equal to or less than the loan to value limitations established by our banks.

Deposit Insurance Premiums

Deposits of our banks are insured up to the regulatory limit by the FDIC and are subject to deposit assessments. The assessment schedule for banks ranges from 0 to 27 cents per $100 of deposits, based on capital and supervisory factors. The banks' insured deposits are subject to assessment payable to Bank Insurance Fund. An institution's assessment is based on the assignment of the institution by the Federal Deposit Insurance Corporation to one of three capital groups and to one of three supervisory subgroups. The capital groups are well capitalized, adequately capitalized and undercapitalized. The three supervisory subgroups are Group A, for financially solid institutions with only a few minor weaknesses, Group B, for those institutions with weaknesses which, if uncorrected could cause substantial deterioration of the institution and increase the risk to the deposit insurance fund, and Group C, for those institutions with a substantial probability of loss to the fund absent effective corrective action. Currently, all of our banks are in Group A.

Interstate Banking Legislation

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which became effective September 1995, has eliminated many of the historical barriers to the acquisition of banks by out-of-state financial holding companies. This law facilitates the interstate expansion and consolidation of banking organizations by permitting: (1) financial holding companies that are adequately capitalized and managed, subject to certain limitations, to acquire banks located in states outside their home states regardless of whether acquisitions are authorized under the laws of the host state; (2) the interstate merger of banks after June 1, 1997, subject to the right of individual states either to pass legislation providing for earlier effectiveness of mergers or to opt out of this authority prior to that date; (3) banks to establish new branches on an interstate basis provided that this action is specifically authorized by the laws of the host state; (4) foreign banks to establish, with approval of the appropriate regulators in the United States, branches outside their home states to the same extent that national or state banks located in that state would be authorized to do so; and (5) banks to receive deposits, renew time deposits, close loans, service loans and receive payments on loans and other obligations as agent for any bank or thrift affiliate, whether the affiliate is located in the same or different state.

Insurance Services Regulation

Team Insurance Group, Inc. is subject to licensing requirements and extensive regulation under various states' laws. These laws and regulations are primarily for the benefit of clients. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by Regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew, and revoke licenses and approvals, and to implement regulations. Licenses may be denied or revoked for various reasons, including the violation of such regulations, conviction of crimes and the like. Possible sanctions, which may be imposed for violation of regulations include the suspension of individual employees, limitations on engaging in a particular business for a specified period of time, revocation of licenses, censures, and fines.

Risk Factors

Set forth below are material risks we face in the operation of our business.

Changing Regulatory Structure Industry regulators such as the Federal Reserve, the Comptroller of the Currency and the Federal Deposit Insurance Corporation may modify current regulations applicable to our operations. Additionally, future changes in legislation, including legislation governing publicly traded companies could impact our operations. We cannot predict the impact of implementing any future regulatory changes on the results of our operations or financial condition.

Monetary Policy and Economic Environment The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of financial holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

The Federal Reserve's monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of these policies on our business and earnings cannot be predicted.

Our growth strategy involves operating and acquisition risks that may negatively impact our profits We face risks in our growth strategy, including the risks that we will be unable to expand our business through the acquisition of other financial institutions or bank branches or by internal growth, including the opening of new branch offices. Our ability to grow profitably through the opening of new branches involves the risks that the growth depends primarily on our identifying attractive markets and acquiring or establishing branch locations in those markets at reasonable costs. In addition, we must attract the necessary deposits and locate sound loans in those markets.

Acquiring other financial institutions or bank branches involves these same risks, as well as additional risks, including:

- adverse change in the results of operations of the acquired entities;
- unforeseen liabilities or asset quality problems of the acquired entities;
- greater than anticipated costs of integrating acquisitions;
- adverse personnel relations;
- loss of customers; and
- deterioration of local economic conditions.

The risks discussed above may inhibit or restrict our strategy to grow through acquisition and branch expansion, negatively impact our revenue growth and ultimately reduce profits.

If we are unable to successfully integrate acquisitions, our earnings could decrease In connection with our acquisitions of other banks, insurance agencies, or bank branches, we face risks in integrating and managing these businesses. We have a history of growth through acquisitions and plan to continue this strategy. To integrate an acquisition operationally, we must:

- centralize and standardize policies, procedures, practices, and processes;
- combine employee benefit plans;
- implement a unified investment policy and adjust the combined investment portfolio to comply with the policy;

- implement a unified loan policy and confirm lending authority;
- implement a standard loan management system; and
- implement a loan loss reserve policy.

Integrating acquisitions may detract attention from our day-to-day business and may result in unexpected costs.

Once an acquired business is integrated, our future prospects will be subject to a number of risks, including, among others:

- our ability to compete effectively in new market areas;
- our successful retention of earning assets, including loans acquired in acquisitions;
- our ability to generate new earning assets;
- our ability to attract deposits;
- our ability to achieve cost savings. Historically, we have not implemented wholesale cost cutting after acquisitions, preferring to adjust operational costs on an ongoing basis in order to preserve market share and each acquired entity's standing in its community; and
- our ability to attract and retain qualified management and other appropriate personnel.

An inability to manage these factors may have a material adverse effect on our financial condition and results of operations.

Our growth may require us to raise additional capital in the future, but sufficient capital may not be available when it is needed We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our immediately foreseeable capital requirements. However, to the extent we expand our asset base further, primarily through loan growth, we will be required to support this growth by increasing our capital to acceptable regulatory levels. Accordingly, we may need to raise additional capital in the future to support continued asset growth.

Our ability to raise additional capital if we need it to support loan growth in the future will depend on conditions in the capital markets, which are outside of our control, and on our financial performance. Accordingly, we cannot assure our ability to raise additional capital when needed or on favorable terms. If we cannot raise additional capital when needed, we will be subject to increased regulatory supervision and the imposition of restrictions on our growth and our business. Also, these restrictions could negatively impact our ability to further expand our operations through acquisitions or the establishment of additional branches and result in increases in operating expenses and reductions in revenues that would negatively affect our operating results.

We rely heavily on our management team, and the unexpected loss of key managers may adversely affect our operations Much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services. Our ability to retain executive officers, the current management teams and loan officers of our operating subsidiaries will continue to be important to the successful implementation of our strategies. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

We may not be able to implement successfully our strategy to enter new markets Among other matters, our strategic plan includes expansion into growing markets by acquisition or by establishing new offices. Expansion requires a significant expenditure of capital in order to prepare the facilities for operation and

additional expense in order to staff these new facilities. As our new offices mature and grow, we are able to spread our overhead costs over a broader asset base. While our new offices are generating loan activity consistent with our projections, we may encounter unanticipated difficulties that could adversely affect future profitability. In addition, we cannot ensure that we will be able to operate and manage our operations in new markets successfully or recover our initial capital investment in these operations. To the extent that we expand, we may experience the negative effects of higher operating expenses relative to operating income from the new offices.

We may not be successful in implementing our internal growth strategy due to numerous factors, which affect earnings We intend to continue pursuing an internal growth strategy, the success of which is subject to our ability to generate an increasing level of loans and deposits at acceptable risk levels without corresponding increases in non-interest expenses. We may not be successful in our internal growth strategies due to competition, delays, and other impediments resulting from regulatory oversight, lack of qualified personnel, scarcity of branch sites or deficient site selection of bank branches. In addition, the success of our internal growth strategy will depend on maintaining sufficient regulatory capital levels and on positive economic conditions in our primary market areas.

We face intense competition in all phases of our business from other banks and financial institutions We compete for deposits with a large number of depository institutions including commercial banks, savings, and loan associations, credit unions, money market funds and other financial institutions and financial intermediaries serving our operating areas. Principal competitive factors with respect to deposits include interest rates paid on deposits, customer service, convenience, and location.

We compete for loans with other banks headquartered in our operating areas, with loan production offices of large money center banks headquartered in other states, as well as with savings and loan associations, credit unions, finance companies, mortgage bankers, leasing companies and other institutions. Competitive factors with respect to loans include interest rates charged, customer service and responsiveness in tailoring financial products to the needs of customers.

We face significant competition from other financial institutions in making any potential acquisitions. Many of our acquisition competitors have substantially greater monetary resources than we do, as well as the ability to issue marketable equity securities with significantly greater value than we can to pay for part or all of the purchase price. Many of the entities that we compete with are substantially larger in size, and many nonbank financial intermediaries are not subject to the regulatory restrictions applicable to our bank subsidiaries. We have experienced an increase in the level of competition as well as the number of competitors in recent years.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio We establish our allowance for loan losses in consultation with management of our bank subsidiaries and maintain it at a level considered adequate by management to absorb loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control and these losses may exceed current estimates. Although management believes that our allowance for loan losses is adequate to absorb losses on any existing loans that may become uncollectible, we cannot predict loan losses with certainty, and we cannot ensure that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Loan losses in excess of our allowance for loan losses may adversely affect our business, financial condition and results of operations.

If economic conditions in general and in our primary market areas deteriorate, our revenues could decrease Our financial results may be adversely affected by changes in prevailing economic conditions, including declines in real estate values, changes in interest rates which cause a decrease in interest rate spreads, adverse employment conditions and the monetary and fiscal policies of the federal government.

Because we have a significant amount of real estate loans, declines in real estate values could adversely affect the value of property used as collateral.

In addition, substantially all of our loans are to individuals and businesses in suburban Kansas City, Eastern Kansas, Western Missouri, the Colorado Springs metropolitan area, and the Omaha, Nebraska metropolitan area. Any decline in the economy of these market areas could have an adverse impact on our revenues. There can be no assurance that positive trends or developments discussed in this prospectus will continue or that negative trends or developments will not have significant downward effects on our revenues.

Our business is subject to credit risks, which may adversely affect our earnings Our loan customers may not repay their loans according to their terms, and collateral securing their loans, if any, may not have a value equal to amounts owed under their loans. Should the economic climate deteriorate, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs, and delinquencies could rise and require further increases in the provision for loan losses which will cause our net income to decline.

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act), including, without limitation, the statements specifically identified as forward-looking statements within this document. In addition, certain statements in our future filings with the Securities and Exchange Commission, in press releases or in oral and written statements made by or with our approval, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited

to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items, (ii) statements of plans and objectives of ours or our management or board of directors, including those relating to products or services, (iii) statements of future economic performance and (iv) statements "anticipates", "expects", "intends", "plans", "targets", and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to: (i) the strength of the U.S. economy in general and the strength of the local economies in which operations are conducted; (ii) the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; (iii) inflation, interest rates, market and monetary fluctuations; (iv) the timely development of and acceptance of new products and services and perceived overall value of these products and services by users; (v) changes in consumer spending, borrowing, and savings habits; (vi) technological changes; (vii) acquisitions; (viii) the ability to increase market shares and control expenses; (ix) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, and securities) with which we must comply; (x) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board, (xi) changes in our organization, compensation, and benefits plans; (xii) the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; and (xiii) our success at managing risks involved in the foregoing.

Such forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events.

Item 2. Properties

The table below presents property information concerning our offices at December 31, 2003.

Name and Address of Office	Type of Interest	Lease Expiration	Square Footage of Facility
Team Financial, Inc. 8 West Peoria Paola, Kansas 66071	Owned	NA	5,000
TeamBank, N.A., Paola Branch (Main Office) 1 South Pearl Paola, Kansas 66071	Owned	NA	17,951
Team Bank, N.A., East Bank, Paola Branch 1515 Baptiste Drive Paola, Kansas 66071	Owned	NA	9,630
TeamBank, N.A., DeSoto Branch 34102 Commerce Drive DeSoto, Kansas 66018	Owned	NA	6,800
TeamBank, N.A., Lamar Branch 1011 Gulf Street Lamar, Missouri 64759	Leased	2006	2,650
TeamBank, N.A., Nevada Branch 201 East Cherry Nevada, Missouri 64772	Owned	NA	16,000
TeamBank, N.A., Osawatomie Branch	Owned	NA	4,756

Name and Address of Office	Type of Interest	Lease Expiration	Square Footage of Facility
6th and Brown Osawatomie, Kansas 66064			
TeamBank, N.A., Ottawa Branch 421 South Hickory Ottawa, Kansas 66067	Owned	NA	8,000
TeamBank, N.A., Spring Hill Branch 22330 Harrison Street Spring Hill, Kansas 66083	Owned	NA	2,800
TeamBank, N.A., Iola Branch 119 East Madison Iola, Kansas 66749	Owned	NA	13,768
TeamBank, N.A., Parsons Branch (including drive in) 1902 Main Parsons, Kansas 66357	Owned	NA	11,000
TeamBank, N.A., Prairie Village Branch 5206 West 95th Street Prairie Village, Kansas 66207	Owned	NA	3,602
TeamBank N.A., Omaha Branch (Main Office) 1902 Harlan Drive Bellevue, Nebraska 68005	Leased	2007	4,679

Name and Address of Office	Type of Interest	Lease Expiration	Square Footage of Facility
TeamBank N.A., Bellevue Branch 7001 South 36th Bellevue, Nebraska 68147	Leased	2005	1,980
TeamBank, N.A., Fort Calhoun Branch 101 N. 14th Street Fort Calhoun, Nebraska 68023	Owned	NA	4,250
Colorado National Bank, Colorado Springs Branch (Main Office) 3100 North Nevada Avenue Colorado Springs, Colorado 80907	Owned	NA	7,859
Colorado National Bank, Colorado Springs Branch(1) 601 North Nevada Avenue Colorado Springs, Colorado 80907	Owned	NA	4,600
Team Insurance Group, Inc. 4200 East Skelly Drive Tulsa, Oklahoma 74135	Leased	2010	10,008

All of the leased properties are leased from unrelated third parties.

(1) Branch operations began March 16, 2004.

Item 3. Legal Proceedings

We are from time to time involved in routine litigation incidental to the conduct of our business. We believe that no pending litigation to which we are a party will have a material adverse effect on our liquidity, financial condition, or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of our security holders during the fourth quarter of 2003.

PART II

Item 5. Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Securities

The following table sets forth, for the periods indicated, the amount of cash dividends paid on our common stock and the high and low closing prices per share of our common stock as reported on the NASDAQ.

Quarter Ended	Dividends Declared per Share	Common Stock High	Common Stock Low
2003:			
December 31, 2003	$ 0.08	$ 13.20	$ 11.20
September 30, 2003	0.07	11.42	10.35
June 30, 2003	0.06	11.06	9.92
March 31, 2003	0.06	10.83	9.99
Year	$ 0.27		
2002:			
December 31, 2002	$ 0.06	$ 10.25	$ 9.19
September 30, 2002	0.06	10.44	9.25
June 30, 2002	0.05	10.70	9.05
March 31, 2002	0.05	9.00	8.20
Year	$ 0.22		

At January 30, 2004 we had approximately 267 holders of record of our common stock; management estimates that the number of beneficial owners is significantly greater.

During 2003 we re-purchased 50,800 shares of our common stock under our stock re-purchase program at an average price of $11.10 per share. Our board of directors has authorized us to repurchase up to an additional 126,222 shares of our common stock.

We have paid cash dividends on our common stock since 1987. Although we currently intend to continue the payment of dividends, we cannot give any assurance that we will continue to pay or declare dividends on our common stock in the future.

Kansas law permits Team Financial Inc. to pay dividends on our common stock when we are solvent and when dividend payments would not render us insolvent. Under Kansas law, dividends may be declared and paid only out of the unsecured, unrestricted earned surplus of a corporation.

Our ability to pay cash dividends largely depends on the amount of cash dividends paid to us by our subsidiary banks. Capital distributions, including dividends by financial institutions such as our subsidiary banks, are subject to restrictions tied to the institutions' earnings and capital. Payment of dividends on our common stock depends on payment of dividends to us by our subsidiary banks. Generally, without prior bank regulatory approval, the subsidiary banks cannot pay dividends during any calendar year in excess of the sum of their earnings during that year and the two previous years, less any other distributions during that period. At December 31, 2003, our subsidiaries could have paid additional dividends to Team Financial, Inc. of approximately $904,000 without prior regulatory approval.

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The following table summarizes the securities authorized for issuance under our equity compensation plans. We have no equity compensation plans that have not been approved by our shareholders.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	275,300	$ 8.710	189,450

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Item 6. Selected Financial Data

	Years ended December 31				
	2003	**2002**	**2001**	**2000**	**1999**
	(Dollars in thousands, except per share data)				
Consolidated statements of operations data:					
Interest income	$ 31,609	$ 37,069	$ 39,950	$ 40,645	$ 32,902
Interest expense	13,478	16,382	20,557	22,247	16,823
Net interest income	18,131	20,687	19,393	18,398	16,079
Provision for loan losses	1,790	1,434	1,435	1,001	902
Non-interest income	14,416	10,164	7,924	5,860	4,583
Non-interest expenses	25,757	22,292	20,886	18,835	15,471
Income taxes	1,208	2,419	1,462	1,229	1,120
Net income	3,792	4,706	3,534	3,193	3,169
Consolidated statements of financial condition data:					
Total assets(5)	649,796	656,349	650,790	539,605	518,205
Loans receivable	348,095	340,986	357,080	331,931	309,255
Allowance for loan losses	4,506	4,611	4,392	3,911	3,320

	Years ended December 31				
Investment securities available for sale	221,252	224,052	204,651	132,360	136,901
Investment securities held to maturity(1)				24,864	25,630
Non-performing assets(2)	8,377	6,346	5,268	4,563	3,205
Deposits	446,159	455,605	487,751	442,195	435,116
Stockholders' equity	52,404	51,828	45,370	39,799	37,569
Per common share:					
Shares applicable to basic income per share	4,095,903	4,145,820	3,989,098	3,916,980	3,403,478
Basic income per share	$ 0.93	$ 1.14	$ 0.89	$ 0.82	$ 0.93
Shares applicable to diluted income per share	4,131,381	4,165,400	3,996,327	3,916,980	3,403,478
Diluted income per share	$ 0.92	$ 1.13	$ 0.88	$ 0.82	$ 0.93
Book value per share	$ 12.78	$ 12.62	$ 10.86	$ 10.25	$ 9.16
Tangible book value per share	$ 7.81	$ 7.59	$ 6.84	$ 7.44	$ 6.67
Dividends paid per common share	$ 0.27	$ 0.22	$ 0.20	$ 0.20	$ 0.20
Dividend payout ratio	29.03%	19.30%	22.47%	24.39%	21.51%
Key ratios:					
Net interest margin(3)	3.30%	3.76%	3.95%	3.88%	3.95%
Return on average assets	0.59%	0.71%	0.64%	0.59%	0.70%
Return on average stockholders' equity	7.28%	9.57%	8.10%	8.61%	10.27%
Core risk based capital ratio	11.08%	11.00%	10.60%	8.49%	9.45%
Total risk based capital ratio	12.16%	12.17%	11.72%	9.65%	10.49%
Leverage ratio	7.46%	6.88%	6.92%	5.50%	5.96%
Nonperforming assets to total assets	1.29%	0.97%	0.81%	0.85%	0.62%
Nonperforming loans to total loans	2.09%	1.34%	1.04%	1.27%	0.78%
Allowance for loan losses to total loans	1.29%	1.35%	1.23%	1.18%	1.07%
Allowance for loan losses to nonperforming loans	62.10%	100.76%	118.83%	92.61%	137.59%
Ratio of earnings to combined fixed charges and preference security dividends(4):					
Including interest on deposits	1.23x	1.25x	1.15x	1.13x	1.17x
Excluding interest on deposits	1.40x	1.55x	1.61x	1.63x	1.94x

(1) Reclassified investment securities held to maturity to available for sale in connection with the adoption of SFAS 133 on January 1, 2001.

(2) Includes loans 90 days or more delinquent and still accruing interest, nonaccrual loans, restructured loans, and other real estate owned.

(3) On a tax equivalent basis.

(4) Earnings consist of income plus interest and net occupancy expense. Fixed charges consist of interest and net occupancy expense.

(5) Total assets in 2002 and 2001 have been restated for deconsolidation of a wholly owned subsidiary as a result of adopting FIN 46. See Note 1, Summary of Significant Accounting Policies, in the consolidated financial statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Environment and Risk Factors

Management's discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements contained within this report, including the Notes thereto. Our future operating results may be affected by various trends and factors that are beyond our control. These include the factors set forth in "Forward-Looking Statements." Accordingly, past results and trends may not be reliable indicators of future results or trends. With the exception of historical information, the matters discussed below include forward-looking statements that involve risks and uncertainties. We caution readers that a number of important factors discussed in this report could affect our actual results and cause actual results to differ materially from those in the forward-looking statements.

Overview

We are a financial holding company offering full-service community banking and financial services through 17 locations in Kansas, Missouri, Nebraska, Oklahoma and Colorado through our wholly owned banking subsidiaries, TeamBank N.A and Colorado National Bank. Our presence in Kansas consists of seven locations in the Kansas City metro area and three locations in southeast Kansas. We operate two locations in western Missouri, three in the metropolitan area of Omaha, Nebraska, and one in Colorado Springs, Colorado. A second location in Colorado Springs, Colorado will be opened in March 2004. Additionally, we provide insurance services in the Tulsa, Oklahoma metropolitan area.

Our total assets over the past eight years have more than doubled, growing from $260.3 million at January 1, 1996 to $649.8 million December 31, 2003. The growth in assets and the corresponding increase in earnings were achieved primarily through purchases of branches of large banks, the purchase of community banks, and branch expansion. Our branch expansion includes growth at existing branches as well as the opening of new branches. Accompanying the acquisition growth were increased operating expenses resulting from growth as well as increases in provisions for loan losses and amortization expense of intangible assets related to acquisitions and in some instances issuance of shares of common stock in conjunction with the acquisitions. Our experience is that it takes between 12 to 18 months to realize meaningful net income improvements from acquisitions and expansion due to our emphasis on retaining key employees rather than the immediate implementation of cost reduction measures.

At December 31, 2003 total assets were $649.8 million, a decrease of $6.5 million, or 1.0%, from $656.3 million at December 31, 2002. The decrease in total assets was primarily due to a decrease in cash and cash equivalents of $16.8 million and a decrease in investment securities of $2.8 million offset by an increase in loans of $7.2 million, an increase in premises and equipment of $1.9 million and an increase in other assets of $4.4 million. Total assets at December 31, 2002 were $656.3 million, an increase of $5.5 million, or .9%, from $650.8 million in total assets at December 31, 2001.

Net income totaled $3.8 million for the year ended December 31, 2003 versus $4.7 million for the year ended December 31, 2002. The decrease of $900,000, or 19%, in 2003 compared to 2002 was primarily the result of a decrease in net interest income of $2.6 million, or 12.4%, offset by a decrease in tax expense of $1.2 million, or 50%. Net income totaled $4.7 million for the year ended December 31, 2002 versus $3.5 million for December 31, 2001. The 34% increase for 2002 compared to 2001 was primarily the result of a $602,000 increase on sale of loans from the favorable interest rate environment for home re-financings and new home purchases, and a $354,000 decrease in goodwill expense due to the adoption of Statements of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

Critical Accounting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the Unites States of America. In preparing the consolidated financial statements, management is required to make

estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Allowance for Loan Losses

We establish allowances for loan losses. The provision for loan losses charged to operations is based on management's judgment of current economic conditions and the credit risk of the loan portfolio. Management believes that this allowance is adequate for the losses inherent in the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on borrowers' conditions and changes in economic conditions.

Impairment of Goodwill Analysis

As required by the provisions of Statements of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), goodwill is evaluated for impairment annually or more frequently if conditions indicate impairment may have occurred. The evaluation of possible impairment of intangible assets involves judgment based upon short-term and long-term projections of future performance. There was no impairment of goodwill as of December 31, 2003 or 2002.

Analysis of the Results of Operations

Net Interest Income

Our income is derived primarily from net interest income. Net interest income is the difference between interest income, principally from loans, investment securities, federal funds sold, and interest bearing deposits, and interest expense, principally on customer deposits and other borrowings. Changes in net interest income result from changes in volume and interest rates earned and expensed. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities.

The following tables set forth the average balances of interest-earnings assets and interest-bearing liabilities, as well as the amount of interest income or interest expense and the average rate for each

category of interest-earning assets and interest-bearing liabilities on a tax-equivalent basis assuming a 34% tax rate for the periods indicated. Average balances are computed on a daily basis.

	Year ended December 31, 2003			Year ended December 31, 2002			Year ended December 31, 2001		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Dollars in thousands)								
Interest earning assets:									
Loans receivable, net(1)(2)(3)	$ 341,782	$ 23,189	6.79%	$ 335,194	$ 25,890	7.72%	$ 339,258	$ 30,045	8.86%
Investment securities-taxable	195,185	7,207	3.69%	197,645	10,020	5.07%	129,098	8,247	6.39%
Investment securities-nontaxable(4)	27,590	1,971	7.14%	24,814	1,798	7.25%	23,664	1,783	7.53%
Federal funds sold and interest- bearing deposits	10,743	119	1.11%	16,755	270	1.61%	17,934	626	3.49%
Other assets(5)	480	45	9.38%	480	45	9.38%	188	18	9.57%
Total interest earning assets	$ 575,780	$ 32,531	5.65%	$ 574,888	$ 38,023	6.61%	$ 510,142	$ 40,719	7.98%
Interest bearing liabilities:									
Savings deposits and interest bearing checking	$ 178,199	$ 1,357	0.76%	$ 182,824	$ 2,425	1.33%	$ 147,751	$ 3,497	2.37%
Time deposits	203,452	5,392	2.65%	217,858	7,803	3.58%	249,231	13,601	5.46%
Federal funds purchased and securities sold under	5,647	49	0.87%	4,969	65	1.31%	6,477	223	3.44%

	Year ended December 31, 2003			Year ended December 31, 2002			Year ended December 31, 2001		
agreements to repurchase									
Notes payable and Federal Home Loan									
Bank advances	116,572	5,171	4.44%	98,527	4,581	4.65%	46,334	2,646	5.71%
Subordinated debentures(5)	16,005	1,554	9.71%	16,005	1,554	9.71%	6,264	608	9.71%
Total interest bearing liabilities	$ 519,875	$ 13,523	2.60%	$ 520,183	$ 16,428	3.16%	$ 456,057	$ 20,575	4.51%
Net interest income (tax equivalent)		$ 19,008			$ 21,595			$ 20,144	
Interest rate spread			3.05%			3.46%			3.47%
Net interest earning assets	$ 55,905			$ 54,705			$ 54,085		
Net interest margin(4)			3.30%			3.76%			3.95%
Ratio of average interest bearing liabilities to average interest earning assets	90.29%			90.48%			89.40%		

(1) Loans are net of deferred fees.

(2) Nonaccruing loans are included in the computation of average balances.

(3) We include loan fees in interest income. These fees for the years ended December 31, 2003, 2002, and 2001 were $989,000, $865,000, and $795,000, respectively.

(4) Yield is adjusted for the tax effect of tax-exempt securities. The tax effects for the years ended December 31, 2003, 2002, and 2001 were $877,000, $909,000, and $751,000, respectively.

(5) Restated for deconsolidation of a wholly owned subsidiary as a result of adopting FIN 46. See note 1, *Summary of Significant Accounting Policies* in the consolidated financial statements.

Total interest income on a tax equivalent basis for 2003 was $32.5 million, representing a decrease of $5.5 million, or 14.5%, from $38.0 million for 2002. The decrease was primarily the result of a $2.7 million decrease in interest income on loans receivable and a $2.8 million decrease on taxable investment securities.

Interest income on loans receivable decreased due to a 93 basis point decrease in the average yield on the loans receivable to 6.79% in 2003 from 7.72% in 2002 offset with an increase of $6.6 million in the average loan receivable balance to $341.8 million in 2003 from $335.2 million in 2002. The decrease in the yield of

loans receivable reflects the decrease in the rates applied to loans that re-priced in 2003 as required by the notes' terms or were refinanced by customers at lower rates.

Interest income from taxable investment securities was $7.2 million during 2003, a decrease of $2.8 million, or 28%, from 2002 of $10 million. The decrease was due to a decrease in the average rate of 138 basis points to 3.69% in 2003 from 5.07% in 2002. The decrease in the average rate of investment securities was related to the relatively low interest rates in the market. The decrease has caused many of our portfolio's issuers

of securities to retire or prepay their securities prior to maturity since they have been able to refinance at lower rates. Because of these early prepayments, we have re-invested the proceeds in lower yielding securities, which reflect the decline in market interest rates. In addition, the early prepayments accelerate the amortization on premiums paid for investment securities further decreasing the yield on the securities.

Total interest expense was $13.5 million for 2003, a $2.9 million, or 18%, decrease from $16.4 million in 2002. The decrease was primarily related to the decrease in average rate paid on savings deposits and interest bearing checking balances to .76% in 2003 from 1.33% in 2002, representing a 57 basis point decrease, and to the decrease in average rate paid on time deposits to 2.65% in 2003 from 3.58% in 2002, representing a 93 basis point decrease. Additionally there was a decrease in the average balance of interest bearing savings and checking deposits of approximately 2.5% to $178.2 million in 2003 from $182.8 million in 2002 and a decrease of 6.6% in average time deposit balances to $203.5 million in 2003 from $217.9 million in 2002. The decrease in the average deposits balances was due to the sale of two bank branches in June 2002. The average balance of notes payable and Federal Home Loan Bank advances increased $18 million as we continued to borrow from the Federal Home Loan Bank and invest the proceeds to achieve the planned balance sheet management strategy to increase the asset sensitivity of our balance sheet. The average rate on notes payable and Federal Home Loan Bank advances decreased 21 basis points to 4.44% during 2003 from 4.65% during 2002.

As a result of the changes described above, the net interest income on a tax equivalent basis decreased to $19 million during 2003, representing a decrease of $2.6 million, or 12%, compared to 2002 of $21.6 million.

The average rate paid on our 9.50% subordinated debentures, which we issued in third quarter 2001 in connection with the sale by our wholly owned subsidiary, Team Financial Capital Trust I (the Trust), of 9.50% Trust Preferred Securities, was 9.71% for 2003 and 2002. The difference between the contractual amount of 9.50% and the 9.71% reported interest rate is the amortization of debt issuance costs, which are amortized over a 30-year period. The terms of the subordinated debentures allow us to redeem them in whole or in part beginning August 10, 2006. With the adoption of Financial Accounting Standards Board Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*, effective December 31, 2003, retroactively applied to prior periods, the Trust is not consolidated in the financial statements. As a result of deconsolidating the Trust, the subordinated debentures of $15.5 million and $480,000 representing common interest are reported on the 2003, 2002, and 2001 financial statements and related disclosures. The $480,000 representing common interest in the Trust is offset by an identical amount included in other assets representing Team Financial, Inc.'s investment in the Trust.

Total interest income on a tax equivalent basis for 2002 was $38.0 million, representing a decrease of $2.7 million, or 6.6%, from $40.7 million for 2001. The decrease was primarily the result of a $4.2 million decrease in interest income on loans receivable. Interest income on loans receivable decreased due to a 114 basis point decrease in the yield on the loans receivable to 7.72% in 2002 from 8.86% in 2001, as well as a $4.1 million decrease in the average balance of loans receivable to $335.2 million in 2002 from $339.3 million in 2001. The decrease in the yield of our loans receivable was the result of a decrease of 525 basis points in the national prime interest rate from January 1, 2001. Also contributing to the decrease in yield was the decrease of our average balance of loans receivable, primarily due to a decrease in our one to four family loan portfolio, as customers re-financed loans due to favorable long-term fixed mortgage

interest rates. We typically sell fixed rate loans to the secondary market instead of maintaining the loans in our loan portfolio. Interest income from taxable investment securities increased $1.8 million for the year 2002 compared to 2001, primarily due to a $40.0 million purchase of short term mortgage backed securities from the proceeds of long term borrowings from the Federal Home Loan Bank. This transaction was initiated in the third quarter of 2002 as an interest rate risk management strategy. The Federal Home Loan Bank borrowings, which carried an average rate of 4.19%, consisted of $30.0 million in 10 year fixed rate advances convertible to floating rate advances if LIBOR increases to 7.50% within the next 10 years and $10.0 million in 5 year fix rate advances convertible to floating rate advances if LIBOR increases to 7.50% within the next 5 years. The intent of the transaction was to increase the asset sensitivity of our balance sheet to benefit from an increase in interest rates and borrow long-term borrowings during the period of historical low interest rates. The yield on taxable investment securities decreased 132 basis points to 5.07% in 2002 from 6.39% in 2001, which was related to the decrease in market interest rates since January of 2001.

Total interest expense was $16.4 million for 2002, a $4.2 million, or 20.3% decrease, from $20.6 million in 2001. The decrease in interest expense was primarily related to the decrease in interest rates since January of 2001. The average rate paid on savings deposits and interest bearing checking balances decreased 104 basis points to 1.33% in 2002 from 2.37% in 2001 and the average rate paid on time deposits decreased 188 basis points to 3.58% in 2002 from 5.46% in 2001. The average balance of federal funds purchased and securities sold under agreements to repurchase decreased $1.5 million as a result of our reduction in overnight federal funds purchased due to increased liquidity resulting from the decrease in loans receivable balances. The average rate paid on federal funds purchased and securities sold under agreements to repurchase decreased 213 basis points to 1.31% for 2002 from 3.44% for 2001. The average balance of notes payable and Federal Home Loan Bank Advances increased $52.2 million as we borrowed $40.0 million in long-term borrowings from the Federal Home Loan Bank at approximately 4.19% and invested the proceeds into short term mortgage backed securities. The average rate on notes payable and Federal Home Loan Bank Advances decreased 106 basis points to 4.65% during 2002 from 5.71% during 2001. The average balance of our subordinated

debentures increased $9.9 million due to the issuance of $16 million in subordinated debentures in 2001, purchased by our subsidiary, Team Financial Capital Trust I. Concurrent with the issuance of the subordinated debentures, the Trust issued $15.5 million in 9.50% Cumulative Trust Preferred Securities. The proceeds from the sale of the debentures were used to acquire Colorado National Bank in the third quarter of 2001. The average rate on loans receivable decreased 31 basis points due to the decrease in interest rates during the year.

As a result of the changes described above, the net interest income on a tax equivalent basis increased to $21.6 million for 2002, representing an increase of $1.5 million, or 7.2%, from $20.1 million during 2001.

The following table presents the components of changes in our 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's average volume. The changes in interest

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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.

	Year ended December 31, 2003 Compared To Year ended December 31, 2002			Year ended December 31, 2002 Compared To Year ended December 31, 2001		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)			(In thousands)		
Interest income:						
Loans receivable, net(1)(2)(3)	$ 509	$ (3,210)	$ (2,701)	$ (360)	$ (3,795)	$ (4,155)
Investment securities-taxable	(125)	(2,688)	(2,813)	4,379	(2,606)	1,773
Investment securities-nontaxable(4)	201	(28)	173	87	(72)	15
Federal funds sold and interest-bearing deposits	(97)	(54)	(151)	(41)	(315)	(356)
Other assets(5)				27		27
Total interest income	488	(5,980)	(5,492)	4,092	(6,788)	(2,696)
Interest expense:						
Savings deposits and interest bearing checking	(61)	(1,007)	(1,068)	830	(1,902)	(1,072)
Time deposits	(516)	(1,895)	(2,411)	(1,712)	(4,086)	(5,798)
Federal funds purchased and securities sold under agreements to repurchase	9	(25)	(16)	(52)	(106)	(158)
Notes Payable and Federal Home Loan Bank Advances	839	(249)	590	2,981	(1,046)	1,935
Subordinated debentures(5)				946		946
Total interest expense	271	(3,176)	(2,905)	2,993	(7,140)	(4,147)
Net change in net interest income	$ 217	$ (2,804)	$ (2,587)	$ 1,099	$ 352	$ 1,451

(1)

Loans are net of deferred fees.

(2)

Nonaccruing loans are included in the computation of average balances.

(3)

We include loan fees in interest income. These fees for the years ended December 31, 2003, 2002, and 2001 were $989,000, $865,000, and $795,000, respectively.

(4)

Income is adjusted for the tax effect of tax-exempt securities. The tax effects for the years ended December 31, 2003, 2002, and 2001 were $877,000, $909,000, and $751,000, respectively.

(5)

Restated for deconsolidation of a wholly owned subsidiary as a result of adopting FIN 46. See note 1, *Summary of Significant Accounting Policies* in the consolidated financial statements.

Provision for Loan Losses

A provision for losses on loans is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical loss experience, the volume and type of lending conducted, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to our market areas, and other factors related to the collectibility of our loan portfolio. After considering the above factors, management recorded a provision for loan losses on loans totaling $1.8 million for the year ended 2003 and $1.4 million for the years ended 2002 and 2001. The provision recorded for the year ended 2003 was predicated upon the level of non-performing loans and net charge-offs during the year of $1.9 million.

Non-Interest Income

The following table sets forth non-interest income for the indicated periods.

	Years ended December 31		
	2003	**2002**	**2001**
		(In thousands)	
Service charges	$ 3,573	$ 3,677	$ 3,644
Trust fees	608	595	554
Insurance commissions	4,454	324	
Brokerage service revenue	369	409	205
Gain on sale of mortgage loans	2,788	2,364	1,762
Gain on sales of investment securities	294	72	6
Mortgage servicing fees	329	329	329
Merchant processing fees	186	154	161
ATM and debit card fees	318	294	248
Income from investment in bank owned life insurance	892	1,011	449
Gain on sale of branch assets		452	
Other	605	483	566
Total other income	$ 14,416	$ 10,164	$ 7,924

Non-interest income was $14.4 million for 2003, a $4.3 million, or 41.8%, increase from 2002. This increase was primarily a result of the insurance commissions reported in 2003, representing 12 months of operations, compared to the insurance commissions reported in 2002 which only represented less than one month of activity as the agency was acquired December 18, 2002. Insurance commissions increased $4.1 million

to $4.5 million in 2003 from $324,000 in 2002. Gain on sale of mortgage loans contributed $424,000 to the increase in non-interest income, representing a 17.9% increase in gains on sales from 2002. The increase in gain on sale of mortgage loans was the result of the increase in volume of loans refinanced, originated and sold, due to a low interest rate environment during the year. The gain on sale of mortgage loans experienced in 2003 may not be indicative of gain in future years as interest rates change. The magnitude of any future decreased gain cannot be estimated. A gain of $452,000 was reported in 2002 relating to the sale of branches during June 2002, which did not reoccur in 2003.

Non-interest income was $10.2 million for 2002, a $2.2 million, or 28.3% increase from 2001. Gain on sale of mortgage loans contributed $602,000 to the increase, increasing 34.2% from 2001. The increase in gain on sale of mortgage loans was the result of the increase in volume of loans refinanced, originated and sold, due to a lower interest rate environment during the year. Income from investment in bank owned life insurance increased $562,000 during 2002 primarily due to our $15.7 million investment in Bank Owned Life Insurance in July 2001. Brokerage service revenue increased $204,000, or 99.5% for 2002, compared to 2001. The increase was primarily due to a transition in sales staff during the year. Insurance commissions increased $324,000 during the year as we acquired an insurance agency on December 18, 2002. Gain on sale of branch assets increased $452,000 with the sale of the Community Bank branches during June of 2002.

Non-Interest Expense

The following table presents non-interest expense for the indicated periods:

	Years ended December 31		
	2003	2002	2001
	(In thousands)		
Salaries and employee benefits	$ 13,791	$ 11,850	$ 10,572
Occupancy and equipment	2,769	2,368	2,312
Data processing	2,141	1,910	1,754
Professional fees	1,143	1,073	1,111
Marketing	428	267	277
Supplies	439	368	368
Goodwill amortization			354
Intangible asset amortization	998	1,073	866
Disposal of branch assets	258		
Conversion	59	6	246
Other	3,731	3,377	3,026
Total other expenses	$ 25,757	$ 22,292	$ 20,886

Non-interest expense was $25.8 million for 2003, an increase of $3.5 million, or 15.5%, compared to $22.3 million for 2002. Contributing to the increase was an increase in salary and employee benefits of $1.9 million over 2002. This increase was comprised of a $2.6 million increase related to recording a full year of salary expense for Team Insurance Group, Inc. in 2003 compared to less than one month of expense in 2002 as the insurance agency was purchased on December 18, 2002. This increase was offset by a decrease in bonuses earned in 2003 of approximately $522,000 compared to 2002. The increase in occupancy and equipment expense of 17%, increase in marketing expense of 60% and increase in other expenses of 10%, combined, approximate $916,000 of the total non-interest expense increase in 2003 and were primarily a result of reporting 12 months of expense associated with Team Insurance Group, Inc. in 2003 compared to less than one month of activity in 2002. Intangible asset amortization in 2003 included a reduction to the valuation allowance on mortgage servicing rights of $240,000 based on our valuation of the fair value of the mortgage servicing rights. This was offset by increased amortization expenses of approximately $123,000 attributable to 12 months of Team Insurance Group, Inc. amortization in 2003 compared to less than one month in 2002. In May 2003, we closed a branch located in Omaha, Nebraska, resulting in disposal of branch assets of approximately $258,000 associated with terminating the lease and disposing of the assets of the facility.

Non-interest expense was $22.3 million for 2002, an increase of $1.4 million, or 6.7%, compared to $20.9 million for 2001. The increase for 2002 was primarily the result of a full year of operations of Colorado National Bank, which was acquired in September 2001, and the operations of the insurance agency acquired in December 2002. Net of the operations from the acquisitions, total non-interest expense decreased $142,000

for 2002 compared to 2001. Salaries and benefits expense increased $1.3 million, or 12.1% to $11.9 million for 2002 compared to $10.6 million for 2001. The increase in salaries and benefits was largely due to $877,000 related to the operations of the acquisitions made during the year, a $193,000 increase in bonus expense due to meeting targets under the bonus program, a $156,000 increase in compensation related to the executive salary continuation and deferred compensation plans, and $137,000 of compensation related to variable stock options. Data processing fees increased $156,000, or 8.9% to $1.9 million for 2002 as a result of the outsourcing of various deposit operation functions. Conversion expense decreased $240,000 due to the merger of three of our subsidiary banks into the lead bank, TeamBank, N.A. during 2001. Intangible asset amortization increased $207,000, or 23.9% to $1.1 million for 2002 as a result of write downs and accelerated amortization on the value of our mortgage servicing rights due to accelerated pre-payments on the one to four family mortgages we service which were

refinanced during the year. Goodwill amortization expense decreased $354,000 for 2002 as a result of implementing SFAS 142 *Goodwill and Other Intangible Assets* on January 1, 2002. Other expense increased $351,000 or 11.6% to $3.4 million for 2002. The increase was related to the operations of the acquisitions. Net of the operation expense from the acquisitions, other expense decreased $31,000 during 2002.

Income Tax Expense

We recorded income tax expense of $1.2 million for 2003 compared to $2.4 million in 2002, representing a decrease of $1.2 million, or 50%. Contributing to the decrease in 2003 was income tax expense recognized in 2002 related to the sale of branches in the second quarter 2002 of $648,000. Excluding the tax expense associated with the 2002 branch dispositions, the effective tax rate decreased to approximately 24% in 2003 compared to 26% in 2002. The decrease in effective tax rate was primarily due to an increase in non-taxable municipal interest income in relation to taxable income in 2003 compared to non-taxable municipal interest in relation to taxable income in 2002. For the year ended, December 31, 2003, non-taxable municipal interest was approximately 21.9% of taxable income. For the year ended December 31, 2002, non-taxable municipal income was approximately 12.5% of taxable income. Our effective tax rate was less than the statutory federal rate of 34.0% due primarily to municipal interest income and the income tax benefit resulting from dividends passed through the ESOP to the ESOP participants and tax deferred income from our investment in bank owned life insurance.

We recorded income tax expense of $2.4 million for 2002, compared to $1.5 million for 2001, representing an increase of $957,000, or 65.5%. Included in income tax expense for 2002 was $648,000 of income tax expense related to the sale of the branches during the second quarter of 2002, which resulted in an effective tax rate of 33.95% for 2002. The high effective tax rate was the result of the book versus tax basis on the related $1.3 million in goodwill as summarized with the following table.

	Book basis	Tax basis
Proceeds from sale	$ 1,762,000	$ 1,762,000
Goodwill, net	(1,310,000)	
Gain on sale before tax	452,000	1,762,000
Income tax expense	(648,000)	(648,000)
Net (loss) gain on sale of branches	$ (196,000)	$ 1,114,000

Net of the income tax expense recorded with the branch sales, our effective tax rate decreased to approximately 26.5% for 2002, compared to 29.3% for 2001. The decrease in the effective tax rate for 2002 versus 2001 was due to the adoption of SFAS 142 *Goodwill and Other Intangible Assets* as we did not record goodwill amortization expense for 2002 compared to $354,000 recorded in 2001. Goodwill amortization expense is not deductible for tax purposes. Our effective tax rate was less than the statutory federal rate of 34.0% due primarily to municipal interest income and the income tax benefit resulting from dividends passed through the ESOP to the ESOP participants and tax deferred income from our investment in bank owned life insurance.

Comprehensive Income

Comprehensive income is the total of net income and other comprehensive income. Our other comprehensive income component is composed of the change in equity resulting from an increase or decrease in the market value of our available for sale investment securities, due to the changes in interest rates, net of tax.

Comprehensive income was $1.7 million for 2003, a decrease of $6.2 million from $7.9 million for 2002. The decrease was primarily the result of a $5.3 million decrease in other comprehensive income as the fair value of our investment securities decreased in 2003 from 2002.

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Comprehensive income was $7.9 million for 2002, an increase of $3.7 million from $4.2 million for 2001. The increase was primarily the result of a $2.8 million increase in other comprehensive income as the fair value of our investment securities increased more during 2002 than the increase experienced in 2001.

Analysis of Financial Condition

Overview

Total assets were $649.8 million at December 31, 2003, a decrease of $6.5 million or 1.0% from $656.3 million in total assets as of December 31, 2002. The decrease in total assets was primarily due to a decrease in cash and cash equivalents of $16.8 million and a decrease in investment securities of $2.8 million offset by an increase in loans of $7.2 million, an increase in premises and equipment of $1.9 million and an increase in other assets of $4.4 million.

Total assets were $656.3 million at December 31, 2002, an increase of $5.5 million or .85% from $650.8 million in total assets as of December 31, 2001. The increase in total assets was primarily due to a $19.4 million increase in investment securities, which was offset by a $16.1 million decrease in loans receivable. The increase in investment securities was largely funded by the decrease in loans receivable as well as Federal Home Loan Bank advances.

Loan Portfolio Composition

The following tables present the composition of our loan portfolio by type of loan at the dates indicated.

	December 31									
	2003		2002		2001		2000		1999	
	Principal Balance	Percent of Total	Principal Balance	Percent of Total	Principal Balance	Percent of Total	Principal Balance	Percent of Total	Principal Balance	Percent of Total
	(Dollars in thousands)									
Loans secured by real estate										
One to four family	$ 93,711	27.3%	$ 102,673	30.5%	$ 125,666	35.6%	$ 115,913	35.3%	$ 103,772	33.9%
Construction and land development	43,748	12.7	38,717	11.5	29,154	8.3	22,222	6.8	20,350	6.7
Other	118,729	34.6	98,642	29.3	80,080	22.7	56,393	17.2	43,245	14.1
Total	256,188	74.6	240,032	71.4	234,900	66.6	194,528	59.3	167,367	54.7
Commercial and agricultural	70,734	20.6	71,835	21.4	82,594	23.4	87,128	26.6	94,711	31.0
Installment and other	21,819	6.4	29,716	8.8	40,211	11.4	50,685	15.5	47,536	15.5
Gross Loans	348,741	101.5	341,583	101.5	357,705	101.4	332,341	101.3	309,614	101.2
Less unearned fees	(646)	(0.2)	(597)	(0.2)	(625)	(0.2)	(410)	(0.1)	(359)	(0.1)

	December 31									
Total loans receivable	348,095	101.3	340,986	101.4	357,080	101.2	331,931	101.2	309,255	101.1
Less allowance for loan losses	(4,506)	(1.3)	(4,611)	(1.4)	(4,392)	(1.2)	(3,911)	(1.2)	(3,320)	(1.1)
Total net loans receivable	$ 343,589	100.0%	$ 336,375	100.0%	$ 352,688	100.0%	$ 328,020	100.0%	$ 305,935	100.0%

Total loans receivable were $348.1 million at December 31, 2003 compared to $341.0 million at December 31, 2002, representing an increase of $7.1 million, or 2.1%. The increase in total loans

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receivable was primarily due to our continued allocation of resources to the commercial, construction and land development, and commercial real estate markets. Our commitment to focus our resources on internal loan growth in these areas produced an increase of $24.8 million, or 13.8% in these loans compared to 2002. Offsetting the increase in our commercial, construction and land development, and commercial real estate loans was the continued decrease in our one to four family portfolio resulting primarily from a decrease in loans held for sale of $9.2 million. Agriculture loans and farmland real estate loans decreased $2.7 million to $26.0 million at December 31, 2003 compared to $28.7 million at December 31, 2002. The decrease was due to our continued reduction in exposure to the Kansas and Missouri agricultural markets. Installment loans at December 31, 2003 were $15.6 million, representing a $5.7 million decrease, or 27.0%, from installment loans at December 31, 2002 of $21.3 million. Installment and other consumer loans have been decreasing as a percentage of total loans over the past several years as we have placed more emphasis on growing our small to mid-size business lending.

Total loans receivable were $341.0 million at December 31, 2002 compared to $357.1 million at December 31, 2001, representing a decrease of $16.1 million, or 4.5%. The sale of the branches in June of 2002 accounted for $9.7 million of the decrease in loans receivable. Net of the branch sales, loans receivable decreased $6.4 million, or 1.8%. The decrease in total loans receivable was primarily due to a $26.0 million decrease in our one to four family portfolio resulting from a decrease in loans held for sale as well as a reduction in the portfolio due to increased customer refinancing due to the favorable fixed rate mortgage rates. We typically sell fixed rate one to four family loans to the secondary market instead of holding them in our portfolio. Offsetting the decrease in our one to four family loan portfolio was the favorable results of our continued allocation of resources to the commercial, construction and land development, and commercial real estate markets. Our commitment to focus our resources on internal loan growth in the commercial, construction and land development, and commercial real estate markets produced internal loan growth of $27.7 million, a 16.9% increase in these loans compared to 2001. Offsetting this growth was our decision to exit our low margin dealer paper business in 2001 decreasing installment loans by $9.3 million. We also reduced our credit exposure to the Kansas and Missouri agricultural markets beginning in 2001 resulting in a decrease in agricultural loans of $2.8 million for the year. Also contributing to the decrease in total loans receivable was the decision to exit the higher risk commercial leasing business in 2001, which reduced lease- financing receivables by $3.0 million during 2002.

Loans secured by real estate

Loans secured by real estate represent our largest type of loan. At December 31, 2003, these loans totaled $256.2 million; a $16.2 million, or 6.8%, increase from $240.0 million at December 31, 2002. The increase was generated from an $18.8 million increase in commercial real estate loans and a $5.0 million increase in construction and development loans. Offsetting this increase was a $9.0 million decrease in one to four family loans primarily resulting from a decrease in loans held for sale. At December 31, 2003, the balance of real estate mortgage loans held for sale was $1.1 million, representing a $9.2 million decrease from the balance at December 31, 2003 of $10.3 million. We typically sell fixed rate one to four family loans to the secondary market instead of holding such loans in our one to four family portfolio. We occasionally retain the servicing rights on these loans. Capitalized servicing rights are recorded at the time the loan is sold, thereby increasing the gain on sale by such amount. The balance of our mortgage servicing rights was $656,000 at December 31, 2003 compared to $637,000 at December 31, 2002. Construction and land development loans secured by real estate increased $5 million, or 12.9%, to $43.7 million at December 31, 2003 from $38.7 million at December 31, 2002. We have experienced steady growth in this area increasing in each of the last five years from $20.3 million at December 31, 1999.

Nonfarm, nonresidential commercial loans secured by real estate increased $18.8 million, or 22.0%, to $103.6 million at December 31, 2003 from $84.8 million at December 31, 2002. We have experienced steady growth in this area increasing in each of the last five years. We anticipate continued growth in this

loan portfolio with our continued emphasis on small to mid-size business loans in our metropolitan markets.

At December 31, 2002, real estate loans totaled $240.0 million; a $5.1 million, or 2.2%, increase from $234.9 million at December 31, 2001. The increase was generated from a $23 million increase in commercial real estate loans and a $9.6 million increase in construction and development loans. Offsetting this increase was a $23.0 million decrease in one to four family loans resulting from a decrease in loans held for sale as well as a reduction in the portfolio due to increased customer refinancing as a result of the favorable fixed rate mortgage rates. Also contributing to the offset was a decrease in real estate loans secured by farmland of $3.6 million to $12.6 million at December 31, 2002 from $16.1 at December 31, 2001.

Commercial and Agricultural

Commercial and agricultural loans were $70.7 million at December 31, 2003, a decrease of $1.1 million, or 1.5%, from $71.8 million at December 31, 2002. Commercial loans include loans to service, retail, wholesale, and light manufacturing businesses. Agricultural loans included loans to farmers for production and other agricultural needs.

Commercial loans were $56.7 million at December 31, 2003, compared to $55.7 million at December 31, 2002, an increase of $1.0 million, or 1.8%. At December 31, 2002, commercial loans were $55.7 million compared to $63.6 million at December 31, 2001, a decrease of $7.9 million or 12.4%.

At December 31, 2003, agricultural loans were $14.0 million compared to $16.1 million at December 31, 2002, a decrease of $2.1 million, or 13.0%. Agricultural loans were $16.1 million at December 31, 2002, a decrease of $2.8 million or 14.8% from $18.9 million at December 31, 2001. The decrease in this loan category since 1999 is due to our decision to reduce our exposure to the Kansas and Missouri agricultural markets.

Installment and Other

Installment and other loans include automobile and other personal loans, leases and loans to state and political subdivisions. The majority of these loans are installment loans with fixed interest rates. Installment and other loans were $21.8 million at December 31, 2003, a decrease of $7.9 million, or 26.6% from $29.7 million at December 31, 2002. At December 31, 2002, installment and other loans decreased $10.5 million or 26.1% from $40.2 million at December 31, 2001. Installment and other loans have been decreasing as a percentage of total loans over the past several years as we have placed less emphasis in this area and more emphasis on our small to mid-size business loans in our markets.

Loan Maturities

The following tables present, at December 31, 2003 and 2002, loans by maturity in each major category of our portfolio based on contractual repricing schedules. Actual maturities may differ from the contractual

repricing maturities shown below as a result of renewals and prepayments. Loan renewals are re-evaluated using substantially the same credit procedures that are used when loans are made.

	December 31, 2003			
		Over One Year Through Five Years	Over Five Years	

	December 31, 2003					
	One Year or Less	Fixed Rate	Variable	Fixed Rate	Variable	Total
	(In thousands)					
Loans secured by real estate:						
One to four family	$ 13,447	$ 6,997	$ 2,410	$ 14,189	$ 56,668	$ 93,711
Construction and land development	28,313	7,884	2,445	72	5,034	43,748
Other	20,530	36,597	8,251	7,255	46,096	118,729
Total	62,290	51,478	13,106	21,516	107,798	256,188
Commercial and agricultural	32,911	11,734	9,726	2,200	14,163	70,734
Installment and other	3,628	12,700	103	3,949	1,439	21,819
Gross Loans	98,829	75,912	22,935	27,665	123,400	348,741
Less unearned fees	646					646
Total loans receivable	$ 98,183	$ 75,912	$ 22,935	$ 27,665	$ 123,400	$ 348,095

	December 31, 2002					
		Over One Year Through Five Years		Over Five Years		
	One Year or Less	Fixed Rate	Variable	Fixed Rate	Variable	Total
	(In thousands)					
Loans secured by real estate:						
One to four family	$ 11,620	$ 10,989	$ 2,361	$ 28,502	$ 49,201	$ 102,673
Construction and land development	25,059	5,707	1,977	115	5,859	38,717
Other	17,318	28,996	5,390	8,328	38,610	98,642
Total	53,997	45,692	9,728	36,945	93,670	240,032
Commercial and agricultural	33,142	11,862	9,261	3,195	14,375	71,835
Installment and other	5,385	19,830	2,948	860	693	29,716
Gross Loans	92,524	77,384	21,937	41,000	108,738	341,583
Less unearned fees	597					597
Total loans receivable	$ 91,927	$ 77,384	$ 21,937	$ 41,000	$ 108,738	$ 340,986

Nonperforming assets

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans consist of loans 90 days or more delinquent and still accruing interest, nonaccrual loans, and restructured loans. When, in the opinion of management, a reasonable doubt exists as to the collectibility of interest, regardless of the delinquency status of a loan, the accrual of interest income is discontinued and any interest accrued to date is reversed through a charge to interest income. While a loan is on nonaccrual status, it is our policy that interest income is recognized only after payment in full of the past due principal. 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.

The following table presents information concerning the nonperforming assets at the dates indicated.

	December 31				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Nonaccrual loans	$ 5,481	$ 3,413	$ 2,316	$ 2,705	$ 1,792
Loans 90 days past due and still accruing	641	1,163	1,380	1,518	621
Restructured loans	1,138				
Nonperforming loans	7,260	4,576	3,696	4,223	2,413
Other real estate owned	1,117	1,770	1,572	340	792
Total nonperforming assets	$ 8,377	$ 6,346	$ 5,268	$ 4,563	$ 3,205
Nonperforming loans as a percentage of total loans	2.09%	1.34%	1.04%	1.27%	0.78%
Nonperforming assets as a percentage of total assets	1.29%	0.97%	0.81%	0.85%	0.62%

Total nonperforming assets were $8.4 million at December 31, 2003 compared to $6.3 million at December 31, 2002, representing an increase of $2.1 million or 33%. The increase in nonperforming assets was primarily due to an increase in nonperforming loans of $2.7 million offset by a decrease in other real estate owned of approximately $653,000.

Nonperforming loans increased $2.7 million, or 58.7%, to $7.3 million at December 31, 2003 from $4.6 million at December 31, 2002. The increase in nonperforming loans was a result of an increase in nonaccrual loans of $2.1 million and an increase of $1.1 million in restructured loans. Nonaccrual loans increased $2.1 million to $5.5 million at December 31, 2003 from $3.4 million at December 31, 2002. This increase was primarily a result of one large loan approximating $2.6 million to a residential property developer placed on nonaccrual status in 2003. Included in the $5.5 million of nonaccrual loans at December 31, 2003 were four large loans aggregating $4.6 million with specific reserves of $782,000. These loans include $2.6 million with a residential property developer, $1.3 million with an individual for a single-family dwelling, $382,000 with an underground cabling company and $316,000 with an aluminum extrusion company. We do not anticipate losses on these credits in excess of the specific reserves. Restructured loans at December 31, 2003 consisted of seven relationships. The largest relationship included agricultural lending restructured through Farmer Home Administration of approximately $600,0000. Other real estate owned was $1.1 million at December 31, 2003 compared to $1.8 million at December 31, 2002. Other real estate owned consisted of 15 properties held by our subsidiary banks. The properties consisted of four commercial buildings totaling $559,300, seven one to four family properties totaling $288,800, and four parcels of land totaling $268,600. The properties are all located within our market areas. Management is working to sell the real estate as soon as practical.

Nonperforming assets have steadily increased from 1999 along with the increase in our total assets. Nonperforming assets as a percent of total assets increased to 1.29% at December 31, 2003, compared to 0.97% at December 31, 2002, and 0.81% at December 31, 2001. Nonperforming assets will generally increase in times of economic uncertainty or stress. Management believes the level of nonperforming assets may increase if economic weaknesses are experienced in 2004, although the magnitude of any increase in nonperforming loans is not determinable.

Impaired loans

We consider a loan to be impaired when it is deemed probable by management that we will be unable to collect all contractual principal and interest payments in accordance with the terms of the original loan agreement. However, when determining whether a loan is impaired, management also considers the loan documentation, the current ratio of the loan's balance to collateral value, and the borrower's present financial position. Included as impaired loans are all loans contractually delinquent 90 days or more and all loans upon which accrual of interest has been suspended.

At December 31, 2003, we had impaired loans totaling $6.1 million, which have related specific reserves of $1.3 million. This compares to $4.6 million of impaired loans, which had related specific reserves of $1.2 million at December 31, 2002. The increase in impaired loans was the result of the increase in non-performing assets above. The average recorded investment in impaired loans during the year ended December 31, 2003 was $6.7 million. Interest income recognized on impaired loans during the period the loans were considered to be impaired for 2003 approximated $56,000. Impaired loans will generally increase in times of economic uncertainty or stress. Management believes the level of impaired loans could increase if economic weaknesses are experienced in our market area during 2004.

Allowance for Loan Losses

Management maintains its allowance for loan losses based on industry standards, historical experience and an evaluation of economic conditions. We regularly review delinquencies and loan portfolio quality. Based upon these factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for potential loan losses based upon a percentage of the outstanding balances and for specific loans if their ultimate collectibility is considered questionable. Since certain lending activities involve greater risks, the percentage applied to specific loan types may vary. The allowance is increased by provisions for loan losses and reduced by loans charged off, net of recoveries.

The following table sets forth information regarding changes in the allowance for loan losses for the periods indicated.

	Year ended December 31				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Average total loans	$ 341,782	$ 335,194	$ 339,258	$ 324,198	$ 267,695
Total loans at end of period	$ 348,095	$ 340,986	$ 357,080	$ 331,931	$ 329,924
Allowance at beginning of year	$ 4,611	$ 4,392	$ 3,911	$ 3,320	$ 2,541
Loans charged off:					
Real estate:					
One to four family	(229)	(238)	(99)	(15)	(20)
Construction		(18)	(141)		
Other	(2)	(103)	(38)	(32)	
Commercial	(1,296)	(561)	(441)	(217)	(198)
Lease financing receivables	(32)	(20)	(36)	(154)	(19)
Installment and other	(688)	(635)	(930)	(570)	(542)
Total charge-offs	(2,247)	(1,575)	(1,685)	(988)	(779)
Recoveries:					
Real estate:					
One to four family	49	13	4		23
Construction	7	29		4	
Other	80	19		4	
Commercial	35	38	67	50	38
Lease financing receivables		22	24	25	1
Installment and other	181	239	254	142	161
Total recoveries	352	360	349	225	223

	Year ended December 31				
Net charge-offs	(1,895)	(1,215)	(1,336)	(763)	(556)
Provision for loan losses	1,790	1,434	1,435	1,001	902
Allowance related to acquisitions			382	353	433
Allowance at end of period	$ 4,506	$ 4,611	$ 4,392	$ 3,911	$ 3,320
Ratio of net charge-offs to average total loans	0.55%	0.36%	0.39%	0.24%	0.21%
Allowance to total loans at end of period	1.29%	1.35%	1.23%	1.18%	1.07%
Allowance to nonperforming loans	62.1%	100.76%	118.83%	92.61%	137.59%

The allowance for loan losses was $4.5 million, or 1.29% of total loans at December 31, 2003 compared to $4.6 million or 1.35% of total loans at December 31, 2002. Allowance to nonperforming loans was 62.1% at December 31, 2003 compared to 100.76% at 2002. The decrease in the allowance as a percent of total loans and percent of nonperforming loans was a result of management's calculation of the estimated reserve, consistently applied from year to year, which considers historical experience, evaluation of economic conditions and knowledge of specific loans. Contributing to the decrease in the allowance as a percent of nonperforming loans was the inclusion of a loan in nonperforming loans of approximately $2.6 million to a residential property developer without a corresponding increase in specific allowances as the loan was adequately collateralized by real estate. Also contributing to the decrease in the allowance as a percent of nonperforming loans was the increase in restructured loans included in nonperforming loans of $1.1 million of which approximately $600,000 was a loan to an agriculture borrower, restructured through Farmer Home Administration. Excluding the increase in restructured loans, the allowance was 73.6% of nonaccrual loans and loans 90 days or more delinquent. Net charge-offs were $1.9 million for the year ended 2003 compared to $1.2 million for the year ended 2002. Net charge-offs for 2003 primarily

consisted of $1.3 million in commercial loan net charge-offs, $507,000 in installment and other loan net charge-offs and $180,000 in one to four family loan net charge-offs. The commercial charge-offs were comprised of six large loans totaling $1.2 million.

Net charge-offs were $1.2 million for the year ended 2002, compared to $1.3 million for the year ended 2001. Net charge-offs for 2002 primarily consisted of $523,000 in commercial loans, $396,000 in installment loans, and $225,000 in one to four family real estate loans. Commercial loan net charge-offs were primarily composed of five credits totaling $487,000. These credits were from various industries in our markets including an auto leasing company, a retail-packaging manufacturer, a convenience store, an auto body shop, and fraudulent receivables purchased. One to four family net charge-offs were also the result of one larger credit, where we released the mortgage in error and the customer filed for bankruptcy. Installment net charge-offs have increased over the past few years at approximately 2.0% of installment net charge-offs to total installment loans. We also exited the dealer paper business and sold our credit card portfolio during 2001. As a result, the net charge-off percentage for installment loans has improved to 1.86% for 2002, compared to 2.21% for 2001.

Our lending personnel are responsible for continuous monitoring of the loan portfolio. Additionally we have a separate loan review process, which reviews the loan portfolio on a quarterly basis to determine compliance with loan policy, including the appropriateness of risk ratings assigned to individual loans, as well as the adequacy of the allowance for loan losses. The allowance for loan losses is based primarily on management's estimates of probable loan losses from the foregoing processes and historical experience.

The following table presents an allocation of the allowance for loan losses by loan category as of the dates indicated. The allocation table should not be interpreted as an indication of the specific amounts, by loan classification, to be charged to the allowance. Management believes that the table may be a useful device for assessing the adequacy of the allowances as a whole. The table has been derived in part by applying historical loan loss ratios to both internally classified loans and the portfolio as a whole to determine the allocation of the loan losses attributable to each category of loans.

December 31									
2003		2002		2001		2000		1999	
Amount of Gross	Loans in Category as a	Amount of Gross	Loans in Category as a	Amount of Gross	Loans in Category as a	Amount of Gross	Loans in Category as a	Amount of Gross	Loans in Category as a

	December 31									
	Allowance	Percentage of Total Loans	Allowance	Percentage of Total Loans	Allowance	Percentage of Total Loans	Allowance	Percentage of Total Loans	Allowance	Percentage of Total Loans
	(Dollars in thousands)									
Loans secured by real estate:										
One to four family	$ 397	27.00%	$ 16	30.1%	$ 139	35.2%	$ 161	34.8%	$ 250	33.6%
Construction and land development	635	13.0	575	11.3	248	8.2	29	6.7	16	6.6
Other	944	34.0	784	28.8	658	22.4	126	17.0	85	14.0
Commercial and agricultural	1,638	20.0	2,102	21.1	2,283	23.1	2,211	26.2	1,012	28.1
Lease financing receivables	8		14		35	1.4	76	2.4	50	2.5
Installment and other	602	6.0	864	8.7	889	9.7	828	12.9	836	15.2
Unallocated	282		256		140		480		1,071	
	$ 4,506	100.00%	$ 4,611	100.0%	$ 4,392	100.0%	$ 3,911	100.0%	$ 3,320	100.0%

The provision for loan losses takes into account many factors such as our prior experience with loan losses and an evaluation of the risks in the loan portfolio at any given time, including changes in economic, operating, and other conditions of borrowers, the economies in our areas of operations and to a lesser extent, the national economy and several other factors beyond our control. The allowance for loan losses allocated to one to four family increased approximately $381,000 at December 31, 2003 compared to December 31, 2002 due to assignment of specific reserves to certain loans included in this category. The allowance for loan losses allocated to other loans secured by real estate increased approximately $160,000 due to the increase in loans in that category of approximately 20.4%. The allowance for loan losses

allocated to commercial and agricultural loans decreased approximately $464,000 due to a decrease in agricultural loans of approximately $2.1 million or 13.0%. The decrease in the allocation of the allowance for loan losses allocated to installment and other loans of approximately $262,000 is due to the decrease in the loan balance in that category of $7.9 million or 26.6%.

Investments

We invest a portion of our available funds in short-term and long-term instruments, including federal funds sold and investment securities. Our investment portfolio is designed to provide liquidity for cash-flow requirements, to assist in managing interest rate risk, and to provide collateral for certain public deposits and other borrowing arrangement. At December 31, 2003 and 2002, the investment portfolio was comprised principally of obligations of U.S. government agencies, obligations of states and political subdivisions, and mortgage-backed securities. Total investment securities at December 31, 2003 of $221.3 million decreased $2.8 million from total investments at December 31, 2002 of $224.1 million. The decrease was primarily a result of a decrease in mortgage-backed securities of $33.7 million offset by an increase in U.S. government agency securities of $22.8 million.

During 2002, we initiated an interest rate risk management strategy through a transaction in which we purchased $40.0 million in short-term mortgage backed investment securities with $40.0 million in long-term borrowings from the Federal Home Loan Bank. The Federal Home Loan Bank borrowings, which carry an average rate of 4.19%, consisted of $30.0 million in 10 year fixed rate advances convertible to floating rate advances if LIBOR increases to 7.50% within the next 10 years and $10.0 million in 5 year fixed rate advances convertible to floating rate advances if LIBOR increases to 7.50% within the next 5 years. The intent of the transaction was to increase the asset sensitivity of our balance sheet to benefit from an increase in interest rates and borrow long-term borrowings during the period of historical low interest rates. The cumulative net result of this transaction from 2002 through 2003 was net interest income of approximately $468,000.

The following table presents our investments in certain securities accounted for as available for sale. "Other" investments is comprised of Federal Home Loan Bank stock, Federal Reserve Bank stock, mutual funds, and certain equity securities, all of which carry no stated maturity.

	December 31	
	2003	2002
	(In thousands)	
Investment securities available for sale:		
U.S. Agency securities	$ 77,809	$ 54,998
Obligations of state and political subdivisions	33,166	27,669
Mortgage-backed securities	92,688	126,409
Other	17,589	14,976
Total investment securities	$ 221,252	$ 224,052

At December 31, 2003 and 2002, the investment portfolio did not contain investments, which were considered to be derivatives, structured notes or similar instruments that are classified as "High-Risk Securities" as defined by the Federal Financial Institutions Examinations Council.

The following tables set forth a summary of the contractual maturities in the investment portfolio at December 31, 2003 and December 31, 2002.

	December 31, 2003									
	One year or less		Over one years through five years		Over five years through ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. Treasury and agencies	$ 8,713	4.92%	$ 38,528	3.51%	$ 11,737	3.74%	$ 18,831	4.73%	$ 77,809	4.00%
Obligations of states and political subdivisions	1,193	5.55	6,022	6.50	15,420	6.42	10,530	6.25	33,165	6.35
Mortgage-backed securities			382	4.48	3,250	5.14	89,057	4.72	92,689	4.73
Other(1)	11,229	6.49	138	6.96	1,309	7.40	4,913	4.97	17,589	5.74
	$ 21,135		$ 45,070		$ 31,716		$ 123,331		$ 221,252	

	December 31, 2002									
	One year or less		Over one years through five years		Over five years through ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. Treasury and agencies	$ 10,955	4.64%	$ 42,997	4.93%	$ 1,047	6.20%	$	0.00%	$ 54,998	4.90%

	December 31, 2002									
Obligations of states and political subdivisions	1,282	4.22	7,923	4.49	10,618	4.97	7,845	4.88	27,669	4.77
Mortgage-backed securities		0.00	729	5.41	5,736	5.60	119,943	5.40	126,409	5.41
Other(1)	8,969	3.60	1,985	6.49		0.00	4,022	5.00	14,976	2.20
	$ 21,206		$ 53,634		$ 17,401		$ 131,810		$ 224,052	

(1) Other securities consists principally of Federal Home Loan Bank stock, Federal Reserve Bank stock, and mutual funds which have no stated maturity

Deposits

Our primary source of funds has historically been customer deposits, which totaled $446.2 million at December 31, 2003, a $9.4 million, or 2.1%, decrease from $455.6 million at December 31, 2002. The decrease was a result of a decrease in checking deposits and money market deposits of $14.1 million offset by an increase in time deposits and savings deposits of approximately $4.7 million. Deposits totaled $487.8 million at December 31, 2001.

The following table sets forth the average balances and weighted average rates for categories of deposits for the periods indicated.

	Years ended December 31					
	2003		2002		2001	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousand)					
Noninterest-bearing demand	$ 64,329		$ 47,152		$ 50,528	
Interest-bearing demand	146,527	0.76%	148,970	1.30%	122,325	2.40%
Savings	31,672	0.78%	33,854	1.46%	25,426	2.23%
Time	203,452	2.65%	217,858	3.58%	249,231	5.46%
Total	$ 445,980		$ 447,834		$ 447,510	

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The following table summarizes at December 31, 2003 and December 31, 2002, our certificates of deposit of $100,000 or more by time remaining until maturity.

	December 31	
	2003	2002
	(In thousands)	
Remaining maturity:		
Less than three months	$ 15,463	$ 12,655
Three to six months	15,456	8,992
Six months to one year	12,975	15,737

	December 31	
One year and over	12,539	9,636
Total	$ 56,433	$ 47,020

Federal Home Loan Bank and Federal Reserve Bank Borrowings

Our subsidiary banks are members of the Federal Home Loan Bank of Topeka (FHLB). The FHLB system functions as a central bank providing credit for members. As members of the FHLB, our subsidiary banks are entitled to borrow funds from the FHLB and are required to own FHLB stock in an amount determined by a formula based upon total assets and FHLB borrowings. Our subsidiary banks may use FHLB borrowings to supplement deposits as a source of funds.

At December 31, 2003, FHLB borrowings aggregated $111.2 million, compared to $112.3 million at December 31, 2002. FHLB borrowings aggregated $74.4 million, at December 31, 2001. The increase of $37.9 million in FHLB advances at December 31, 2002, compared to December 31, 2001, was the result of a transaction, where we borrowed $40.0 million in FHLB advances during 2002 and purchased short-term mortgage backed investment securities. The intent of the transaction was to increase the asset sensitivity of our balance sheet to benefit from an increase in interest rates and borrow long-term borrowings during the period of historical low interest rates. At December 31, 2003, the aggregate available and unused borrowing capacity of our subsidiary banks was approximately $13.6 million, which was available through a line of credit and term advances. FHLB borrowings are collateralized by FHLB stock, investment securities and certain qualifying mortgage loans of our subsidiary banks.

TeamBank, N.A. and Colorado National Bank are member banks of the Federal Reserve Bank and may use the Federal Reserve Bank discount window to meet short-term funding needs. Neither of our subsidiary banks utilized short-term Federal Reserve Bank borrowings during 2003 or 2002.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Team Financial, Inc. has various contractual obligations in the normal course of business that are integral to our operations. The following table summarizes payments due per these contractual obligations at December 31, 2003.

	Payments Due By				
	One Year or less	Over One to Three Years	Over Three to Five Years	Over Five Years	Total
	(In thousands)				
Time deposits	145,001	43,152	12,020	19	200,192
Repurchase agreements	7,297				7,297
Subordinated debentures and notes payable	13,165	10,611	10,000	96,578	130,354
Contingent payments	925				925
Operating lease obligations	277	535	428	248	1,488
Loan commitments	39,663	10,830	574	10,612	61,679
Data processing contracts	518	1,098	683		2,299
Total	206,846	66,226	23,705	107,457	404,234

Payments on time deposits are based on contractual maturity dates. These funds may be withdrawn prior to maturity with or without penalties.

Contingent payments represent amounts payable to the previous shareholders of The Quarles Agency, Inc., an insurance agency we acquired on December 18, 2002, if certain revenue benchmarks are achieved in 2003 and 2004. The revenue benchmark was achieved during 2003 and therefore, a payment of $925,000 plus interest was paid in 2004. If the benchmark is achieved in 2004, another payment of $925,000 plus interest is payable to the previous shareholders in 2005.

Operating lease obligations represent property rented for branch offices. Payments represent the minimum lease payments and exclude related costs such as utilities.

Loan commitments represent obligations to provide financing to our customers. As some of these commitments will expire prior to funding the full amount, the total commitments amounts do not necessarily represent future cash obligations.

Data processing contracts represent the minimum obligations under these contracts and exclude additional payments that are based on volume of transactions processed.

Additionally, Team Financial, Inc. offers standby letters of credit to our customers, which are a conditional, but irrevocable form of guarantee, issued to guarantee payment upon default of payment by our customer. Standby letters of credit are initially issued for a period of one year, but can be extended depending on customer needs. The contractual amount of standby letters of credit was $1,869,000 at December 31, 2003 and the maximum remaining term for any standby letter of credit is December 2008. Commitments for standby letters of credit do not necessarily represent future cash requirements.

Capital Resources

We monitor compliance with bank and financial holding company regulatory capital requirements, focusing primarily on risk-based guidelines. Under the risk-based capital method of capital measurement, the ratio computed is dependent upon the amount and composition of assets recorded on the balance sheet, and the amount and composition of off-balance sheet items, in addition to the level of capital. Included in the risk-based capital method are two measures of capital adequacy, core capital and total capital, which consist of core and secondary capital. Core capital, also known as Tier 1 capital, generally includes common shareholders' equity, perpetual preferred stock and minority interests in consolidated

subsidiaries, less goodwill and intangible assets. No more than 25% of core capital elements may consist of cumulative preferred stock. The Financial Accounting Standards Board (FASB) issued Interpretation No. 46. *Consolidation of Variable Interest Entities* (FIN 46), which when adopted on December 31, 2003, resulted in deconsolidation of our wholly owned subsidiary, Team Financial Capital Trust. The Cumulative Trust Preferred Securities, issued by the subsidiary to purchase Team Financial, Inc. subordinated debentures, is included in Tier I capital of Team Financial, Inc. for regulatory purposes. There can be no assurance that the Federal Reserve will continue to allow institutions to include trust preferred securities in Tier 1 capital. Total risk based capital, also known as Tier 2 capital, generally includes the allowance for loan losses limited to 1.25% of weighted risk assets, certain forms of perpetual preferred stock, as well as hybrid capital instruments.

The following tables present capital ratios as of the indicated dates.

Risk Based Capital Ratios
At December 31

	2003		2002(3)		2001(3)	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousand)					
Core capital	$ 46,320	11.08%	$ 43,175	10.98%	$ 41,637	10.60%
Core capital minimum requirement(1)	16,721	4.00%	15,723	4.00%	15,711	4.00%
Excess	$ 29,599	7.08%	$ 27,452	6.98%	$ 25,926	6.60%

	Risk Based Capital Ratios At December 31					
Total risk based capital	$ 50,826	12.16%	$ 47,786	12.16%	$ 46,029	11.72%
Total risk based capital requirement	33,442	8.00%	31,446	8.00%	31,422	8.00%
Excess	$ 17,384	4.16%	$ 16,340	4.16%	$ 14,607	3.72%
Total risk adjusted assets	$ 418,026		$ 393,070		$ 392,780	

	Leverage Ratios At December 31					
	2003		2002(3)		2001(3)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousand)					
Core capital	$ 46,320	7.46%	$ 43,175	6.88%	$ 41,637	6.92%
Core capital minimum requirement(2)	24,829	4.00%	25,114	4.00%	24,076	4.00%
Excess	$ 21,491	3.46%	$ 18,061	2.88%	$ 17,561	2.92%
Average total assets	$ 620,723		$ 627,855		$ 601,903	

(1) Based on risk-based capital guidelines of the Federal Reserve, a bank holding company is required to maintain a core capital to risk-adjusted assets ratio of 4% and a total capital, risk-based, to risk-adjusted assets ratio of 8%.

(2) The leverage ratio is defined as the ratio of core capital to average tangible assets. Based on Federal Reserve guidelines, a bank holding company generally is required to maintain a leverage ratio in excess of 4%.

(3) Restated for deconsolidation of wholly owned subsidiary as a result of adopting FIN 46. See Summary of Significant Accounting Policies in the consolidated financial statements.

Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities,* (FIN 46). FIN 46 provides guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, non-controlling interests and results of operations of a VIE need to be included in a company's financial statements. VIEs are generally defined in FIN 46 as entities that either do not have sufficient equity to finance their activities without support from other parties or whose equity investors lack a controlling financial interest. In December 2003, the FASB issued a revised FIN 46 (FIN 46R), which required public companies to apply FIN 46 to special purpose entities by periods ending

after December 15, 2003. We have a statutory trust, Team Financial Capital Trust I (the "Trust"), that was formed for the purpose of issuing Trust Preferred Securities (see note 11 to the annual consolidated financial statements). As a result of applying FIN 46R, the Trust is not consolidated in the financial statements of Team Financial, Inc. The impact of deconsolidating the Trust was reporting $16 million in subordinated obligation by Team Financial, Inc., representing $15.5 million in subordinated debentures issued by Team Financial, Inc. in 2001, solely held by the Trust, and $480,000 of common interest, on the financial statements of Team Financial Inc. The $15.5 million Trust Preferred

Securities issued by the Trust in 2001 will remain on the records of the Trust. The $480,000 subordinated obligation reported by Team Financial Inc. is offset by an identical amount representing Team Financial Inc.'s investment in the Trust and is included in other assets.

We continue to include the preferred securities in our Tier I capital for regulatory capital purposes until notice is given to the contrary. The Federal Reserve intends to review the regulatory implications of any accounting treatment changes and, if necessary or warranted, provide further appropriate guidance. There can be no assurance that the Federal Reserve will continue to allow institutions to include Trust Preferred Securities in Tier I capital for regulatory capital purposes. Pursuant to the terms of the Trust Preferred Securities, we may redeem all $15.5 million of the subordinated debentures if the Trust Preferred Securities no longer qualify as Tier 1 capital.

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

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Liquidity

We continuously forecast and manage our liquidity in order to satisfy cash flow requirements of depositors, borrowers, and our own cash flow needs. We have developed internal and external sources of liquidity to meet our 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. Our most liquid assets are cash and cash equivalents and investment securities available-for-sale. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period. At December 31, 2003 and December 31, 2002, these liquid assets totaled $240.1 million and $259.6 million, respectively. Management believes our sources of liquidity are adequate to meet expected cash needs for the foreseeable future.

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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. We monitor our assets and liability mix monthly in an effort to maintain consistent earnings performance through control of interest rate risk.

Below is a static gap schedule as of December 31, 2003. This is just one of several tools which may be used to measure and manage interest rate sensitivity. Interest earning assets and interest-bearing liabilities are presented below within selected time intervals based on their repricing and maturity characteristics. In this view, the sensitivity position is perfectly matched when an equal amount of assets and liabilities reprice during any given time period. Excess assets or liabilities repricing in a given time period results in the interest rate gap shown in the table. A positive gap indicates more assets than liabilities will reprice in that time period, while a negative gap indicates more liabilities than assets will reprice.

Static Gap Analysis at December 31, 2003

3 months or loss	4 through 12 months	13 through 36 months	37 through 60 months	61 throu 120 mont

Static Gap Analysis at December 31, 2003

(Dollars in thousands)

Interest earning assets:					
Loans receivable, net of unearned income	$ 37,355	$ 60,733	$ 59,121	$ 40,241	$ 42,0
Investment securities available for sale	9,730	11,405	21,797	23,273	31,7
Federal funds sold and interest bearing deposits	4,667				
Other assets			480		
Total interest earning assets	$ 51,752	$ 72,138	$ 81,398	$ 63,514	$ 73,7
Interest bearing liabilities:					
Savings deposits and interest-bearing checking	$ 174,128	$	$	$	$
Time deposits under $100,000	29,977	71,132	33,660&220;General Partner”), the sole general partner of the Operating Partnership. The Parent Company engages in the ownership, management, leasing, acquisition, disposition and redevelopment of retail shopping centers through the Operating Partnership, and has no other substantial assets or liabilities other than through its investment in the Operating Partnership. The Parent Company, the Operating Partnership and their controlled subsidiaries on a consolidated basis (collectively, the “Company” or “Brixmor”) believes it owns and operates one of the largest open air retail portfolios by gross leasable area (“GLA”) in the United States (“U.S.”), comprised primarily of community and neighborhood shopping centers. As of March 31, 2019, the Company’s portfolio was comprised of 422 shopping centers (the “Portfolio”) totaling approximately 73 million square feet of GLA. The Company’s high-quality national Portfolio is primarily located within established trade areas in the top 50 Metropolitan Statistical Areas in the U.S., and its shopping centers are primarily anchored by non-discretionary and value-oriented retailers, as well as consumer-oriented service providers.		

The Company does not distinguish its principal business or group its operations on a geographical basis for purposes of measuring performance. Accordingly, the Company has a single reportable segment for disclosure purposes in accordance with U.S. generally accepted accounting principles (“GAAP”).

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they

do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the unaudited Condensed Consolidated Financial Statements for the periods presented have been included. The operating results for the periods presented are not necessarily indicative of the results that may be expected for a full fiscal year. These financial statements should be read in conjunction with the financial statements for the year ended December 31, 2018 and accompanying notes included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 11, 2019.

Certain prior period balances in the accompanying unaudited Condensed Consolidated Statements of Operations have been reclassified to conform to the current period presentation for the adoption of Accounting Standards Codification Topic 842 "Leases" ("ASC 842") (described below), which supersedes Accounting Standards Codification Topic 840 "Leases" ("ASC 840").

Principles of Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of the Parent Company, the Operating Partnership, each of their wholly owned subsidiaries and all other entities in which they have a controlling financial interest. All intercompany transactions have been eliminated.

Deferred Leasing and Financing Costs

Costs incurred in executing tenant leases and long-term financings are capitalized and amortized using the straight-line method over the term of the related lease or debt agreement, which approximates the effective interest method. Capitalized costs incurred in executing tenant leases include tenant improvements and leasing commissions. In connection with the adoption of ASC 842, the Company no longer capitalizes partial salaries and/or legal fees incurred in executing tenant leases. These amounts were capitalized under previous guidance. For long-term financings, capitalized costs incurred include bank and legal fees. The amortization of deferred leasing and financing costs is included in Depreciation and amortization and Interest expense, respectively, in the Company's unaudited Condensed

Consolidated Statements of Operations and within Operating activities on the Company's unaudited Condensed Consolidated Statements of Cash Flows.

Revenue Recognition and Receivables
The Company enters into agreements with tenants which convey the right to control the use of identified space at its shopping centers in exchange for rental revenue. These agreements meet the criteria for recognition as leases under ASC 842. Rental revenue is recognized on a straight-line basis over the terms of the related leases. The cumulative difference between rental revenue recognized in the Company's unaudited Condensed Consolidated Statements of Operations and contractual payment terms is recognized as deferred rent and presented on the accompanying unaudited Condensed Consolidated Balance Sheets within Receivables. The Company commences recognizing rental revenue based on the date its makes the underlying asset available for use by the tenant. Leases also typically provide for the reimbursement of operating costs, including common area expenses, utilities, insurance and real estate taxes by the lessee and are recognized in the period the applicable expenditures are incurred.

In connection with the adoption of ASC 842, the Company has evaluated the lease and non-lease components within its leases and has elected the practical expedient to present lease and non-lease components in its lease agreements as one component. As such, the Company accounts for rental revenue and common area expense reimbursements as one lease component under ASC 842. These amounts are included in Rental income in the Company's unaudited Condensed Consolidated Statements of Operations. Additionally, the Company allocates the reimbursement of utilities, insurance and real estate taxes to the lease and non-lease components of its leases. These amounts are included in Rental income in the Company's unaudited Condensed Consolidated Statements of Operations.

Certain leases also provide for percentage rents based upon the level of sales achieved by a lessee. These percentage rents are recognized upon the achievement of certain pre-determined sales levels and are included in Rental income in the Company's unaudited Condensed Consolidated Statements of Operations.

Gains from the sale of depreciated operating properties are generally recognized under the full accrual method, provided that various criteria relating to the terms of the sale and subsequent involvement by the Company with the applicable property are met.

The Company periodically evaluates the collectability of its receivables related to rental revenue, straight-line rent, expense reimbursements and those attributable to other revenue generating activities. The Company analyzes individual tenant receivables and considers tenant credit-worthiness, the length of time a receivable has been outstanding, and current economic trends when evaluating collectability. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims. Any receivables that are deemed to be uncollectible are recognized as a reduction to Rental income in

the Company’s unaudited Condensed Consolidated Statements of Operations. Prior period Provision for doubtful accounts is presented on the Company's unaudited Condensed Consolidated Statements of Operations in accordance with the Company's previous presentation and has not been reclassified to Rental income.

Leases

The Company periodically enters into agreements in which it is the lessee, including ground leases for neighborhood and community shopping centers that it operates and office leases for administrative space. In connection with the adoption of ASC 842, the Company evaluated these agreements and determined that they meet the criteria for recognition as leases under ASC 842. For these agreements the Company recognizes an operating lease right-of-use (“ROU”) asset and operating lease liability based on the present value of the minimum lease payments over the non-cancellable lease term. As the rates implicit in the leases are not readily determinable the Company uses its incremental secured borrowing rate based on the information available at commencement date to determine the present value of the lease payments. The lease terms utilized by the Company may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. The Company evaluates many factors, including current and future tenant cash flows, when determining if an option to extend or terminate should be included in the non-cancellable period. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company has elected to apply the short-term lease exemption within ASC 842 and does not record an ROU asset or lease liability for leases with terms of less than 12 months.

Additionally, leases also typically provide for the reimbursement of operating costs, including common area expenses, utilities, insurance and real estate taxes by the Company. In connection with the adoption of ASC 842, the Company

has evaluated the lease and non-lease components within its leases and has elected the practical expedient to present lease and non-lease components in its lease agreements as one component. As such, the Company accounts for lease payments and common area expense reimbursements as one lease component under ASC 842. These amounts are included in Operating expenses in the Company's unaudited Condensed Consolidated Statements of Operations. Additionally, the Company allocates the reimbursement of utilities, insurance and real estate taxes to the lease and non-lease components of its leases. These amounts are included in Operating expenses in the Company's unaudited Condensed Consolidated Statements of Operations.

Income Taxes

The Parent Company has elected to qualify as a REIT in accordance with the Internal Revenue Code of 1986, as amended (the "Code"). To qualify as a REIT, the Parent Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute to its stockholders at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. It is management's intention to adhere to these requirements and maintain the Parent Company's REIT status.

As a REIT, the Parent Company generally will not be subject to U.S. federal income tax, provided that distributions to its stockholders equal at least the amount of its REIT taxable income as defined under the Code. The Parent Company conducts substantially all of its operations through the Operating Partnership which is organized as a limited partnership and treated as a pass-through entity for U.S. federal tax purposes. Therefore, U.S. federal income taxes on the Company's taxable income do not materially impact the unaudited Condensed Consolidated Financial Statements of the Company.

If the Parent Company fails to qualify as a REIT in any taxable year, it will be subject to U.S. federal taxes at regular corporate rates (including any applicable alternative minimum tax for tax years beginning before January 1, 2018) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Parent Company qualifies for taxation as a REIT, the Company is subject to certain state and local taxes on its income and property, and to U.S. federal income and excise taxes on its undistributed taxable income.

The Parent Company has elected to treat certain of its subsidiaries as taxable REIT subsidiaries ("TRS"), and the Parent Company may in the future elect to treat newly formed and/or existing subsidiaries as TRSs. A TRS may participate in non-real estate related activities and/or perform non-customary services for tenants and is subject to certain limitations under the Code. A TRS is subject to U.S. federal and state income taxes. Income taxes related to the Parent Company's TRSs do not materially impact the unaudited Condensed Consolidated Financial Statements of the Company.

The Company has considered the tax positions taken for the open tax years and has concluded that no provision for income taxes related to uncertain tax positions is required in the Company's unaudited Condensed Consolidated Financial Statements as of March 31, 2019 and December 31, 2018. Open tax years generally range from 2015 through 2018, but may vary by jurisdiction and issue. The Company recognizes penalties and interest accrued related to unrecognized tax benefits as income tax expense, which is included in Other on the Company's unaudited Condensed Consolidated Statements of Operations.

New Accounting Pronouncements

In November 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments-Credit Losses." ASU 2018-19 clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with ASC 842, Leases. The standard is effective on January 1, 2020, with early adoption permitted. The Company does not expect the adoption of ASU 2018-19 to have a material impact on the unaudited Condensed Consolidated Financial Statements of the Company. Information regarding the adoption of ASC 842 is described below.

In October 2018, the FASB issued ASU 2018-16, "Derivatives and Hedging (Topic 815)." ASU 2018-16 amends guidance to permit the use of the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815. The standard became effective for the Company on January 1, 2019. The Company determined that these changes did not have a material impact on the unaudited Condensed Consolidated Financial Statements of the Company.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820)." ASU 2018-13 amends certain disclosure requirements regarding the fair value hierarchy of investments in accordance with GAAP, particularly the

significant unobservable inputs used to value investments within Level 3 of the fair value hierarchy. The standard is effective on January 1, 2020, with early adoption permitted. The Company does not expect the adoption of ASU 2018-13 to have a material impact on the unaudited Condensed Consolidated Financial Statements of the Company.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). ASU 2016-02 was subsequently amended by ASU 2018-01, “Land Easement Practical Expedient for Transition to Topic 842”; ASU 2018-10, “Codification Improvements to Topic 842”; ASU 2018-11, “Targeted Improvements”; and ASU 2018-20, “Narrow-Scope Improvements for Lessors”. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to recognize an ROU asset and a lease liability for all leases with a term of greater than 12 months, regardless of their classification. Leases with a term of 12 months or less qualify for the short-term lease recognition exemption and may be accounted for similar to previous guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to previous guidance for sales-type leases, direct financing leases and operating leases.

Adoption

The standard became effective for the Company on January 1, 2019 and a modified retrospective transition approach was required. The Company determined that the adoption of ASC 842 had a material impact on the unaudited Condensed Consolidated Financial Statements of the Company. The Company elected the following optional practical expedients upon adoption:

- The Company did not reassess whether a current arrangement contains a lease. (ASU 2016-02)
- The Company did not reassess current lease classification. (ASU 2016-02)
- The Company did not reassess initial direct costs recognized under previous guidance. (ASU 2016-02)
- The Company did not reassess current land easements under ASC 842. (ASU 2018-01)
- The Company applied ASC 842 as of the effective date. Therefore, the Company’s reporting for the comparative periods presented in the unaudited Condensed Consolidated Financial Statements of the Company will continue to be in accordance with ASC 840, however certain prior period balances in the accompanying unaudited Condensed Consolidated Statements of Operations have been reclassified to conform to the current period presentation. The Company recognized a $2.0 million cumulative adjustment to decrease retained earnings for indirect leasing costs capitalized for executed leases that had not commenced as of the adoption date of

Static Gap Analysis at December 31, 2003

ASC 842. (ASU 2018-11)

• The Company elected, by class of underlying asset, not to separate non-lease components from the associated lease components and instead account for them as a single component. This resulted in the consolidation of Rental income and Expense reimbursements on the Company's unaudited Condensed Consolidated Statements of Operations. (ASU 2018-11)

Lessee

For leases where the Company is the lessee, primarily for the Company's ground leases and administrative office leases, the Company is required to record a right of use asset and a lease liability on its unaudited Condensed Consolidated Balance Sheets on the effective date. The Company has elected to apply the short-term lease recognition exemption for all leases that qualify.

Lessor

For leases where the Company is the lessor, the Company will continue to record revenues from rental properties for its operating leases on a straight-line basis. In addition, initial direct leasing costs continue to be capitalized, however, indirect leasing costs previously capitalized are being expensed under ASC 842. During the three months ended March 31, 2018, the Company capitalized $3.0 million of indirect leasing costs, including leasing payroll and legal costs.

In addition, ASC 842 requires that additional lease disclosures be presented in the unaudited Condensed Consolidated Financial Statements of the Company for both lessor and lessee lease agreements. See Notes 9 and 10 for additional information.

Any other recently issued accounting standards or pronouncements not disclosed above have been excluded as they either are not relevant to the Company, or they are not expected to have a material effect on the unaudited Condensed Consolidated Financial Statements of the Company.

2. Acquisition of Real Estate
During the three months ended March 31, 2019 and 2018, the Company did not acquire any real estate assets.

3. Dispositions and Assets Held for Sale
During the three months ended March 31, 2019, the Company disposed of three shopping centers for aggregate net proceeds of $44.9 million resulting in aggregate gain of $7.3 million. In addition, during the three months ended March 31, 2019, the Company received net proceeds of $0.3 million from previously disposed assets resulting in a gain of $0.3 million.

During the three months ended March 31, 2018, the Company disposed of six shopping centers and one outparcel for aggregate net proceeds of $104.2 million resulting in aggregate gain of $11.4 million and aggregate impairment of $0.2 million.

As of March 31, 2019, the Company had one property and one partial property held for sale. As of December 31, 2018, the Company had one property held for sale. The following table presents the assets and liabilities associated with the properties classified as held for sale:

Assets	March 31, 2019	December 31, 2018
Land	$1,412	$ 1,220
Buildings and improvements	10,935	2,927
Accumulated depreciation and amortization	(3,356)	(1,334)
Real estate, net	8,991	2,813
Other assets	102	88
Assets associated with real estate assets held for sale	$9,093	$ 2,901
Liabilities		
Below-market leases	$444	$ —

Liabilities associated with real estate assets held for sale[1]	$444	$—

(1) These amounts are included in Accounts payable, accrued expenses and other liabilities on the Company's unaudited Condensed Consolidated Balance Sheets.

There were no discontinued operations for the three months ended March 31, 2019 and 2018 as none of the dispositions represented a strategic shift in the Company's business that would qualify as discontinued operations.

4. Real Estate

The Company's components of Real estate, net consisted of the following:

	March 31, 2019	December 31, 2018
Land	$1,794,709	$1,804,504
Buildings and improvements:		
Buildings and tenant improvements[1]	7,626,515	7,626,363
Lease intangibles[2]	652,561	667,910
	10,073,785	10,098,777
Accumulated depreciation and amortization[3]	(2,386,092)	(2,349,127)
Total	$7,687,693	$7,749,650

(1) As of March 31, 2019 and December 31, 2018, Buildings and tenant improvements included accrued amounts, net of anticipated insurance proceeds, of $38.9 million and $41.7 million, respectively.

(2) As of March 31, 2019 and December 31, 2018, Lease intangibles consisted of $587.6 million and $601.0 million, respectively, of in-place leases and $65.0 million and $66.9 million, respectively, of above-market leases. These intangible assets are amortized over the term of each related lease.

(3) As of March 31, 2019 and December 31, 2018, Accumulated depreciation and amortization included $553.7 million and $560.3 million, respectively, of accumulated amortization related to Lease intangibles.

In addition, as of March 31, 2019 and December 31, 2018, the Company had intangible liabilities relating to below-market leases of $385.3 million and $392.9 million, respectively, and accumulated accretion of $265.3 million and $266.1 million, respectively. These intangible liabilities are included in Accounts payable, accrued expenses and other liabilities in the Company's unaudited Condensed Consolidated Balance Sheets. These intangible assets are accreted over the term of each related lease.

Below-market lease accretion income, net of above-market lease amortization for the three months ended March 31, 2019 and 2018 was $4.9 million and $6.8 million, respectively. These amounts are included in Rental income in the Company's unaudited Condensed Consolidated Statements of Operations. Amortization expense associated with in-place lease value for the three months ended March 31, 2019 and 2018 was $6.5 million and $9.3 million, respectively. These amounts are included in Depreciation and amortization in the Company's unaudited Condensed Consolidated Statements of Operations. The Company's estimated below-market lease accretion income, net of above-market lease amortization expense, and in-place lease amortization expense for the next five years are as follows:

Year ending December 31,	Below-market lease accretion (income), net of above-market lease amortization		In-place lease amortization expense
2019 (remaining nine months)	$ (13,278	)	$ 17,382
2020	(14,757	)	17,615
2021	(11,982	)	12,711
2022	(9,869	)	9,353
2023	(8,473	)	6,846

Hurricane Michael Impact

On October 7, 2018, Hurricane Michael struck Florida resulting in widespread damage and flooding. The Company has two properties, totaling 0.4 million square feet of GLA, which were impacted. The Company maintains comprehensive property insurance on these properties, including business interruption insurance.

As of March 31, 2019, the Company's assessment of the damages sustained to its properties from Hurricane Michael resulted in $13.7 million of accelerated depreciation, representing the estimated net book value of damaged assets. The Company also recognized a corresponding receivable for estimated property insurance recoveries related to the write-down. As such, there was no impact to net income during the three months ended March 31, 2019 and year ended December 31, 2018. As of March 31, 2019, the Company has received property insurance proceeds of $3.0 million and has a remaining receivable balance of $10.7 million, which is included in Receivables on the Company's unaudited Condensed Consolidated Balance Sheets.

5. Impairments

On a periodic basis, management assesses whether there are any indicators, including property operating performance, changes in anticipated holding period and general market conditions, that the value of the Company’s real estate assets (including any related intangible assets or liabilities) may be impaired. If management determines that the carrying value of a real estate asset is impaired, a loss is recognized to reflect the estimated fair value.

The Company recognized the following impairments during the three months ended March 31, 2019:

Three Months Ended March 31, 2019

Property Name[1]	Location	GLA	Impairment Charge
Brice Park	Reynoldsburg, OH	158,565	$ 3,112
		158,565	$ 3,112

(1) The Company recognized an impairment charge based upon a change in the estimated hold period of this property in connection with the Company’s capital recycling program.

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The Company recognized the following impairments during the three months ended March 31, 2018:

Three Months Ended March 31, 2018

Property Name[1]	Location	GLA	Impairment Charge
Southland Shopping Plaza[2]	Toledo, OH	285,278	$ 6,942
Roundtree Place[2]	Ypsilanti, MI	246,620	3,772
Skyway Plaza	St. Petersburg, FL	110,799	3,639
Pensacola Square[2]	Pensacola, FL	142,767	1,345
Crossroads Centre[2]	Fairview Heights, IL	242,752	204
		1,028,216	$ 15,902

(1) The Company recognized impairment charges based upon a change in the estimated hold period of these properties in connection with the Company's capital recycling program.

(2) The Company disposed of this property during the year ended December 31, 2018.

The Company can provide no assurance that material impairment charges with respect to its Portfolio will not occur in future periods. See Note 3 for additional information regarding impairment charges taken in connection with the Company's dispositions. See Note 8 for additional information regarding the fair value of operating properties which have been impaired.

6. Financial Instruments – Derivatives and Hedging

The Company's use of derivative instruments is intended to manage its exposure to interest rate movements and such instruments are not utilized for speculative purposes. In certain situations, the Company may enter into derivative financial instruments such as interest rate swap and interest rate cap agreements that result in the receipt and/or payment of future known and uncertain cash amounts, the value of which are determined by interest rates.

Cash Flow Hedges of Interest Rate Risk

Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchanging the underlying notional amount. The Company utilizes interest rate swaps to partially hedge the cash flows associated with variable LIBOR based debt. During the three months ended March 31, 2019, the Company did not enter into any new interest rate swap agreements. During the year ended December 31, 2018, the Company entered into four forward starting interest rate swap agreements with an effective date of January 2, 2019, an aggregate notional value of $300.0 million, a weighted average fixed rate of 2.61% and an expiration date of July 26, 2024.

Detail on the Company's interest rate derivatives designated as cash flow hedges outstanding as of March 31, 2019 and December 31, 2018 is as follows:

Number of Instruments		Notional Amount	
March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018

Interest Rate Swaps	7	10	$800,000	$1,200,000

The Company has elected to present its interest rate derivatives on its unaudited Condensed Consolidated Balance Sheets on a gross basis as interest rate swap assets and interest rate swap liabilities. Detail on the Company's fair value of interest rate derivatives on a gross and net basis as of March 31, 2019 and December 31, 2018, respectively, is as follows:

Interest rate swaps classified as:	Fair Value of Derivative Instruments March 31, 2019	December 31, 2018
Gross derivative assets	$12,788	$18,630
Gross derivative liabilities	(6,786)	(2,571)
Net derivative assets	$6,002	$16,059

The gross derivative assets are included in Other assets and the gross derivative liabilities are included in Accounts payable, accrued expenses and other liabilities on the Company's unaudited Condensed Consolidated Balance Sheets. All of the Company's outstanding interest rate swap agreements for the periods presented were designated as cash flow hedges of interest rate risk. The fair value of the Company's interest rate derivatives is determined using market standard valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This

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analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. These inputs are classified as Level 2 of the fair value hierarchy. The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognized in other comprehensive income ("OCI") and is reclassified into earnings as interest expense in the period that the hedged forecasted transaction affects earnings.

The effective portion of the Company's interest rate swaps that was recognized in the Company's unaudited Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and 2018 is as follows:

Derivatives in Cash Flow Hedging Relationships (Interest Rate Swaps)	Three Months Ended March 31,	
	2019	2018
Change in unrealized gain (loss) on interest rate swaps	$(6,944)	$7,234
Accretion of interest rate swaps to interest expense	(3,113)	(2,461)
Change in unrealized gain (loss) on interest rate swaps, net	$(10,057)	$4,773

The Company estimates that $5.8 million will be reclassified from accumulated other comprehensive income as a decrease to interest expense over the next twelve months. No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on the Company's cash flow hedges during the three months ended March 31, 2019 and 2018.

Non-Designated (Mark-to-Market) Hedges of Interest Rate Risk

The Company does not use derivatives for trading or speculative purposes. As of March 31, 2019 and December 31, 2018, the Company did not have any non-designated hedges.

Credit-risk-related Contingent Features

The Company has agreements with its derivative counterparties that contain provisions whereby if the Company defaults on certain of its indebtedness and the indebtedness has been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. If the Company were to breach any of the contractual provisions of the derivative contracts, it would be required to settle its obligations under the agreements at their termination value including accrued interest.

Static Gap Analysis at December 31, 2003

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7. Debt Obligations

As of March 31, 2019 and December 31, 2018, the Company had the following indebtedness outstanding:

	Carrying Value as of			
	March 31, 2019	December 31, 2018	Stated Interest Rate[1]	Scheduled Maturity Date
Secured loan				
Secured loan[2]	$7,000	$7,000	4.40%	2024
Net unamortized premium	250	262		
Net unamortized debt issuance costs	(43)	(45)		
Total secured loan, net	$7,207	$7,217		
Notes payable				
Unsecured notes[3]	$3,468,453	$3,468,453	3.25% – 7.97%	2022 – 2029
Net unamortized discount	(11,082)	(11,562)		
Net unamortized debt issuance costs	(19,902)	(20,877)		
Total notes payable, net	$3,437,469	$3,436,014		
Unsecured Credit Facility and term loans				
Unsecured Credit Facility - $500 Million Term Loan[4]	$500,000	$500,000	3.74%	2021
Unsecured Credit Facility - Revolving Facility	291,000	306,000	3.59%	2023
Unsecured $350 Million Term Loan	350,000	350,000	3.74%	2023
Unsecured $300 Million Term Loan[5]	300,000	300,000	4.39%	2024
Net unamortized debt issuance costs	(12,611)	(13,368)		
Total Unsecured Credit Facility and term loans	$1,428,389	$1,442,632		
Total debt obligations, net	$4,873,065	$4,885,863		

(1) The stated interest rates are as of March 31, 2019 and do not include the impact of the Company’s interest rate swap agreements (described below).

(2) The Company’s secured loan is collateralized by a property with a carrying value of approximately $16.3 million as of March 31, 2019.

(3) The weighted average stated interest rate on the Company’s unsecured notes was 3.81% as of March 31, 2019.

(4) Effective November 1, 2016, the Company has in place three interest rate swap agreements that convert the variable interest rate on a $500.0 million term loan (the “$500 Million Term Loan”) under the Company’s senior unsecured credit facility agreement, as amended December 12, 2018, (the “Unsecured Credit

Static Gap Analysis at December 31, 2003

Facility") to a fixed, combined interest rate of 1.11% (plus a spread of 125 basis points) through July 30, 2021.

(5) Effective January 2, 2019, the Company has in place four interest rate swap agreements that convert the variable interest rate on the Company's $300.0 million term loan agreement, as amended December 12, 2018 (the "$300 Million Term Loan") to a fixed, combined interest rate of 2.61% (plus a spread of 190 basis points until July 28, 2019, which decreases to 125 basis points thereafter) through July 26, 2024.

Pursuant to the terms of the Company's unsecured debt agreements, the Company among other things is subject to the maintenance of various financial covenants. The Company was in compliance with these covenants as of March 31, 2019.

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Static Gap Analysis at December 31, 2003

Debt Maturities

As of March 31, 2019 and December 31, 2018, the Company had accrued interest of $27.2 million and $34.0 million outstanding, respectively. As of March 31, 2019, scheduled amortization and maturities of the Company's outstanding debt obligations were as follows:

Year ending December 31,	
2019 (remaining nine months)	$—
2020	—
2021	500,000
2022	750,000
2023	1,141,000
Thereafter	2,525,453
Total debt maturities	4,916,453
Net unamortized discount	(10,832)
Net unamortized debt issuance costs	(32,556)
Total debt obligations, net	$4,873,065

As of the date the financial statements were issued, the Company did not have any scheduled debt maturities for the next 12 months.

8. Fair Value Disclosures

All financial instruments of the Company are reflected in the accompanying unaudited Condensed Consolidated Balance Sheets at amounts which, in management's judgment, reasonably approximate their fair values, except those instruments listed below:

	March 31, 2019		December 31, 2018	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Secured loans	$7,207	$7,172	$7,217	$7,072
Notes payable	3,437,469	3,462,929	3,436,014	3,372,418
Unsecured Credit Facility and term loans	1,428,389	1,436,953	1,442,632	1,452,382
Total debt obligations, net	$4,873,065	$4,907,054	$4,885,863	$4,831,872

As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy is included in GAAP that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs that are classified within Level 3 of the hierarchy).

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Static Gap Analysis at December 31, 2003

The valuation methodology used to estimate the fair value of the Company's debt obligations is based on a discounted cash flow analysis, with assumptions that include credit spreads, interest rate curves, estimated property values, loan amounts and maturity dates. Based on these inputs, the Company has determined that the valuations of its debt obligations are classified within Level 3 of the fair value hierarchy. Such fair value estimates are not necessarily indicative of the amounts that would be realized upon disposition.

Recurring Fair Value
The Company's marketable securities and interest rate derivatives are measured and recognized at fair value on a recurring basis. The valuations of the Company's marketable securities are based primarily on publicly traded market values in active markets and are classified within Level 1 or 2 of the fair value hierarchy. See Note 6 for fair value information regarding the Company's interest rate derivatives.

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The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured and recognized at fair value on a recurring basis:

	Fair Value Measurements as of March 31, 2019			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Marketable securities[1]	$29,634	$ 1,535	$ 28,099	$ —
Interest rate derivatives	$12,788	$ —	$ 12,788	$ —
Liabilities:				
Interest rate derivatives	$(6,786)	$ —	$ (6,786)	$ —

	Fair Value Measurements as of December 31, 2018			
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Marketable securities[1]	$30,243	$ 1,756	$ 28,487	$ —
Interest rate derivatives	$18,630	$ —	$ 18,630	$ —
Liabilities:				
Interest rate derivatives	$(2,571)	$ —	$ (2,571)	$ —

(1) As of March 31, 2019 and December 31, 2018, marketable securities included less than $0.1 million of net unrealized gains and $0.1 million of net unrealized losses, respectively. As of March 31, 2019, the contractual maturities of the Company's marketable securities are within the next five years.

Non-Recurring Fair Value

On a non-recurring basis, the Company evaluates the carrying value of its properties when events or changes in circumstances indicate that the carrying value may not be recoverable. Fair value is determined by offers from third-party buyers, market comparable data, third party appraisals or by discounted cash flow analysis. The cash flows utilized in such analyses are comprised of unobservable inputs which include forecasted rental revenue and expenses based upon market conditions and future expectations. The capitalization rates and discount rates utilized in such analyses are based upon unobservable rates that we believe to be within a reasonable range of

current market rates for the respective properties. Based on these inputs, the Company has determined that the valuations of these properties are classified within Level 3 of the fair value hierarchy.

Static Gap Analysis at December 31, 2003

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured and recognized at fair value on a non-recurring basis. The table includes information related to properties that were remeasured to fair value as a result of impairment testing during the three months ended March 31, 2019 and during the year ended December 31, 2018, excluding the properties sold prior to March 31, 2019 and December 31, 2018, respectively:

	Fair Value Measurements as of March 31, 2019				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment of Real Estate Assets
Assets:					
Properties[1]	$9,700	$ —	$ —	$ 9,700	$ 3,112

	Fair Value Measurements as of December 31, 2018				
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment of Real Estate Assets
Assets:					
Properties[2][3][4]	$31,725	$ —	$ —	$ 31,725	$ 16,303

(1) The carrying value of the property remeasured to fair value based upon offers from third-party buyers during the three months ended March 31, 2019 is $9.7 million related to Brice Park.

(2) Excludes properties disposed of prior to December 31, 2018.

(3) The carrying value of properties remeasured to fair value based upon offers from third-party buyers during the year ended December 31, 2018 includes $26.1 million related to Westview Center.

(4) The carrying value of properties remeasured to fair value based upon a discounted cash flow analysis during the year ended December 31, 2018 includes: (i) $2.9 million related to Skyway Plaza and (ii) $2.7 million related to Covington Gallery. The capitalization rates (ranging from 9.0% to 9.3%) and discount rates (ranging from 6.0% to 10.4%) which were utilized in the discounted cash flow analyses were based upon unobservable rates that the Company believes to be within a reasonable range of current market rates for each respective investment.

9. Revenue Recognition

Static Gap Analysis at December 31, 2003

The Company engages in the ownership, management, leasing, acquisition, disposition and redevelopment of retail shopping centers. Revenue is primarily generated through lease agreements and classified as Rental income on the Company's unaudited Condensed Consolidated Statements of Operations. These agreements include retail shopping center unit leases; ground leases; ancillary leases or agreements, such as agreements with tenants for cellular towers, ATMs, and short-term or seasonal retail (e.g. Halloween or Christmas-related retail); and reciprocal easement agreements. The agreements range in term from less than one year to 25 or more years, with certain agreements containing extension options. These extension options range from as little as one month to five or more years. The Company's retail shopping center leases generally require tenants to pay their portion of reimbursable expenses such as common area expenses, utilities, insurance and real estate taxes.

As of March 31, 2019, the fixed contractual lease payments to be received over the next five years pursuant to the terms of non-cancelable operating leases are included in the table below, assuming that no leases are renewed and no renewal options are exercised. Additionally, the table does not include variable lease payments which may be received under certain leases for percentage rents or the reimbursement of operating costs, such as common area expenses, utilities, insurance and real estate taxes. These variable lease payments are recognized in the period when the applicable expenditures are incurred or in the case of percentage rents when the sales data is made available.

Year ending December 31,	Operating Leases
2019 (remaining nine months)	$626,724
2020	751,081
2021	640,651
2022	529,569
2023	430,870
Thereafter	1,501,400

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Minimum Annual Base Rents As Presented Under ASC 840

Future minimum annual base rents as of and in-place at December 31, 2018 to be received over the next five years pursuant to the terms of non-cancelable operating leases are included in the table below, assuming that no leases are renewed and no renewal options are exercised. Future minimum annual base rents also do not include payments which may be received under certain leases for percentage rent or the reimbursement of operating costs, such as common area expenses, utilities, insurance and real estate taxes.

Year ending December 31,	Operating Leases
2019	$ 811,381
2020	709,230
2021	599,367
2022	490,087
2023	392,892
Thereafter	1,368,278

10. Leases

The Company periodically enters into agreements in which it is the lessee, including ground leases for neighborhood and community shopping centers that it operates and office leases for administrative space. The agreements range in term from less than one year to 50 or more years, with certain agreements containing extension options for up to an additional 100 years. As of March 31, 2019 the Company is not including any options to extend or termination rights in its ROU asset. Upon lease execution, the Company measures a liability for the present value of future lease payments over the noncancellable period of the lease. Certain agreements require the Company to pay its portion of reimbursable expenses such as common area expenses, utilities, insurance and real estate taxes. These payments are not included in the calculation of the lease liability and are presented as variable lease costs. The following table presents additional information pertaining to the Company’s operating leases:

Supplemental Statements of Operations Information	Three Months Ended March 31, 2019
Operating lease costs	$ 1,711
Short-term lease costs	10
Variable lease costs	142
Total lease costs	$ 1,863

Supplemental Statements of Cash Flows Information	Three Months Ended March 31, 2019
Operating cash outflows from operating leases	$ 1,797
ROU assets obtained in exchange for operating lease liabilities	$ 44,324

Static Gap Analysis at December 31, 2003

Operating Lease Liabilities	As of March 31, 2019
Future minimum operating lease payments:	
2019 (remaining nine months)	$5,180
2020	6,924
2021	6,964
2022	7,022
2023	5,635
Thereafter	30,912
Total future minimum operating lease payments	62,637
Less: imputed interest	(14,441)
Operating lease liabilities	$48,196

Supplemental Balance Sheets Information	As of March 31, 2019
Operating lease liabilities[(1)(2)(3)]	$48,196
ROU assets[(1)(2)(4)]	$43,146

(1) As of March 31, 2019, the weighted average remaining lease term was 11.3 years.

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(2) As of March 31, 2019, the weighted average discount rate was 4.30%.
(3) These amounts are included in Accounts payable, accrued expenses and other liabilities on the Company’s unaudited Condensed Consolidated Balance Sheets.
(4) These amounts are included in Other assets on the Company’s unaudited Condensed Consolidated Balance Sheets.

As of March 31, 2019, there were no material leases that have been executed but not yet commenced.

Minimum Annual Rental Commitments As Presented Under ASC 840
Minimum annual rental commitments as of and in-place at December 31, 2018 for the Company's ground and office leases during the next five years and thereafter are as follows:

Year ending December 31,	
2019	$6,929
2020	6,948
2021	7,157
2022	7,233
2023	5,827
Thereafter	43,876
Total minimum annual rental commitments	$77,970

11. Equity and Capital
Share Repurchase Program
In December 2017, the Board of Directors authorized a share repurchase program (the “Program”) for up to $400.0 million of the Company’s common stock. The Program is scheduled to expire on December 5, 2019, unless extended by the Board of Directors. During the three months ended March 31, 2019, the Company repurchased 0.7 million shares of common stock under the Program at an average price per share of $17.53 for a total of $11.6 million, excluding commissions. The Company incurred commissions of less than $0.1 million in conjunction with the program for the three months ended March 31, 2019. During the three months ended March 31, 2018, the Company repurchased 1.9 million shares of common stock under the Program at an average price per share of $15.47 for a total of $29.7 million, excluding commissions. The Company incurred commissions of less than $0.1 million in conjunction with the program for the three months ended March 31, 2018. As of March 31, 2019, the Program had $278.0 million of available repurchase capacity.

Common Stock
In connection with the vesting of restricted stock units (“RSUs”) under the Company’s equity-based compensation plan, the Company withholds shares to satisfy tax withholding obligations. During the three months ended March 31, 2019 and 2018, the Company withheld 0.1 million shares.

Dividends and Distributions
During the three months ended March 31, 2019 and 2018, the Company declared common stock dividends and OP Unit distributions of $0.280 per share/unit and

Static Gap Analysis at December 31, 2003

$0.275 per share/unit, respectively. As of March 31, 2019 and December 31, 2018, the Company had declared but unpaid common stock dividends and OP Unit distributions of $85.0 million and $85.3 million, respectively. These amounts are included in Accounts payable, accrued expenses and other liabilities on the Company's unaudited Condensed Consolidated Balance Sheets.

12. Stock Based Compensation

During the year ended December 31, 2013, the Board of Directors approved the 2013 Omnibus Incentive Plan (the "Plan"). The Plan provides for a maximum of 15.0 million shares of the Company's common stock to be issued for qualified and non-qualified options, stock appreciation rights, restricted stock and RSUs, OP Units, performance awards and other stock-based awards.

During the three months ended March 31, 2019 and the year ended December 31, 2018, the Company granted RSUs to certain employees. The RSUs are divided into multiple tranches, which are all subject to service-based vesting conditions. Certain tranches are also subject to performance-based or market-based vesting conditions, which contain a threshold, target, and maximum number of units which can be earned. The number of units actually earned for each tranche is determined based on performance during a specified performance period. Tranches that only have a service-

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based component can only earn a target number of units. The aggregate number of RSUs granted, assuming that the target level of performance is achieved, was 0.7 million and 0.8 million for the three months ended March 31, 2019 and the year ended December 31, 2018, respectively, with vesting periods ranging from one to five years. For the performance-based and service-based RSUs granted, fair value is based on the Company's grant date stock price. For the market-based RSUs granted during the three months ended March 31, 2019 and the year ended December 31, 2018, the Company calculated the grant date fair values per unit using a Monte Carlo simulation based on the probability of satisfying the market performance hurdles over the remainder of the performance period based on the Company's historical common stock performance relative to the other companies within the FTSE NAREIT Equity Shopping Centers Index as well as the following significant assumptions: (i) volatility of 20.0% to 21.0% and 29.0% to 32.0%, respectively; (ii) a weighted average risk-free interest rate of 2.55% and 2.43% to 2.53%, respectively; and (iii) the Company's weighted average common stock dividend yield of 5.6% and 5.6%, respectively.

During the three months ended March 31, 2019 and 2018, the Company recognized $2.6 million and $2.5 million of equity compensation expense, respectively. These amounts are included in General and administrative expense in the Company's unaudited Condensed Consolidated Statements of Operations. As of March 31, 2019, the Company had $25.3 million of total unrecognized compensation expense related to unvested stock compensation, which is expected to be recognized over a weighted average period of approximately 2.5 years.

13. Earnings per Share

Basic earnings per share (“EPS”) is calculated by dividing net income attributable to the Company’s common stockholders, including any participating securities, by the weighted average number of shares outstanding for the period. Certain restricted shares issued pursuant to the Company’s share-based compensation program are considered participating securities, as such stockholders have rights to receive non-forfeitable dividends. Fully-diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into shares of common stock. Unvested RSUs are not allocated net losses and/or any excess of dividends declared over net income, as such amounts are allocated entirely to the Company’s common stock.

The following table provides a reconciliation of the numerator and denominator of the EPS calculations for the three months ended March 31, 2019 and 2018 (dollars in thousands, except per share data):

	Three Months Ended March 31,	
	2019	2018
Computation of Basic Earnings Per Share:		
Net income	$62,900	$61,022
Non-forfeitable dividends on unvested restricted shares	(144)	(56)
Net income attributable to the Company’s common stockholders for basic earnings per share	$62,756	$60,966
Weighted average number shares outstanding – basic	298,599	304,158
Basic earnings per share attributable to the Company’s common stockholders:		
Net income per share	$0.21	$0.20
Computation of Diluted Earnings Per Share:		
Net income attributable to the Company’s common stockholders for diluted earnings per share	$62,756	$60,966
Weighted average shares outstanding – basic	298,599	304,158
Effect of dilutive securities:		
Equity awards	430	120
Weighted average shares outstanding – diluted	299,029	304,278
Diluted earnings per share attributable to the Company’s common stockholders:		
Net income per share	$0.21	$0.20

14. Earnings per Unit

Basic earnings per unit is calculated by dividing net income attributable to the Operating Partnership's common unitholders, including any participating securities, by the weighted average number of partnership common units outstanding for the period. Certain restricted units issued pursuant to the Company's share-based compensation program are considered participating securities, as such unitholders have rights to receive non-forfeitable dividends. Fully-diluted earnings per unit reflects the potential dilution that could occur if securities or other contracts to issue common units were exercised or converted into common units. Unvested RSUs are not allocated net losses and/or any excess of dividends declared over net income, as such amounts are allocated entirely to the Operating Partnership's common units.

The following table provides a reconciliation of the numerator and denominator of the earnings per unit calculations for the three months ended March 31, 2019 and 2018 (dollars in thousands, except per unit data):

	Three Months Ended March 31,	
	2019	2018
Computation of Basic Earnings Per Unit:		
Net income	$62,900	$61,022
Non-forfeitable dividends on unvested restricted units	(144)	(56)
Net income attributable to the Operating Partnership's common units for basic earnings per unit	$62,756	$60,966
Weighted average number common units outstanding – basic	298,599	304,158
Basic earnings per unit attributable to the Operating Partnership's common units:		
Net income per unit	$0.21	$0.20
Computation of Diluted Earnings Per Unit:		
Net income attributable to the Operating Partnership's common units for diluted earnings per unit	$62,756	$60,966
Weighted average common units outstanding – basic	298,599	304,158
Effect of dilutive securities:		
Equity awards	430	120
Weighted average common units outstanding – diluted	299,029	304,278
Diluted earnings per unit attributable to the Operating Partnership's common units:		
Net income per unit	$0.21	$0.20

15. Commitments and Contingencies

Legal Matters

Except as described below, the Company is not presently involved in any material litigation arising outside the ordinary course of business. However, the Company is involved in routine litigation arising in the ordinary course of business, none of which the Company believes, individually or in the aggregate, taking into account existing reserves, will have a material impact on the Company's results of operations, cash flows, or financial position.

On February 8, 2016, the Company issued a press release and filed a Form 8-K reporting the completion of a review by the Audit Committee of the Company's Board of Directors that began after the Company received information in late December 2015 through its established compliance processes. The Audit Committee review led the Board of Directors to conclude that specific Company accounting and financial reporting personnel, in certain instances, were smoothing income items, both up and down, between reporting periods in an effort to achieve consistent quarterly same property net operating income growth.

As a result of the Audit Committee review and the conclusions reached by the Board of Directors, the Company's Chief Executive Officer, its President and Chief Financial Officer, its Chief Accounting Officer and Treasurer, and an accounting employee all resigned. Following these resignations the Company appointed a new Interim Chief Executive Officer and President, Interim Chief Financial Officer and Interim Chief Accounting Officer. A new Chief Executive Officer and Chief Financial Officer were appointed effective May 20, 2016. A new Chief Accounting Officer was appointed effective March 8, 2017.

Prior to the Company's February 8, 2016 announcement, the Company voluntarily reported these matters to the SEC. As a result, the SEC and the United States Attorney's Office for the Southern District of New York ("SDNY") have been conducting investigations of certain aspects of the Company's financial reporting and accounting for prior periods and the Company has been cooperating fully.

The Company and the Staff of the SEC Enforcement Division have been discussing a possible negotiated resolution with respect to the SEC investigation. Agreement has been reached on the material terms of such a resolution, which is still subject to finalizing the necessary documents and obtaining approval by the SEC, which cannot be assured. The agreement provides for, among other things, (i) the Company consenting to a cease and desist order, without admitting or denying the findings therein, with respect to violations of Sections 10(b) and 13(a) of the Securities Exchange Act of 1934, certain related rules and Rule 100(b) of Regulation G and (ii) the payment of a civil penalty of $7.0 million. As of March 31, 2019, the $7.0 million contingent liability is included in Accounts payable, accrued expenses and other liabilities in the Company's unaudited Condensed Consolidated Balance Sheets.

The Company believes that no additional government proceedings relating to these matters will be brought against the Company. The Company understands that the SEC and SDNY inquiries into these matters with respect to certain former employees

are ongoing.

As previously disclosed, on December 13, 2017, the United States District Court for the Southern District of New York granted final approval of the settlement of the previously disclosed putative securities class action complaint filed in March 2016 by the Westchester Putnam Counties Heavy & Highway Laborers Local 60 Benefit Funds related to the review conducted by the Audit Committee of the Board of Directors. Pursuant to the approved settlement, without any admission of liability, the Company will pay $28.0 million to settle the claims. This amount is within the coverage amount of the Company’s applicable insurance policies and has been funded into escrow by the insurance carriers. The settlement provides for the release of, among others, the Company, its subsidiaries, and their respective current and former officers, directors and employees from the claims that were or could have been asserted in the class action litigation. During the year ended December 31, 2018, $8.5 million of the settlement amount was released from escrow per the court approved settlement agreement for the payment of plaintiff’s legal fees. The remaining settlement balance of $19.5 million remains in escrow pending final class distribution. As of March 31, 2019, the $19.5 million amount is included in Accounts payable, accrued expenses and other liabilities in the Company’s unaudited Condensed Consolidated Balance Sheets. Because the settlement amount is within the coverage amount of the Company’s applicable insurance policies, the Company accrued a receivable of $19.5 million as of March 31, 2019. This amount is included in Accounts receivable, net in the Company’s unaudited Condensed Consolidated Balance Sheets.

As previously disclosed, certain institutional investors elected to opt out of the class action settlement and accordingly were not bound by the release and will not receive any of the class action settlement proceeds. On October 10, 2018,

the Company entered into an agreement to settle these claims for $8.0 million. This amount, which was paid in full during the year ended December 31, 2018, was within the coverage amount of the Company's applicable insurance policies and was paid by the insurance carriers. The settlement provides for the release of, among others, the Company, its subsidiaries, and their respective current and former officers, directors and employees from the claims that were or could have been asserted in the opt out lawsuit.

Environmental matters

Under various federal, state and local laws, ordinances and regulations, the Company may be or become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in the Company's property or disposed of by the Company or its tenants, as well as certain other potential costs which could relate to hazardous or toxic substances (including governmental fines and injuries to persons and property). The Company does not believe that any resulting liability from such matters will have a material impact on the Company's results of operations, cash flows, or financial position.

16. Related-Party Transactions

In the ordinary course of conducting its business, the Company enters into agreements with its affiliates in relation to the leasing and management of its real estate assets.

As of March 31, 2019 and December 31, 2018, there were no material receivables from or payables to related parties.

17. Subsequent Events

In preparing the unaudited Condensed Consolidated Financial Statements, the Company has evaluated events and transactions occurring after March 31, 2019 for recognition and/or disclosure purposes. Based on this evaluation, there were no subsequent events from March 31, 2019 through the date the financial statements were issued.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and the accompanying notes thereto. Historical results and percentage relationships set forth in the unaudited Condensed Consolidated Financial Statements and accompanying notes, including trends which might appear, should not be taken as indicative of future operations.

Executive Summary

Our Company

Brixmor Property Group Inc. and subsidiaries (collectively, "BPG") is an internally-managed real estate investment trust ("REIT"). Brixmor Operating Partnership LP and subsidiaries (collectively, the "Operating Partnership") is the entity through which BPG conducts substantially all of its operations and owns substantially all of its assets. BPG owns 100% of the common stock of BPG Subsidiary Inc. ("BPG Sub"), which, in turn, is the sole member of Brixmor OP GP LLC (the "General Partner"), the sole general partner of the Operating Partnership. Unless stated otherwise or the context otherwise requires, "we," "our," and "us" mean BPG and the Operating Partnership, collectively. We believe we own and operate one of the largest open air retail portfolios by gross leasable area ("GLA") in the United States ("U.S."), comprised primarily of community and neighborhood shopping centers. As of March 31, 2019, our portfolio was comprised of 422 shopping centers (the "Portfolio") totaling approximately 73 million square feet of GLA. Our high-quality national Portfolio is primarily located within established trade areas in the top 50 Metropolitan Statistical Areas ("MSAs") in the U.S., and our shopping centers are primarily anchored by non-discretionary and value-oriented retailers, as well as consumer-oriented service providers. As of March 31, 2019, our three largest tenants by annualized base rent ("ABR") were The TJX Companies, Inc. ("TJX"), The Kroger Co. ("Kroger"), and Dollar Tree Stores, Inc. BPG has been organized and operated in conformity with the requirements for qualification and taxation as a REIT under U.S. federal income tax laws, commencing with our taxable year ended December 31, 2011, has maintained such requirements through our taxable year ended December 31, 2018, and intends to satisfy such requirements for subsequent taxable years.

Our primary objective is to maximize total returns to our stockholders through consistent, sustainable growth in cash flow. Our key strategies to achieve this objective include proactively managing our Portfolio to drive internal growth, pursuing value-enhancing reinvestment opportunities and prudently executing on acquisition and disposition activity, while also maintaining a flexible capital structure positioned for growth. In addition, as we execute on our key strategies, we do so guided by, a commitment to operate in a socially responsible manner that allows us to realize our goal of owning and managing properties that are the center of the communities we serve.

We believe the following set of competitive advantages positions us to successfully execute on our key strategies:

Static Gap Analysis at December 31, 2003

- Expansive Retailer Relationships – We believe that the scale of our asset base and our nationwide footprint represent competitive advantages in supporting the growth objectives of the nation's largest and most successful retailers. We believe that we are one of the largest landlords by GLA to TJX and Kroger, as well as a key landlord to most major grocers and retail category leaders. We believe that our strong relationships with leading retailers afford us unique insight into their strategies and priority access to their expansion plans.

- Fully-Integrated Operating Platform – We manage a fully-integrated operating platform, leveraging our national scope and demonstrating our commitment to operating with a strong regional and local presence. We provide our tenants with dedicated service through both our national accounts leasing team based in New York and our network of four regional offices in Atlanta, Chicago, Philadelphia and San Diego, as well as our 10 leasing and property management satellite offices throughout the country. We believe that this structure enables us to obtain critical national market intelligence, while also benefitting from the regional and local expertise of our leasing and operations team.

- Experienced Management – Senior members of our management team are seasoned real estate operators with extensive public company leadership experience. Our management team has deep industry knowledge and well-established relationships with retailers, brokers and vendors through many years of operational and transactional experience, as well as significant expertise in executing value-enhancing reinvestment opportunities.

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Static Gap Analysis at December 31, 2003

Other Factors That May Influence our Future Results

We derive our revenues primarily from rent and expense reimbursements paid by tenants to us under existing leases at each of our properties. Expense reimbursements primarily consist of payments made by tenants to us for their proportional share of operating costs, including common area expenses, utilities, insurance and real estate taxes, and certain capital expenditures related to the maintenance of our properties.

The amount of revenue we receive is primarily dependent on our ability to maintain or increase rental rates, renew expiring leases and/or lease available space. Factors that could affect our rental income include: (1) changes in national, regional and local economic climates or demographics; (2) local market conditions, including an oversupply of space in, or a reduction in demand for, properties similar to those in our Portfolio; (3) competition from other available properties and e-commerce, and the attractiveness of properties in our Portfolio to our tenants; (4) ongoing disruption and/or consolidation in the retail sector, the financial stability of our tenants and the overall financial condition of large retailing companies, including their ability to pay rent and expense reimbursements; (5) in the case of percentage rents, the sales volume of our tenants; (6) increases in operating costs, including common area expenses, utilities, insurance and real estate taxes, which are relatively inflexible and generally do not decrease if revenue or occupancy decreases; (7) increases in the costs to repair, renovate and re-lease space; (8) earthquakes, tornadoes, hurricanes, damage from rising sea levels due to climate change, other natural disasters, civil unrest, terrorist acts or acts of war, which may result in uninsured or underinsured losses; and (9) changes in laws and governmental regulations, including those governing usage, zoning, the environment and taxes.

Our operating costs represent property-related costs, such as repairs and maintenance, landscaping, snow removal, utilities, security, ground rent related to properties for which we are the lessee, property insurance, real estate taxes and various other costs. Increases in our operating costs, to the extent they are not offset by increases in revenue, may impact our overall performance. For a further discussion of these and other factors that could impact our future results, see Item 1A. “Risk Factors” in our annual report on Form 10-K for the fiscal year ended December 31, 2018.

Leasing Highlights

As of March 31, 2019, billed and leased occupancy were 87.5% and 91.1%, respectively, as compared to 89.8% and 92.1%, respectively, as of March 31, 2018.

The following table summarizes our executed leasing activity for the three months ended March 31, 2019 and 2018 (dollars in thousands, except for per square foot (“PSF”) amounts):

For the Three Months Ended March 31, 2019

	Leases	GLA	New ABR PSF	Tenant Improvements and Allowances PSF	Third Party Leasing Commissions PSF	Rent Spread[1]

Static Gap Analysis at December 31, 2003

New, renewal and option leases	395	3,184,376	$13.48	$ 4.79	$ 1.34	9.8 %
New and renewal leases	325	1,722,634	16.33	8.85	2.47	12.3 %
New leases	147	694,443	18.79	19.21	6.12	32.7 %
Renewal leases	178	1,028,191	14.67	1.85	0.01	6.8 %
Option leases	70	1,461,742	10.13	—	—	6.7 %

For the Three Months Ended March 31, 2018

	Leases	GLA	New ABR PSF	Tenant Improvements and Allowances PSF	Third Party Leasing Commissions PSF	Rent Spread[1]
New, renewal and option leases	440	2,745,080	$14.43	$ 8.90	$ 1.63	14.5 %
New and renewal leases	395	2,046,088	15.19	11.94	2.19	16.7 %
New leases	151	1,042,526	14.47	21.11	4.29	36.7 %
Renewal leases	244	1,003,562	15.94	2.40	—	8.4 %
Option leases	45	698,992	12.19	—	—	8.5 %

[1] Based on comparable leases only.

Includes new development property. Excludes leases executed for terms of less than one year.

ABR PSF includes the GLA of lessee-owned leasehold improvements.

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Static Gap Analysis at December 31, 2003

Acquisition Activity

- During the three months ended March 31, 2019, we did not acquire any real estate assets.
- During the three months ended March 31, 2018, we did not acquire any real estate assets.

Disposition Activity

- During the three months ended March 31, 2019, we disposed of three shopping centers for aggregate net proceeds of $44.9 million resulting in aggregate gain of $7.3 million. In addition, during the three months ended March 31, 2019, the Company received aggregate net proceeds of $0.3 million from previously disposed assets resulting in a gain of $0.3 million.
- During the three months ended March 31, 2018, we disposed of six shopping centers and one outparcel for aggregate net proceeds of $104.2 million resulting in aggregate gain of $11.4 million and aggregate impairment of $0.2 million.

Results of Operations

The results of operations discussion is combined for BPG and the Operating Partnership because there are no material differences in the results of operations between the two reporting entities.

Comparison of the Three Months Ended March 31, 2019 to the Three Months Ended March 31, 2018

Revenues (in thousands)

	Three Months Ended March 31,		
	2019	2018	$ Change
Revenues			
Rental income	$289,955	$316,797	$(26,842)
Other revenues	1,184	378	806
Total revenues	$291,139	$317,175	$(26,036)

Rental income

The decrease in rental income for the three months ended March 31, 2019 of $26.8 million, as compared to the corresponding period in 2018, was primarily due to a $28.5 million decrease due to net disposition activity, partially offset by a $1.7 million increase for the remaining portfolio. The increase for the remaining portfolio was due to (i) a $2.0 million increase in straight-line rent; (ii) a $0.7 million increase in base rent; and (iii) a $0.7 million increase in ancillary and other rental income; partially offset by (iv) a $1.2 million decrease in accretion of above- and below-market leases and tenant inducements, net; and (v) a $0.7 million decrease in lease termination fees. The $0.7 million increase in base rent for the remaining portfolio was primarily due to contractual rent increases as well as positive rent spreads for new and renewal leases and option exercises of 9.8% during the three months ended March 31, 2019 and 11.8% during the year ended December 31, 2018,

partially offset by a decline in billed occupancy. Additionally, in connection with the adoption of ASC 842, revenue deemed uncollectible is now recognized as an adjustment to Rental income. Prior period Provision for doubtful accounts is presented in accordance with our previous presentation and has not been reclassified to Rental income. Accordingly, the adoption of of ASC 842 resulted in a $2.8 million increase in revenue deemed uncollectible within Rental income.

Other revenues

The increase in other revenues for the three months ended March 31, 2019 of $0.8 million, as compared to the corresponding period in 2018, was primarily due to an increase in tax incentive financing income.

Static Gap Analysis at December 31, 2003

Operating Expenses (in thousands)

	Three Months Ended March 31,		
	2019	2018	$ Change
Operating expenses			
Operating costs	$31,258	$35,490	$(4,232)
Real estate taxes	43,326	45,725	(2,399)
Depreciation and amortization	85,395	90,383	(4,988)
Provision for doubtful accounts	—	2,415	(2,415)
Impairment of real estate assets	3,112	15,902	(12,790)
General and administrative	25,443	22,426	3,017
Total operating expenses	$188,534	$212,341	$(23,807)

Operating costs

The decrease in operating costs for the three months ended March 31, 2019 of $4.2 million as compared to the corresponding period in 2018, was primarily due to a $3.3 million decrease in operating costs due to net disposition activity and a $0.9 million decrease for the remaining portfolio primarily due to lower repair and maintenance and utilities costs.

Real estate taxes

The decrease in real estate taxes for the three months ended March 31, 2019 of $2.4 million, as compared to the corresponding period in 2018, was primarily due to a $3.5 million decrease in real estate taxes due to net disposition activity, partially offset by a $1.1 million increase for the remaining portfolio primarily due to increases in tax rates and assessments from several jurisdictions.

Depreciation and amortization

The decrease in depreciation and amortization for the three months ended March 31, 2019 of $5.0 million, as compared to the corresponding period in 2018, was primarily due to a $8.1 million decrease in depreciation and amortization due to net disposition activity, partially offset by a $3.1 million increase for the remaining portfolio primarily due to higher write-offs of tenant-specific assets.

Provision for doubtful accounts

In connection with the adoption of ASC 842, we recognize any revenue deemed uncollectable as an adjustment to Rental income. Prior periods continue to be presented in accordance with our previous presentation.

Impairment of real estate assets

During the three months ended March 31, 2019, aggregate impairment of $3.1 million was recognized on one operating property. During the three months ended March 31, 2018, aggregate impairment of $15.9 million was recognized on one shopping center as a result of disposition activity and four operating properties. Impairments recognized were due to a change in estimated hold periods in connection with our capital recycling program.

General and administrative
The increase in general and administrative costs for the three months ended March 31, 2019 of $3.0 million, as compared to the corresponding period in 2018, was primarily due to a $2.8 million reduction in capitalized legal and payroll costs in connection with the adoption of Accounting Standards Codification 842.

During the three months ended March 31, 2019 and 2018, construction compensation costs of $3.3 million and $2.2 million, respectively, were capitalized to building and improvements and leasing payroll costs of $0.0 million and $2.1 million, respectively, and leasing commission costs of $1.2 million and $1.5 million, respectively, were capitalized to deferred charges and prepaid expenses, net.

Other Income and Expenses (in thousands)

	Three Months Ended March 31,		
	2019	2018	$ Change
Other income (expense)			
Dividends and interest	$147	$96	$51
Interest expense	(46,666)	(55,171)	8,505
Gain on sale of real estate assets	7,602	11,448	(3,846)
Gain (loss) on extinguishment of debt, net	30	(132)	162
Other	(818)	(53)	(765)
Total other expense	$(39,705)	$(43,812)	$4,107

Dividends and interest

Dividends and interest remained generally consistent for the three months ended March 31, 2019 as compared to the corresponding period in 2018.

Interest expense

The decrease in interest expense for the three months ended March 31, 2019 of $8.5 million, as compared to the corresponding period in 2018, was primarily due to lower overall debt obligations.

Gain on sale of real estate assets

During the three months ended March 31, 2019, three shopping centers were disposed resulting in aggregate gain of $7.3 million. In addition, during the three months ended March 31, 2019, we received aggregate net proceeds of $0.3 million from previously disposed assets resulting in aggregate gain of $0.3 million. During the three months ended March 31, 2018, five shopping centers were disposed resulting in aggregate gain of $11.4 million.

Gain (loss) on extinguishment of debt, net

The decrease in loss on extinguishment of debt for the three months ended March 31, 2019, as compared to the corresponding period in 2018, was primarily due to our repayment of $50.0 million of an unsecured term loan under our senior unsecured credit facility agreement, as amended December 12, 2018, (the “Unsecured Credit Facility”), resulting in a $0.1 million loss on extinguishment of debt for the three months ended March 31, 2018.

Other

The increase in other expense for the three months ended March 31, 2019 of $0.8 million, as compared to the corresponding period in 2018, was primarily due to a favorable appeal of previously reserved taxes during 2018.

Liquidity and Capital Resources

We anticipate that our cash flows from the sources listed below will provide adequate capital for the next 12 months and beyond for all anticipated uses, including all scheduled principal and interest payments on our outstanding indebtedness, current

Static Gap Analysis at December 31, 2003

and anticipated tenant and other capital improvements, stockholder distributions to maintain our qualification as a REIT and other obligations associated with conducting our business.

Our primary expected sources and uses of capital are as follows:

Sources

- cash and cash equivalent balances;
- operating cash flow;
- available borrowings under our existing Unsecured Credit Facility;
- dispositions;
- issuance of long-term debt; and
- issuance of equity securities.

Static Gap Analysis at December 31, 2003

Uses

- maintenance capital expenditures;
- leasing-related capital expenditures;
- debt repayments;
- anchor space repositioning, redevelopment, development and other value-enhancing capital expenditures;
- dividend/distribution payments
- acquisitions; and
- repurchases of equity securities.

We believe our current capital structure provides us with the financial flexibility and capacity to fund our current capital needs as well as future growth opportunities. We have access to multiple forms of capital, including secured property level debt, unsecured corporate level debt, preferred equity, and common equity, which will allow us to efficiently execute on our strategic and operational objectives. We currently have investment grade credit ratings from all three major credit rating agencies. As of March 31, 2019, our $1.25 billion revolving credit facility (the “Revolving Facility”) had $954.7 million of undrawn capacity and we had outstanding letters of credit totaling $4.3 million, which reduce available liquidity under the Revolving Facility. We intend to continue to enhance our financial and operational flexibility through the additional extension of the duration of our debt.

In December 2017, the Board of Directors authorized a share repurchase program (the “Program”) for up to $400.0 million of our common stock. The Program is scheduled to expire on December 5, 2019, unless extended by the Board of Directors. During the three months ended March 31, 2019, we repurchased 0.7 million shares of common stock under the Program at an average price per share of $17.53 for a total of $11.6 million, excluding commissions. We incurred commissions of less than $0.1 million in conjunction with the program for the three months ended March 31, 2019. As of March 31, 2019, the Program had $278.0 million of available repurchase capacity.

In connection with our intention to continue to qualify as a REIT for federal income tax purposes, we expect to continue paying regular dividends to our stockholders. Our Board of Directors will continue to evaluate the dividend policy on a quarterly basis, evaluating sources and uses of capital, operating fundamentals, maintenance of our REIT qualification and other factors our Board of Directors may deem relevant. We generally intend to maintain a conservative dividend payout ratio. Cash dividends paid to common stockholders and OP Unitholders for the three months ended March 31, 2019 and 2018 were $84.1 million and $84.2 million, respectively. Our Board of Directors declared a quarterly cash dividend of $0.28 per common share in January 2019 for the first quarter of 2019. The dividend was paid on April 15, 2019 to shareholders of record on April 5, 2019. Our Board of Directors declared a quarterly cash dividend of $0.28 per common share in April 2019 for the second quarter of 2019. The dividend is payable on July 15, 2019 to shareholders of record on July 5, 2019.

Static Gap Analysis at December 31, 2003

Our cash flow activities are summarized as follows (dollars in thousands):

Brixmor Property Group Inc.

	Three Months Ended March 31	
	2019	2018
Cash flows provided by operating activities	$96,838	$124,450
Cash flows provided by (used in) investing activities	(31,834)	28,236
Cash flows used in financing activities	(112,363)	(170,694)

Brixmor Operating Partnership LP

	Three Months Ended March 31	
	2019	2018
Cash flows provided by operating activities	$96,838	$124,450
Cash flows provided by (used in) investing activities	(31,833)	28,237
Cash flows used in financing activities	(112,488)	(170,694)

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Static Gap Analysis at December 31, 2003

Cash, cash equivalents and restricted cash for BPG were $3.4 million and $92.8 million as of March 31, 2019 and 2018, respectively. Cash, cash equivalents and restricted cash for the Operating Partnership were $3.2 million and $92.7 million as of March 31, 2019 and 2018, respectively.

Operating Activities
Net cash provided by operating activities primarily consists of cash inflows from tenant rental payments and expense reimbursements and cash outflows for operating costs, general and administrative expenses and interest expense.

During the three months ended March 31, 2019, our net cash provided by operating activities decreased $27.6 million as compared to the corresponding period in 2018. The decrease is primarily due to (i) a decrease in net operating income due to net disposition activity; (ii) a decrease from net working capital; (iii) an increase in cash outflows for general and administrative expense; and (iv) a decrease in lease termination fees; partially offset by (v) a decrease in cash outflows for interest expense; and (vi) an increase in same property net operating income.

Investing Activities
Net cash provided by (used in) investing activities is impacted by the nature, timing and magnitude of acquisition and disposition activity and improvements to and investments in our shopping centers, including capital expenditures associated with leasing and value-enhancing reinvestment efforts.

During the three months ended March 31, 2019, our net cash used in investing activities increased $60.1 million as compared to the corresponding period in 2018. The increase was primarily due to (i) a decrease of $59.0 million in net proceeds from sales of real estate assets and (ii) an increase of $0.9 million in improvements to and investments in real estate assets.

Improvements to and investments in real estate assets
During the three months ended March 31, 2019 and 2018, we expended $77.7 million and $76.8 million, respectively, on improvements to and investments in real estate assets. In addition, during the three months ended March 31, 2019 and 2018, insurance proceeds of $0.5 million and $0.2 million, respectively, were received and included in improvements to and investments in real estate assets.

Maintenance capital expenditures represent costs to fund major replacements and betterments to our properties. Leasing related capital expenditures represent tenant specific costs incurred to lease space, including tenant improvements and tenant allowances. In addition, we evaluate our Portfolio on an ongoing basis to identify value-enhancing anchor space repositioning, redevelopment, outparcel development, new development and other opportunities. Such initiatives are tenant driven and focus on upgrading our centers with strong, best-in-class retailers and enhancing the overall merchandise mix and tenant quality of our Portfolio. As of March 31, 2019, we had 61 projects in process with an aggregate anticipated cost of $407.6 million, of which $151.4 million has been incurred as of March 31, 2019.

Static Gap Analysis at December 31, 2003

Acquisitions of and proceeds from sales of real estate assets
We continue to evaluate the market for acquisition opportunities and we may acquire shopping centers when we believe strategic opportunities exist, particularly where we can further concentrate our Portfolio in attractive retail submarkets and optimize the quality and long-term growth rate of our asset base. During the three months ended March 31, 2019 and 2018, we did not acquire any real estate assets.

We may also dispose of properties when we believe value has been maximized, where there is further downside risk, or where we have limited ability or desire to build critical mass in the submarket. During the three months ended March 31, 2019, we disposed of three shopping centers for aggregate net proceeds of $44.9 million. In addition, during the three months ended March 31, 2019, we received aggregate net proceeds of $0.3 million from previously disposed assets. During the three months ended March 31, 2018, we disposed of six shopping centers and one outparcel for aggregate net proceeds of $104.2 million.

Static Gap Analysis at December 31, 2003

Financing Activities

Net cash used in financing activities is impacted by the nature, timing and magnitude of issuances and repurchases of debt and equity securities, as well as principal payments associated with our outstanding indebtedness and distributions made to our common stockholders.

During the three months ended March 31, 2019, our net cash used in financing activities decreased $58.3 million as compared to the corresponding period in 2018. The decrease was primarily due to (i) a $39.9 million decrease in debt repayments, net of borrowings and (ii) a decrease of $18.4 million in repurchases of common stock.

Contractual Obligations

Our contractual obligations relate to our debt, including unsecured notes payable, unsecured credit facilities and a secured loan, with maturities ranging from two years to 11 years, in addition to non-cancelable operating leases pertaining to ground leases and administrative office leases.

The following table summarizes our debt maturities (excluding extension options), interest payment obligations (excluding debt premiums and discounts and deferred financing costs) and obligations under non-cancelable operating leases (excluding extension options) as of March 31, 2019:

Contractual Obligations (in thousands)	Payment due by period						
	2019	2020	2021	2022	2023	Thereafter	Total
Debt[1]	$—	$—	$500,000	$750,000	$1,141,000	$2,525,453	$4,916,453
Interest payments[2]	126,072	179,173	174,262	158,776	129,135	178,319	945,737
Operating leases	5,180	6,924	6,964	7,022	5,635	30,912	62,637
Total	$131,252	$186,097	$681,226	$915,798	$1,275,770	$2,734,684	$5,924,827

(1) Debt includes scheduled maturities for unsecured notes payable, unsecured credit facilities and a secured loan.

(2) As of March 31, 2019, we incur variable rate interest on (i) a $500.0 million term loan outstanding under our Unsecured Credit Facility; (ii) a $350.0 million term loan outstanding; (iii) a $300 million term loan outstanding; (iv) $291.0 million outstanding under our Revolving Facility; and (v) $250.0 million outstanding under our Floating Rate Senior Notes due 2022. We have in place seven interest rate swap agreements with an aggregate notional value of $800.0 million, which effectively convert variable interest payments to fixed interest payments. For a further discussion of these and other factors that could impact interest payments please see Item 7A. “Quantitative and Qualitative Disclosures” in our annual report on Form 10-K for the fiscal year ended December 31, 2018. Interest payments for these variable rate loans are presented using rates (including the impact of interest

rate swaps) as of March 31, 2019.

Non-GAAP Disclosures

We present the non-GAAP performance measures set forth below. These measures should not be considered as alternatives to, or more meaningful than, net income (presented in accordance with GAAP) or other GAAP financial measures, as an indicator of financial performance, and are not alternatives to, or more meaningful than, cash flow from operating activities (presented in accordance with GAAP) as a measure of liquidity. Non-GAAP performance measures have limitations as they do not include all items of income and expense that affect operations, and accordingly, should always be considered as supplemental financial results to those presented in accordance with GAAP. Our computation of these non-GAAP performance measures may differ in certain respects from the methodology utilized by other REITs and, therefore, may not be comparable to similarly titled measures presented by such other REITs. Investors are cautioned that items excluded from these non-GAAP performance measures are relevant to understanding and addressing financial performance.

Funds From Operations

NAREIT FFO (defined hereafter) is a supplemental non-GAAP performance measure utilized to evaluate the operating and financial performance of real estate companies. The National Association of Real Estate Investment Trusts (“NAREIT”) defines funds from operations (“FFO”) as net income (loss) presented in accordance with GAAP excluding (i) gain (loss) on disposition of operating properties, plus (ii) depreciation and amortization of operating properties, (iii) impairment of operating properties and real estate equity investments (to the extent impairment is directly attributable to a decrease in the value of the entity's operating properties), and (iv) after adjustments for unconsolidated joint ventures calculated to reflect FFO on the same basis.

We believe NAREIT FFO assists investors in analyzing and comparing the operating and financial performance of a company's real estate between periods.

Our reconciliation of net income to NAREIT FFO for the three months ended March 31, 2019 and 2018 is as follows (in thousands, except per share amounts):

	Three Months Ended March 31, 2019	
	2019	2018
Net income	$62,900	$61,022
Gain on disposition of operating properties	(7,602)	(11,448)
Depreciation and amortization- real estate related	84,397	89,352
Impairment of operating properties	3,112	15,902
NAREIT FFO	$142,807	$154,828
NAREIT FFO per diluted share	$0.48	$0.51
Weighted average diluted shares outstanding	299,029	304,278

Same Property Net Operating Income

Same property net operating income ("NOI") is a supplemental, non-GAAP performance measure utilized to evaluate the operating performance of real estate companies. Same property NOI is calculated (using properties owned for the entirety of both periods and excluding properties under development) as total property revenues (rental income and other revenues) less direct property operating expenses (operating costs, real estate taxes and provision for doubtful accounts). Same property NOI excludes (i) corporate level income (including management, transaction, and other fees), (ii) lease termination fees, (iii) straight-line rental income, (iv) accretion of above- and below-market leases and tenant inducements, net, (v) straight-line ground rent expense, and (vi) income / expense associated with the Company's captive insurance company.

We believe same property NOI assists investors in analyzing our comparative operating and financial performance because it eliminates disparities in NOI due to the acquisition or disposition of properties or the stabilization of development properties during the period presented, and therefore provides a more consistent metric for comparing the operating performance of a company's real estate between periods.

Comparison of the Three Months Ended March 31, 2019 to the Three Months Ended March 31, 2018

	Three Months Ended March 31,		
	2019	2018	Change
Number of properties	420	420	—

Static Gap Analysis at December 31, 2003

Percent billed	87.5 %	89.5 %	(2.0 %)
Percent leased	91.1 %	92.0 %	(0.9 %)
Revenues			
Rental income	$278,131	$276,929	$1,202
Other revenues	1,184	378	806
	279,315	277,307	2,008
Operating expenses			
Operating costs	(30,888)	(31,930)	1,042
Real estate taxes	(43,001)	(41,900)	(1,101)
Provision for doubtful accounts	—	(2,153)	2,153
	(73,889)	(75,983)	2,094
Same property NOI	$205,426	$201,324	$4,102

Static Gap Analysis at December 31, 2003

The following table provides a reconciliation of net income to same property NOI for the periods presented (in thousands):

	Three Months Ended March 31,	
	2019	2018
Net income	$62,900	$61,022
Adjustments:		
Non-same property NOI	(1,239)	(21,568)
Lease termination fees	(769)	(1,531)
Straight-line rental income, net	(5,036)	(3,097)
Accretion of above- and below-market leases and tenant inducements, net	(4,116)	(6,055)
Straight-line ground rent expense	31	30
Depreciation and amortization	85,395	90,383
Impairment of real estate assets	3,112	15,902
General and administrative	25,443	22,426
Total other expense	39,705	43,812
Same property NOI	$205,426	$201,324

Inflation

For the last several years inflation has been low and has had a minimal impact on the operating performance of our shopping centers; however, inflation may increase in the future. Most of our long-term leases contain provisions designed to mitigate the adverse impact of inflation, including contractual rent escalations and requirements for tenants to pay their proportional share of operating costs, including common area expenses, utilities, insurance and real estate taxes, and certain capital expenditures related to the maintenance of our properties, thereby reducing our exposure to increases in property-level costs resulting from inflation. In addition, we believe that many of our existing rental rates are below current market levels for comparable space and that upon renewal or re-leasing, such rates may be increased to be consistent with, or closer to, current market rates. With respect to our outstanding indebtedness, we periodically evaluate our exposure to interest rate fluctuations, and may continue to enter into interest rate protection agreements which mitigate, but do not eliminate, the impact of changes in interest rates on our variable rate loans.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements as of March 31, 2019.

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Static Gap Analysis at December 31, 2003

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes from the quantitative and qualitative disclosures about market risk disclosed in Item 7A of Part II of our annual report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

Controls and Procedures (Brixmor Property Group Inc.)

Evaluation of Disclosure Controls and Procedures

BPG maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in its reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. BPG's management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, BPG's principal executive officer, James M. Taylor, and principal financial officer, Angela Aman, concluded that BPG's disclosure controls and procedures were effective as of March 31, 2019.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2019, BPG implemented changes to its internal controls related to the adoption of the lease accounting standard ASC 842. There have been no other changes in BPG's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2019 that have materially affected, or that are reasonably likely to materially affect, BPG's internal control over financial reporting.

Controls and Procedures (Brixmor Operating Partnership LP)

Evaluation of Disclosure Controls and Procedures

The Operating Partnership maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in its reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. The Operating Partnership's management, with the participation of its principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Operating Partnership's principal executive officer, James M. Taylor and principal financial officer, Angela Aman concluded that the Operating Partnership's disclosure controls and procedures were effective as of March 31, 2019.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2019, the Operating Partnership implemented changes to its internal controls related to the adoption of the lease accounting standard ASC 842. There have been no other changes in the Operating Partnership's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2019 that have materially affected, or that are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information contained under the heading "Legal Matters" in Note 15 – Commitments and Contingencies to our unaudited Condensed Consolidated Financial Statements in this report is incorporated by reference into this Item 1.

Item 1A. Risk Factors

There have been no material changes to the risk factors relating to the Company disclosed in our Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On December 5, 2017, the Board of Directors authorized a share repurchase program (the "Program") for up to $400.0 million of the Company's common stock. The Program is scheduled to expire on December 5, 2019, unless extended by the Board of Directors. During the three months ended March 31, 2019, the Company repurchased 660,421 shares of common stock under the Program at an average price per share of $17.53 for a total of $11.6 million, excluding commissions. The Company incurred commissions of less than $0.1 million in conjunction with the Program during the three months ended March 31, 2019. As of March 31, 2019, the Program had $278.0 million of available repurchase capacity. The following table summarizes share repurchases under the Program for the three months ended March 31, 2019:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Repurchased (in millions)
January 1, 2019 to January 31, 2019	—	$ —	—	$ 289.5
February 1, 2019 to February 28, 2019	226,832	17.62	226,832	285.5
March 1, 2019 to March 31, 2019	433,589	17.48	433,589	278.0
Total	660,421	$ 17.53	660,421	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Static Gap Analysis at December 31, 2003

Item 6. Exhibits

The following documents are filed as exhibits to this report:

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
10.1	First Amendment to Employment Agreement, dated March 7, 2019, by and between Brixmor Property Group Inc. and Angela Aman	8-K	001-36160	3/8/2019	10.1	
10.2	First Amendment to Employment Agreement, dated March 7, 2019, by and between Brixmor Property Group Inc. and Mark T. Horgan	8-K	001-36160	3/8/2019	10.2	
10.3	First Amendment to Employment Agreement, dated February 26, 2019, by and between Brixmor Property Group Inc. and Steven F. Siegel	—	—	—	—	x
10.4	Second Amendment to Employment Agreement, dated April 26, 2019, by and between Brixmor Property Group Inc. and Steven F. Siegel	—	—	—	—	x
31.1	Brixmor Property Group Inc. Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	—	—	—	—	x
31.2	Brixmor Property Group Inc. Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the	—	—	—	—	x

Static Gap Analysis at December 31, 2003

	Sarbanes-Oxley Act of 2002					
31.3	Brixmor Operating Partnership LP Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	—	—	—	—	x
31.4	Brixmor Operating Partnership LP Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	—	—	—	—	x
32.1	Brixmor Property Group Inc. Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	—	—	—	—	x
32.2	Brixmor Operating Partnership LP Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	—	—	—	—	x
101.INS	XBRL Instance Document	—	—	—	—	x
101.SCH	XBRL Taxonomy Extension Schema Document	—	—	—	—	x

Static Gap Analysis at December 31, 2003

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Date of Filing	Exhibit Number	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	—	—	—	—	x
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	—	—	—	—	x
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	—	—	—	—	x
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	—	—	—	—	x

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

BRIXMOR PROPERTY GROUP INC.

Date: April 29, 2019 By: /s/ James M. Taylor
James M. Taylor
Chief Executive Officer and President
(Principal Executive Officer)

Date: April 29, 2019 By: /s/ Angela Aman
Angela Aman
Chief Financial Officer
(Principal Financial Officer)

Date: April 29, 2019 By: /s/ Steven Gallagher
Steven Gallagher
Chief Accounting Officer
(Principal Accounting Officer)

BRIXMOR OPERATING
PARTNERSHIP LP

Date: April 29, 2019 By: /s/ James M. Taylor
James M. Taylor
Chief Executive Officer and President
(Principal Executive Officer)

Date: April 29, 2019 By: /s/ Angela Aman
Angela Aman
Chief Financial Officer
(Principal Financial Officer)

Date: April 29, 2019 By: /s/ Steven Gallagher
Steven Gallagher
Chief Accounting Officer
(Principal Accounting Officer)