

TEXAS CAPITAL BANCSHARES INC/TX

Form 10-Q

October 21, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

**Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended September 30, 2010**

**Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____**

**Commission file number 001-34657
TEXAS CAPITAL BANCSHARES, INC.
(Exact Name of Registrant as Specified in Its Charter)**

Delaware
(State or other jurisdiction of incorporation or organization)

75-2679109
(I.R.S. Employer Identification Number)

**2000 McKinney Avenue, Suite 700, Dallas, Texas,
U.S.A.**
(Address of principal executive officers)

75201
(Zip Code)

214/932-6600
(Registrant's telephone number, including area code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "large accelerated filer" and "accelerated filer" Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Non-Accelerated Filer
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

On October 20, 2010, the number of shares set forth below was outstanding with respect to each of the issuer's classes of common stock:

Common Stock, par value \$0.01 per share 36,796,809

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(In thousands except per share data)

	Three months ended		Nine months ended	
	September 30		September 30	
	2010	2009	2010	2009
Interest income				
Interest and fees on loans	\$ 70,293	\$ 58,959	\$ 196,797	\$ 167,326
Securities	2,246	3,226	7,463	10,621
Federal funds sold	50	5	92	29
Deposits in other banks	11	7	26	40
Total interest income	72,600	62,197	204,378	178,016
Interest expense				
Deposits	8,760	8,916	24,938	29,264
Federal funds purchased	259	586	868	1,944
Repurchase agreements	3	14	9	42
Other borrowings		125	48	1,873
Trust preferred subordinated debentures	972	990	2,796	3,308
Total interest expense	9,994	10,631	28,659	36,431
Net interest income	62,606	51,566	175,719	141,585
Provision for credit losses	13,500	13,500	41,500	33,000
Net interest income after provision for credit losses	49,106	38,066	134,219	108,585
Non-interest income				
Service charges on deposit accounts	1,662	1,658	4,684	4,797
Trust fee income	1,013	1,000	2,947	2,836
Bank owned life insurance (BOLI) income	455	418	1,407	1,115
Brokered loan fees	3,272	2,120	7,397	6,822
Equipment rental income	792	1,291	3,332	4,200
Other	907	646	3,318	1,679
Total non-interest income	8,101	7,133	23,085	21,449
Non-interest expense				
Salaries and employee benefits	21,872	19,569	63,334	53,788
Net occupancy expense	3,128	3,164	9,174	9,305
Leased equipment depreciation	580	1,050	2,674	3,288
Marketing	1,333	705	3,221	1,915
Legal and professional	2,705	3,274	7,953	8,816
Communications and data processing	1,142	935	3,069	2,750
FDIC insurance assessment	2,482	1,452	6,591	6,492
Allowance and other carrying costs for OREO	4,071	2,390	7,171	3,968
Other	5,289	4,528	15,719	12,424

Total non-interest expense	42,602	37,067	118,906	102,746
Income from continuing operations before income taxes	14,605	8,132	38,398	27,288
Income tax expense	5,074	2,779	13,151	9,328
Income from continuing operations	9,531	5,353	25,247	17,960
Loss from discontinued operations (after-tax)	(5)	(41)	(114)	(180)
Net income	9,526	5,312	25,133	17,780
Preferred stock dividends				5,383
Net income available to common stockholders	\$ 9,526	\$ 5,312	\$ 25,133	\$ 12,397
Basic earnings per common share:				
Income from continuing operations	\$.26	\$.15	\$.69	\$.38
Net income	\$.26	\$.15	\$.69	\$.37
Diluted earnings per common share:				
Income from continuing operations	\$.25	\$.15	\$.68	\$.37
Net income	\$.25	\$.15	\$.67	\$.37
See accompanying notes to consolidated financial statements.				

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(In thousands except per share data)

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and due from banks	\$ 90,354	\$ 80,459
Federal funds sold	13,710	44,980
Securities, available-for-sale	202,177	266,128
Loans held for sale	1,399,208	693,504
Loans held for sale from discontinued operations	580	586
Loans held for investment (net of unearned income)	4,483,204	4,457,293
Less: Allowance for loan losses	75,655	67,931
Loans held for investment, net	4,407,549	4,389,362
Premises and equipment, net	12,461	11,189
Accrued interest receivable and other assets	209,893	202,890
Goodwill and intangible assets, net	9,564	9,806
Total assets	\$ 6,345,496	\$ 5,698,904
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 1,195,093	\$ 899,492
Interest bearing	3,761,450	2,837,163
Interest bearing in foreign branches	450,490	384,070
Total deposits	5,407,033	4,120,725
Accrued interest payable	2,830	2,468
Other liabilities	35,981	23,916
Federal funds purchased	249,463	580,519
Repurchase agreements	18,171	25,070
Other borrowings	2,994	351,440
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	5,829,878	5,217,544
Stockholders equity:		
Preferred stock, \$.01 par value, \$1,000 liquidation value		
Authorized shares 10,000,000		
Issued shares		
Common stock, \$.01 par value:		

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Authorized shares	100,000,000		
Issued shares	36,792,447 and 35,919,941 at September 30, 2010 and December 31, 2009, respectively	368	359
Additional paid-in capital		335,057	326,224
Retained earnings		173,753	148,620
Treasury stock (shares at cost: 417 at September 30, 2010 and December 31, 2009)		(8)	(8)
Accumulated other comprehensive income, net of taxes		6,448	6,165
Total stockholders' equity		515,618	481,360
Total liabilities and stockholders' equity		\$ 6,345,496	\$ 5,698,904

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands except share data)

	Preferred Stock		Common Stock		Additional Paid-in		Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income,		Total
	Shares	Amount	Shares	Amount	Capital			Shares	Amount	Deferred Compensation	Net of Taxes	
Balance at December 31, 2008		\$	30,971,189	\$ 310	\$ 255,051	\$ 129,851	(84,691)	\$ (581)	\$ 573	\$ 1,869	\$ 387,073	
Comprehensive income:												
Net income (unaudited)						17,780					17,780	
Change in unrealized gain on available-for-sale securities, net of taxes of \$1,553 (unaudited)										4,853	4,853	
Total comprehensive income (unaudited)											22,633	
Tax expense related to exercise of stock options (unaudited)						182					182	
Stock-based compensation expense recognized in earnings (unaudited)						4,394					4,394	
Deferred compensation (unaudited)								84,274	573	(573)		
Issuance of stock related to stock-based awards (unaudited)			231,296	2	1,533						1,535	
			4,600,000	46	59,400						59,446	

Issuance of common stock (unaudited)									
Issuance of preferred stock and related warrant (unaudited)	75,000	70,836		4,164					75,000
Repurchase of preferred stock (unaudited)	(75,000)	(71,069)			(3,931)				(75,000)
Preferred stock dividend and accretion of preferred stock discount (unaudited)		233			(1,452)				(1,219)
Balance at September 30, 2009 (unaudited)	\$	35,802,485	\$ 358	\$ 324,724	\$ 142,248	(417)	\$ (8)	\$ 6,722	\$ 474,044
Balance at December 31, 2009	\$	35,919,941	\$ 359	\$ 326,224	\$ 148,620	(417)	\$ (8)	\$ 6,165	\$ 481,360
Comprehensive income:									
Net income (unaudited)					25,133				25,133
Change in unrealized gain on available-for-sale securities, net of taxes of \$163 (unaudited)								283	283
Total comprehensive income (unaudited)									25,416
Tax expense related to exercise of stock options (unaudited)				295					295
Stock-based compensation expense recognized in earnings (unaudited)				4,931					4,931

Issuance of stock related to stock-based awards (unaudited)	137,671	2	579					581
Issuance of common stock (unaudited)	734,835	7	12,497					12,504
Purchase of non-controlling interest of bank owned subsidiary (unaudited)			(9,469)					(9,469)
Balance at September 30, 2010 (unaudited)	\$ 36,792,447	\$ 368	\$ 335,057	\$ 173,753	(417)	\$ (8)	\$ 6,448	\$ 515,618

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED**

(In thousands)

	Nine months ended September 30	
	2010	2009
Operating activities		
Net income from continuing operations	\$ 25,247	\$ 17,960
Adjustments to reconcile net income to net cash (used in) operating activities:		
Provision for credit losses	41,500	33,000
Depreciation and amortization	5,272	5,946
Amortization and accretion on securities	110	182
Bank owned life insurance (BOLI) income	(1,407)	(1,115)
Stock-based compensation expense	4,931	4,394
Tax benefit from stock option exercises	295	182
Excess tax benefits from stock-based compensation arrangements	843	(540)
Originations of loans held for sale	(14,612,637)	(12,556,388)
Proceeds from sales of loans held for sale	13,906,933	12,502,952
Loss on sale of assets	27	1,233
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(13,030)	(9,544)
Accrued interest payable and other liabilities	12,274	(4,321)
Net cash (used in) operating activities of continuing operations	(629,642)	(6,059)
Net cash (used in) operating activities of discontinued operations	(108)	(134)
Net cash (used in) operating activities	(629,750)	(6,193)
Investing activities		
Maturities and calls of available-for-sale securities	4,425	30,880
Principal payments received on available-for-sale securities	59,852	69,286
Net (increase) in loans held for investment	(59,508)	(274,036)
Purchase of premises and equipment, net	(3,807)	(4,059)
Proceeds from sale of foreclosed assets	4,733	9,432
Purchase of non-controlling interest of bank owned subsidiary	(9,469)	
Net cash (used in) investing activities of continuing operations	(3,774)	(168,497)
Financing activities		
Net increase in deposits	1,286,308	583,381
Proceeds from issuance of stock related to stock-based awards	581	1,535
Proceeds from issuance of common stock	12,504	59,446
Proceeds from issuance of preferred stock and related warrants		75,000
Repurchase of preferred stock		(75,000)
Dividends paid		(1,219)
Net decrease in other borrowings	(355,345)	(756,289)
Excess tax benefits from stock-based compensation arrangements	(843)	540
Net increase (decrease) in federal funds purchased	(331,056)	265,874

Net cash provided by financing activities of continuing operations	612,149	153,268
Net decrease in cash and cash equivalents	(21,375)	(21,422)
Cash and cash equivalents at beginning of period	125,439	82,027
Cash and cash equivalents at end of period	\$ 104,064	\$ 60,605
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 28,297	\$ 39,545
Cash paid during the period for income taxes	21,776	10,739
Non-cash transactions:		
Transfers from loans/leases to OREO and other repossessed assets	22,357	22,444
See accompanying notes to consolidated financial statements.		

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TEXAS CAPITAL BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Texas Capital Bancshares, Inc. (the Company), a Delaware bank holding company, was incorporated in November 1996 and commenced operations in March 1998. The consolidated financial statements of the Company include the accounts of Texas Capital Bancshares, Inc. and its wholly owned subsidiary, Texas Capital Bank, National Association (the Bank). The Bank currently provides commercial banking services to its customers in Texas and concentrates on middle market commercial and high net worth customers.

Basis of Presentation

The accounting and reporting policies of Texas Capital Bancshares, Inc. conform to accounting principles generally accepted in the United States and to generally accepted practices within the banking industry. Our consolidated financial statements include the accounts of Texas Capital Bancshares, Inc. and its subsidiary, the Bank. Certain prior period balances have been reclassified to conform to the current period presentation.

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make interim financial information not misleading. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (SEC). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2009, included in our Annual Report on Form 10-K filed with the SEC on February 18, 2010 (the 2009 Form 10-K). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for possible loan losses, the valuation allowance for other real estate owned (OREO), the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly susceptible to significant change in the near term.

Accumulated Other Comprehensive Income, net

Unrealized gains or losses on our available-for-sale securities (after applicable income tax expense or benefit) are included in accumulated other comprehensive income (loss), net. Accumulated comprehensive income (loss), net for the nine months ended September 30, 2010 and 2009 is reported in the accompanying consolidated statements of changes in stockholders' equity.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or the value of assets and liabilities not considered financial instruments.

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(2) EARNINGS PER COMMON SHARE

The following table presents the computation of basic and diluted earnings per share (in thousands except per share data):

Three months ended		Nine months ended	
September 30		September 30	
2010	2009	2010	2009

Numerator: