

TEXAS CAPITAL BANCSHARES INC/TX

Form 10-K

February 19, 2010

**Table of Contents**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
**FORM 10-K**

- Annual Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the fiscal year ended December 31, 2009
- Transition Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the transition period from \_\_\_ to \_\_\_ (No fee required)

Texas Capital Bancshares, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	000-30533 (Commission File Number)	75-2679109 (I.R.S. Employer Identification Number)
2000 McKinney Avenue, Suite 700, Dallas, Texas, U.S.A. (Address of principal executive offices)	75201 (Zip Code)	214-932-6600 (Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Common stock, par value \$0.01 per share  
(Title of class)

The Nasdaq Stock Market LLC  
(Name of Exchange on Which Registered)

Securities registered under Section 12 (g) of the Exchange Act: NONE

Indicate by check mark if the issuer is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the issuer is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes  No

Indicate by check mark whether the issuer (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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a smaller reporting company)

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

As of June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by non-affiliates, based upon the closing price per share of the registrant's common stock as reported on The Nasdaq Global Select Market, was approximately \$526,919,000. There were 36,156,062 shares of the registrant's common stock outstanding on February 16, 2010.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement relating to the 2010 Annual Meeting of Stockholders, which will be filed no later than April 8, 2010, are incorporated by reference into Part III of this Form 10-K.

---

**TABLE OF CONTENTS**

**PART I**

<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	8
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	15
<u>Item 2.</u>	<u>Properties</u>	15
<u>Item 3.</u>	<u>Legal Proceedings</u>	16
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	16

**PART II**

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
<u>Item 6.</u>	<u>Selected Consolidated Financial Data</u>	19
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	49
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	52
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosures</u>	84
<u>Item 9A.</u>	<u>Controls and Procedures</u>	84
<u>Item 9B.</u>	<u>Other Information</u>	87

**PART III**

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	87
<u>Item 11.</u>	<u>Executive Compensation</u>	87
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	87
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	87
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	87

**PART IV**

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	87
<u>EX-21</u>		
<u>EX-23.1</u>		
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32.1</u>		
<u>EX-32.2</u>		

**Table of Contents****ITEM 1. BUSINESS****Background**

Texas Capital Bancshares, Inc., a financial holding company, is the parent of Texas Capital Bank, National Association, a Texas-based bank headquartered in Dallas, with banking offices in Dallas, Houston, Fort Worth, Austin and San Antonio, the state's five largest metropolitan areas. All of our business activities are conducted through our bank subsidiary. Our market focus is commercial businesses and high net worth individuals, and we offer a variety of banking products and services to our customers. We have focused on organic growth, maintenance of credit quality and bankers with strong personal and professional relationships in their communities.

We focus on serving the needs of commercial and high net worth customers, the core of our model since our organization in March 1998. We do not incur the costs of competing in an over-branched and over-crowded consumer market. We are primarily a secured lender in Texas, and, as a result, we have experienced a low percentage of charge-offs relative to both total loans and non-performing loans since inception. Our loan portfolio is diversified by industry, collateral and geography in Texas.

**Growth History**

We have grown substantially in both size and profitability since our formation. The table below sets forth data regarding the growth of key areas of our business from December 2005 through December 2009 (in thousands):

	<b>2009</b>	<b>2008</b>	<b>December 31 2007</b>	<b>2006</b>	<b>2005</b>
Loans held for investment	\$ 4,457,293	\$ 4,027,871	\$ 3,462,608	\$ 2,722,097	\$ 2,075,961
Total loans(1)	5,150,797	4,524,222	3,636,774	2,921,111	2,148,344
Assets(1)	5,698,318	5,141,034	4,287,853	3,659,445	3,003,430
Deposits	4,120,725	3,333,187	3,066,377	3,069,330	2,495,179
Stockholders' equity	481,360	387,073	295,138	253,515	215,523

(1) From continuing operations.

The following table provides information about the growth of our loan portfolio by type of loan from December 2005 to December 2009 (in thousands):

	<b>2009</b>	<b>2008</b>	<b>December 31 2007</b>	<b>2006</b>	<b>2005</b>
Commercial loans	\$ 2,457,533	\$ 2,276,054	\$ 2,035,049	\$ 1,602,577	\$ 1,182,734
Total real estate loans	1,903,127	1,656,221	1,347,429	1,068,963	865,797
Construction loans	669,426	667,437	573,459	538,586	387,163
Real estate term loans	1,233,701	988,784	773,970	530,377	478,634
Loans held for sale	693,504	496,351	174,166	199,014	72,383
	586	648	731	16,844	38,795

Loans held for sale from  
discontinued operations

Equipment leases	99,129	86,937	74,523	45,280	16,337
Consumer loans	25,065	32,671	28,334	21,113	19,962

**The Texas Market**

The Texas market for banking services is highly competitive. Texas largest banking organizations are headquartered outside of Texas and are controlled by out-of-state organizations. We also compete with other providers of financial services, such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, insurance agencies, commercial finance and leasing companies, full service brokerage firms and discount brokerage firms. We believe that many middle market

## **Table of Contents**

companies and high net worth individuals are interested in banking with a company headquartered in, and with decision-making authority based in, Texas and with established Texas bankers who have the expertise to act as trusted advisors to the customer with regard to its banking needs. Our banking centers in our target markets are served by experienced bankers with lending expertise in the specific industries found in their market areas and established community ties. We believe our bank can offer customers more responsive and personalized service. We believe that, if we service these customers properly, we will be able to establish long-term relationships and provide multiple products to our customers, thereby enhancing our profitability.

## **Business Strategy**

Utilizing the business and community ties of our management and their banking experience, our strategy is building an independent bank that focuses primarily on middle market business customers and high net worth individuals in each of the five major metropolitan markets of Texas. To achieve this, we seek to implement the following strategies:

- target middle market businesses and high net worth individuals;

- grow our loan and deposit base in our existing markets by hiring additional experienced Texas bankers;

- continue the emphasis on credit policy to provide for credit quality consistent with long-term objectives;

- improve our financial performance through the efficient management of our infrastructure and capital base, which includes:

  - leveraging our existing infrastructure to support a larger volume of business;

  - maintaining stringent internal approval processes for capital and operating expenses;

  - extensive use of outsourcing to provide cost-effective operational support with service levels consistent with large-bank operations; and

- extend our reach within our target markets of Austin, Dallas, Fort Worth, Houston and San Antonio through service innovation and service excellence.

## **Products and Services**

We offer a variety of loan, deposit account and other financial products and services to our customers.

*Business Customers.* We offer a full range of products and services oriented to the needs of our business customers, including:

- commercial loans for general corporate purposes including financing for working capital, internal growth, acquisitions and financing for business insurance premiums;

- real estate term and construction loans;

- equipment leasing;

- cash management services;

trust and escrow services; and

letters of credit.

*Individual Customers.* We also provide complete banking services for our individual customers, including:

personal trust and wealth management services;

certificates of deposit;

interest bearing and non-interest bearing checking accounts with optional features such as Visa<sup>®</sup> debit/ATM cards and overdraft protection;



## **Table of Contents**

traditional money market and savings accounts;

consumer loans, both secured and unsecured;

branded Visa® credit card accounts, including gold-status accounts; and

internet banking.

## **Lending Activities**

We target our lending to middle market businesses and high net worth individuals that meet our credit standards. The credit standards are set by our standing Credit Policy Committee with the assistance of our Bank's Chief Credit Officer, who is charged with ensuring that credit standards are met by loans in our portfolio. Our Credit Policy Committee is comprised of senior Bank officers including our Bank's Chief Executive Officer, our President/Chief Lending Officer and our Bank's Chief Credit Officer. We believe we have maintained a diversified loan portfolio. Credit policies and underwriting guidelines are tailored to address the unique risks associated with each industry represented in the portfolio. Our credit standards for commercial borrowers reference numerous criteria with respect to the borrower, including historical and projected financial information, strength of management, acceptable collateral and associated advance rates, and market conditions and trends in the borrower's industry. In addition, prospective loans are also analyzed based on current industry concentrations in our loan portfolio to prevent an unacceptable concentration of loans in any particular industry. We believe our credit standards are consistent with achieving business objectives in the markets we serve and will generally mitigate risks. We believe that we differentiate our bank from its competitors by focusing on and aggressively marketing to our core customers and accommodating, to the extent permitted by our credit standards, their individual needs.

We generally extend variable rate loans in which the interest rate fluctuates with a predetermined indicator such as the United States prime rate or the London Interbank Offered Rate (LIBOR). Our use of variable rate loans is designed to protect us from risks associated with interest rate fluctuations since the rates of interest earned will automatically reflect such fluctuations.

## **Deposit Products**

We offer a variety of deposit products to our core customers at interest rates that are competitive with other banks. Our business deposit products include commercial checking accounts, lockbox accounts, cash concentration accounts, and other cash management products. Our consumer deposit products include checking accounts, savings accounts, money market accounts and certificates of deposit. We also allow our consumer deposit customers to access their accounts, transfer funds, pay bills and perform other account functions over the Internet and through ATM machines.

## **Trust and Asset Management**

Our trust services include investment management, personal trust and estate services, custodial services, retirement accounts and related services. Our investment management professionals work with our clients to define objectives, goals and strategies for their investment portfolios. We assist the customer with the selection of an investment manager and work with the client to tailor the investment program accordingly. We also offer retirement products such as individual retirement accounts and administrative services for retirement vehicles such as pension and profit sharing plans.

## **Cayman Islands Branch**

In June 2003, we received authorization from the Cayman Islands Monetary Authority to establish a branch of our bank in the Cayman Islands. We believe that a Cayman Islands branch of our bank enables us to offer more competitive cash management and deposit products to our core customers. Our Cayman Islands branch consists of an agent office to facilitate our offering of these products. We opened our Cayman Islands branch in September 2003. All deposits in the Cayman Branch come from U.S. based customers of our Bank. Deposits do not originate from foreign sources, and funds transfers neither come from nor go to facilities outside of the

## **Table of Contents**

U.S. All deposits are in U.S. dollars. As of December 31, 2009, our Cayman Islands deposits totaled \$384.1 million.

### **Employees**

As of December 31, 2009, we had 631 full-time employees relating to our continuing operations. None of our employees is represented by a collective bargaining agreement and we consider our relations with our employees to be good.

### **Regulation and Supervision**

Current banking laws contain numerous provisions affecting various aspects of our business. Our bank is subject to federal banking laws and regulations that impose specific requirements on and provide regulatory oversight of virtually all aspects of our operations. These laws and regulations are generally intended for the protection of depositors, the deposit insurance funds of the Federal Deposit Insurance Corporation, or the FDIC, and the banking system as a whole, rather than for the protection of our stockholders. Banking regulators have broad enforcement powers over financial holding companies and banks and their affiliates, including the power to establish regulatory requirements, impose large fines and other penalties for violations of laws and regulations. The following is a brief summary of laws and regulations to which we are subject.

National banks such as our bank are subject to examination by the Office of the Comptroller of the Currency, or the OCC. The OCC and the FDIC regulate or monitor all areas of a national bank's operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, interest rate risk management, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The OCC requires national banks to maintain capital ratios and imposes limitations on its aggregate investment in real estate, bank premises and furniture and fixtures. National banks are currently required by the OCC to prepare quarterly reports on their financial condition and to conduct an annual audit of their financial affairs in compliance with minimum standards and procedures prescribed by the OCC.

*Restrictions on Dividends and Repurchases.* Our source of funding to pay dividends is our bank. Our bank is subject to the dividend restrictions set forth by the OCC. Under such restrictions, national banks may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's net profits plus the retained net profits from the prior two years, less any required transfers to surplus. In addition, under the Federal Deposit Insurance Corporation Improvement Act of 1991, our bank may not pay any dividend if payment would cause it to become undercapitalized or in the event it is undercapitalized.

It is the policy of the Federal Reserve, which regulates financial holding companies such as ours, that financial holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that financial holding companies should not maintain a level of cash dividends that undermines the financial holding company's ability to serve as a source of strength to its banking subsidiaries.

If, in the opinion of the applicable federal bank regulatory authority, a depository institution or holding company is engaged in or is about to engage in an unsound practice (which could include the payment of dividends), such authority may require, generally after notice and hearing, that such institution or holding company cease and desist such practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's or holding company's capital base to an inadequate level would be such an unsafe banking practice. Moreover, the Federal Reserve and the FDIC have issued policy statements providing that financial holding companies and insured depository institutions generally should only pay dividends out of current operating earnings.

*Supervision by the Federal Reserve.* We operate as a financial holding company registered under the Bank Holding Company Act, and, as such, we are subject to supervision, regulation and examination by the Federal

## **Table of Contents**

Reserve. The Bank Holding Company Act and other Federal laws subject financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Because we are a legal entity separate and distinct from our bank, our right to participate in the distribution of assets of any subsidiary upon the subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors. In the event of a liquidation or other resolution of a subsidiary, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its stockholders, including any financial holding company (such as ours) or any stockholder or creditor thereof.

*Support of Subsidiary Banks.* Under Federal Reserve policy, a financial holding company is expected to act as a source of financial and managerial strength to each of its banking subsidiaries and commit resources to their support. Such support may be required at times when, absent this Federal Reserve policy, a holding company may not be inclined to provide it. As discussed below, a financial holding company in certain circumstances could be required to guarantee the capital plan of an undercapitalized banking subsidiary in order for it to be accepted by the regulators.

In the event of a financial holding company's bankruptcy under Chapter 11 of the U.S. Bankruptcy Code, the bankruptcy trustee will be deemed to have assumed and is required to cure immediately any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution, and any claim for breach of such obligation will generally have priority over most other unsecured claims.

*Capital Adequacy Requirements.* The bank regulators have adopted a system using risk-based capital guidelines to evaluate the capital adequacy of banking organizations. Under the guidelines, specific categories of assets and off-balance sheet activities such as letters of credit are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk weighted asset base. The guidelines require a minimum total risk-based capital ratio of 8% (of which at least 4% is required to consist of Tier 1 capital elements).

In addition to the risk-based capital guidelines, the OCC and the Federal Reserve uses a leverage ratio as an additional tool to evaluate the capital adequacy of banking organizations. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Banking organizations must maintain a minimum leverage ratio of at least 3%, although most organizations are expected to maintain leverage ratios that are at least 100 to 200 basis points above this minimum ratio.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve and OCC guidelines also provide that banking organizations experiencing significant internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. In addition, the regulations of the bank regulators provide that concentration of credit risks arising from non-traditional activities, as well as an institution's ability to manage these risks, are important factors to be taken into account by regulatory agencies in assessing an organization's overall capital adequacy.

*Transactions with Affiliates and Insiders.* Our bank is subject to Section 23A of the Federal Reserve Act which places limits on the amount of loans or extensions of credit to affiliates that it may make. In addition, extensions of credit

must be collateralized by Treasury securities or other collateral in prescribed amounts. Most of these loans and other transactions must be secured in prescribed amounts. It also limits the amount of advances to third parties which are collateralized by our securities or obligations or the securities or obligations of any of our non-banking subsidiaries.

## **Table of Contents**

Our bank also is subject to Section 23B of the Federal Reserve Act, which, among other things, prohibits an institution from engaging in transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliates.

We are subject to restrictions on extensions of credit to executive officers, directors, principal stockholders and their related interests. These restrictions contained in the Federal Reserve Act and Federal Reserve Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

*Corrective Measures for Capital Deficiencies.* The Federal Deposit Insurance Corporation Improvement Act imposes a regulatory matrix which requires the federal banking agencies, which include the FDIC, the OCC and the Federal Reserve, to take prompt corrective action with respect to capital deficient institutions. The prompt corrective action provisions subject undercapitalized institutions to an increasingly stringent array of restrictions, requirements and prohibitions as their capital levels deteriorate and supervisory problems mount. Should these corrective measures prove unsuccessful in recapitalizing the institution and correcting its problems, the Federal Deposit Insurance Corporation Improvement Act mandates that the institution be placed in receivership.

Pursuant to regulations promulgated under the Federal Deposit Insurance Corporation Improvement Act, the corrective actions that the banking agencies either must or may take are tied primarily to an institution's capital levels. In accordance with the framework adopted by the Federal Deposit Insurance Corporation Improvement Act, the banking agencies have developed a classification system, pursuant to which all banks and thrifts are placed into one of five categories. Agency regulations define, for each capital category, the levels at which institutions are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A well capitalized bank has a total risk-based capital ratio (total capital to risk-weighted assets) of 10% or higher; a Tier 1 risk-based capital ratio (Tier 1 capital to risk-weighted assets) of 6% or higher; a leverage ratio (Tier 1 capital to total adjusted assets) of 5% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. Our bank's total risk-based capital ratio was 10.36% at December 31, 2009 and, as a result, it is currently classified as well capitalized for purposes of the OCC's prompt corrective action regulations. The bank's capital category of well capitalized is determined solely for the purposes of applying prompt corrective action and that the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects. The OCC, Federal Reserve and FDIC may, pursuant to changes in their regulatory or statutory responsibilities, determine that additional capital may be required.

In addition to requiring undercapitalized institutions to submit a capital restoration plan which must be guaranteed by its holding company (up to specified limits) in order to be accepted by the bank regulators, agency regulations contain broad restrictions on activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With some 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 such distribution or payment.

As an institution's capital decreases, the OCC's enforcement powers become more severe. 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 OCC has only very limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator

(the FDIC) if the capital deficiency is not corrected promptly.



**Table of Contents**

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain 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.

*Sarbanes-Oxley Act of 2002.* The Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ) contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with Section 302(a) of Sarbanes-Oxley, written certifications by our chief executive officer and chief financial officer are required. These certifications attest that our quarterly and annual reports do not contain any untrue statement of a material fact.

*Financial Modernization Act of 1999.* The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the Modernization Act):

allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was permissible prior to enactment, including insurance underwriting and making merchant banking investments in commercial and financial companies;

allows insurers and other financial services companies to acquire banks; and

removes various restrictions that applied to bank holding company ownership of securities firms and mutual fund advisory companies; and establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

The Modernization Act also modifies other current financial laws, including laws related to financial privacy. The financial privacy provisions generally prohibit financial institutions, including us, from disclosing non-public personal financial information to non-affiliated third parties unless customers have the opportunity to opt out of the disclosure.

*Community Reinvestment Act.* The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence new activity permitted by the Bank Holding Company Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA.

*The USA Patriot Act, the International Money Laundering Abatement and Financial Anti-Terrorism Act and the Bank Secrecy Act.* A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 and the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 substantially broadened the scope of United States anti-money laundering laws and penalties, specifically related to the Bank Secrecy Act, and expanded the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued a number of implementing regulations which apply various requirements of the USA Patriot Act to financial institutions such as our bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with relevant laws or regulations, could have serious legal, reputational and financial consequences for the institution. Because of the significance of regulatory emphasis on these requirements, we will continue to expend significant staffing, technology and financial resources to maintain

programs designed to ensure compliance with applicable laws and regulations and an effective audit function for testing our compliance with the Bank Secrecy Act on an ongoing basis.

## **Table of Contents**

### **Available Information**

Under the Securities Exchange Act of 1934, we are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ( SEC ). You may read and copy any document filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. We file electronically with the SEC.

We make available, free of charge through our website, our reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Additionally, we have adopted and posted on our website a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. The address for our website is [www.texascapitalbank.com](http://www.texascapitalbank.com). We will provide a printed copy of any of the aforementioned documents to any requesting shareholder.

### **ITEM 1A. RISK FACTORS**

An investment in our common stock involves certain risks. You should consider carefully the following risks and other information in this report, including our financial information and related notes, before investing in our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

#### **Risk Factors Associated With Our Business**

*We must effectively manage our credit risk.* There are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. The risk of non-payment of loans is inherent in commercial banking. Although we attempt to minimize our credit risk by carefully monitoring the concentration of our loans within specific industries and through prudent loan approval practices in all categories of our lending, we cannot assure you that such monitoring and approval procedures will reduce these lending risks. We cannot assure you that our credit administration personnel, policies and procedures will adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio.

*Our results of operation and financial condition would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses.* Experience in the banking industry indicates that a portion of our loans in all categories of our lending business will become delinquent, and some may only be partially repaid or may never be repaid at all. Our methodology for establishing the adequacy of the allowance for loan losses depends on subjective application of risk grades as indicators of borrowers' ability to repay. Deterioration in general economic conditions and unforeseen risks affecting customers may have an adverse effect on borrowers' capacity to repay timely their obligations before risk grades could reflect those changing conditions. In times of improving credit quality, with growth in our loan portfolio, the allowance for loan losses may decrease as a percent of total loans. Changes in economic and market conditions may increase the risk that the allowance would become inadequate if borrowers experience economic and other conditions adverse to their businesses. Maintaining the adequacy of our allowance for loan losses may require that we make significant and unanticipated increases in our provisions for loan losses, which would materially affect our results of operations and capital adequacy. Recognizing that many of our loans individually represent a significant percentage of our total allowance for loan losses, adverse collection experience in a relatively small number of loans could require an increase in our allowance. Federal regulators, as an integral part of

their respective supervisory functions, periodically review our allowance for loan losses. The regulatory agencies may require us to change classifications or grades on loans, increase the allowance for loan losses with large provisions for loan losses and to recognize further loan charge-offs based upon their judgments, which may be different from

**Table of Contents**

ours. Any increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on our results of operations and financial condition.

*Our growth plans are dependent on the availability of capital and funding.* Our historical dependence on trust preferred and other forms of debt capital, became limited by market conditions beyond our control, as has been evidenced with the economic downturn and issues affecting the financial services industry. Pricing of capital, in terms of interest or dividend requirements or dilutive impact on earnings available to shareholders have increased dramatically, and an increase in costs of capital can have a direct impact on operating performance and the ability to achieve growth objectives. Costs of funding could also increase dramatically and affect our growth objectives, as well as our financial performance. Additionally, the FDIC's unlimited guarantee on non-interest bearing deposits ends June 30, 2010 and that could adversely affect our ability to attract and maintain non-interest bearing deposits as a source of cost effective funding. Adverse changes in operating performance or financial condition or changes in statutory or regulatory requirements could make the capital necessary to support or maintain the bank's well capitalized status either difficult to obtain or extremely expensive.

*Our operations are significantly affected by interest rate levels.* Our profitability is dependent to a large extent on our net interest income, which is the difference between interest income we earn as a result of interest paid to us on loans and investments and interest we pay to third parties such as our depositors and those from whom we borrow funds. Like most financial institutions, we are affected by changes in general interest rate levels, which are currently at record low levels, and by other economic factors beyond our control. Prolonged periods of unusually low interest rates may have an adverse effect on earnings by reducing the value of demand deposits, stockholders' equity and fixed rate liabilities with rates higher than available earning assets. Interest rate risk can result from mismatches between the dollar amount of repricing or maturing assets and liabilities and from mismatches in the timing and rate at which our assets and liabilities reprice. Although we have implemented strategies which we believe reduce the potential effects of changes in interest rates on our results of operations, these strategies will not always be successful. In addition, any substantial and prolonged increase in market interest rates could reduce our customers' desire to borrow money from us or adversely affect their ability to repay their outstanding loans by increasing their costs since most of our loans have adjustable interest rates that reset periodically. If our borrowers' ability to repay is affected, our level of non-performing assets would increase and the amount of interest earned on loans will decrease, thereby having an adverse effect on operating results. Any of these events could adversely affect our results of operations or financial condition.

*Our business faces unpredictable economic and business conditions.* General economic conditions and specific business conditions impact the banking industry and our customers' businesses. The credit quality of our loan portfolio necessarily reflects, among other things, the general economic conditions in the areas in which we conduct our business. Our continued financial success depends somewhat on factors beyond our control, including:

national and local economic conditions;

the supply and demand for investable funds;

interest rates; and

federal, state and local laws affecting these matters.

Substantial deterioration in any of the foregoing conditions, as we have experienced with the current economic downturn, can have a material adverse effect on our results of operations and financial condition, and we may not be able to sustain our historical rate of growth. Our bank's customer base is primarily commercial in nature, and our bank does not have a significant branch network or retail deposit base. In periods of economic downturn, business and

commercial deposits may tend to be more volatile than traditional retail consumer deposits and, therefore, during these periods our financial condition and results of operations could be adversely affected to a greater degree than our competitors that have a larger retail customer base.

**Table of Contents**

*We are dependent upon key personnel.* Our success depends to a significant extent upon the performance of certain key employees, the loss of whom could have an adverse effect on our business. Although we have entered into employment agreements with certain employees, we cannot assure you that we will be successful in retaining key employees.

*Our business is concentrated in Texas and a downturn in the economy of Texas may adversely affect our business.* A substantial majority of our business is located in Texas. As a result, our financial condition and results of operations may be affected by changes in the Texas economy. A prolonged period of economic recession or other adverse economic conditions in Texas may result in an increase in non-payment of loans and a decrease in collateral value.

*Our business strategy focuses on organic growth within our target markets and, if we fail to manage our growth effectively, it could negatively affect our operations.* We intend to develop our business principally through organic growth. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. In order to execute our growth strategy successfully, we must, among other things:

- identify and expand into suitable markets and lines of business;
- build our customer base;
- maintain credit quality;
- attract sufficient deposits to fund our anticipated loan growth;
- attract and retain qualified bank management in each of our targeted markets;
- identify and pursue suitable opportunities for opening new banking locations; and
- maintain adequate regulatory capital.

Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy.

*We compete with many larger financial institutions which have substantially greater financial resources than we have.* Competition among financial institutions in Texas is intense. We compete with other financial and bank holding companies, state and national commercial banks, savings and loan associations, consumer finance companies, credit unions, securities brokerages, insurance companies, mortgage banking companies, money market mutual funds, asset-based non-bank lenders and other financial institutions. Many of these competitors have substantially greater financial resources, lending limits and larger branch networks than we do, and are able to offer a broader range of products and services than we can. Failure to compete effectively for deposit, loan and other banking customers in our markets could cause us to lose market share, slow our growth rate and may have an adverse effect on our financial condition and results of operations.

*The risks involved in commercial lending may be material.* We generally invest a greater proportion of our assets in commercial loans than other banking institutions of our size, and our business plan calls for continued efforts to increase our assets invested in these loans. Commercial loans may involve a higher degree of credit risk than some other types of loans due, in part, to their larger average size, the effects of changing economic conditions on commercial loans, the dependency on the cash flow of the borrowers' businesses to service debt, the sale of assets

securing the loans, and disposition of collateral which may not be readily marketable. Losses incurred on a relatively small number of commercial loans could have a materially adverse impact on our results of operations and financial condition.

*Real estate lending in our core Texas markets involves risks related to a decline in value of commercial and residential real estate.* Our real estate lending activities, and the exposure to fluctuations in real estate values, are significant and expected to increase. The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located. If the value of the real estate serving as collateral for our loan portfolio were to decline materially, a significant part of our loan



**Table of Contents**

portfolio could become under-collateralized and we may not be able to realize the amount of security that we anticipated at the time of originating the loan. Conditions in certain segments of the real estate industry, including homebuilding, lot development and mortgage lending, may have an effect on values of real estate pledged as collateral in our markets. The inability of purchasers of real estate, including residential real estate, to obtain financing may weaken the financial condition of borrowers dependent on the sale or refinancing of property. Failure to sell some loans held for sale in accordance with contracted terms may result in mark to market charges to other operating income. In addition, after the mark to market, we may transfer the loans into the loans held for investment portfolio where they will then be subject to changes in grade, classification, accrual status, foreclosure, or loss which could have an effect on the adequacy of the allowance for loan losses. When conditions warrant, we may find it beneficial to restructure loans to improve prospects of collectability, and such actions may require loans to be treated as troubled debt restructurings, or non-performing loans.

*Our future profitability depends, to a significant extent, upon revenue we receive from our middle market business customers and their ability to meet their loan obligations.* Our future profitability depends, to a significant extent, upon revenue we receive from middle market business customers, and their ability to continue to meet existing loan obligations. As a result, adverse economic conditions or other factors adversely affecting this market segment may have a greater adverse effect on us than on other financial institutions that have a more diversified customer base.

*System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.* The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. Any damage or failure that causes an interruption in our operations could have an adverse effect on our customers. In addition, we must be able to protect the computer systems and network infrastructure utilized by us against physical damage, security breaches and service disruption caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and deter potential customers. Although we, with the help of third-party service providers, will continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, the failure of our customers to maintain appropriate security for their systems may increase our risk of loss. We have and will continue to incur costs with the training of our customers about protection of their systems. However, we cannot be assured that this training will be adequate to avoid risk to our customers or, under unknown circumstances to us.

*We are subject to extensive government regulation and supervision.* We are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy, operations and growth, among other things. These regulations also impose obligations to maintain appropriate policies, procedures and controls, among other things, to detect, prevent and report money laundering and terrorist financing and to verify the identities of our customers. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, impose requirements for additional capital, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. We expend substantial effort and incur costs to improve our systems, audit capabilities, staffing and training in order to satisfy regulatory requirements, but the regulatory authorities may determine that such efforts are insufficient. Failure to comply with relevant laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations,

there can be no assurance that such violations will not occur. In addition, the FDIC has imposed higher general and special assessments on deposits based on general industry conditions and as a

**Table of Contents**

result of changes in specific programs, and there is no restriction on the amount by which the FDIC may increase deposit assessments in the future. These increased FDIC assessments have affected our earnings to a significant degree, and the industry may be subject to additional assessments, fees, or taxes.

Furthermore, Sarbanes-Oxley, and the related rules and regulations promulgated by the SEC and Financial Industry Regulatory Authority (FINRA) that are applicable to us, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. As a result, we have experienced, and may continue to experience, greater compliance costs.

*Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.* Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Periodically, hurricanes have caused extensive flooding and destruction along the coastal areas of Texas, including communities where we conduct business, and our operations in Houston have been disrupted to a minor degree. While the impact of these hurricanes did not significantly affect us, other severe weather or natural disasters, acts of war or terrorism or other adverse external events may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

*Our management maintains significant control over us.* Our current executive officers and directors beneficially own approximately 5% of the outstanding shares of our common stock. Accordingly, our current executive officers and directors are able to influence, to a significant extent, the outcome of all matters required to be submitted to our stockholders for approval (including decisions relating to the election of directors), the determination of day-to-day corporate and management policies and other significant corporate activities.

*There are substantial regulatory limitations on changes of control.* With certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be acting in concert from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock.

*Anti-takeover provisions of our certificate of incorporation, bylaws and Delaware law may make it more difficult for you to receive a change in control premium.* Certain provisions of our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of our stockholders as beneficial to their interests. These provisions include advance notice for nominations of directors and stockholders proposals, and authority to issue the issuance of blank check preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a corporation's outstanding voting stock, from engaging in a business combination with our company for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.

*We are subject to claims and litigation pertaining to fiduciary responsibility, employment practices and other general business matters litigation.* From time to time, customers make claims and take legal action pertaining to our performance of our fiduciary responsibilities. Whether customer claims and legal action related to our performance of

its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us they may result in significant financial liability and/or adversely affect the market perception of us and our products and services as well as impact customer demand for those products and services. In addition, employees can make claims related to our employment practices. If such claims or legal actions are not resolved in a manner favorable to us they may result in significant financial liability and/or

## **Table of Contents**

adversely affect the market perception of us. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

*Our controls and procedures may fail or be circumvented.* Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

*New lines of business or new products and services may subject us to additional risks.* From time to time, we may develop and grow new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition. All service offerings, including current offerings and those which may be provided in the future may become more risky due to changes in economic, competitive and market conditions beyond our control.

## **Risks Associated With Our Common Stock**

*Our stock price can be volatile.* Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

actual or anticipated variations in quarterly results of operations;

recommendations by securities analysts;

operating and stock price performance of other companies that investors deem comparable to us;

news reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;

perceptions in the marketplace regarding us and/or our competitors;

new technology used, or services offered, by competitors;

significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;

failure to integrate acquisitions or realize anticipated benefits from acquisitions;

changes in government regulations; and

geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results as evidenced by the current volatility and disruption of capital and credit markets.

## **Table of Contents**

*The trading volume in our common stock is less than that of other larger financial services companies.* Although our common stock is traded on the Nasdaq Global Select Market, the trading volume in our common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

*An investment in our common stock is not an insured deposit.* Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

*The holders of our junior subordinated debentures have rights that are senior to those of our shareholders.* As of December 31, 2009, we had \$113.4 million in junior subordinated debentures outstanding that were issued to our statutory trusts. The trusts purchased the junior subordinated debentures from us using the proceeds from the sale of trust preferred securities to third party investors. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us to the extent not paid or made by each trust, provided the trust has funds available for such obligations.

The junior subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to our shareholders. If certain conditions are met, we have the right to defer interest payments on the junior subordinated debentures (and the related trust preferred securities) at any time or from time to time for a period not to exceed 20 consecutive quarters in a deferral period, during which time no dividends may be paid to holders of our common stock.

*We do not currently pay dividends. Our ability to pay dividends is limited and we may be unable to pay future dividends.* We do not currently pay dividends on our common stock. Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of our bank subsidiary, Texas Capital Bank, to pay dividends to us is limited by its obligations to maintain sufficient capital and by other general restrictions on its dividends that are applicable to our regulated bank subsidiary. If these regulatory requirements are not met, our subsidiary bank will not be able to pay dividends to us, and we could be unable to pay dividends on our common stock or meet debt or other contractual obligations of our parent company.

## **Risks Associated With Our Industry**

*The earnings of financial services companies are significantly affected by general business and economic conditions.* As a financial services company, our operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuation in both debt and equity capital markets, broad trends in industry and finance and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control. Continued weakness or further deterioration in economic conditions could result in decreases in loan collateral values and increases in loan delinquencies, non-performing assets and losses on loans and other real estate acquired through foreclosure of loans. Industry conditions, competition and the performance of our bank could also result in a decrease in demand for our products and services, among other things, any of which could have a material adverse impact on our results of operation and financial condition.

*There can be no assurance that recently proposed or future legislation will not subject us to heightened regulation, and the impact of such legislation on us cannot be reliably determined at this time. We cannot predict what legislation may be enacted affecting banks and bank holding companies and their operations, or what regulations might be*



**Table of Contents**

adopted by bank regulators or the effects thereof. In light of current economic conditions in the financial markets and the United States economy, Congress and regulators have increased their focus on the regulation of the banking industry. If enacted, any new legislative initiatives could affect us in substantial and unpredictable ways, including increased compliance costs and additional operating restrictions on our business, and could result in an adverse effect on our business, financial condition, and results of operations.

*Financial services companies depend on the accuracy and completeness of information about customers and counterparties.* In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business and, in turn, our results of operations and financial condition.

*We compete in an industry that continually experiences technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.* The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services which our customers may require. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

*Consumers and businesses may decide not to use banks to complete their financial transactions.* Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. The possibility of eliminating banks as intermediaries could result in the loss of interest and fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our results of operations and financial condition.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

As of December 31, 2009, we conducted business at nine full service banking locations and one operations center. Our operations center houses our loan and deposit operations and the BankDirect call center. We lease the space in which our banking centers and the operations call center are located. These leases expire between March 2013 and July 2019, not including any renewal options that may be available.

**Table of Contents**

The following table sets forth the location of our executive offices, operations center and each of our banking centers.

<b>Type of Location</b>	<b>Address</b>
Executive offices, banking location	2000 McKinney Avenue Suite 700 Dallas, Texas 75201
Operations center	2350 Lakeside Drive Suite 800 Richardson, Texas 75083
Banking location	14131 Midway Road Suite 100 Addison, Texas 75001
Banking location	5910 North Central Expressway Suite 150 Dallas, Texas 75206
Banking location	5800 Granite Parkway Suite 150 Plano, Texas 75024
Banking location	500 Throckmorton Suite 300 Fort Worth, Texas 76102
Banking location	114 W. 7th St. Suite 100 Austin, Texas 78701
Banking location	745 East Mulberry Street Suite 350 San Antonio, Texas 78212
Banking location	7373 Broadway Suite 100 San Antonio, Texas 78209
Banking location	One Riverway Suite 150 Houston, Texas 77056

**ITEM 3. LEGAL PROCEEDINGS**

We are not involved in any material pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on our results of operations or financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

**Table of Contents****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock began trading on The Nasdaq Global Select Market on August 13, 2003, and is traded under the symbol TCBI. Our common stock was neither publicly traded, nor was there an established market therefor, prior to August 13, 2003. On February 16, 2010 there were approximately 353 holders of record of our common stock.

No cash dividends have ever been paid by us on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future. Our principal source of funds to pay cash dividends on our common stock would be cash dividends from our bank. The payment of dividends by our bank is subject to certain restrictions imposed by federal and state banking laws, regulations and authorities.

The following table presents the range of high and low bid prices reported on The Nasdaq Global Select Market for each of the four quarters of 2008 and 2009.

Quarter Ended	Price Per Share	
	High	Low
March 31, 2008	\$ 18.18	\$ 14.40
June 30, 2008	19.50	15.33
September 30, 2008	25.01	13.51
December 31, 2008	22.00	12.56
March 31, 2009	13.63	6.55
June 30, 2009	16.24	9.87
September 30, 2009	18.30	14.25
December 31, 2009	17.03	12.98

**Equity Compensation Plan Information**

The following table presents certain information regarding our equity compensation plans as of December 31, 2009.

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	2,221,950	\$ 14.22	367,470
Equity compensation plans not approved by security holders			
Total	2,221,950	\$ 14.22	367,470



**Table of Contents****Stock Performance Graph**

The following table and graph sets forth the cumulative total stockholder return for the Company's common stock beginning on August 12, 2003, the date of the Company's initial public offering compared to an overall stock market index (Russell 2000 Index) and the Company's peer group index (Nasdaq Bank Index). The Russell 2000 Index and Nasdaq Bank Index are based on total returns assuming reinvestment of dividends. The graph assumes an investment of \$100 on August 12, 2003. The performance graph represents past performance and should not be considered to be an indication of future performance.

	<b>12/31/03</b>	<b>12/31/04</b>	<b>12/31/05</b>	<b>12/31/06</b>	<b>12/31/07</b>	<b>12/31/08</b>	<b>12/31/09</b>
Texas Capital (TCBI)	\$ 14.48	\$ 21.62	\$ 22.38	\$ 19.88	\$ 18.25	\$ 13.36	\$ 13.96
Russell 2000 Index RTY	556.91	658.72	681.26	796.70	775.75	509.18	633.31
Nasdaq Bank Index CBNK	2,899.18	3,288.71	3,154.28	3,498.55	2,746.89	2,098.35	1,693.34

**TCBI Stock Performance Graph**

Source: Bloomberg

**Table of Contents****ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

You should read the selected financial data presented below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing elsewhere in this Form 10-K.

<i>(in thousands, except per share, average share and percentage data)</i>	<b>At or For The Year Ended December 31</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Consolidated Operating Data (1)</b>					
Interest income	\$ 243,153	\$ 248,930	\$ 289,292	\$ 236,482	\$ 158,953
Interest expense	46,462	97,193	149,540	119,312	65,329
Net interest income	196,691	151,737	139,752	117,170	93,624
Provision for credit losses	43,500	26,750	14,000	4,000	
Net interest income after provision for credit losses	153,191	124,987	125,752	113,170	93,624
Non-interest income	29,260	22,470	20,627	17,684	12,507
Non-interest expense	145,542	109,651	98,606	86,912	65,344
Income from continuing operations before income taxes	36,909	37,806	47,773	43,942	40,787
Income tax expense	12,522	12,924	16,420	14,961	13,860
Income from continuing operations	24,387	24,882	31,353	28,981	26,927
Income (loss) from discontinued operations (after-tax)	(235)	(616)	(1,931)	(57)	265
Net income	24,152	24,266	29,422	28,924	27,192
Preferred stock dividends	5,383				
Net income available to common shareholders	\$ 18,769	\$ 24,266	\$ 29,422	\$ 28,924	\$ 27,192
<b>Consolidated Balance Sheet Data(1)</b>					
Total assets(3)	\$ 5,698,318	\$ 5,141,034	\$ 4,287,853	\$ 3,659,445	\$ 3,003,430
Loans held for investment	4,457,293	4,027,871	3,462,608	2,722,097	2,075,961
Loans held for sale	693,504	496,351	174,166	199,014	72,383
Loans held for sale from discontinued operations	586	648	731	16,844	38,795
Securities available-for-sale	266,128	378,752	440,119	520,091	620,539
Deposits	4,120,725	3,333,187	3,066,377	3,069,330	2,495,179
Federal funds purchased	580,519	350,155	344,813	165,955	103,497
Other borrowings	376,510	930,452	439,038	45,604	162,224

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Trust preferred subordinated debentures	113,406	113,406	113,406	113,406	46,394
Stockholders equity	481,360	387,073	295,138	253,515	215,523



**Table of Contents***(in thousands, except per share,  
average share and percentage data)***At or For The Year Ended December 31**

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Other Financial Data</b>					
Income per share:					
Basic					
Income from continuing operations	\$ .56	\$ .89	\$ 1.20	\$ 1.12	\$ 1.05
Net income	.55	.87	1.12	1.11	1.06
Diluted					
Income from continuing operations	.55	.89	1.18	1.10	1.01
Net income	.55	.87	1.10	1.09	1.02
Tangible book value per share(4)	12.96	12.19	10.92	9.32	8.19
Book value per share(4)	13.23	12.44	11.22	9.82	8.68
Weighted average shares:					
Basic	34,113,285	27,952,973	26,187,084	25,945,065	25,619,594
Diluted	34,410,454	28,048,463	26,678,571	26,468,811	26,645,198
<b>Selected Financial Ratios:</b>					
<b>Performance Ratios</b>					
From continuing operations:					
Net interest margin	3.89%	3.54%	3.82%	3.84%	3.66%
Return on average assets	.46%	.55%	.80%	.88%	.97%
Return on average equity	5.15%	7.46%	11.51%	12.62%	13.16%
Efficiency ratio (excludes securities gains)	64.41%	62.94%	61.48%	64.45%	61.57%
Non-interest expense to average earning assets	2.87%	2.54%	2.68%	2.83%	2.53%
From consolidated:					
Net interest margin	3.89%	3.54%	3.82%	4.00%	3.90%
Return on average assets	.45%	.54%	.75%	.87%	.97%
Return on average equity	5.10%	7.28%	10.80%	12.59%	13.29%
<b>Asset Quality Ratios</b>					
Net charge-offs (recoveries) to average loans(2)	.46%	.35%	.07%	.08%	(.01)%
Reserve for loan losses to loans held for investment(2)	1.52%	1.13%	.92%	.74%	.91%
Reserve for loan losses to non-accrual loans	.7x	1.0x	1.5x	2.2x	3.3x
Non-accrual loans to loans(2)	2.15%	1.18%	.62%	.33%	.27%
Total NPAs to loans plus OREO(2)	2.74%	1.81%	.69%	.37%	.27%

**Table of Contents**

<i>(in thousands, except per share, average share and percentage data)</i>	<b>At or For The Year Ended December 31</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b><i>Capital and Liquidity Ratios</i></b>					
Total capital ratio	11.98%	10.92%	10.56%	11.16%	10.83%
Tier 1 capital ratio	10.73%	9.97%	9.41%	9.68%	10.09%
Tier 1 leverage ratio	10.54%	10.21%	9.38%	9.18%	8.68%
Average equity/average assets	8.91%	7.38%	6.98%	6.96%	7.40%
Tangible common equity/ total tangible assets <sup>(4)</sup>	8.18%	7.36%	6.73%	6.74%	6.96%
Average net loans/average deposits	128.43%	120.03%	103.64%	93.89%	89.74%

- (1) The consolidated statement of operating data and consolidated balance sheet data presented above for the five most recent fiscal years ended December 31 have been derived from our audited consolidated financial statements. The historical results are not necessarily indicative of the results to be expected in any future period.
- (2) Excludes loans held for sale.
- (3) From continuing operations.
- (4) Excludes unrealized gains/losses on securities.

**Table of Contents****Consolidated Interim Financial Information (Unaudited)**

<i>(in thousands except per share data)</i>	<b>2009 Selected Quarterly Financial Data</b>			
	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
Interest income	\$ 65,137	\$ 62,197	\$ 60,013	\$ 55,806
Interest expense	10,031	10,631	11,211	14,589
Net interest income	55,106	51,566	48,802	41,217
Provision for credit losses	10,500	13,500	11,000	8,500
Net interest income after provision for credit losses	44,606	38,066	37,802	32,717
Non-interest income	7,811	7,133	7,416	6,900
Non-interest expense	42,796	37,067	35,373	30,306
Income from continuing operations before income taxes	9,621	8,132	9,845	9,311
Income tax expense	3,194	2,779	3,363	3,186
Income from continuing operations	6,427	5,353	6,482	6,125
Loss from discontinued operations (after-tax)	(55)	(41)	(44)	(95)
Net income	6,372	5,312	6,438	6,030
Preferred stock dividends			4,453	930
Net income available to common shareholders	\$ 6,372	\$ 5,312	\$ 1,985	\$ 5,100
Basic earnings per share:				
Income from continuing operations	\$ .18	\$ .15	\$ .06	\$ .17
Net income	\$ .18	\$ .15	\$ .06	\$ .16
Diluted earnings per share:				
Income from continuing operations	\$ .18	\$ .15	\$ .06	\$ .17
Net income	\$ .18	\$ .15	\$ .06	\$ .16
Average shares:				
Basic	35,850,000	35,754,000	33,784,000	26,528,000

Diluted	36,311,000	36,304,000	33,866,000	31,072,000
---------	------------	------------	------------	------------

**Table of Contents**

<i>(In thousands except per share data)</i>	<b>2008 Selected Quarterly Financial Data</b>			
	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
Interest income	\$ 58,873	\$ 62,240	\$ 61,008	\$ 66,809
Interest expense	20,161	23,974	22,848	30,210
Net interest income	38,712	38,266	38,160	36,599
Provision for credit losses	11,000	4,000	8,000	3,750
Net interest income after provision for credit losses	27,712	34,266	30,160	32,849
Non-interest income	5,950	4,885	5,952	5,683
Non-interest expense	28,443	27,675	27,256	26,277
Income from continuing operations before income taxes	5,219	11,476	8,856	12,255
Income tax expense	1,732	3,911	3,056	4,225
Income from continuing operations	3,487	7,565	5,800	8,030
Loss from discontinued operations (after-tax)	(100)	(252)	(116)	(148)
Net income	\$ 3,387	\$ 7,313	\$ 5,684	\$ 7,882
Basic earnings per share:				
Income from continuing operations	\$ .11	\$ .27	\$ .22	\$ .30
Net income	\$ .11	\$ .26	\$ .21	\$ .30
Diluted earnings per share:				
Income from continuing operations	\$ .11	\$ .27	\$ .22	\$ .30
Net income	\$ .11	\$ .26	\$ .21	\$ .30
Average shares:				
Basic	30,884,000	27,726,000	26,706,000	26,466,000
Diluted	31,038,000	27,793,000	26,805,000	26,528,000

**ITEM 7.**

***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

**Forward-Looking Statements**

Statements and financial analysis contained in this document that are not historical facts are forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the Act ). In addition, certain statements may be contained in our future filings with SEC, in press releases, and in oral and written statements made by or with our approval that are not statements of historical fact and constitute forward-looking statement within the meaning of the Act. Forward looking statements describe our future plans, strategies and expectations and are based on certain assumptions. Words such as believes , anticipates , expects , intends , targeted , continue , remain , will , should , may and other 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, many of which are beyond our control that may cause actual results to differ materially from those in such statements. The important factors that could cause actual results to differ materially from the forward looking statements include, but are not limited to, the following:

- (1) Changes in interest rates and the relationship between rate indices, including LIBOR and Fed Funds

**Table of Contents**

- (2) Changes in the levels of loan prepayments, which could affect the value of our loans or investment securities
- (3) Changes in general economic and business conditions in areas or markets where we compete
- (4) Competition from banks and other financial institutions for loans and customer deposits
- (5) The failure of assumptions underlying the establishment of and provisions made to the allowance for credit losses
- (6) The loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels
- (7) Changes in government regulations including changes as a result of the current economic crisis

Forward-looking statements speak only as of the date on which such statements are made. We have no obligation to update or revise any forward looking statements as a result of new information or future events. In light of these assumptions, risks and uncertainties, the events discussed in any forward looking statements in this annual report might not occur.

**Overview of Our Business Operations**

We commenced operations in December 1998. An important aspect of our growth strategy has been our ability to service and effectively manage a large number of loans and deposit accounts in multiple markets in Texas. Accordingly, we created an operations infrastructure sufficient to support state-wide lending and banking operations.

The following discussions and analyses present the significant factors affecting our financial condition as of December 31, 2009 and 2008 and results of operations for each of the three years in the period ended December 31, 2009. This discussion should be read in conjunction with our consolidated financial statements and notes to the financial statements appearing later in this report. Please also note the below description about our discontinued operations and how it is reflected in the following discussions of our financial condition and results of operations.

On October 16, 2006, we completed the sale of our residential mortgage lending division (RML). The sale was effective as of September 30, 2006, and, accordingly, all operating results for this discontinued component of our operations were reclassified to discontinued operations. All prior periods were restated to reflect the change. Subsequent to the end of the first quarter of 2007, Texas Capital Bank and the purchaser of its residential mortgage loan division (RML) agreed to terminate and settle the contractual arrangements related to the sale of the division.

The loss from discontinued operations was \$235,000 and \$616,000, net of taxes, for the years 2009 and 2008, respectively. The 2009 losses are primarily related to continuing legal and salary expenses incurred in dealing with the remaining loans and requests from investors related to the repurchase of previously sold loans. We still have approximately \$586,000 in loans held for sale from discontinued operations that are carried at the estimated market value at year-end, which is less than the original cost. We plan to sell these loans, but timing and price to be realized cannot be determined at this time due to market conditions. In addition, we continue to address requests from investors related to repurchasing loans previously sold. While the balances as of December 31, 2009 include a liability for exposure to additional contingencies, including risk of having to repurchase loans previously sold, we recognize that market conditions may result in additional exposure to loss and the extension of time necessary to complete the discontinued mortgage operation. Our mortgage warehouse operations were not part of the sale, and are included in the results from continuing operations. Except as otherwise noted, all amounts and disclosures throughout this document reflect only the Company's continuing operations.

On March 30, 2007, Texas Capital Bank completed the sale of its TexCap Insurance Services subsidiary; the sale was, accordingly, reported as a discontinued operation. Historical operating results of TexCap and the net after-tax gain of \$1.09 million from the sale are reflected as discontinued operations in the financial statements



## **Table of Contents**

and schedules. All prior periods have been restated to reflect the change. Except as otherwise noted, all amounts and disclosures throughout this document reflect only the Company's continuing operations.

### **Year ended December 31, 2009 compared to year ended December 31, 2008**

We reported net income of \$24.4 million for the year ended December 31, 2009, compared to \$24.9 million for the same period in 2008. We reported net income available to common shareholders of \$19.0 million, or \$.55 per diluted common share, for the year ended December 31, 2009, compared to \$24.9 million, or \$.89 per diluted common share, for the same period in 2008 as a result of preferred dividends paid. Return on average equity was 5.15% and return on average assets was .46% for the year ended December 31, 2009, compared to 7.46% and .55%, respectively, for the same period in 2008.

Net income decreased \$495,000, or 2%, for the year ended December 31, 2009, and net income available to common shareholders decreased \$5.9 million, or 24%, compared to the same period in 2008. The \$495,000 decrease was primarily the result of a \$16.8 million increase in the provision for credit losses and a \$35.9 million increase in non-interest expense, offset by a \$45.0 million increase in net interest income and a \$6.8 million increase in non-interest income and a \$402,000 decrease in income tax expense.

Details of the changes in the various components of net income are further discussed below.

### **Year ended December 31, 2008 compared to year ended December 31, 2007**

We reported net income of \$24.9 million, or \$.89 per diluted common share, for the year ended December 31, 2008, compared to \$31.4 million, or \$1.18 per diluted common share, for the same period in 2007. Return on average equity was 7.46% and return on average assets was .55% for the year ended December 31, 2008, compared to 11.51% and .80%, respectively, for the same period in 2007.

Net income decreased \$6.5 million, or 20.7%, for the year ended December 31, 2008 compared to the same period in 2007. The decrease was primarily the result of a \$12.8 million increase in the provision for credit losses and an \$11.1 million increase in non-interest expense, offset by an \$11.9 million increase in net interest income and a \$1.9 million increase in non-interest income and a \$3.5 million decrease in income tax expense.

Details of the changes in the various components of net income are further discussed below.

### **Net Interest Income**

Net interest income was \$196.7 million for the year ended December 31, 2009 compared to \$151.7 million for the same period of 2008. The increase in net interest income was primarily due to an increase of \$764.8 million in average earning assets and the increase in our net interest margin. The increase in average earning assets from 2008 included an \$835.3 million increase in average net loans offset by a \$76.6 million decrease in average securities. For the year ended December 31, 2009, average net loans and securities represented 93% and 6%, respectively, of average earning assets compared to 91% and 9%, respectively, in 2008.

Average interest bearing liabilities for the year ended December 31, 2009 increased \$431.0 million from the year ended December 31, 2008, which included a \$206.4 million increase in interest bearing deposits and a \$224.6 million increase in other borrowings. For the same periods, the average balance of demand deposits increased to \$760.8 million from \$529.5 million. The significant increase in average other borrowings is a result of the combined effects of maturities of transaction-specific deposits and growth in loans during 2009. The average cost of interest bearing liabilities decreased from 2.67% for the year ended December 31, 2008 to 1.14% in 2009, reflecting the

significant decline in market interest rates.

Net interest income was \$151.7 million for the year ended December 31, 2008 compared to \$139.8 million for the same period of 2007. The increase in net interest income was primarily due to an increase of \$632.2 million in average earning assets, offset by a 28 basis point decrease in the net interest margin, which resulted from growth, asset sensitivity and the impact of the increase in non-accrual loans. The increase in average earning assets from 2007 included a \$705.3 million increase in average net loans offset by an \$84.5 million decrease in

**Table of Contents**

average securities. For the year ended December 31, 2008, average net loans and securities represented 91% and 9%, respectively, of average earning assets compared to 87% and 13%, respectively, in 2007.

Average interest bearing liabilities for the year ended December 31, 2008 increased \$495.5 million from the year ended December 31, 2007, which included a \$99.4 million increase in interest bearing deposits and a \$396.1 million increase in other borrowings. For the same periods, the average balance of demand deposits increased slightly to \$529.5 million from \$463.1 million. The average cost of interest bearing liabilities decreased from 4.76% for the year ended December 31, 2007 to 2.67% in 2008, reflecting the significant decline in market interest rates during 2008. Of the increase in average interest bearing liabilities, total borrowings grew due to combined effects of maturities of transaction-specific deposits and strong loan growth during 2008.

**Volume/Rate Analysis**

<i>(in thousands)</i>	Change	Years Ended December 31,		Change	2008/2007	
		2009/2008	Change Due To(1)		Change Due To(1)	Yield/Rate
		Volume	Yield/Rate		Volume	Yield/Rate
Interest income:						
Securities(2)	\$ (4,184)	\$ (3,586)	\$ (598)	\$ (4,262)	\$ (4,005)	\$ (257)
Loans	(1,509)	49,955	(51,464)	(36,162)	58,521	(94,683)
Federal funds sold	(137)	(51)	(86)	76	476	(400)
Deposits in other banks	13	111	(98)	(23)	69	(92)
	(5,817)	46,429	(52,246)	(40,371)	55,061	(95,432)
Interest expense :						
Transaction deposits	(221)	178	(399)	(460)	81	(541)
Savings deposits	(4,320)	7,299	(11,619)	(21,085)	(1,993)	(19,092)
Time deposits	(16,477)	3,532	(20,009)	1,564	19,567	(18,003)
Deposits in foreign branches	(14,010)	(9,271)	(4,739)	(28,412)	(12,175)	(16,237)
Borrowed funds	(15,703)	5,032	(20,735)	(3,954)	19,718	(23,672)
	(50,731)	6,770	(57,501)	(52,347)	25,198	(77,545)
Net interest income	\$ 44,914	\$ 39,659	\$ 5,255	\$ 11,976	\$ 29,863	\$ (17,887)

(1) Changes attributable to both volume and yield/rate are allocated to both volume and yield/rate on an equal basis.

(2) Taxable equivalent rates used where applicable.

Net interest margin from continuing operations, the ratio of net interest income to average earning assets, from continuing operations increased from 3.54% in 2008 to 3.89% in 2009. This 35 basis point increase was a result of a steep decline in the costs of interest bearing liabilities and growth in non-interest bearing deposits and stockholders equity. Total cost of funding decreased from 2.15% for 2008 to .87% for 2009. The benefit of the reduction in funding costs was partially offset by a 99 basis point decline in yields on earning assets.

Net interest margin, the ratio of net interest income to average earning assets, decreased from 3.82% in 2007 to 3.54% in 2008. This decrease was due primarily to the decline in contribution of free funds, including demand deposits and stockholders' equity, to the margin. While the yield on earning assets and the cost of interest bearing liabilities both decreased by 209 basis points, leaving the net interest spread unchanged, the contribution of free funds declined 28 basis points in a declining rate environment.

**Table of Contents****Consolidated Daily Average Balances, Average Yields and Rates**

	Year Ended December 31							
	Average Balance	2009 Revenue/ Expense(1)	Yield/ Rate	Average Balance	2008 Revenue/ Expense(1)	Yield/ Rate	Average Balance	2007 Revenue/ Expense(1)
<i>(except percentage data)</i>								
taxable	\$ 269,888	\$ 11,928	4.42%	\$ 343,870	\$ 16,000	4.65%	\$ 427,490	\$ 20,230
non-taxable(2)	44,873	2,538	5.66%	47,450	2,650	5.58%	48,291	2,670
sold	8,196	31	0.38%	11,744	168	1.43%	1,903	90
other banks	12,266	44	0.36%	2,675	31	1.16%	1,175	50
for sale	596,271	28,336	4.75%	255,808	14,842	5.80%	155,046	10,720
	4,200,174	201,164	4.79%	3,685,301	216,167	5.87%	3,068,452	256,450
for loan losses	55,784			35,769			23,430	
	4,740,661	229,500	4.84%	3,905,340	231,009	5.92%	3,200,068	267,170
assets	5,075,884	244,041	4.81%	4,311,079	249,858	5.80%	3,678,927	290,220
for assets	245,034			206,634			220,914	
	\$ 5,320,918			\$ 4,517,713			\$ 3,899,841	
stockholders equity								
deposits	\$ 147,961	\$ 242	0.16%	\$ 106,720	\$ 463	0.43%	\$ 98,159	\$ 92,000
deposits	1,182,442	10,082	0.85%	784,685	14,402	1.84%	831,370	35,480
	1,188,964	20,870	1.76%	1,086,252	37,347	3.44%	702,248	35,780
foreign branches	411,116	6,630	1.61%	746,399	20,640	2.77%	992,837	49,050
non-bearing deposits	2,930,483	37,824	1.29%	2,724,056	72,852	2.67%	2,624,614	121,240
deposits	1,023,198	4,406	0.43%	798,647	17,896	2.24%	402,540	20,030
and subordinated	113,406	4,232	3.73%	113,406	6,445	5.68%	113,406	8,250
non-bearing liabilities	4,067,087	46,462	1.14%	3,636,109	97,193	2.67%	3,140,560	149,540
deposits	760,776			529,471			463,142	
deposits	19,207			18,616			23,817	
and stockholders equity	473,848			333,517			272,322	
deposits and stockholders equity	\$ 5,320,918			\$ 4,517,713			\$ 3,899,841	
income		\$ 197,579			\$ 152,665			\$ 140,680
margin			3.89%			3.54%		
spread			3.67%			3.13%		

Averages include loans on which the accrual of interest has been discontinued and are stated net of unearned income.

Equivalent rates used where applicable.

Information from discontinued operations:

Gain on sale from discontinued operations	\$ 600		\$ 699		\$ 4,546
Income from discontinued operations	600		699		4,546
Income from discontinued operations, net of tax	\$ 61		\$ 54		\$ 18
Income from discontinued operations, net of tax, as a percentage of total income		3.89%		3.54%	

**Non-interest Income**

<i>(in thousands)</i>	Year Ended December 31		
	2009	2008	2007
Service charges on deposit accounts	\$ 6,287	\$ 4,699	\$ 4,091
Trust fee income	3,815	4,692	4,691
Bank owned life insurance (BOLI) income	1,579	1,240	1,198
Brokered loan fees	9,043	3,242	1,870
Equipment rental income	5,557	5,995	6,138
Other(1)	2,979	2,602	2,639
Total non-interest income	\$ 29,260	\$ 22,470	\$ 20,627

**Table of Contents**

- (1) Other income includes such items as letter of credit fees, rental income, mark to market on mortgage warehouse loans, and other general operating income, none of which account for 1% or more of total interest income and non-interest income.

Non-interest income increased by \$6.8 million, or 30%, during the year ended December 31, 2009 to \$29.3 million, compared to \$22.5 million during the same period in 2008. The increase was primarily due to an increase in brokered loan fees, which increased \$5.8 million to \$9.0 million for the year ended December 31, 2009, compared to \$3.2 million for the same period in 2008 due to an increase in our mortgage warehouse volume. Service charges increased \$1.6 million to \$6.3 million for the year ended December 31, 2009, compared to \$4.7 million for the same period in 2008 due to lower earnings credit rates and an increase in fees. These increases were offset by an \$877,000 decrease in trust fee income, which is due to the overall lower market values of trust assets.

Non-interest income increased by \$1.9 million, or 9.2%, during the year ended December 31, 2008 to \$22.5 million, compared to \$20.6 million during the same period in 2007. The increase was primarily due to an increase in brokered loan fees, which increased \$1.3 million to \$3.2 million for the year ended December 31, 2008, compared to \$1.9 million for the same period in 2007 due to an increase in our mortgage warehouse volume. Service charges increased \$608,000 to \$4.7 million for the year ended December 31, 2008, compared to \$4.1 million for the same period in 2007 due to lower earnings credit rates and an increase in fees.

While management expects continued growth in non-interest income, the future rate of growth could be affected by increased competition from nationwide and regional financial institutions and by decreased demand in mortgage warehouse volume. In order to achieve continued growth in non-interest income, we may need to introduce new products or enter into new markets. Any new product introduction or new market entry could place additional demands on capital and managerial resources.

**Non-interest Expense**

<i>(in thousands)</i>	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Salaries and employee benefits	\$ 73,419	\$ 61,438	\$ 56,608
Net occupancy expense	12,291	9,631	8,430
Leased equipment depreciation	4,319	4,667	4,958
Marketing	3,034	2,729	3,004
Legal and professional	11,846	9,622	7,245
Communications and data processing	3,743	3,314	3,357
FDIC insurance assessment	8,464	1,797	1,424
Allowance and other carrying costs for OREO	10,345	1,541	133
Other(1)	18,081	14,912	13,447
Total non-interest expense	\$ 145,542	\$ 109,651	\$ 98,606

- (1) Other expense includes such items as courier expenses, regulatory assessments other than FDIC insurance, due from bank charges, software amortization and maintenance, and other general operating expenses, none of which account for 1% or more of total interest income and non-interest income.

Non-interest expense for the year ended December 31, 2009 increased \$35.9 million compared to the same period of 2008 primarily related to increases in salaries and employee benefits, FDIC assessment expenses, and expenses related to other real estate owned ( OREO ) included valuation allowances.

Salaries and employee benefits expense increased by \$12.0 million to \$73.4 million during the year ended December 31, 2009. This increase resulted primarily from general business growth.

Occupancy expense increased by \$2.7 million to \$12.3 million during the year ended December 31, 2009 compared to the same period in 2008 and is related to expansion of leased facilities to support our general business growth.



## **Table of Contents**

Legal and professional expenses increased \$2.2 million, or 23%, during the year ended December 31, 2009 mainly related to general business growth, and continued regulatory and compliance costs. Regulatory and compliance costs continue to be a factor in our expense growth and we anticipate that they will continue to increase.

FDIC insurance assessment expense increased by \$6.7 million from \$1.8 million in 2008 to \$8.5 million due to the rate increase and special assessment. The FDIC assessment rates may continue to increase and will continue to be a factor in our expense growth.

Allowance and other carrying costs for OREO increased \$8.8 million during the year ended December 31, 2009 related to deteriorating values of assets held in OREO. Of the \$10.3 million expense for 2009, \$6.6 million was related to establishing and increasing the valuation allowance during the year and \$1.2 million related to direct write-downs of the OREO balance.

Non-interest expense for the year ended December 31, 2008 increased \$11.1 million compared to the same period of 2007. This increase is due primarily to a \$4.8 million increase in salaries and employee benefits resulting primarily from growth.

Occupancy expense increased by \$1.2 million to \$9.6 million during the year ended December 31, 2008 compared to the same period in 2007 and is related to expansion of leased facilities to support our general business growth.

Legal and professional expenses increased \$2.4 million, or 33.3%, during the year ended December 31, 2008 mainly related to general business growth, and continued regulatory and compliance costs. Regulatory and compliance costs continue to be a factor in our expense growth and we anticipate that they will continue to increase.

## **Analysis of Financial Condition**

### ***Loan Portfolio***

Our loan portfolio has grown at an annual rate of 25%, 24% and 14% in 2007, 2008 and 2009, respectively, reflecting the build-up of our lending operations. Our business plan focuses primarily on lending to middle market businesses and high net worth individuals, and as such, commercial and real estate loans have comprised a majority of our loan portfolio since we commenced operations, comprising 71% of total loans at December 31, 2009. Construction loans have decreased from 18% of the portfolio at December 31, 2005 to 13% of the portfolio at December 31, 2009. Consumer loans generally have represented 1% or less of the portfolio from December 31, 2005 to December 31, 2009. Loans held for sale, which relates to our mortgage warehouse operations and are principally mortgage loans being warehoused for sale (typically within 10 to 20 days), fluctuate based on the level of market demand in the product. Due to market conditions experienced in the mortgage industry during 2007, loans not sold within the normal timeframe were transferred to the loans held for investment portfolio. Loans were transferred at a lower of cost or market basis and are then subject to normal loan review, grading and reserve allocation requirements. The remaining balance of loans transferred was \$6.8 million at December 31, 2009, and \$2.5 million of such loans were NPAs with allocated reserves of approximately \$618,000.

We originate substantially all of the loans held in our portfolio, except participations in residential mortgage loans held for sale, select loan participations and syndications, which are underwritten independently by us prior to purchase, and certain USDA and SBA government guaranteed loans that we purchase in the secondary market. We also participate in syndicated loan relationships, both as a participant and as an agent. As of December 31, 2009, we have \$447.9 million in syndicated loans, \$145.1 million of which we acted as agent. All syndicated loans, whether we act as agent or participant, are underwritten to the same standards as all other loans originated by us. In addition, as of 12/31/09, \$21.9 million of our syndicated loans were nonperforming, and none are considered potential problem

loans.

**Table of Contents**

The following summarizes our loan portfolio on a gross basis by major category as of the dates indicated (in thousands):

	<b>December 31</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Commercial	\$ 2,457,533	\$ 2,276,054	\$ 2,035,049	\$ 1,602,577	\$ 1,182,734
Construction	669,426	667,437	573,459	538,586	387,163
Real estate	1,233,701	988,784	773,970	530,377	478,634
Consumer	25,065	32,671	28,334	21,113	19,962
Equipment leases	99,129	86,937	74,523	45,280	16,337
Loans held for sale	693,504	496,351	174,166	199,014	72,383
Total	\$ 5,178,358	\$ 4,548,234	\$ 3,659,501	\$ 2,936,947	\$ 2,157,213

*Commercial Loans and Leases.* Our commercial loan portfolio is comprised of lines of credit for working capital and term loans and leases to finance equipment and other business assets. Our energy production loans are generally collateralized with proven reserves based on appropriate valuation standards. Our commercial loans and leases are underwritten after carefully evaluating and understanding the borrower's ability to operate profitably. Our underwriting standards are designed to promote relationship banking rather than making loans on a transaction basis. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit and term loans typically are reviewed annually and are supported by accounts receivable, inventory, equipment and other assets of our clients' businesses. At December 31, 2009, funded commercial loans and leases totaled approximately \$2.6 billion, approximately 49% of our total funded loans.

*Real Estate Loans.* Approximately 23% of our real estate loan portfolio (excluding construction loans) and 6% of the total portfolio is comprised of loans secured by properties other than market risk or investment-type real estate. Market risk loans are real estate loans where the primary source of repayment is expected to come from the sale or lease of the real property collateral. We generally provide temporary financing for commercial and residential property. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Our real estate loans generally have maximum terms of five to seven years, and we provide loans with both floating and fixed rates. We generally avoid long-term loans for commercial real estate held for investment. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Appraised values may be highly variable due to market conditions and impact of the inability of potential purchasers and lessees to obtain financing and lack of transactions at comparable values. At December 31, 2009, real estate term loans totaled approximately \$1.2 billion, or 24% of our total funded loans; of this total, \$1,019.3 million were loans with floating rates and \$214.4 million were loans with fixed rates.

*Construction Loans.* Our construction loan portfolio consists primarily of single-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and contractors that have an established record of successful project completion and loan repayment and have a substantial investment of the borrowers' equity. However, construction loans are generally based upon estimates of costs and value associated with the completed project. Sources of repayment for these types of loans may be pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from us until permanent financing is obtained. The nature of these loans makes ultimate repayment extremely sensitive to overall

economic conditions. Borrowers may not be able to correct conditions of default in loans, increasing risk of exposure to classification, NPA status, reserve allocation and actual credit loss and foreclosure. These loans typically have floating rates and commitment fees. At December 31, 2009, funded construction real estate loans totaled approximately \$669.4 million, approximately 13% of our total funded loans.

*Loans Held for Sale.* Our loans held for sale portfolio consists of participations purchased in single-family residential mortgages funded through our mortgage warehouse group. These loans are typically on our

**Table of Contents**

balance sheet for 10 to 20 days or less. We have agreements with brokers and participate in individual loans they originate. All loans are subject to pre-committed programs for permanent financing with financially sound investors. Substantially all loans are conforming loans. At December 31, 2009, loans held for sale totaled approximately \$693.5 million, approximately 13% of our total funded loans.

*Letters of Credit.* We issue standby and commercial letters of credit, and can service the international needs of our clients through correspondent banks. At December 31, 2009, our commitments under letters of credit totaled approximately \$66.4 million.

**Portfolio Geographic and Industry Concentrations**

We continue to lend primarily in Texas. As of December 31, 2009, a substantial majority of the principal amount of the loans held for investment in our portfolio was to businesses and individuals in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions in Texas. The table below summarizes the industry concentrations of our funded loans at December 31, 2009. The risks created by these concentrations have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at each balance sheet date.

<i>(in thousands)</i>	<b>Amount</b>	<b>Percent of Total Loans</b>
Services	\$ 2,126,513	41.1%
Loans held for sale	693,504	13.4%
Contracting construction and real estate development	592,750	11.5%
Investors and investment management companies	576,827	11.1%
Petrochemical and mining	474,495	9.2%
Personal/household	199,564	3.9%
Manufacturing	186,637	3.6%
Retail	140,638	2.7%
Wholesale	114,370	2.2%
Contracting trades	59,219	1.1%
Government	12,670	0.2%
Agriculture	1,171	0.0%
Total	\$ 5,178,358	100.0%

Our largest concentration in any single industry is in services. Loans extended to borrowers within the services industries include loans to finance working capital and equipment, as well as loans to finance investment and owner-occupied real estate. Significant trade categories represented within the services industries include, but are not limited to, real estate services, financial services, leasing companies, transportation and communication, and hospitality services. Borrowers represented within the real estate services category are largely owners and managers of both residential and non-residential commercial real estate properties. Personal/household loans include loans to certain high net worth individuals for commercial purposes, in addition to consumer loans. Loans held for sale are those loans originated by our mortgage warehouse group. Loans extended to borrowers within the contracting industry are comprised largely of loans to land developers and to both heavy construction and general commercial contractors. Many of these loans are secured by real estate properties, the development of which is or may be financed by our

bank. Loans extended to borrowers within the petrochemical and mining industries are predominantly loans to finance the exploration and production of petroleum and natural gas. These loans are generally secured by proven petroleum and natural gas reserves.

We make loans that are appropriately collateralized under our credit standards. Approximately 96% of our funded loans are secured by collateral. Over 90% of the real estate collateral is located in Texas. The table

**Table of Contents**

below sets forth information regarding the distribution of our funded loans among various types of collateral at December 31, 2009 (in thousands except percentage data):

	<b>Amount</b>	<b>Percent of Total Loans</b>
Collateral type:		
Real property	\$ 1,903,127	36.7%
Business assets	1,591,980	30.7%
Loans held for sale	693,504	13.4%
Energy	373,705	7.2%
Unsecured	221,284	4.3%
Other assets	175,025	3.4%
Highly liquid assets	166,413	3.2%
Rolling stock	34,314	0.7%
U. S. Government guaranty	19,006	0.4%
Total	\$ 5,178,358	100.0%

As noted in the table above, 36.7% of our loans are secured by real estate. The table below summarizes our real estate loan portfolio as segregated by the type of property securing the credit. Property type concentrations are stated as a percentage of year-end total real estate loans as of December 31, 2009 (in thousands except percentage data):

	<b>Amount</b>	<b>Percent of Total Real Estate Loans</b>
Property type:		
Market Risk		
Commercial buildings	\$ 581,990	30.6%
Real estate-permanent	185,097	9.7%
Apartment buildings	166,082	8.7%
Shopping center/mall buildings	144,253	7.6%
1-4 Family dwellings (other than condominium)	116,899	6.1%
Residential lots	115,439	6.1%
Hotel/motel buildings	87,901	4.6%
Other	183,298	9.6%
Other Than Market Risk		
Commercial buildings	172,798	9.1%
1-4 Family dwellings (other than condominium)	83,416	4.4%
Other	65,954	3.5%
Total real estate loans	\$ 1,903,127	100.0%

The table below summarizes our market risk real estate portfolio as segregated by the geographic region in which the property is located (in thousands except percentage data):

	<b>Amount</b>	<b>Percent of Total</b>
Geographic region:		
Dallas/Fort Worth	\$ 583,226	36.9%
Houston	267,422	16.9%
Austin	213,704	13.5%
San Antonio	259,162	16.4%
Other Texas cities	106,926	6.8%
Other states	150,519	9.5%
Total market risk real estate loans	\$ 1,580,959	100.0%



**Table of Contents**

The determination of collateral value is critically important when financing real estate. As a result, obtaining current and objectively prepared appraisals is a major part of our underwriting and monitoring processes. Generally, our policy requires a new appraisal every three years. However, in the current economic downturn where real estate values have been fluctuating rapidly, more current appraisals are obtained when warranted by conditions such as a borrower's deteriorating financial condition, their possible inability to perform on the loan, and the increased risks involved with reliance on the collateral value as sole repayment of the loan. Generally, loans graded substandard or worse where real estate is a material portion of the collateral value and/or the income from the real estate or sale of the real estate is the primary source of debt service, annual appraisals are obtained. In all cases, appraisals are reviewed to determine reasonableness of the appraised value. The reviewer will challenge whether or not the data used is adequate and relevant, form an opinion as to the appropriateness of the appraisal methods and techniques used, and determine if overall the analysis and conclusions of the appraiser can be relied upon. Both the appraisal process and the appraisal review process have become increasingly difficult in the current economic environment with the lack of comparable sales which is partially as a result of the lack of available financing which has ultimately led to overall depressed real estate values.

**Large Credit Relationships**

The market areas we serve include the five major metropolitan markets of Texas, including Austin, Dallas, Fort Worth, Houston and San Antonio. As a result, we originate and maintain large credit relationships with numerous customers in the ordinary course of business. The legal limit of our bank is approximately \$75 million and our house limit is generally \$15 to \$20 million. We consider large credit relationships to be those with commitments equal to or in excess of \$10.0 million. The following table provides additional information on our large credit relationships outstanding at year-end (in thousands):

	2009			2008		
	Number of Relationships	Period-End Balances Committed	Period-End Balances Outstanding	Number of Relationships	Period-End Balances Committed	Period-End Balances Outstanding
Large credit relationships: \$20.0 million and greater	15	\$ 353,585	\$ 297,189	18	\$ 411,023	\$ 304,460
\$10.0 million to \$19.9 million	128	1,733,593	1,272,870	119	1,633,960	1,077,168

Growth in outstanding balances related to large credit relationships primarily resulted from an increase in commitments. The average commitment per large credit relationship in excess of \$20.0 million totaled \$23.6 million at December 31, 2009 and \$22.8 million at December 31, 2008. The average outstanding balance per large credit relationship with a commitment greater than \$20.0 million totaled \$19.8 at December 31, 2009 and \$16.9 million at December 31, 2008. The average commitment per large credit relationship between \$10.0 million and \$19.9 million totaled \$13.5 million at December 31, 2009 and \$13.7 million at December 31, 2008. The average outstanding balance per large credit relationship with a commitment between \$10.0 million and \$19.9 million totaled \$9.9 million at December 31, 2009 and \$9.1 million at December 31, 2008.

**Table of Contents****Loan Maturity and Interest Rate Sensitivity on December 31, 2009**

<i>(in thousands)</i>	<b>Total</b>	<b>Remaining Maturities of Selected Loans</b>		
		<b>Within 1 Year</b>	<b>1-5 Years</b>	<b>After 5 Years</b>
Loan maturity:				
Commercial	\$ 2,457,533	\$ 1,360,378	\$ 1,062,639	\$ 34,516
Construction	669,426	244,069	403,141	22,216
Real estate	1,233,701	313,406	740,307	179,989
Consumer	25,065	20,417	4,648	
Equipment leases	99,129	7,753	84,145	7,230
Total loans held for investment	\$ 4,484,854	\$ 1,946,023	\$ 2,294,880	\$ 243,951
Interest rate sensitivity for selected loans with:				
Predetermined interest rates	\$ 795,839	\$ 408,706	\$ 307,085	\$ 80,048
Floating or adjustable interest rates	3,689,015	1,537,317	1,987,795	163,903
Total loans held for investment	\$ 4,484,854	\$ 1,946,023	\$ 2,294,880	\$ 243,951

**Interest Reserve Loans**

As of December 31, 2009, we had \$347.5 million in loans with interest reserves, which represents approximately 78% of our construction loans. Loans with interest reserves are common when originating construction loans, but the use of interest reserves is carefully controlled by our underwriting standards. The use of interest reserves is based on the feasibility of the project, the creditworthiness of the borrower and guarantors, and the loan to value coverage of the collateral. The interest reserve account allows the borrower, when financial conditions precedents are met to draw loan funds to pay interest charges on the outstanding balance of the loan. When drawn, the interest is capitalized and added to the loan balance, subject to conditions specified at the time the credit is approved and during the initial underwriting. We have effective and ongoing controls for monitoring compliance with loan covenants for advancing funds and determination of default conditions. When lending relationships involve financing of land on which improvements will be constructed, construction funds are not advanced until borrower has received lease or purchase commitments which will meet cash flow coverage requirements. We maintain current financial statements on the borrowing entity and guarantors, as well as periodical inspections of the project and analysis of whether the project is on schedule or delayed. Updated appraisals are ordered when necessary to validate the collateral values to support all advances, including reserve interest. Advances of interest reserves are discontinued if collateral values do not support the advances or if the borrower does not comply with other terms and conditions in the loan agreements. In addition, most of our construction lending is performed in Texas and our lenders are very familiar with trends in local real estate. At a point where we believe that our collateral position is jeopardized, we retain the right to stop the use of the interest reserves. As of December 31, 2009 \$16.3 million of our loans with interest reserves were on nonaccrual, and in all cases, the use of the reserves has been suspended.

**Table of Contents****Non-performing Assets**

Non-performing assets include non-accrual loans and equipment leases, accruing loans 90 or more days past due, restructured loans, and other repossessed assets. The table below summarizes our non-accrual loans by type (in thousands):

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Non-accrual loans:(1)(3)			
Commercial	\$ 34,021	\$ 15,676	\$ 14,693
Construction	44,598	22,362	4,147
Real estate	10,189	6,239	2,453
Consumer	273	296	90
Equipment leases	6,544	2,926	2
Total non-accrual loans	95,625	47,499	21,385
Other repossessed assets:			
OREO(3)(4)	27,264	25,904	2,671
Other repossessed assets	162	25	45
Total other repossessed assets	27,426	25,929	2,716
Total non-performing assets	\$ 123,051	\$ 73,428	\$ 24,101
Loans past due 90 days and accruing(2)	6,081	4,115	4,147

- (1) The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. If these loans had been current throughout their terms, interest and fees on loans would have increased by approximately \$3.6 million, \$2.9 million and \$1.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.
- (2) At December 31, 2009, 2008 and 2007, loans past due 90 days and still accruing includes premium finance loans of \$2.4 million, \$2.1 million and \$1.8 million, respectively. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.
- (3) At December 31, 2009, 2008 and 2007, non-performing assets include \$2.6 million, \$4.4 million, \$4.1 million, respectively, of mortgage warehouse loans which were transferred to our loans held for investment portfolio at lower of cost or market during the past eighteen months, and some were subsequently moved to OREO.
- (4) At December 31, 2009, OREO balance is net of \$6.6 million valuation allowance.

Nonperforming assets include non-accrual loans, restructured loans and repossessed assets. Total nonperforming assets at December 31, 2009 increased \$45.5 million from December 31, 2008, compared to \$49.3 million at

December 31, 2007. The increases in the past two years are reflective of the overall economic deterioration during 2008 and 2009. As a result our allowance for loans losses as a percentage of loans, as well as our provision for credit losses recorded in 2008 and 2009 have increased.

At December 31, 2009, our total non-accrual loans were \$95.6 million. Of these, \$34.0 million were characterized as commercial loans. This included a \$7.6 million line of credit secured by single family residences and the borrower's notes receivable, a \$6.0 million line of credit secured by various single family properties, a \$5.5 million residence rehabilitation loan secured by single family residences, a \$4.3 million manufacturing loan secured by the assets of the borrower, a \$2.5 million loan secured by a first lien security

**Table of Contents**

interest in the borrower's accounts receivable and assets, a \$2.4 million loan secured by the borrower's assets, a \$2.0 million lender finance loan secured by the borrower's material assets and \$1.2 million in auto dealer loans secured by the borrower's accounts receivable and inventory. Non-accrual loans also included \$44.6 million characterized as construction loans. This included a \$16.3 million commercial real estate lot development loan secured by residential lots, a \$16.2 million commercial real estate loan secured by condominiums, a \$5.0 million commercial real estate loan secured by unimproved land, a \$2.1 million commercial real estate loan secured by retail property, \$1.6 million in commercial real estate loans secured by single family residences, \$1.5 million in residential real estate loans secured by single family residences and a \$1.0 million real estate investment loan secured by unimproved lots. Non-accrual loans also included \$10.2 million characterized as real estate loans, \$6.9 of which relates to a real estate loan secured by an apartment building. Also included in this category are \$2.5 million in single family mortgages that were originated in our mortgage warehouse operation. Each of these loans were reviewed for impairment and specific reserves were allocated as necessary and included in the allowance for loan losses as of December 31, 2009 to cover any probable loss.

Reserves on impaired loans were \$18.4 million at December 31, 2009, compared to \$13.1 million at December 31, 2008 and \$5.9 million at December 31, 2007. We recognized \$25,000 in interest income on non-accrual loans during 2009 compared to \$33,000 in 2008 and \$44,000 in 2007. Additional interest income that would have been recorded if the loans had been current during the years ended December 31, 2009, 2008 and 2007 totaled \$3.6 million, \$2.9 million and \$1.1 million, respectively.

Generally, we place loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. As of December 31, 2009, none of our non-accrual loans were earning on a cash basis.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the original loan agreement. Reserves on impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral.

Restructured loans are loans on which, due to the borrower's financial difficulties, we have granted a concession that we would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current rate for new debt with similar risk, or a reduction of the face amount of debt, either forgiveness of principal or accrued interest. As of December 31, 2009 we have no loans considered restructured that are not already on nonaccrual. Of the nonaccrual loans at December 31, 2009, \$30.3 million met the criteria for restructured. A loan continues to qualify as restructured until a consistent payment history has been evidenced, generally no less than twelve months. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

Potential problem loans consist of loans that are performing in accordance with contractual terms, but for which we have concerns about the borrower's ability to comply with repayment terms because of the borrower's potential financial difficulties. We monitor these loans closely and review their performance on a regular basis. At December 31, 2009 and 2008, we had \$53.1 million and \$22.5 million in loans of this type, which were not included in either the non-accrual or 90 days past due categories. The increase in the amount of potential problem loans from

December 2008 to December 2009 is consistent with the overall economic deterioration and the increase in nonperforming loans that we have experienced this year.

**Table of Contents**

The table below presents a summary of the activity related to OREO (in thousands):

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 25,904	\$ 2,671	\$ 882
Additions	23,466	28,835	2,582
Sales	(14,265)	(5,602)	(793)
Valuation allowance	(6,619)		
Direct write-downs	(1,222)		
Ending balance	\$ 27,264	\$ 25,904	\$ 2,671

The \$27.3 million balance in OREO at December 31, 2009 included unimproved commercial real estate values at \$7.5 million and residential real estate lots and undeveloped land valued at \$7.1 million and \$3.4 million, respectively. Also included is a commercial real estate property consisting of single family residences and developed lots valued at \$3.4 million, unimproved commercial real estate lots valued at \$2.9 million and \$1.6 million, an office building valued at \$2.6 million, and commercial real estate property consisting of single family residences and a mix of lots at various levels of completion valued at \$1.1 million.

When foreclosure occurs, fair value, which is generally based on appraised values, may result in partial charge-off of loan upon taking property, and so long as property is retained, reductions in appraised values will result in valuation adjustment taken as non-interest expense. In addition, if the decline in value is believed to be permanent and not just driven by market conditions, a direct write-down to the OREO balance may be taken. We generally pursue sales of OREO when conditions warrant, but we may choose to hold certain properties for a longer term, which can result in additional exposure related to the appraised values during that holding period. During the year ended December 31, 2009, we recorded \$7.8 million in valuation expense. Of the \$7.8 million, \$6.6 million related to increases to the valuation allowance, and \$1.2 million related to direct write-downs.

**Summary of Loan Loss Experience**

The provision for loan losses is a charge to earnings to maintain the reserve for loan losses at a level consistent with management's assessment of the collectability of the loan portfolio in light of current economic conditions and market trends. We recorded a provision of \$43.5 million for the year ended December 31, 2009, \$26.8 million for the year ended December 31, 2008, and \$14.0 million for the year ended December 31, 2007. The amount of reserves and provision required to support the reserve have increased over the last two years as a result of credit deterioration in our loan portfolio driven by negative changes in national and regional economic conditions and the impact on those conditions on the financial condition of borrowers and the values of assets, including real estate assets, pledged as collateral.

The reserve for loan losses is comprised of specific reserves for impaired loans and an estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We regularly evaluate our reserve for loan losses to maintain an adequate level to absorb estimated loan losses inherent in the loan portfolio. Factors contributing to the determination of reserves include the credit worthiness of the borrower, changes in the value of pledged collateral, and general economic conditions. All loan commitments rated substandard or worse and greater than \$500,000 are specifically reviewed for impairment. For loans deemed to be impaired, a specific allocation is

assigned based on the losses expected to be realized from those loans. For purposes of determining the general reserve, the portfolio is segregated by product types to recognize differing risk profiles among categories, and then further segregated by credit grades. Credit grades are assigned to all loans. Each credit grade is assigned a risk factor, or reserve allocation percentage. These risk factors are multiplied by the outstanding principal balance and risk-weighted by product type to calculate the required reserve. A similar process is employed to calculate a reserve assigned to off-balance sheet commitments, specifically unfunded loan commitments and letters of credit. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management's judgment, should be charged off.



**Table of Contents**

The reserve allocation percentages assigned to each credit grade have been developed based primarily on an analysis of our historical loss rates. The allocations are adjusted for certain qualitative factors for such things as general economic conditions, changes in credit policies and lending standards. Changes in the trend and severity of problem loans can cause the estimation of losses to differ from past experience. In addition, the reserve considers the results of reviews performed by independent third party reviewers as reflected in their confirmations of assigned credit grades within the portfolio. The portion of the allowance that is not derived by the allowance allocation percentages compensates for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. We evaluate many factors and conditions in determining the unallocated portion of the allowance, including the economic and business conditions affecting key lending areas, credit quality trends and general growth in the portfolio. The allowance is considered adequate and appropriate, given management's assessment of potential losses within the portfolio as of the evaluation date, the significant growth in the loan and lease portfolio, current economic conditions in the Company's market areas and other factors.

The methodology used in the periodic review of reserve adequacy, which is performed at least quarterly, is designed to be dynamic and responsive to changes in portfolio credit quality and anticipated future credit losses. The changes are reflected in the general reserve and in specific reserves as the collectability of larger classified loans is evaluated with new information. As our portfolio has matured, historical loss ratios have been closely monitored, and our reserve adequacy relies primarily on our loss history. Currently, the review of reserve adequacy is performed by executive management and presented to our board of directors for their review, consideration and ratification on a quarterly basis.

The reserve for credit losses, which includes a liability for losses on unfunded commitments, totaled \$70.9 million at December 31, 2009, \$46.8 million at December 31, 2008 and \$32.8 million at December 31, 2007. The total reserve percentage increased to 1.59% at year-end 2009 from 1.16% and 0.95% of loans held for investment at December 31, 2008 and 2007, respectively. The total reserve percentage has increased over the past two years as a result of the effects of national and regional economic conditions on borrowers and values of assets pledged as collateral. These changes in economic conditions have resulted in increases in loans with weakened credit quality and nonperforming loans. The overall reserve for loan losses continues to be driven by the loan loss reserve methodology as described above. At December 31, 2009, we believe the reserve is sufficient to cover all expected losses in the portfolio and has been derived from consistent application of the methodology described above. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, our estimate of expected losses in the portfolio could also change, which would affect the level of future provisions for loan losses.

**Table of Contents**

The table below presents a summary of our loan loss experience for the past five years (in thousands except percentage and multiple data):

	<b>Year Ended December 31</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Reserve for loan losses:</b>					
Beginning balance	\$ 45,365	\$ 31,686	\$ 20,063	\$ 18,897	\$ 18,698
Loans charged-off:					
Commercial	4,000	7,395	2,528	2,525	410
Real estate Construction	6,508	1,866	313		
Real estate Term	4,696	4,168			28
Consumer	502	193	48	3	93
Equipment leases	4,022	12	81	76	66
Total	19,728	13,634	2,970	2,604	597
Recoveries:					
Commercial	124	759	642	462	569
Real estate Construction	13				
Real estate Term	53	47			
Consumer	28	13	15	1	2
Equipment leases	54	79	131	247	225
Total	272	898	788	710	796
Net charge-offs (recoveries)	19,456	12,736	2,182	1,894	(199)
Provision for loan losses	42,022	26,415	13,805	3,060	
Ending balance	\$ 67,931	\$ 45,365	\$ 31,686	\$ 20,063	\$ 18,897
<b>Reserve for off-balance sheet credit losses:</b>					
Beginning balance	\$ 1,470	\$ 1,135	\$ 940	\$	\$
Provision for off-balance sheet credit losses	1,478	335	195	940	
Ending balance	\$ 2,948	\$ 1,470	\$ 1,135	\$ 940	\$
<b>Total provision for credit losses</b>	<b>\$ 43,500</b>	<b>\$ 26,750</b>	<b>\$ 14,000</b>	<b>\$ 4,000</b>	<b>\$</b>
Reserve for loan losses to loans held for investment(2)	1.52%	1.16%	.95%	.77%	.91%
Net charge-offs (recoveries) to average loans(2)	.46%	.35%	.07%	.08%	(.01)%
Total provision for credit losses to average loans(2)	1.04%	.73%	.46%	.17%	.00%
Recoveries to gross charge-offs	1.38%	6.59%	26.53%	27.27%	133.33%
Reserve for loan losses as a multiple of net charge-offs	3.5x	3.6x	14.5x	10.6x	N/M
	.24%	.10%	.09%	.08%	

Reserve for off-balance sheet credit losses to off-balance sheet credit commitments					
Combined reserves for credit losses to loans held for investment(2)	1.59%	1.16%	.95%	.77%	.91%
Non-performing assets:(4)					
Non-accrual(1)	\$ 95,625	\$ 47,499	\$ 21,385	\$ 9,088	\$ 5,657
OREO(5)	27,264	25,904	2,671	882	158
Total	\$ 122,889	\$ 73,403	\$ 24,056	\$ 9,970	\$ 5,815
Loans past due (90 days) and still accruing(3)	\$ 6,081	\$ 4,115	\$ 4,147	\$ 2,142	\$ 2,795
Reserve for loan losses to non-performing loans	.7x	1.0x	1.5x	2.2x	3.3x

**Table of Contents**

- (1) The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. If these loans had been current throughout their terms, interest and fees on loans would have increased by approximately \$3.6 million, \$2.9 million and \$1.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.
- (2) Excludes loans held for sale.
- (3) At December 31, 2009, 2008 and 2007, loans past due 90 days and still accruing includes premium finance loans of \$2.4 million, \$2.1 million and \$1.8 million, respectively. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.
- (4) At December 31, 2009, 2008 and 2007, non-performing assets include \$2.6 million, \$4.4 million and \$4.1 million, respectively, of mortgage warehouse loans which were transferred to the loans held for investment portfolio at lower of cost or market during the past eighteen months, and some were subsequently moved to OREO.
- (5) At December 31, 2009, OREO balance is net of \$6.6 million valuation allowance.

**Loan Loss Reserve Allocation**

in thousands, except (percentage data)	2009		2008		December 31 2007		2006		2005	
	Reserve	% of Loans	Reserve	% of Loans	Reserve	% of Loans	Reserve	% of Loans	Reserve	% of Loans
Loan category:										
Commercial	\$ 33,269	47%	\$ 23,348	50%	\$ 16,466	55%	\$ 8,992	54%	\$ 9,996	53%
Construction	10,974	13	7,563	15	5,032	16	4,081	18	2,346	18
Real estate(1)	14,874	37	10,518	32	4,736	26	2,910	25	3,095	27
Consumer	1,258	1	1,095	1	1,989	1	589	1	115	1
Equipment leases	2,960	2	1,790	2	723	2	482	2	395	1
Unallocated	4,596		1,051		2,740		3,009		2,950	
Total	\$ 67,931	100%	\$ 45,365	100%	\$ 31,686	100%	\$ 20,063	100%	\$ 18,897	100%

- (1) Includes loans held for sale.

During 2009, the reserve allocated to all categories of loans increased compared to 2008 primarily due to increases in the level of allocations required by our loan loss reserve methodology. Generally, loan loss reserve allocations between categories are consistent with prior year. The percentage of the reserve allocated to construction is a slightly

higher percentage in the current year even though the percentage of our loans in that category has decreased from prior year. This increase in construction reserve allocation is related to the overall economic downturn and decreased values that have been experienced with construction projects, most especially lot development projects. This is also consistent with the increase in nonperforming loans in this category we ve experienced in 2009.

### **Securities Portfolio**

Securities are identified as either held-to-maturity or available-for-sale based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. Held-to-maturity securities are carried at cost, adjusted for amortization of premiums or accretion of discounts. Available-for-sale securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income (loss) in stockholders equity, net of taxes. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments.

**Table of Contents**

During the year ended December 31, 2009, we maintained an average securities portfolio of \$314.8 million compared to an average portfolio of \$391.3 million for the same period in 2008. The December 31, 2009 portfolio is primarily comprised of mortgage-backed securities. Of the mortgage-backed securities in our portfolio at December 31, 2009 substantially all are guaranteed by U.S. government agencies. Our portfolio included no impaired securities.

Our net unrealized gain on the securities portfolio value increased from a net gain of \$2.9 million, which represented 0.77% of the amortized cost, at December 31, 2008, to a net gain of \$9.5 million, which represented 3.70% of the amortized cost, at December 31, 2009. Changes in value reflect changes in market interest rates and the total balance of securities.

During the year ended December 31, 2008, we maintained an average securities portfolio of \$391.3 million compared to an average portfolio of \$475.8 million for the same period in 2007. The December 31, 2008 portfolio is primarily comprised of mortgage-backed securities. The mortgage-backed securities in our portfolio at December 31, 2008 primarily consisted almost entirely of government agency mortgage-backed securities.

Our net unrealized loss on the securities portfolio value decreased from a net loss of \$1.4 million, which represented 0.29% of the amortized cost, at December 31, 2007, to a net gain of \$2.9 million, which represented 0.77% of the amortized cost, at December 31, 2008. Changes in value reflect changes in market interest rates and the total balance of securities.

The average expected life of the mortgage-backed securities was 2.1 years at December 31, 2009 and 2.7 years at December 31, 2008. The effect of possible changes in interest rates on our earnings and equity is discussed under Interest Rate Risk Management.

The following presents the amortized cost and fair values of the securities portfolio at December 31, 2009, 2008 and 2007:

<i>(in thousands)</i>	2009		At December 31 2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:						
U.S. Treasuries	\$	\$	\$ 28,299	\$ 28,296	\$ 2,595	\$ 2,595
Mortgage-backed securities	201,824	209,987	288,701	291,716	358,164	356,412
Corporate securities	5,000	4,683	5,000	4,810	25,055	25,077
Municipals	42,314	43,826	46,370	46,531	48,149	48,498
Equity securities(1)	7,506	7,632	7,506	7,399	7,507	7,537
Total available-for-sale securities	\$ 256,644	\$ 266,128	\$ 375,876	\$ 378,752	\$ 441,470	\$ 440,119

(1) Equity securities consist of Community Reinvestment Act funds.

**Table of Contents**

The amortized cost and estimated fair value of securities are presented below by contractual maturity:

	At December 31, 2009				Total
	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	
<i>(in thousands except percentage data)</i>					
Available-for-sale:					
Mortgage-backed securities (1):					
Amortized cost	\$ 23,359	\$ 34,200	\$ 68,930	\$ 75,335	\$ 201,824
Estimated fair value	23,719	35,143	72,477	78,648	209,987
Weighted average yield(3)	4.242%	4.386%	4.815%	4.414%	4.527%
Corporate securities :					
Amortized cost		5,000			5,000
Estimated fair value		4,683			4,683
Weighted average yield(3)		7.375%			7.375%
Municipals :(2)					
Amortized cost	1,985	19,571	20,758		42,314
Estimated fair value	2,000	20,317	21,509		43,826
Weighted average yield(3)	7.391%	8.166%	8.723%		8.403%
Equity securities :					
Amortized cost					7,506
Estimated fair value					7,632
Total available-for-sale securities :					
Amortized cost					\$ 256,644
Estimated fair value					\$ 266,128

(1) Actual maturities may differ significantly from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The average expected life of the mortgage-backed securities was 2.1 years at December 31, 2009.

(2) Yields have been adjusted to a tax equivalent basis assuming a 35% federal tax rate.

(3) Yields are calculated based on amortized cost.

**Table of Contents**

The following table discloses, as of December 31, 2009 and 2008, our investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months (in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2009						
Mortgage-backed securities	\$ 452	\$ (1)	\$ 2,553	\$ (28)	\$ 3,005	\$ (29)
Corporate securities			4,683	(317)	4,683	(317)
Municipals	1,018	(2)			1,018	(2)
	\$ 1,470	\$ (3)	\$ 7,236	\$ (345)	\$ 8,706	\$ (348)
December 31, 2008						
U.S. Treasuries	\$ 24,996	\$ (4)	\$	\$	\$ 24,996	\$ (4)
Mortgage-backed securities	106,167	(1,121)	2,977	(9)	109,144	(1,130)
Corporate securities	4,810	(190)			4,810	(190)
Municipals	10,817	(209)			10,817	(209)
Equity securities	7,399	(107)			7,399	(107)
	\$ 154,189	\$ (1,631)	\$ 2,977	\$ (9)	\$ 157,166	\$ (1,640)

We believe the investment securities in the table above are within ranges customary for the banking industry. At December 31, 2009, the number of investment positions in this unrealized loss position totals 5. We do not believe these unrealized losses are other than temporary as (1) we do not have the intent to sell any of the securities in the table above; and (2) it is not probable that we will be unable to collect the amounts contractually due. The unrealized losses noted are interest rate related, and losses have decreased as rates have decreased in 2008 and 2009. We have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

**Deposits**

We compete for deposits by offering a broad range of products and services to our customers. While this includes offering competitive interest rates and fees, the primary means of competing for deposits is convenience and service to our customers. However, our strategy to provide service and convenience to customers does not include a large branch network. Our bank offers nine banking centers, courier services and online banking. BankDirect, the Internet division of our bank, serves its customers on a 24 hours-a-day/7 days-a-week basis solely through Internet banking.

Average deposits for the year ended December 31, 2009 increased \$437.7 million compared to the same period of 2008. Average demand deposits, interest bearing transaction and savings increased by \$231.3 million, \$41.2 million and \$397.8 million, respectively, while time deposits (including deposits in foreign branches) decreased \$232.6 million during the year ended December 31, 2009 as compared to the same period of 2008. The average cost of deposits decreased in 2009 mainly due to decreasing market interest rates during 2009.



Average deposits for the year ended December 31, 2008 increased \$165.8 million compared to the same period of 2007. Average demand deposits, interest bearing transaction and time deposits (including deposits in foreign branches) increased by \$66.3 million, \$8.6 million and \$137.6 million, respectively, while savings deposits decreased \$46.7 million during the year ended December 31, 2008 as compared to the same period of 2007. The average cost of deposits decreased in 2008 mainly due to decreasing market interest rates during 2008.

**Table of Contents****Deposit Analysis**

<i>(in thousands)</i>	<b>Average Balances</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Non-interest bearing	\$ 760,776	\$ 529,471	\$ 463,142
Interest bearing transaction	147,961	106,720	98,159
Savings	1,182,441	784,685	831,370
Time deposits	1,188,964	1,086,252	702,248
Deposits in foreign branches	411,116	746,399	992,837
Total average deposits	\$ 3,691,258	\$ 3,253,527	\$ 3,087,756

As with our loan portfolio, most of our deposits are from businesses and individuals in Texas, particularly the Dallas metropolitan area. As of December 31, 2009, approximately 75% of our deposits originated out of our Dallas metropolitan banking centers. Uninsured deposits at December 31, 2009 were 55% of total deposits, compared to 40% of total deposits at December 31, 2008 and 50% of total deposits at December 31, 2007. The presentation for 2009, 2008 and 2007 does reflect combined ownership, but does not reflect all of the account styling that would determine insurance based on FDIC regulations.

At December 31, 2009, we had \$381.1 million in interest bearing time deposits of \$100,000 or more in foreign branches related to our Cayman Islands branch.

**Maturity of Domestic CDs and Other Time Deposits in Amounts of \$100,000 or More**

<i>(in thousands)</i>	<b>December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Months to maturity:			
3 or less	\$ 632,796	\$ 1,000,893	\$ 223,386
Over 3 through 6	132,865	204,982	70,111
Over 6 through 12	120,561	80,161	159,139
Over 12	26,541	32,066	72,138
Total	\$ 912,763	\$ 1,318,102	\$ 524,774

**Liquidity and Capital Resources**

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, purchase securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies, which are formulated and monitored by our senior management and our Balance Sheet Management Committee ( BSMC ), and which take into account the marketability of assets, the sources and stability of

funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2009 and 2008, our principal source of funding has been our customer deposits, supplemented by short-term borrowings primarily from federal funds purchased and Federal Home Loan Bank ( FHLB ) borrowings.

Since early 2001, our liquidity needs have primarily been fulfilled through growth in our core customer deposits and supplemented with brokered deposits and borrowings as needed. Our goal is to obtain as much of our funding as possible from deposits of these core customers, which as of December 31, 2009, comprised \$3,902.4 million, or 94.7%, of total deposits, compared to \$2,507.0 million, or 75.2%, of total deposits, at December 31, 2008. On an average basis, for the year ended December 31, 2009, deposits from core customers comprised \$3,163.8 million, or 85.7%, of total annual average deposits. These deposits are generated

**Table of Contents**

principally through development of long-term relationships with customers and stockholders and our retail network which is mainly through BankDirect.

In addition to deposits from our core customers, we also have access to incremental deposits through brokered retail certificates of deposit, or CDs. These CDs are generally of short maturities, 30 to 90 days, and are used to supplement temporary differences in the growth in loans, including growth in specific categories of loans, compared to customer deposits. As of December 31, 2009, brokered retail CDs comprised \$218.3 million, or 5.3%, of total deposits. On an average basis, for the year ended December 31, 2009, brokered retail CDs comprised \$527.5 million, or 14.3%, of total annual deposits. We believe the Company has access to sources of brokered deposits of not less than \$3.0 billion.

Additionally, we have borrowing sources available to supplement deposits and meet our funding needs. Such borrowings are generally used to fund our loans held for sale, due to their liquidity, short duration and interest spreads available. These borrowing sources include federal funds purchased from our downstream correspondent bank relationships (which consist of banks that are smaller than our bank) and from our upstream correspondent bank relationships (which consist of banks that are larger than our bank), customer repurchase agreements, treasury, tax and loan notes, and advances from the FHLB and the Federal Reserve. The following table summarizes our borrowings:

	2009			2008			2007		Maximum Outstanding at any Month End
	Balance	Rate(1)	Maximum Outstanding at any Month End	Balance	Rate(1)	Maximum Outstanding at any Month End	Balance	Rate(1)	
Federal funds purchased	\$ 580,519	.33%		\$ 350,155	.47%		\$ 344,813	4.29%	
Customer repurchase agreements	25,070	.10%		77,732	.05%		7,148	3.30%	
Treasury, tax and loan notes	5,940	.00%		2,720	.00%		6,890	4.00%	
Other borrowings	325,000	.11%		800,000	.71%		400,000	4.18%	
Short-term borrowings				10,000	1.19%		25,000	5.82%	
Term borrowings	20,500	.84%		40,000	1.19%				
Preferred terminated securities	113,406	3.19%		113,406	4.40%		113,406	6.77%	
<b>Total borrowings</b>	<b>\$ 1,070,435</b>		<b>\$ 1,753,181</b>	<b>\$ 1,394,013</b>		<b>\$ 1,280,606</b>	<b>\$ 897,257</b>		<b>\$ 780,000</b>

(1) Interest rate as of period end.

The following table summarizes our other borrowing capacities in excess of balances outstanding at December 31, 2009, 2008 and 2007:

<i>(in thousands)</i>	<b>2009</b>	<b>2008</b>	<b>2007</b>
FHLB borrowing capacity relating to loans	\$ 738,682	\$ 139,000	\$ 205,900
FHLB borrowing capacity relating to securities	57,101	62,420	231,000
Total FHLB borrowing capacity	\$ 795,783	\$ 201,420	\$ 436,900
Unused federal funds lines available from commercial banks	\$ 736,560	\$ 573,500	\$ 458,000

In connection with the FDIC's Temporary Liability Guarantee Program ( TLGP ), we had the capacity to issue up to \$1.1 billion in indebtedness which will be guaranteed by the FDIC for a limited period of time to newly issued senior unsecured debt and non-interest bearing deposits. The notes were issued prior to October 31, 2009 and have maturities no later than December 31, 2012. As of December 31, 2009, \$20.5 million of these notes were outstanding.

On September 27, 2007, we entered into a Credit Agreement with KeyBank National Association. This Credit Agreement permitted borrowings of up to \$50 million until September 24, 2008. At our option, the \$50 million balance was converted into a two-year term loan, which accrued interest at a rate(s) of LIBOR plus 1%. The

**Table of Contents**

Credit Agreement was unsecured and proceeds were used for general corporate purposes. At December 31, 2008, we had drawn \$50.0 million, \$10.0 million of which was scheduled to mature in 2009 and was included in other short-term borrowings at December 31, 2008. The remaining \$40.0 million was scheduled to mature in September of 2010 and was, therefore, included in long-term borrowings. The entire balance of the note was paid in full in March of 2009.

From November 2002 to September 2006 various Texas Capital Statutory Trusts were created and subsequently issued fixed and/or floating rate Capital Securities in various private offerings totaling \$113.4 million. As of December 31, 2009, the details of the trust preferred subordinated debentures are summarized below:

<i>(in thousands)</i>	<b>Texas Capital Bancshares Statutory Trust I</b>	<b>Texas Capital Bancshares Statutory Trust II</b>	<b>Texas Capital Bancshares Statutory Trust III</b>	<b>Texas Capital Bancshares Statutory Trust IV</b>	<b>Texas Capital Bancshares Statutory Trust V</b>
Date issued	November 19, 2002	April 10, 2003	October 6, 2005	April 28, 2006	September 29, 2006
Capital securities issued	\$10,310	\$10,310	\$25,774	\$25,774	\$41,238
Floating or fixed rate securities	Floating	Floating	Fixed/Floating(1)	Floating	Floating
Interest rate on subordinated debentures	3 month LIBOR + 3.35%	3 month LIBOR + 3.25%	3 month LIBOR + 1.51%	3 month LIBOR + 1.60%	3 month LIBOR + 1.71%
Maturity date	November 2032	April 2033	December 2035	June 2036	September 2036

(1) Interest rate is a fixed rate of 6.19% for five years through December 15, 2010, and a floating rate of interest for the remaining 25 years that resets quarterly to 1.51% above the three-month LIBOR.

After deducting underwriter's compensation and other expenses of each offering, the net proceeds were available to the Company to increase capital and for general corporate purposes, including use in investment and lending activities. Interest payments on all subordinated debentures are deductible for federal income tax purposes. As of December 31, 2009, the weighted average quarterly rate on the subordinated debentures was 3.23%, compared to 3.73% average for all of 2009, and 5.68% for all of 2008.

Our equity capital averaged \$473.8 million for the year ended December 31, 2009 as compared to \$333.5 million in 2008 and \$272.3 million in 2007. We have not paid any cash dividends on our common stock since we commenced operations and have no plans to do so in the foreseeable future.

On September 10, 2008, we completed a sale of 4 million shares of our common stock in a private placement to a number of institutional investors. The purchase price was \$14.50 per share, and net proceeds from the sale totaled \$55 million. The new capital is being used for general corporate purposes, including capital for support of anticipated growth of our bank.

On January 16, 2009, we completed the issuance of \$75 million of perpetual preferred stock and related warrants under the U.S. Department of Treasury's voluntary Capital Purchase Program ( CPP or the Program ). The preferred stock was repurchased in May 2009. In connection with the repurchase, we recorded a \$3.9 million accelerated deemed dividend in the second quarter of 2009 representing the unamortized difference between the book value and the carrying value of the preferred stock repurchased from the Treasury. The \$3.9 million accelerated deemed dividend, combined with the previously scheduled preferred dividend of \$523,000 for the second quarter of 2009 and the preferred dividend of \$930,000 paid in the first quarter of 2009, resulted in a total dividend and reduction of earnings available to common stockholders of \$5.4 million for the year ended December 31, 2009. As of December 31, 2009, the Treasury still has warrants to purchase 758,086 shares at \$14.84 per share. We have been notified by the Treasury that they plan to sell our warrants at auction sometime in March 2010.

On May 8, 2009, we completed a sale of 4.6 million shares of our common stock in a public offering. The purchase price was \$13.75 per share, and net proceeds from the sale totaled \$59.4 million. The new capital is being used for general corporate purposes, including capital for support of anticipated growth of our bank.

On January 27, 2010, we announced that we have entered into an Equity Distribution Agreement with Morgan Stanley & Co. Incorporated, pursuant to which we may, from time to time, offer and sell shares of our common stock, having aggregate gross sales proceeds of up to \$40,000,000. Sales of the shares are being made by means of brokers transactions on or through the NASDAQ Global Select Market at market prices prevailing at the time of the sale or as otherwise agreed to by the Company and Morgan Stanley. As of

**Table of Contents**

February 17, 2010 we have sold 271,973 shares at an average price of \$16.88. Net proceeds on the sales are approximately \$4.5 million, after payment of a 1% sales commission paid to Morgan Stanley, and are being used for general corporate purposes. In addition to the 1% sales commission, we paid Morgan Stanley a \$400,000 program fee.

Our actual and minimum required capital amounts and actual ratios are as follows:

	<b>Regulatory Capital Adequacy</b>			
	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
<i>(in thousands, except percentage data)</i>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
Total capital (to risk-weighted assets):				
<b>Company</b>				
Actual	\$ 642,371	11.98%	\$ 533,781	10.92%
Minimum required	429,102	8.00%	390,891	8.00%
Excess above minimum	213,269	3.98%	142,890	2.92%
<b>Bank</b>				
Actual	\$ 555,635	10.36%	\$ 502,693	10.29%
To be well-capitalized	536,265	10.00%	488,498	10.00%
Minimum required	429,012	8.00%	390,799	8.00%
Excess above well-capitalized	19,370	.36%	14,195	0.29%
Excess above minimum	126,623	2.36%	111,894	2.29%
Tier 1 capital (to risk-weighted assets):				
<b>Company</b>				
Actual	\$ 575,338	10.73%	\$ 486,946	9.97%
Minimum required	214,551	4.00%	195,445	4.00%
Excess above minimum	360,787	6.73%	291,502	5.97%
<b>Bank</b>				
Actual	\$ 488,602	9.11%	\$ 455,858	9.33%
To be well-capitalized	321,759	6.00%	293,099	6.00%
Minimum required	214,506	4.00%	195,399	4.00%
Excess above well-capitalized	166,843	3.11%	162,759	3.33%
Excess above minimum	274,096	5.11%	260,459	5.33%
Tier 1 capital (to average assets):				
<b>Company</b>				
Actual	\$ 575,338	10.54%	\$ 486,946	10.21%
Minimum required	218,381	4.00%	190,782	4.00%
Excess above minimum	356,957	6.54%	296,164	6.21%
<b>Bank</b>				
Actual	\$ 488,602	8.95%	\$ 455,858	9.56%
To be well-capitalized	272,920	5.00%	238,420	5.00%
Minimum required	218,336	4.00%	190,736	4.00%
Excess above well-capitalized	215,682	3.95%	217,438	4.56%
Excess above minimum	270,266	4.95%	265,122	5.56%



**Table of Contents****Commitments and Contractual Obligations**

The following table presents, as of December 31, 2009, significant fixed and determinable contractual obligations to third parties by payment date. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

<i>(in thousands)</i>	<b>Note Reference</b>	<b>Within One Year</b>	<b>After One But Within Three Years</b>	<b>After Three But Within Five Years</b>	<b>After Five Years</b>	<b>Total</b>
Deposits without a stated maturity(1)	6	\$ 2,764,422	\$	\$	\$	\$ 2,764,422
Time deposits(1)	6	1,321,739	24,615	9,850	100	1,356,304
Federal funds purchased(1)	7	580,519				580,519
Customer repurchase agreements(1)	7	25,070				25,070
Treasury, tax and loan notes(1)	7	5,940				5,940
FHLB borrowings(1)	7	325,000				325,000
TLGP borrowings(1)	7	20,500				20,500
Operating lease obligations(1)	15	7,605	15,123	20,933	39,330	82,991
Trust preferred subordinated debentures(1)	7, 8				113,406	113,406
Total contractual obligations(1)		\$ 5,050,795	\$ 39,738	\$ 30,783	\$ 152,836	\$ 5,274,152

(1) Excludes interest.

**Off-Balance Sheet Arrangements**

The contractual amount of our financial instruments with off-balance sheet risk expiring by period at December 31, 2009 is presented below:

<i>(in thousands)</i>	<b>Within One Year</b>	<b>After One But Within Three Years</b>	<b>After Three But Within Five Years</b>	<b>After Five Years</b>	<b>Total</b>

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Commitments to extend credit	\$ 632,341	\$ 471,393	\$ 36,442	\$ 3,251	\$ 1,143,427
Standby and commercial letters of credit	56,702	9,615	68		66,385
Total financial instruments with off-balance sheet risk	\$ 689,043	\$ 481,008	\$ 36,510	\$ 3,251	\$ 1,209,812

Due to the nature of our unfunded loan commitments, including unfunded lines of credit, the amounts presented in the table above do not necessarily represent amounts that we anticipate funding in the periods presented above.

**Critical Accounting Policies**

SEC guidance requires disclosure of critical accounting policies. The SEC defines critical accounting policies as those that are most important to the presentation of a company's financial condition and results, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

## **Table of Contents**

We follow financial accounting and reporting policies that are in accordance with accounting principles generally accepted in the United States. The more significant of these policies are summarized in Note 1 to the consolidated financial statements. Not all these significant accounting policies require management to make difficult, subjective or complex judgments. However, the policy noted below could be deemed to meet the SEC's definition of critical accounting policies.

Management considers the policies related to the allowance for loan losses as the most critical to the financial statement presentation. The total allowance for loan losses includes activity related to allowances calculated in accordance with Accounting Standards Codification (ASC) 310, *Receivables*, and ASC 450, *Contingencies*. The allowance for loan losses is established through a provision for loan losses charged to current earnings. The amount maintained in the allowance reflects management's continuing evaluation of the loan losses inherent in the loan portfolio. The allowance for loan losses is comprised of specific reserves assigned to certain classified loans and general reserves. Factors contributing to the determination of specific reserves include the credit-worthiness of the borrower, and more specifically, changes in the expected future receipt of principal and interest payments and/or in the value of pledged collateral. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For purposes of determining the general reserve, the portfolio is segregated by product types in order to recognize differing risk profiles among categories, and then further segregated by credit grades. See Summary of Loan Loss Experience for further discussion of the risk factors considered by management in establishing the allowance for loan losses.

## **New Accounting Standards**

See Note 22 New Accounting Standards in the accompanying notes to consolidated financial statements included elsewhere in this report for details of recently issued accounting pronouncements and their expected impact on our financial statements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices, or equity prices. Additionally, the financial instruments subject to market risk can be classified either as held for trading purposes or held for other than trading.

We are subject to market risk primarily through the effect of changes in interest rates on our portfolio of assets held for purposes other than trading. The effect of other changes, such as foreign exchange rates, commodity prices, and/or equity prices do not pose significant market risk to us.

The responsibility for managing market risk rests with the BSMC, which operates under policy guidelines established by our board of directors. The negative acceptable variation in net interest revenue due to a 200 basis point increase or decrease in interest rates is generally limited by these guidelines to +/- 5%. These guidelines also establish maximum levels for short-term borrowings, short-term assets and public and brokered deposits. They also establish minimum levels for unpledged assets, among other things. Compliance with these guidelines is the ongoing responsibility of the BSMC, with exceptions reported to our board of directors on a quarterly basis.

## **Interest Rate Risk Management**

Our interest rate sensitivity is illustrated in the following table. The table reflects rate-sensitive positions as of December 31, 2009, and is not necessarily indicative of positions on other dates. The balances of interest rate sensitive

assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are aggregated to show the interest rate sensitivity gap. The mismatch between repricings or maturities within a time period is commonly referred to as the gap for that period. A positive gap (asset sensitive), where interest rate sensitive assets exceed interest rate sensitive liabilities, generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative

**Table of Contents**

gap (liability sensitive) will generally have the opposite results on the net interest margin. To reflect anticipated prepayments, certain asset and liability categories are shown in the table using estimated cash flows rather than contractual cash flows.

**Interest Rate Sensitivity Gap Analysis  
December 31, 2009**

<i>(in thousands)</i>	<b>0-3 mo Balance</b>	<b>4-12 mo Balance</b>	<b>1-3 yr Balance</b>	<b>3+ yr Balance</b>	<b>Total Balance</b>
Securities(1)	\$ 41,587	\$ 71,268	\$ 61,537	\$ 91,736	\$ 266,128
Total variable loans	4,338,381	38,195	14,258	2,087	4,392,921
Total fixed loans	286,754	214,440	194,466	90,363	786,023
Total loans(2)	4,625,135	252,635	208,724	92,450	5,178,944
Total interest sensitive assets	\$ 4,666,722	\$ 323,903	\$ 270,261	\$ 184,186	\$ 5,445,072
Liabilities:					
Interest bearing customer deposits	\$ 2,249,000	\$	\$	\$	\$ 2,249,000
CDs & IRAs	438,925	280,459	24,965	9,600	753,949
Wholesale deposits	217,640	644			218,284
Total interest-bearing deposits	2,905,565	281,103	24,965	9,600	3,221,233
Repo, FF, FHLB borrowings	936,529	20,500			957,029
Trust preferred subordinated debentures				113,406	113,406
Total borrowing	936,529	20,500		113,406	1,070,435
Total interest sensitive liabilities	\$ 3,842,094	\$ 301,603	\$ 24,965	\$ 123,006	\$ 4,291,668
GAP	\$ 824,629	\$ 22,300	\$ 245,296	\$ 61,180	\$
Cumulative GAP	824,628	846,928	1,092,224	1,153,404	1,153,404
Demand deposits					\$ 899,492
Stockholders equity					481,360
Total					\$ 1,380,852

(1) Securities based on fair market value.

(2) Loans include loans held for sale and are stated at gross.

The table above sets forth the balances as of December 31, 2009 for interest bearing assets, interest bearing liabilities, and the total of non-interest bearing deposits and stockholders equity. While a gap interest table is useful in analyzing interest rate sensitivity, an interest rate sensitivity simulation provides a better illustration of the sensitivity of earnings to changes in interest rates. Earnings are also affected by the effects of changing interest rates on the value of funding derived from demand deposits and stockholders equity. We perform a sensitivity analysis to identify interest rate risk exposure on net interest income. We quantify and measure interest rate risk exposure using a model to dynamically simulate the effect of changes in net interest income relative to changes in interest rates and account balances over the next twelve months based on three interest rate scenarios. These are a most likely rate scenario and two shock test scenarios.

The most likely rate scenario is based on the consensus forecast of future interest rates published by independent sources. These forecasts incorporate future spot rates and relevant spreads of instruments that

**Table of Contents**

are actively traded in the open market. The Federal Reserve's Federal Funds target affects short-term borrowing; the prime lending rate and the LIBOR are the basis for most of our variable-rate loan pricing. The 10-year mortgage rate is also monitored because of its effect on prepayment speeds for mortgage-backed securities. These are our primary interest rate exposures. We are currently not using derivatives to manage our interest rate exposure.

The two shock test scenarios assume a sustained parallel 200 basis point increase or decrease, respectively, in interest rates. As short-term rates continued to fall during 2008 and 2009, we could not assume interest rate changes of any amount as the results of the decreasing rates scenario would not be meaningful. We will continue to evaluate these scenarios as interest rates change, until short-term rates rise above 3.0%.

Our interest rate risk exposure model incorporates assumptions regarding the level of interest rate or balance changes on indeterminable maturity deposits (demand deposits, interest bearing transaction accounts and savings accounts) for a given level of market rate changes. These assumptions have been developed through a combination of historical analysis and future expected pricing behavior. Changes in prepayment behavior of mortgage-backed securities, residential and commercial mortgage loans in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. The impact of planned growth and new business activities is factored into the simulation model. This modeling indicated interest rate sensitivity as follows (in thousands):

**Anticipated Impact Over the Next Twelve  
Months as Compared to Most Likely Scenario**

<b>200 bp Increase December 31, 2009</b>	<b>200 bp Increase December 31, 2008</b>
--	--

Change in net interest income	\$	17,731	\$	17,255
-------------------------------	----	--------	----	--------

The simulations used to manage market risk are based on numerous assumptions regarding the effect of changes in interest rates on the timing and extent of repricing characteristics, future cash flows and customer behavior. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies, among other factors.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Index to Consolidated Financial Statements**

	<b>Page Reference</b>
<u>Report of Independent Registered Public Accounting Firm</u>	53
<u>Consolidated Balance Sheets December 31, 2009 and December 31, 2008</u>	54
<u>Consolidated Statements of Operations Years ended December 31, 2009, 2008 and 2007</u>	55
<u>Consolidated Statements of Stockholders Equity Years ended December 31, 2009, 2008 and 2007</u>	56
<u>Consolidated Statements of Cash Flows Years ended December 31, 2009, 2008 and 2007</u>	57
<u>Notes to Consolidated Financial Statements</u>	58



**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
Texas Capital Bancshares, Inc.

We have audited the accompanying consolidated balance sheets of Texas Capital Bancshares, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Capital Bancshares, Inc. at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Texas Capital Bancshares, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2010, expressed an unqualified opinion thereon.

Dallas, Texas  
February 18, 2010

**Table of Contents****Texas Capital Bancshares, Inc.****Consolidated Balance Sheets**

	<b>December 31</b>	
<i>(in thousands except share data)</i>	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 80,459	\$ 77,887
Federal funds sold	44,980	4,140
Securities, available-for-sale	266,128	378,752
Loans held for sale	693,504	496,351
Loans held for sale from discontinued operations	586	648
Loans held for investment (net of unearned income)	4,457,293	4,027,871
Less: Allowance for loan losses	67,931	45,365
Loans held for investment, net	4,389,362	3,982,506
Premises and equipment, net	11,189	9,467
Accrued interest receivable and other assets	202,890	184,242
Goodwill and other intangible assets, net	9,806	7,689
Total assets	\$ 5,698,904	\$ 5,141,682
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 899,492	\$ 587,161
Interest bearing	2,837,163	2,245,991
Interest bearing in foreign branches	384,070	500,035
	4,120,725	3,333,187
Accrued interest payable	2,468	6,421
Other liabilities	23,916	20,988
Federal funds purchased	580,519	350,155
Repurchase agreements	25,070	77,732
Other short-term borrowings	351,440	812,720
Long-term borrowings		40,000
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	5,217,544	4,754,609
Stockholders' equity:		
Preferred stock, \$.01 par value, \$1,000 liquidation value:		
Authorized shares 10,000,000		
Issued shares no shares issued at December 31, 2009 and 2008, respectively		
Common stock, \$.01 par value:		
Authorized shares 100,000,000		
Issued shares 35,919,941 and 30,971,189 at December 31, 2009 and 2008, respectively	359	310
Additional paid-in capital	326,224	255,051
Retained earnings	148,620	129,851
	(8)	(581)

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Treasury stock (shares at cost: 417 at December 31, 2009 and 84,691 at December 31, 2008)

Deferred compensation		573
Accumulated other comprehensive income, net of taxes	6,165	1,869
Total stockholders' equity	481,360	387,073
Total liabilities and stockholders' equity	\$ 5,698,904	\$ 5,141,682

See accompanying notes to consolidated financial statements

**Table of Contents****Texas Capital Bancshares, Inc.****Consolidated Statements of Operations**

<i>(in thousands except per share data)</i>	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Interest income:			
Interest and fees on loans	\$ 229,500	\$ 231,009	\$ 267,171
Securities	13,578	17,722	21,975
Federal funds sold	31	168	92
Deposits in other banks	44	31	54
Total interest income	243,153	248,930	289,292
Interest expense:			
Deposits	37,824	72,852	121,245
Federal funds purchased	2,404	8,232	13,054
Repurchase agreements	53	541	915
Other borrowings	1,949	9,123	6,069
Trust preferred subordinated debentures	4,232	6,445	8,257
Total interest expense	46,462	97,193	149,540
Net interest income	196,691	151,737	139,752
Provision for credit losses	43,500	26,750	14,000
Net interest income after provision for credit losses	153,191	124,987	125,752
Non-interest income:			
Service charges on deposit accounts	6,287	4,699	4,091
Trust fee income	3,815	4,692	4,691
Bank owned life insurance (BOLI) income	1,579	1,240	1,198
Brokered loan fees	9,043	3,242	1,870
Equipment rental income	5,557	5,995	6,138
Other	2,979	2,602	2,639
Total non-interest income	29,260	22,470	20,627
Non-interest expense :			
Salaries and employee benefits	73,419	61,438	56,608
Net occupancy expense	12,291	9,631	8,430
Leased equipment depreciation	4,319	4,667	4,958
Marketing	3,034	2,729	3,004
Legal and professional	11,846	9,622	7,245
Communications and data processing	3,743	3,314	3,357
FDIC insurance assessment	8,464	1,797	1,424
Allowance and other carrying costs for OREO	10,345	1,541	133
Other	18,081	14,912	13,447
Total non-interest expense	145,542	109,651	98,606
Income from continuing operations before income taxes	36,909	37,806	47,773
Income tax expense	12,522	12,924	16,420
Income from continuing operations	24,387	24,882	31,353
Loss from discontinued operations (after-tax)	(235)	(616)	(1,931)
Net income	24,152	24,266	29,422

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Preferred stock dividends	5,383			
Net income available to common shareholders	\$ 18,769	\$ 24,266	\$ 29,422	
Basic earnings per share:				
Income from continuing operations	\$ .56	\$ .89	\$ 1.20	
Net income	\$ .55	\$ .87	\$ 1.12	
Diluted earnings per share:				
Income from continuing operations	\$ .55	\$ .89	\$ 1.18	
Net income	\$ .55	\$ .87	\$ 1.10	

See accompanying notes to consolidated financial statements

**Table of Contents**

**Texas Capital Bancshares, Inc.**

**Consolidated Statements of Stockholders Equity**

	Preferred Stock		Common Stock		Additional	Retained	Treasury Stock		Deferre	Accum
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Compensation (lo	Other Compre Inc Inc (lo
December 31, 2006		\$	26,065,124	\$ 261	\$ 182,321	\$ 76,163	(84,274)	\$ (573)	\$ 573	\$ (5
Change:						29,422				
Gain (loss) on securities, net										4
Income tax expense										
Exercise of warrants					1,164					
Share repurchase							(417)	(8)		
Share-based compensation			324,424	3	1,929					
December 31, 2007			26,389,548	264	190,175	105,585	(84,691)	(581)	573	
Change:						24,266				
Gain (loss) on securities, net										2
Income tax expense										
Exercise of warrants					1,584					
Share repurchase										
Share-based compensation			581,641	6	3,663					
Share repurchase			4,000,000	40	54,953					
December 31, 2008			30,971,189	310	255,051	129,851	(84,691)	(581)	573	1
Change:						24,152				4



**Table of Contents****Texas Capital Bancshares, Inc.****Consolidated Statements of Cash Flows**

<i>(in thousands)</i>	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>			
Net income from continuing operations	\$ 24,387	\$ 24,882	\$ 31,353
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	43,500	26,750	14,000
Deferred tax benefit	(8,775)	(4,104)	(3,508)
Depreciation and amortization	7,819	7,666	7,271
Amortization and accretion on securities	228	280	320
Bank owned life insurance (BOLI) income	(1,579)	(1,240)	(1,198)
Stock-based compensation expense	5,959	4,676	4,761
Tax benefit from stock option exercises	75	1,584	1,164
Excess tax benefits from stock-based compensation arrangements	(213)	(4,527)	(3,325)
Originations of loans held for sale	(16,582,314)	(7,552,614)	(3,966,644)
Proceeds from sales of loans held for sale	16,399,677	7,230,429	3,991,492
Loss on sale of assets	1,273		
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	(28,894)	(44,724)	(24,898)
Accrued interest payable and other liabilities	(1,867)	(4,218)	(1,205)
Net cash provided by (used in) operating activities of continuing operations	(140,724)	(315,160)	49,583
Net cash provided by (used in) operating activities of discontinued operations	(186)	(529)	20,778
Net cash provided by (used in) operating activities	(140,910)	(315,689)	70,361
<b>Investing activities</b>			
Purchases of available-for-sale securities		(40,219)	(14,281)
Maturities and calls of available-for-sale securities	32,300	36,270	23,153
Principal payments received on available-for-sale securities	86,704	69,263	77,475
Net increase in loans held for investment	(466,304)	(577,999)	(733,751)
Purchase of premises and equipment, net	(4,550)	(5,817)	(1,798)
Sale of foreclosed assets	12,194		
Net cash used in investing activities of continuing operations	(339,656)	(518,502)	(649,202)
Net cash used in investing activities of discontinued operations			
Net cash used in investing activities	(339,656)	(518,502)	(649,202)
<b>Financing activities</b>			
Net increase (decrease) in deposits	787,538	266,810	(2,953)
Proceeds from issuance of stock related to stock-based awards	1,578	3,669	1,932
Proceeds from issuance of common stock	59,446	54,993	
Proceeds from issuance of preferred stock and related warrants	75,000		



Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Repurchase of preferred stock	(75,000)		
Dividends paid	(1,219)		
Net increase (decrease) in other borrowings	(553,942)	491,414	393,434
Excess tax benefits from stock-based compensation arrangements	213	4,527	3,325
Net federal funds purchased	230,364	5,342	178,858
Purchase of treasury stock			(8)
Net cash provided by financing activities of continuing operations	523,978	826,755	574,588
Net cash provided by financing activities of discontinued operations			
Net cash provided by financing activities	523,978	826,755	574,588
Net increase (decrease) in cash and cash equivalents	43,412	(7,436)	(4,253)
Cash and cash equivalents, beginning of year	82,027	89,463	93,716
Cash and cash equivalents, end of year	\$ 125,439	\$ 82,027	\$ 89,463
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	\$ 50,415	\$ 96,402	\$ 149,691
Cash paid during the year for income taxes	14,892	22,475	13,414
Non-cash transactions:			
Transfers from loans/leases to OREO and other repossessed assets	23,466	23,232	983
Transfers from loans/leases to other assets			10,549

See accompanying notes to consolidated financial statements

**Table of Contents**

**1. Operations and Summary of Significant Accounting Policies**

**Organization and Nature of Business**

Texas Capital Bancshares, Inc. ( Texas Capital Bancshares or the Company ), a Delaware financial 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.

We have evaluated subsequent events for potential recognition and/or disclosure through February 18, 2010, the date the consolidated financial statements were issued. See further discussion of subsequent events in Note 21 Subsequent Events.

**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 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.

**Cash and Cash Equivalents**

Cash equivalents include amounts due from banks and federal funds sold.

**Securities**

Securities are classified as trading, available-for-sale or held-to-maturity. Management classifies securities at the time of purchase and re-assesses such designation at each balance sheet date; however, transfers between categories from this re-assessment are rare.

***Trading Account***

Securities acquired for resale in anticipation of short-term market movements are classified as trading, with realized and unrealized gains and losses recognized in income. To date, we have not had any activity in our trading account.

***Held-to-Maturity and Available-for-Sale***

Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity or trading and marketable equity securities not classified as trading are classified as available-for-sale.

Available-for-sale securities are stated at fair value, with the unrealized gains and losses reported in a separate component of accumulated other comprehensive income (loss), net of tax. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and accretion is

## **Table of Contents**

included in interest income from securities. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method.

All securities are available-for-sale as of December 31, 2009 and 2008.

## **Loans**

Loans held for investment (which include equipment leases accounted for as financing leases) are stated at the amount of unpaid principal reduced by deferred income (net of costs). Interest on loans is recognized using the simple-interest method on the daily balances of the principal amounts outstanding. Loan origination fees, net of direct loan origination costs, and commitment fees, are deferred and amortized as an adjustment to yield over the life of the loan, or over the commitment period, as applicable.

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. Reserves on impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectibility is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

We purchase participations in mortgage loans primarily for sale in the secondary market through our mortgage warehouse division. Accordingly, these loans are classified as held for sale and are carried at the lower of cost or fair value, determined on an aggregate basis. As a result of dislocations in the mortgage industry starting in 2007, some loan participations may not be sold within the normal time frames or at previously negotiated prices. Due to market conditions, certain mortgage warehouse loans have been transferred to our loans held for investment portfolio, and such loans are transferred at a lower of cost or market. Mortgage warehouse loans transferred to our loans held for investment portfolio could require allocations of the allowance for loan losses or be subject to charge off in the event the loans become impaired.

## **Allowance for Loan Losses**

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance for loan losses includes specific reserves for impaired loans and an estimate of losses inherent in the loan portfolio at the balance sheet date, but not yet identified with specific loans. Loans deemed to be uncollectible are charged against the allowance when management believes that the collectibility of the principal is unlikely and subsequent recoveries, if any, are credited to the allowance. Management's periodic evaluation of the adequacy of the allowance is based on an assessment of the current loan portfolio, including known inherent risks, adverse situations that may affect the borrowers' ability to repay, the estimated value of any underlying collateral and current economic conditions.

## **Reposessed Assets**

Repossessed assets, which are included in other assets on the balance sheet, consist of collateral that has been repossessed. Collateral that has been repossessed is recorded at fair value less selling costs prior to repossession. Write-downs are provided for subsequent declines in value and are recorded in other non-interest expense.

## **Table of Contents**

### **Other Real Estate Owned**

OREO, which is included in other assets on the balance sheet, consists of real estate that has been foreclosed. Real estate that has been foreclosed is recorded at the lower of the amount of the loan balance or the fair value of the real estate, less selling costs prior to foreclosure, through a charge to the allowance for loan losses, if necessary. Subsequent write-downs required for declines in value are recorded through a valuation allowance and provision for losses charged to other non-interest expense.

### **Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Gains or losses on disposals of premises and equipment are included in results of operations.

### **Marketing and Software**

Marketing costs are expensed as incurred. Ongoing maintenance and enhancements of websites are expensed as incurred. Costs incurred in connection with development or purchase of internal use software are capitalized and amortized over a period not to exceed five years. Internal use software costs are included in other assets in the consolidated financial statements.

### **Goodwill and Other Intangible Assets**

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Our intangible assets relate primarily to loan customer relationships. Goodwill and intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets are tested for impairment annually or whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

### **Segment Reporting**

We have determined that all of our lending divisions and subsidiaries meet the aggregation criteria of ASC 280, *Segment Reporting*, since all offer similar products and services, operate with similar processes, and have similar customers.

### **Stock-based Compensation**

On January 1, 2006, we changed our accounting policy related to stock-based compensation in connection with the adoption of ASC 718, *Compensation - Stock Compensation* ( ASC 718 ), which requires that stock compensation transactions be recognized as compensation expense in the statement of operations based on their fair values on the measurement date, which is the date of the grant. We transitioned to fair value based accounting for stock-based compensation using a modified version of prospective application ( modified prospective application ). Under modified prospective application, as it is applicable to us, ASC 718 applies to new awards and to awards modified, repurchased or cancelled after January 1, 2006. Additionally, compensation expense for the portion of awards for which the requisite period has not been rendered (generally referring to nonvested awards) that are outstanding as of January 1, 2006 are being recognized as the remaining requisite service is rendered during and after the period of adoption of ASC 718.

The compensation expense for the earlier awards is based on the same method and on the same grant date fair values previously determined for the pro forma disclosures required for all companies that did not previously adopt the fair value accounting method for stock-based compensation.

**Table of Contents****Accumulated Other Comprehensive Income (Loss)**

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 year ended December 31, 2009 and 2008 is reported in the accompanying consolidated statements of changes in stockholders' equity.

**Income Taxes**

The Company and its subsidiary file a consolidated federal income tax return. We utilize the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. As changes in tax law or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation reserve is provided against deferred tax assets unless it is more likely than not that such deferred tax assets will be realized.

**Basic and Diluted Earnings Per Common Share**

Basic earnings per common share is based on net income available to common stockholders divided by the weighted-average number of common shares outstanding during the period excluding non-vested stock. Diluted earnings per common share include the dilutive effect of stock options and non-vested stock awards granted using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 14 - Earnings Per Share.

**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. Effective January 1, 2008, we adopted the reporting requirements of ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). The adoption of ASC 820 did not have an impact on our financial statements except for the expanded disclosures noted in Note 15 - Fair Value Disclosures.

**2. Securities**

The following is a summary of securities (in thousands):

		<b>December 31, 2009</b>		
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Available-for-Sale Securities:				
Mortgage-backed securities	\$ 201,824	\$ 8,192	\$ (29)	\$ 209,987
Corporate securities	5,000		(317)	4,683



Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Municipals	42,314	1,514	(2)	43,826
Equity securities(1)	7,506	126		7,632
	\$ 256,644	\$ 9,832	\$ (348)	\$ 266,128

**Table of Contents**

		<b>December 31, 2008</b>		
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Available-for-Sale Securities:				
U. S. Treasuries	\$ 28,299	\$ 1	\$ (4)	\$ 28,296
Mortgage-backed securities	288,701	4,145	(1,130)	291,716
Corporate securities	5,000		(190)	4,810
Municipals	46,370	370	(209)	46,531
Equity securities(1)	7,506		(107)	7,399
	<b>\$ 375,876</b>	<b>\$ 4,516</b>	<b>\$ (1,640)</b>	<b>\$ 378,752</b>

(1) Equity securities consist of Community Reinvestment Act funds.

The amortized cost and estimated fair value of securities are presented below by contractual maturity (in thousands, except percentage data):

	<b>At December 31, 2009</b>				
	<b>Less Than One Year</b>	<b>After One Through Five Years</b>	<b>After Five Through Ten Years</b>	<b>After Ten Years</b>	<b>Total</b>
Available-for-sale:					
Mortgage-backed securities:(1)					
Amortized cost	\$ 23,359	\$ 34,200	\$ 68,930	\$ 75,335	\$ 201,824
Estimated fair value	23,719	35,143	72,477	78,648	209,987
Weighted average yield(3)	4.242%	4.386%	4.815%	4.414%	4.527%
Corporate securities:					
Amortized cost		5,000			5,000
Estimated fair value		4,683			4,683
Weighted average yield(3)		7.375%			7.375%
Municipals:(2)					
Amortized cost	1,985	19,571	20,758		42,314
Estimated fair value	2,000	20,317	21,509		43,826
Weighted average yield(3)	7.391%	8.166%	8.723%		8.403%
Equity securities:					
Amortized cost					7,506
Estimated fair value					7,632

Total available-for-sale securities:	
Amortized cost	\$ 256,644
Estimated fair value	\$ 266,128

- (1) Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The average expected life of the mortgage-backed securities was 2.1 years at December 31, 2009.
- (2) Yields have been adjusted to a tax equivalent basis assuming a 35% federal tax rate.
- (3) Yields are calculated based on amortized cost.

Securities with carrying values of approximately \$152,888,000 and \$292,731,000 were pledged to secure certain borrowings and deposits at December 31, 2009 and 2008, respectively. See Note 8 for discussion of

**Table of Contents**

securities securing borrowings. Of the pledged securities at December 31, 2009 and 2008, approximately \$116,923,000 and \$204,574,000, respectively, were pledged for certain deposits.

The following tables disclose, as of December 31, 2009 and 2008, our investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months (in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2009						
Mortgage-backed securities	\$ 452	\$ (1)	\$ 2,553	\$ (28)	\$ 3,005	\$ (29)
Corporate securities			4,683	(317)	4,683	(317)
Municipals	1,018	(2)			1,018	(2)
	\$ 1,470	\$ (3)	\$ 7,236	\$ (345)	\$ 8,706	\$ (348)
December 31, 2008						
U.S. Treasuries	\$ 24,996	\$ (4)	\$	\$	\$ 24,996	\$ (4)
Mortgage-backed securities	106,167	(1,121)	2,977	(9)	109,144	(1,130)
Corporate securities	4,810	(190)			4,810	(190)
Municipals	10,817	(209)			10,817	(209)
Equity securities	7,399	(107)			7,399	(107)
	\$ 154,189	\$ (1,631)	\$ 2,977	\$ (9)	\$ 157,166	\$ (1,640)

At December 31, 2009, the number of investment positions in this unrealized loss position totals 5. We do not believe these unrealized losses are other than temporary as (1) we do not have the intent to sell any of the securities in the table above; and (2) it is not probable that we will be unable to collect the amounts contractually due. The unrealized losses noted are interest rate related, and losses have decreased as rates have decreased in 2008 and 2009. We have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

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. We had comprehensive income of \$28.4 million for the year ended December 31, 2009 and comprehensive income of \$27.0 million for the year ended December 31, 2008. Comprehensive income during the year ended December 31, 2009 included a net after-tax gain of \$4.3 million, and comprehensive income during the year ended December 31, 2008 included a net after-tax gain of \$2.7 million due to changes in the net unrealized gains/losses on securities available-for-sale.

**Table of Contents****3. Loans and Allowance for Loan Losses**

Loans held for investment are summarized by category as follows (in thousands):

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Commercial	\$ 2,457,533	\$ 2,276,054
Construction	669,426	667,437
Real estate	1,233,701	988,784
Consumer	25,065	32,671
Equipment leases	99,129	86,937
Gross loans held for investment	4,484,854	4,051,883
Deferred income (net of direct origination costs)	(27,561)	(24,012)
Allowance for loan losses	(67,931)	(45,365)
Total loans held for investment, net	\$ 4,389,362	\$ 3,982,506

The majority of the loan portfolio is comprised of loans to businesses and individuals in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at each balance sheet date.

The changes in the allowance for loan losses are summarized as follows (in thousands):

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Balance, beginning of year	\$ 45,365	\$ 31,686	\$ 20,063
Provision for loan losses	42,022	26,415	13,805
Loans charged off	(19,728)	(13,634)	(2,970)
Recoveries	272	898	788
Balance, end of year	\$ 67,931	\$ 45,365	\$ 31,686

The change in the allowance for off-balance sheet credit losses is summarized as follows (in thousands):

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Balance, beginning of year	\$ 1,470	\$ 1,135	\$ 940
Provision for off-balance sheet credit losses	1,478	335	195

Balance, end of year	\$ 2,948	\$ 1,470	\$ 1,135
Total provision for credit losses	\$ 43,500	\$ 26,750	\$ 14,000

During the normal course of business, the Company and subsidiary may enter into transactions with related parties, including their officers, employees, directors, significant stockholders and their related affiliates. It is the Company's policy that all such transactions are on substantially the same terms as those prevailing at the time for comparable transactions with third parties. Loans to related parties, including officers and directors, were approximately \$14,158,000 and \$15,295,000 at December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, total advances were approximately \$10,314,000 and \$27,807,000 and total paydowns were \$11,451,000 and \$27,594,000, respectively.

**Table of Contents****4. OREO and Valuation Allowance for Losses on OREO**

The table below presents a summary of the activity related to OREO (in thousands):

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Beginning balance	\$ 25,904	\$ 2,671	\$ 882
Additions	23,466	28,835	2,582
Sales	(14,265)	(5,602)	(793)
Valuation allowance for OREO	(6,619)		
Direct write-downs	(1,222)		
Ending balance	\$ 27,264	\$ 25,904	\$ 2,671

**5. Goodwill and Other Intangible Assets**

In November 2009, we acquired another premium finance company and recorded a total intangible asset of \$2.3 million. Of this total, \$224,000 was allocated to goodwill, \$1.9 million to customer relationships and \$162,000 to trade name. The \$1.9 million customer relationship intangible will be amortized over 15 years and the \$162,000 intangible related to the trade name will be amortized over 5 years.

Goodwill and other intangible assets at December 31, 2009 and December 31, 2008 are summarized as follows (in thousands):

	<b>Gross Goodwill and</b>			<b>Net Goodwill and Intangible Assets</b>
	<b>Intangible Assets</b>	<b>Accumulated Amortization</b>		
<b>December 31, 2009</b>				
Goodwill	\$ 7,225	\$ (374)	\$	6,851
Intangible assets - customer relationships and trademarks	3,705	(750)		2,955
	\$ 10,930	\$ (1,124)	\$	9,806
<b>December 31, 2008</b>				
Goodwill	\$ 7,001	\$ (374)	\$	6,627
Intangible assets - customer relationships and trademarks	1,622	(560)		1,062
	\$ 8,623	\$ (934)	\$	7,689

Amortization expense related to intangible assets totaled \$189,000 in 2009 and \$162,000 in 2008 and 2007. The estimated aggregate future amortization expense for intangible assets remaining as of December 31, 2009 is as follows:

2010	\$ 323
2011	323
2012	323
2013	323
2014	317
Thereafter	1,346
	\$ 2,955



**Table of Contents****6. Premises and Equipment**

Premises and equipment at December 31, 2009 and 2008 are summarized as follows (in thousands):

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Premises	\$ 9,765	\$ 6,504
Furniture and equipment	20,235	19,024
	30,000	25,528
Accumulated depreciation	(18,811)	(16,061)
Total premises and equipment, net	\$ 11,189	\$ 9,467

Depreciation expense for the above premises and equipment was approximately \$3,311,000, \$2,837,000 and \$2,150,000 in 2009, 2008 and 2007, respectively.

**7. Deposits**

The scheduled maturities of interest bearing time deposits are as follows at December 31, 2009 (in thousands):

2010	\$ 1,321,738
2011	19,545
2012	5,070
2013	351
2014	9,500
2015 and after	100
	\$ 1,356,304

At December 31, 2009 and 2008, the Bank had approximately \$35,900,000 and \$35,500,000, respectively, in deposits from related parties, including directors, stockholders, and their related affiliates on terms similar to those from third parties.

At December 31, 2009 and 2008, interest bearing time deposits, including deposits in foreign branches, of \$100,000 or more were approximately \$1,293,883,000 and \$1,659,289,000, respectively.

**8. Borrowing Arrangements**

The following table summarizes our borrowings at December 31, 2009, 2008 and 2007 (in thousands):

<b>2009</b>	<b>2008</b>	<b>2007</b>
-------------	-------------	-------------

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

	<b>Balance</b>	<b>Rate(4)</b>	<b>Balance</b>	<b>Rate(4)</b>	<b>Balance</b>	<b>Rate(4)</b>
Federal funds purchased	\$ 580,519	.33%	\$ 350,155	.47%	\$ 344,813	4.29%
Customer repurchase agreements(1)	25,070	.10%	77,732	.05%	7,148	3.30%
Treasury, tax and loan notes(2)	5,940	.00%	2,720	.00%	6,890	4.00%
FHLB borrowings(3)	325,000	.11%	800,000	.71%	400,000	4.18%
Other short-term borrowings			10,000	1.19%	25,000	5.82%
Long-term borrowings			40,000	1.19%		
TLGP borrowings	20,500	.84%				
Trust preferred subordinated debentures	113,406	3.19%	113,406	4.40%	113,406	6.77%
Total borrowings	\$ 1,070,435		\$ 1,394,013		\$ 897,257	
Maximum outstanding at any month end	\$ 1,753,181		\$ 1,280,606		\$ 783,851	

**Table of Contents**

- (1) Securities pledged for customer repurchase agreements were \$36.0 million, \$88.2 million and \$24.4 million at December 31, 2009, 2008 and 2007, respectively.
- (2) Securities pledged for treasury, tax and loans notes were \$11.3 million, \$13.0 million and \$7.1 million at December 31, 2009, 2008 and 2007, respectively.
- (3) FHLB borrowings are collateralized by a blanket floating lien based on real estate loans and also certain pledged securities.
- (4) Interest rate as of period end.

The following table summarizes our other borrowing capacities in addition to balances outstanding at December 31, 2009, 2008 and 2007 (in thousands):

	<b>2009</b>	<b>2008</b>	<b>2007</b>
FHLB borrowing capacity relating to loans	\$ 1,382,682	\$ 139,000	\$ 205,900
FHLB borrowing capacity relating to securities	57,101	62,420	231,000
Total FHLB borrowing capacity	\$ 1,439,783	\$ 204,120	\$ 436,900
Unused federal funds lines available from commercial banks	\$ 736,560	\$ 573,500	\$ 458,000

On September 27, 2007, we entered into a Credit Agreement with KeyBank National Association. This Credit Agreement permits revolving borrowings of up to \$50 million and matured on September 24, 2008. At our option, the unpaid principal balance on the Credit Agreement as of September 24, 2008 was converted into a two-year term loan, which will accrue interest at the same rate(s) as the revolving loans existing on such date. The Credit Agreement permits multiple borrowings that may bear interest at the prime rate minus 1.25% or the LIBOR plus 1% at our election. The Credit Agreement is unsecured and proceeds may be used for general corporate purposes. The Credit Agreement contains customary financial covenants and restrictions. At December 31, 2008, we had drawn \$50.0 million, \$10.0 million of which matured in 2009 and was included in other short-term borrowings at December 31, 2008. The remaining \$40.0 million matured in September of 2010 and was, therefore, included in long-term borrowings. The entire note was paid in full in March of 2009.

The scheduled maturities of our borrowings at December 31, 2009, were as follows (in thousands):

	<b>Within One Year</b>	<b>After One But Within Three Years</b>	<b>After Three But Within Five Years</b>	<b>After Five Years</b>	<b>Total</b>
Federal funds purchased(1)	\$ 580,519	\$	\$	\$	\$ 580,519

Customer repurchase agreements(1)	25,070			25,070
Treasury, tax and loan notes(1)	5,940			5,940
FHLB borrowings(1)	325,000			325,000
TLGP borrowings(1)	20,500			20,500
Trust preferred subordinated debentures(1)			113,406	113,406
Total borrowings	\$ 957,029	\$	\$	\$ 1,070,435

(1) Excludes interest.

### 9. Trust Preferred Subordinated Debentures

From November 2002 to September 2006 various Texas Capital Statutory Trusts were created and subsequently issued fixed and/or floating rate Capital Securities in various private offerings totaling \$113.4 million.

**Table of Contents**

As of December 31, 2008, the details of the trust preferred subordinated debentures are summarized below (in thousands):

	<b>Texas Capital Bancshares Statutory Trust I</b>	<b>Texas Capital Bancshares Statutory Trust II</b>	<b>Texas Capital Bancshares Statutory Trust III</b>	<b>Texas Capital Bancshares Statutory Trust IV</b>	<b>Te Cap Banc Statu Tru</b>
Shares issued	November 19, 2002 \$ 10,310	April 10, 2003 \$ 10,310	October 6, 2005 \$ 25,774	April 28, 2006 \$ 25,774	Septemb
Interest rate	Floating 3 month LIBOR + 3.35%	Floating 3 month LIBOR + 3.25%	Fixed/Floating(1) 3 month LIBOR + 1.51%	Floating 3 month LIBOR + 1.60%	3 mon
Debentures	November 2032	April 2033	December 2035	June 2036	Sept

(1) Interest rate is a fixed rate of 6.19% for five years through December 15, 2010, and a floating rate of interest for the remaining 25 years that resets quarterly to 1.51% above the three-month LIBOR.

After deducting underwriter's compensation and other expenses of each offering, the net proceeds were available to the Company to increase capital and for general corporate purposes, including use in investment and lending activities. Interest payments on all subordinated debentures are deductible for federal income tax purposes.

**10. Income Taxes**

We have a gross deferred tax asset of \$40.1 million at December 31, 2009, which relates primarily to our allowance for loan losses, loan origination fees and stock compensation. Management believes it is more likely than not that all of the deferred tax assets will be realized. Our net deferred tax asset is included in other assets in the consolidated balance sheet.

At December 31, 2008, we had a gross deferred tax asset of \$26.7 million, which related primarily to our allowance for loan losses, loan origination fees and stock compensation.

Income tax expense/(benefit) consists of the following for the years ended (in thousands):

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Current:			
Federal	\$ 20,955	\$ 17,349	\$ 18,643
State	219	221	269
Total	\$ 21,174	\$ 17,570	\$ 18,912

Deferred:			
Federal	\$ (8,774)	\$ (4,971)	\$ (3,508)
State			
Total	\$ (8,774)	\$ (4,971)	\$ (3,508)
Total expense:			
Federal	\$ 12,181	\$ 12,378	\$ 15,135
State	219	221	269
Total	\$ 12,400	\$ 12,599	\$ 15,404

**Table of Contents**

The following table shows the breakdown of total income tax expense for continuing operations and discontinued operations for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Total expense:			
From continuing operations	\$ 12,522	\$ 12,924	\$ 16,420
From discontinued operations	(122)	(325)	(1,016)
Total	\$ 12,400	\$ 12,599	\$ 15,404

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax assets and liabilities are as follows (in thousands):

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Deferred tax assets:		
Allowance for credit losses	\$ 25,111	\$ 16,602
Organizational costs/intangibles	254	238
Loan origination fees	3,970	3,545
Stock compensation	4,412	3,235
Depreciation		385
Mark to market on mortgage loans	547	561
Reserve for potential mortgage loan repurchases	446	818
Non-accrual interest	2,174	1,219
OREO valuation allowance	2,764	
Other	421	107
	40,099	26,710
Deferred tax liabilities:		
Loan origination costs	(871)	(909)
FHLB stock dividends	(678)	(675)
Leases	(15,375)	(10,982)
Depreciation	(540)	
Unrealized gain on securities	(3,319)	(1,006)
Other	(28)	(28)
	(20,811)	(13,600)
Net deferred tax asset	\$ 19,288	\$ 13,110

We adopted the provisions of ASC 740-10, *Income Taxes – Accounting for Uncertainties in Income Taxes* ( ASC 740-10 ), effective January 1, 2007. ASC 740-10 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of cumulative benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC 740-10 also provides guidance on the accounting for and



**Table of Contents**

disclosure of unrecognized tax benefits, interest and penalties. Adoption and subsequent application of ASC 740-10 did not have a significant impact on our financial statements.

We file income tax returns in the U.S. federal jurisdiction and several U.S. state jurisdictions. We are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2006.

The reconciliation of income attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense (benefit) is as follows:

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Tax at U.S. statutory rate	35%	35%	35%
State taxes	1%	1%	1%
Non-deductible expenses	1%	1%	1%
Non-taxable income	(3)%	(3)%	(2)%
Other			(1)%
Total	34%	34%	34%

**11. Employee Benefits**

We have a qualified retirement plan, with a salary deferral feature designed to qualify under Section 401 of the Internal Revenue Code (the 401(k) Plan). The 401(k) Plan permits our employees to defer a portion of their compensation. Matching contributions may be made in amounts and at times determined by the Company. We contributed approximately \$627,000, \$588,000 and \$323,000 for the years ended December 31, 2009, 2008 and 2007, respectively. Employees are eligible to participate in the 401(k) Plan when they meet certain requirements concerning minimum age and period of credited service. All contributions to the 401(k) Plan are invested in accordance with participant elections among certain investment options.

During 2000, we implemented an Employee Stock Purchase Plan (ESPP). Employees are eligible for the plan when they have met certain requirements concerning period of credited service and minimum hours worked. Eligible employees may contribute a minimum of 1% to a maximum of 10% of eligible compensation up to the Section 423 of the Internal Revenue Code limit of \$25,000. During January 2006, a plan ( 2006 ESPP ) was adopted that allocated 400,000 shares to the plan. The 2006 Employee Stock Purchase Plan was approved by stockholders at the 2006 annual meeting. As of December 31, 2009, 2008 and 2007, 53,281, 37,556 and 23,930 shares had been purchased on behalf of the employees under the 2006 ESPP.

As of December 31, 2009, we have two stock option plans, the 1999 Stock Omnibus Plan ( 1999 Plan ) and the 2005 Long-Term Incentive Plan ( 2005 Plan ). The 1999 Plan is no longer available for grants of equity based compensation; however, options to purchase shares previously issued under the plan will remain outstanding and be subject to administration by our board of directors. Under the 2005 Plan, equity-based compensation grants were made by the board of directors, or its designated committee. Grants under the 2005 Plan are subject to vesting requirements. Under the 2005 Plan, we may grant, among other things, nonqualified stock options, incentive stock options, restricted stock units ( RSUs ), stock appreciation rights, or any combination thereof. The 2005 Plan includes grants for employees and directors. Total shares authorized under the plan for awards is 1,500,000. Total shares which may be issued under the

2005 Plan at December 31, 2009, 2008 and 2007 were 216,694, 442,505 and 510,749, respectively.

The fair value of our stock option and stock appreciation right (SAR) grants are estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide the best single measure of the fair value of its employee stock options.

**Table of Contents**

The fair value of the options and stock appreciation rights were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Risk-free rate	2.23%	3.04%	4.33%
Dividend yield	0.00	0.00	0.00
Market price volatility factor	.423	.323	.298
Weighted-average expected life of options	5 years	5 years	5 years

Market price volatility and expected life of options is based on historical data and other factors.

A summary of our stock option activity and related information for 2009, 2008 and 2007 is as follows (in thousands, except per share data):

	<b>December 31, 2009</b>		<b>December 31, 2008</b>		<b>December 31, 2007</b>	
	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Options</b>	<b>Weighted Average Exercise Price</b>
Options outstanding at beginning of year	1,460,461	\$ 11.54	1,983,352	\$ 10.63	2,308,103	\$ 10.51
Options granted						
Options exercised	(226,485)	7.69	(496,051)	7.55	(239,751)	7.99
Options forfeited	(66,240)	15.35	(26,840)	17.95	(85,000)	15.45
Options outstanding at year-end	1,167,736	\$ 12.07	1,460,461	\$ 11.54	1,983,352	\$ 10.63
Options vested and exercisable at year-end	1,131,486	\$ 11.76	1,337,461	\$ 10.79	1,600,431	\$ 9.52
Intrinsic value of options vested and exercisable	\$ 2,490,378		\$ 3,433,347		\$ 13,971,000	
Weighted average remaining contractual life of options vested and exercisable		3.52		4.13		4.33
Fair value of shares vested during year	\$ 245,422		\$ 492,638		\$ 969,187	
Intrinsic value of options exercised	\$ 1,608,048		\$ 4,551,326		\$ 3,325,000	
Weighted average remaining contractual life of options currently outstanding in years:		3.58		4.29		4.73

We expensed approximately \$629,000, \$1,152,000 and \$1,401,000 in 2009, 2008 and 2007, respectively, related to stock option awards. Expenses are calculated utilizing the straight-line method. No stock options were granted in 2009.

In connection with the 2005 Long-term Incentive Plan, stock appreciation rights were issued in 2009, 2008 and 2007. These rights are service-based and generally vest over a period of five years. Of the SARs granted in 2006, 300,312 were Performance Stock Appreciation Rights (PSARs) which were cancelled on December 31, 2008 as company performance targets were not met.

**Table of Contents**

	<b>December 31, 2009</b>		<b>December 31, 2008</b>		<b>December 31, 2007</b>	
	<b>SARs</b>	<b>Weighted Average Exercise Price</b>	<b>SARs/ PSARs</b>	<b>Weighted Average Exercise Price</b>	<b>SARs/ PSARs</b>	<b>Weighted Average Exercise Price</b>
SARs outstanding at beginning of year	1,007,579	\$ 16.66	1,203,087	\$ 18.24	1,083,054	\$ 21.56
SARs granted	246,500	14.93	142,000	17.46	186,000	21.39
SARs exercised						
SARs forfeited	(47,341)	20.51	(337,508)	22.62	(65,967)	21.27
SARs outstanding at year-end	1,206,738	\$ 16.16	1,007,579	\$ 16.66	1,203,087	\$ 18.24
SARs vested at year-end	491,254	\$ 20.92	315,293	\$ 21.14	207,617	\$ 21.72
Weighted average remaining contractual life of SARs vested		6.85		7.73		8.51
Compensation expense	\$ 1,709,000		\$ 1,127,000		\$ 1,275,000	
Weighted average fair value of SARs granted during 2009, 2008 and 2007		\$ 5.93		\$ 5.93		\$ 7.36
Fair value of shares vested during the year	\$ 1,278,207		\$ 1,255,341		\$ 1,389,543	
Weighted average remaining contractual life of SARs currently outstanding in years		5.61		6.73		8.71

As of December 31, 2009, 2008 and 2007, the intrinsic value of SARs vested was negative as the December 31, 2009, 2008 and 2007 market prices were lower than the grant price of the SARs.

The following table summarizes the status of and changes in our nonvested restricted stock units (in thousands, except per share data):

	<b>Non-Vested Stock Awards Outstanding</b>	
	<b>Number of Shares</b>	<b>Weighted- Average Grant-Date Fair Value</b>
Balance, January 1, 2007	411,568	\$ 20.52
Granted	205,550	19.90

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Vested and issued	(87,503)		20.49
Forfeited	(3,365)		22.65
Cancelled			
Balance, December 31, 2007	526,200		20.27
Granted	205,150		18.00
Vested and issued	(91,354)		20.51
Forfeited	(13,748)		20.23
Cancelled			
Balance, December 31, 2008	626,248		19.49
Granted	257,210		12.81
Vested and issued	(134,570)		19.59
Forfeited	(34,489)		19.98
Cancelled			
Balance, December 31, 2009	714,399	\$	17.04

The RSUs granted during 2009, 2008 and 2007 generally vest over four to five years. Compensation cost for restricted stock units was \$3,623,000, \$2,434,000 and \$2,084,000 for years ended December 31, 2009, 2008 and

## **Table of Contents**

2007, respectively. The weighted average remaining contractual life of RSUs currently outstanding is 2.94 years.

Total compensation cost for all share-based arrangements, net of taxes, was \$3,904,000, \$3,063,000 and \$3,119,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

Unrecognized stock-based compensation expense related to unvested options issued prior to adoption of ASC 718 is \$219,000, pre-tax. The weighted average period over which this unrecognized expense is expected to be recognized was 1.0 years. Unrecognized stock-based compensation expense related to SAR grants issued during 2007, 2008 and 2009 is \$4.4 million. At December 31, 2009, the weighted average period over which this unrecognized expense is expected to be recognized was 2.0 years. Unrecognized stock-based compensation expense related to RSU grants during 2007, 2008 and 2009 is \$9.5 million. At December 31, 2009, the weighted average period over which this unrecognized expense is expected to be recognized was 1.9 years.

Cash flows from financing activities included \$213,000, \$4,527,000 and \$3,325,000 in cash inflows from excess tax benefits related to stock compensation in 2009, 2008 and 2007, respectively. The tax benefit realized from stock options exercised is \$75,000 \$1,584,000 and \$1,164,000 in 2009, 2008 and 2007, respectively.

Upon share option exercise, new shares are issued as opposed to treasury shares.

In 1999, we entered into a deferred compensation agreement with one of our executive officers. The agreement allows the employee to elect to defer up to 100% of his compensation on an annual basis. All deferred compensation is invested in the Company's common stock held in a rabbi trust. The stock is held in the name of the trustee, and the principal and earnings of the trust are held separate and apart from other funds of the Company, and are used exclusively for the uses and purposes of the deferred compensation agreement. The accounts of the trust have been consolidated with the accounts of the Company. During 2009, under the terms of the agreement, the stock was released from the trust and issued to the executive.

## **12. Financial Instruments with Off-Balance Sheet Risk**

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit which involve varying degrees of credit risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the borrower.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

At December 31, 2009 and 2008, commitments to extend credit and standby and commercial letters of credit were as follows (in thousands):

	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 1,143,427	\$ 1,404,964
Standby and commercial letters of credit	66,385	70,103



**Table of Contents****13. Regulatory Restrictions**

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the tables below. As shown below, the Bank's capital ratios exceed the regulatory definition of well capitalized as of December 31, 2009 and 2008. As of June 30, 2009, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since the notification that management believes have changed the Bank's category. Based upon the information in its most recently filed call report, the Bank continues to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action and continues to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(in thousands except percentage data)</i>						
As of December 31, 2009:						
Total capital (to risk-weighted assets):						
<b>Company</b>	\$ 642,371	11.98%	\$ 429,102	8.00%	N/A	N/A
Bank	555,635	10.36%	429,012	8.00%	\$ 536,265	10.00%
Tier 1 capital (to risk-weighted assets):						
<b>Company</b>	\$ 575,338	10.73%	\$ 214,551	4.00%	N/A	N/A
Bank	488,602	9.11%	214,506	4.00%	\$ 321,759	6.00%
Tier 1 capital (to average assets):						
<b>Company</b>	\$ 575,338	10.54%	\$ 218,381	4.00%	N/A	N/A
Bank	488,602	8.95%	218,336	4.00%	\$ 272,920	5.00%
As of December 31, 2008:						
Total capital (to risk-weighted assets):						

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

<b>Company</b>	\$ 533,781	10.92%	\$ 390,890	8.00%	N/A	N/A
Bank	502,693	10.29%	390,799	8.00%	\$ 488,498	10.00%
Tier 1 capital (to risk-weighted assets):						
<b>Company</b>	\$ 486,946	9.97%	\$ 195,445	4.00%	N/A	N/A
Bank	455,858	9.33%	195,399	4.00%	\$ 293,099	6.00%
Tier 1 capital (to average assets):						
<b>Company</b>	\$ 486,946	10.21%	\$ 190,782	4.00%	N/A	N/A
Bank	455,858	9.56%	190,736	4.00%	\$ 238,420	5.00%

**Table of Contents**

Dividends that may be paid by subsidiary banks are routinely restricted by various regulatory authorities. The amount that can be paid in any calendar year without prior approval of the Bank's regulatory agencies cannot exceed the lesser of net profits (as defined) for that year plus the net profits for the preceding two calendar years, or retained earnings. No dividends were declared or paid on common stock during 2009, 2008 or 2007.

The required balance at the Federal Reserve at December 31, 2009 and 2008 was approximately \$9,595,000 and \$13,137,000, respectively.

**14. Earnings Per Share**

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

	<b>Year Ended December</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Numerator:			
Net income from continuing operations	\$ 24,387	\$ 24,882	\$ 31,353
Preferred stock dividends	5,383		
Net income from continuing operations available to common shareholders	19,004	24,882	31,353
Loss from discontinued operations	(235)	(616)	(1,931)
Net income	\$ 18,769	\$ 24,266	\$ 29,422
Denominator:			
Denominator for basic earnings per share-weighted average shares	34,113,285	27,952,973	26,187,084
Effect of employee stock options(1)	278,882	95,490	491,487
Effect of warrants to purchase common stock	18,287		
Denominator for dilutive earnings per share-adjusted weighted average shares and assumed conversions	34,410,454	28,048,463	26,678,571
Basic earning per share from continuing operations	\$ .56	\$ .89	\$ 1.20
Basic earning per share	\$ .55	\$ .87	\$ 1.12
Diluted earnings per share from continuing operations	\$ .55	\$ .89	\$ 1.18
Diluted earnings per share	\$ .55	\$ .87	\$ 1.10

(1)

Stock options outstanding of 1,669,686, 1,761,281 and 944,170 in 2009, 2008 and 2007, respectively, have not been included in diluted earnings per share because to do so would have been antidilutive for the periods presented. Stock options are antidilutive when the exercise price is higher than the average market price of the Company's common stock.

**15. Fair Value Disclosures**

Effective January 1, 2008, we adopted ASC 820, which defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the price that would be received for an asset or paid to transfer a liability (an exit

**Table of Contents**

price) in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date. The adoption of ASC 820 did not have an impact on our financial statements except for the expanded disclosures noted below.

We determine the fair market values of our financial instruments based on the fair value hierarchy. The standard describes three levels of inputs that may be used to measure fair value as provided below.

- Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include U.S. Treasuries that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include U.S. government and agency mortgage-backed debt securities, corporate securities, municipal bonds, and Community Reinvestment Act funds. This category includes derivative assets and liabilities where values are based on internal cash flow models supported by market data inputs
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. This category also includes impaired loans and OREO where collateral values have been based on third party appraisals; however, due to current economic conditions, comparative sales data typically used in appraisals may be unavailable or more subjective due to lack of market activity. Additionally, this category includes certain mortgage loans that were transferred from loans held for sale to loans held for investment at a lower of cost or fair value.

Assets and liabilities measured at fair value at December 31, 2009 are as follows (in thousands):

	<b>Fair Value Measurements Using</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available for sale securities:(1)			
Mortgage-backed securities	\$	\$ 209,987	\$
Corporate securities		4,683	
Municipals		43,826	
Other		7,632	
Loans (2)(4)			64,921
OREO (3)(4)			27,264
Derivative asset		1,837	
Derivative liability		(1,837)	

(1) Securities are measured at fair value on a recurring basis, generally monthly.

(2) Includes certain mortgage loans that have been transferred to loans held for investment from loans held for sale at the lower of cost or market. Also, includes impaired loans that have been measured for impairment at the fair

value of the loan's collateral.

- (3) OREO is transferred from loans to OREO at fair value less selling costs.
- (4) Fair value of loans and OREO is measured on a nonrecurring basis, generally annually or more often as warranted by market and economic conditions

**Level 3 Valuations**

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or

**Table of Contents**

input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. Currently, we measure fair value for certain loans on a nonrecurring basis as described below.

*Loans* During the year ended December 31, 2009, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. The \$64.9 million total above includes impaired loans at December 31, 2009 with a carrying value of \$77.5 million that were reduced by specific valuation allowance allocations totaling \$18.4 for a total reported fair value of \$59.1 million based on collateral valuations utilizing Level 3 valuation inputs. Fair values were based on third party appraisals; however, based on the current economic conditions, comparative sales data typically used in the appraisals may be unavailable or more subjective due to the lack of real estate market activity. Also included in this total are \$6.8 million in mortgage warehouse loans that were reduced by specific valuation allowance allocations totaling \$1.0 million, for a total reported fair value of \$5.8 million. Certain mortgage loans that are transferred from loans held for sale to loans held for investment are valued based on third party broker pricing. As the dollar amount and number of loans being valued is very small, a comprehensive market analysis is not obtained or considered necessary. Instead, we conduct a general polling of one or more mortgage brokers for indications of general market prices for the types of mortgage loans being valued, and we consider values based on recent experience in selling loans of like terms and comparable quality. The total also includes impaired loans that have been measured for impairment at the fair value of the loan's collateral based on a third party real estate appraisal.

*OREO* Certain foreclosed assets, upon initial recognition, were valued based on third party appraisals. At December 31, 2009, OREO with a carrying value of \$33.9 million was reduced by specific valuation allowance allocations totaling \$6.6 million for a total reported fair value of \$27.3 million based on valuations utilizing Level 3 valuation inputs. Fair values were based on third party appraisals; however, based on the current economic conditions, comparative sales data typically used in the appraisals may be unavailable or more subjective due to the lack of real estate market activity.

Generally accepted accounting principles require disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practical to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. This disclosure does not and is not intended to represent the fair value of the Company.

A summary of the carrying amounts and estimated fair values of financial instruments is as follows (in thousands):

	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>
Cash and cash equivalents	\$ 125,439	\$ 125,439	\$ 82,027	\$ 82,027
Securities, available-for-sale	266,128	266,128	378,752	378,752
Loans held for sale	693,504	693,504	496,351	496,351
Loans held for sale from discontinued operations	586	586	648	648
Loans held for investment, net	4,389,362	4,542,572	3,982,506	3,996,738
Derivative asset	1,837	1,837	2,767	2,767
Deposits	4,120,725	4,121,993	3,333,187	3,337,887
Federal funds purchased	580,519	580,519	350,155	350,155

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Borrowings	376,510	376,510	930,452	930,452
Trust preferred subordinated debentures	113,406	113,876	113,406	114,157
Derivative liability	1,837	1,837	2,767	2,767

77

---



## **Table of Contents**

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

### ***Cash and cash equivalents***

The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents approximate their fair value.

### ***Securities***

The fair value of investment securities is based on prices obtained from independent pricing services which are based on quoted market prices for the same or similar securities.

### ***Loans, net***

For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are generally based on carrying values. The fair value for all other loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of accrued interest approximates its fair value. The carrying amount of loans held for sale approximates fair value.

### ***Derivatives***

The estimated fair value of the interest rate swaps are based on internal cash flow models supported by market data inputs.

### ***Deposits***

The carrying amounts for variable-rate money market accounts approximate their fair value. Fixed-term certificates of deposit fair values are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities.

### ***Federal funds purchased, other borrowings and trust preferred subordinated debentures***

The carrying value reported in the consolidated balance sheet for federal funds purchased and short-term borrowings approximates their fair value. The fair value of term borrowings and trust preferred subordinated debentures is estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar borrowings.

### **Off-balance sheet instruments**

Fair values for our off-balance sheet instruments which consist of lending commitments and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Management believes that the fair value of these off-balance sheet instruments is not significant.

## **16. Commitments and Contingencies**

We lease various premises under operating leases with various expiration dates. Rent expense incurred under operating leases amounted to approximately \$6,968,000, \$4,981,000 and \$4,874,000 for the years ended

December 31, 2009, 2008 and 2007, respectively.

**Table of Contents**

Minimum future lease payments under operating leases are as follows (in thousands):

<b>Year Ending December 31,</b>	<b>Minimum Payments</b>
2010	\$ 7,605
2011	7,550
2012	7,573
2013	7,294
2014	7,054
2015 and thereafter	45,915
	\$ 82,991

**17. Parent Company Only**

Summarized financial information for Texas Capital Bancshares, Inc. Parent Company Only follows (in thousands):

<i>Balance Sheets</i>	<b>December 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 80,033	\$ 74,873
Investment in subsidiaries	507,930	469,391
Other assets	7,363	7,352
Total assets	\$ 595,326	\$ 551,616
<b>Liabilities and Stockholders Equity</b>		
Other liabilities	\$ 460	\$ 1,037
Other short-term borrowings		10,000
Long-term borrowings		40,000
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	113,866	164,443
Common stock	359	310
Additional paid-in capital	326,224	255,051
Retained earnings	148,720	129,951
Treasury stock	(8)	(8)
Accumulated other comprehensive income	6,165	1,869
Total stockholders equity	481,460	387,173
Total liabilities and stockholders equity	\$ 595,326	\$ 551,616



**Table of Contents****Statements of Earnings**

<i>(In thousands)</i>	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Dividend income	\$ 127	\$ 193	\$ 245
Other income	441	125	125
Total income	568	318	370
Interest expense	4,353	7,662	8,387
Salaries and employee benefits	669	501	455
Legal and professional	1,425	1,597	1,218
Other non-interest expense	392	329	382
Total expense	6,839	10,089	10,442
Loss before income taxes and equity in undistributed income of subsidiary	(6,271)	(9,771)	(10,072)
Income tax benefit	(2,139)	(3,375)	(3,463)
Loss before equity in undistributed income of subsidiary	(4,132)	(6,396)	(6,609)
Equity in undistributed income of subsidiary	28,284	30,662	36,031
Net income	\$ 24,152	\$ 24,266	\$ 29,422

**Table of Contents****Statements of Cash Flows**

<i>(in thousands)</i>	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>			
Net income	\$ 24,152	\$ 24,266	\$ 29,422
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in undistributed income of subsidiary	(28,284)	(30,662)	(36,031)
Increase in other assets	(11)	(657)	(114)
Tax benefit from stock option exercises	75	1,584	1,164
Excess tax benefits from stock-based compensation arrangements	(213)	(4,527)	(3,325)
Increase (decrease) in other liabilities	(577)	320	(45)
Net cash used in operating activities of continuing operations	(4,858)	(9,676)	(8,929)
<b>Investing Activity</b>			
Investment in subsidiaries		(25,000)	(30,000)
Net cash used in investing activity		(25,000)	(30,000)
<b>Financing Activities</b>			
Sale of common stock	61,024	58,662	1,932
Proceeds from issuance of preferred stock and related warrants	75,000		
Repurchase of preferred stock	(75,000)		
Preferred dividends paid	(1,219)		
Net other borrowings	(50,000)	25,000	25,000
Excess tax benefits from stock-based compensation arrangements	213	4,527	3,325
Purchase of treasury stock			(8)
Net cash provided by financing activities	10,018	88,189	30,249
Net increase (decrease) in cash and cash equivalents	5,160	53,513	(8,680)
Cash and cash equivalents at beginning of year	74,873	21,360	30,040
Cash and cash equivalents at end of year	\$ 80,033	\$ 74,873	\$ 21,360

**18. Related Party Transactions**

See Notes 3 and 7 for a description of loans and deposits with related parties.

**19. Sale of Discontinued Operation Residential Mortgage Lending and TexCap Insurance Services**

Subsequent to the end of the first quarter of 2007, Texas Capital Bank and the purchaser of its residential mortgage loan division (RML) agreed to terminate and settle the contractual arrangements related to the sale of the division, which had been completed as of the end of the third quarter of 2006. Historical operating results of RML are reflected as discontinued operations in the financial statement.

During 2009, the loss from discontinued operations from RML was \$235,000, net of taxes. The 2009 losses are primarily related to continuing legal and salary expenses incurred in dealing with the remaining loans and



**Table of Contents**

requests from investors related to the repurchase of previously sold loans. We still have approximately \$586,000 in loans held for sale from discontinued operations that are carried at estimated market value at December 31, 2009, which is less than the original cost. We plan to sell these loans, but timing and price to be realized cannot be determined at this time due to market conditions. In addition, we continue to address requests from investors related to repurchasing loans previously sold. While the balances as of December 31, 2009 include a liability for exposure to additional contingencies, including risk of having to repurchase loans previously sold, we recognize that market conditions may result in additional exposure to loss and the extension of time necessary to complete the discontinued mortgage operation.

On March 30, 2007, Texas Capital Bank completed the sale of its TexCap Insurance Services subsidiary; the sale is, accordingly, reported as a discontinued operation. Historical operating results of TexCap and the net after-tax gain of \$1.09 million from the sale are reflected as discontinued operations in the financial statements and schedules. All prior periods have been restated to reflect the change. Except as otherwise noted, all amounts and disclosures throughout this document reflect only the Company's continuing operations.

The results of operations of the discontinued components are presented separately in the accompanying consolidated statements of income for 2009, 2008 and 2007, net of tax, following income from continuing operations. Details are presented in the following tables (in thousands):

	<b>Year Ended December 31, 2009</b>		
	<b>RML</b>	<b>TexCap</b>	<b>Total</b>
Revenues	\$ 64	\$	\$ 64
Expenses	421		421
Income (loss) before income taxes	(357)		(357)
Income tax expense (benefit)	(122)		(122)
Income (loss) from discontinued operations	\$ (235)	\$	\$ (235)

	<b>Year Ended December 31, 2008</b>		
	<b>RML</b>	<b>TexCap</b>	<b>Total</b>
Revenues	\$ 105	\$	\$ 105
Expenses	1,046		1,046
Income (loss) before income taxes	(941)		(941)
Income tax expense (benefit)	\$ (325)	\$	\$ (325)
Income (loss) from discontinued operations	\$ (616)	\$	\$ (616)

	<b>Year Ended December 31, 2007</b>		
	<b>RML</b>	<b>TexCap</b>	<b>Total</b>



Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

Revenues	\$ (369)	\$ 424	\$ 55
Expenses	3,645	1,018	4,663
Gain on disposal		1,662	1,662
Income (loss) before income taxes	(4,014)	1,068	(2,946)
Income tax expense (benefit)	(1,379)	364	(1,015)
Income (loss) from discontinued operations	\$ (2,635)	\$ 704	\$ (1,931)

**Table of Contents****20. Derivative Financial Instruments**

The fair value of derivative positions outstanding is included in other assets and other liabilities in the accompanying consolidated balance sheets.

During 2009 and 2008, we entered into certain interest rate derivative positions that are not designated as hedging instruments. These derivative positions relate to transactions in which we enter into an interest rate swap, cap and/or floor with a customer while at the same time entering into an offsetting interest rate swap, cap and/or floor with another financial institution. In connection with each swap transaction, we agree to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, we agree to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customer to effectively convert a variable rate loan to a fixed rate. Because we act as an intermediary for our customer, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on our results of operations.

The notional amounts and estimated fair values of interest rate derivative positions outstanding at December 31, 2009 presented in the following table (in thousands):

	<b>Notional Amount</b>	<b>Estimated Fair Value</b>
Non-hedging interest rate derivative:		
Commercial loan/lease interest rate swaps	\$ 159,183	\$ 1,837
Commercial loan/lease interest rate swaps	(159,183)	(1,837)

The weighted-average receive and pay interest rates for interest rate swaps outstanding at December 31, 2009 were as follows:

	<b>Weighted-Average</b>	
	<b>Interest Rate</b>	<b>Interest Rate Paid</b>
	<b>Received</b>	
Non-hedging interest rate swaps	4.75%	1.88%

Our credit exposure on interest rate swaps is limited to the net favorable value and interest payments of all swaps by each counterparty. In such cases collateral may be required from the counterparties involved if the net value of the swaps exceeds a nominal amount considered to be immaterial. Our credit exposure, net of any collateral pledged, relating to interest rate swaps was approximately \$1.8 million at December 31, 2009, all of which relates to bank customers. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap values.

**21. Subsequent Event**

On January 27, 2010, we announced that we have entered into an Equity Distribution Agreement with Morgan Stanley & Co. Incorporated, pursuant to which we may, from time to time, offer and sell shares of our common stock, having aggregate gross sales proceeds of up to \$40,000,000. Sales of the shares are being made by means of brokers

transactions on or through the NASDAQ Global Select Market at market prices prevailing at the time of the sale or as otherwise agreed to by the Company and Morgan Stanley. As of February 17, 2010 we have sold 271,973 shares at an average price of \$16.88. Net proceeds on the sales are approximately \$4.5 million, after payment of a 1% sales commission paid to Morgan Stanley, and are being used for general corporate purposes. In addition to the 1% sales commission, we paid Morgan Stanley a \$400,000 program fee.

## **22. New Accounting Standards**

*FASB ASC 105 Generally Accepted Accounting Principles* ( ASC 105 ) establishes the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification (the Codification ) as the source of

**Table of Contents**

authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. ASC 105 was adopted on September 15, 2009, and did not have a significant impact on our financial statements.

*FASB ASC 810 Consolidation* ( ASC 810 ) became effective for us on January 1, 2009, and was amended to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new authoritative accounting guidance under ASC 810 will be effective January 1, 2010 and is not expected to have a significant impact on our financial statements.

*FASB ASC 860 Transfers and Servicing* ( ASC 860 ) was amended to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC 860 will be effective January 1, 2010 and is not expected to have a significant impact on our financial statements.

**ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

**ITEM 9A. *CONTROLS AND PROCEDURES***

We have established and maintain disclosure controls and other procedures that are designed to ensure that material information relating to us and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 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 Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. For the period covered in this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2009.

The Chief Executive Officer and Chief Financial Officer have also concluded that there were no changes in our internal control over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during the fiscal quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the

**Table of Contents**

supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2009, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2009, based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, is included in this Item under the heading Report of Independent Registered Public Accounting Firm.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders of  
Texas Capital Bancshares, Inc.**

We have audited Texas Capital Bancshares, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Texas Capital Bancshares, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Texas Capital Bancshares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2009 consolidated financial statements of Texas Capital Bancshares, Inc. and our report dated February 18, 2010 expressed an unqualified opinion thereon.

Dallas, Texas  
February 18, 2010





**Table of Contents**

**ITEM 9B. OTHER INFORMATION**

None.

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 18, 2010, which proxy materials will be filed with the SEC no later than April 8, 2010.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 18, 2010, which proxy materials will be filed with the SEC no later than April 8, 2010.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 18, 2010, which proxy materials will be filed with the SEC no later than April 8, 2010.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 18, 2010, which proxy materials will be filed with the SEC no later than April 8, 2010.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 18, 2010, which proxy materials will be filed with the SEC no later than April 8, 2010.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) *Documents filed as part of this report*

(1) All financial statements

Independent Registered Public Accounting Firms Report of Ernst & Young LLP

(2) *All financial statements required by Item 8*

Independent Registered Public Accounting Firms Report of Ernst & Young LLP

(3) *Exhibits*

2.1 Agreement and Plan to Consolidate Texas Capital Bank with and into Resource Bank, National Association and under the Title of Texas Capital Bank, National Association, which is incorporated by reference to Exhibit 2.1 to our registration statement on Form 10 dated August 24, 2001

- 2.2 Amendment to Agreement and Plan to Consolidate, which is incorporated by reference to Exhibit 2.2 to our registration statement on Form 10 dated August 24, 2001
- 3.1 Certificate of Incorporation, which is incorporated by reference to Exhibit 3.1 to our registration statement on Form 10 dated August 24, 2001
- 3.2 Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.2 to our registration statement on Form 10 dated August 24, 2001
- 3.3 Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.3 to our registration statement on Form 10 dated August 24, 2001
- 3.4 Certificate of Amendment of Certificate of Incorporation, which is incorporated by reference to Exhibit 3.4 to our registration statement on Form 10 dated August 24, 2001

**Table of Contents**

- 3.5 Amended and Restated Bylaws of Texas Capital Bancshares, Inc. which is incorporated by reference to Exhibit 3.5 to our registration statement on Form 10 dated August 24 ,2001
- 3.6 First Amendment to Amended and Restated Bylaws of Texas Capital Bancshares, Inc. which is incorporated by reference to Current Report on Form 8-K dated July 18, 2007
- 4.1 Texas Capital Bancshares, Inc. 1999 Omnibus Stock Plan, which is incorporated by reference to Exhibit 4.1 to our registration statement on Form 10 dated August 24, 2001+
- 4.2 Texas Capital Bancshares, Inc. 2006 Employee Stock Purchase Plan, which is incorporated by reference to our registration statement on Form S-8 dated February 3, 2006+
- 4.3 Texas Capital Bancshares, Inc. 2005 Long-Term Incentive Plan, which is incorporated by reference to our registration statement on Form S-8 dated June 3, 2005+
- 4.4 Placement Agreement by and between Texas Capital Bancshares Statutory Trust I and SunTrust Capital Markets, Inc., which is incorporated by reference to our Current Report on Form 8-K dated December 4, 2002
- 4.5 Certificate of Trust of Texas Capital Bancshares Statutory Trust I, dated November 12, 2002 which is incorporated by reference to our Current Report on Form 8-K dated December 4, 2002
- 4.6 Amended and Restated Declaration of Trust by and among State Street Bank and Trust Company of Connecticut, National Association, Texas Capital Bancshares, Inc. and Joseph M. Grant, Raleigh Hortenstine III and Gregory B. Hultgren, dated November 19, 2002 which is incorporated by reference to our Current Report on Form 8-K dated December 4, 2002
- 4.7 Indenture dated November 19, 2002 which is incorporated by reference to our Current Report on Form 8-K dated December 4, 2002
- 4.8 Guarantee Agreement between Texas Capital Bancshares, Inc. and State Street Bank and Trust of Connecticut, National Association dated November 19, 2002, which is incorporated by reference to our Current Report on Form 8-K dated December 4, 2002
- 4.9 Placement Agreement by and among Texas Capital Bancshares, Inc., Texas Capital Statutory Trust II and Sandler O Neill & Partners, L.P., which is incorporated by reference to our Current Report Form 8-K dated June 11, 2003
- 4.10 Certificate of Trust of Texas Capital Statutory Trust II, which is incorporated by reference to our Current Report on Form 8-K dated June 11, 2003
- 4.11 Amended and Restated Declaration of Trust by and among Wilmington Trust Company, Texas Capital Bancshares, Inc., and Joseph M. Grant and Gregory B. Hultgren, dated April 10, 2003, which is incorporated by reference to our Current Report on Form 8-K dated June 11, 2003
- 4.12 Indenture between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated April 10, 2003, which is incorporated by reference to our Current Report on Form 8-K dated June 11, 2003
- 4.13 Guarantee Agreement between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated April 10, 2003, which is incorporated by reference to our Current Report on Form 8-K dated June 11, 2003
- 4.14 Amended and Restated Declaration of Trust for Texas Capital Statutory Trust III by and among Wilmington Trust Company, as Institutional Trustee and Delaware Trustee, Texas Capital Bancshares, Inc. as Sponsor, and the Administrators named therein, dated as of October 6, 2005, which is incorporated by reference to our Current Report on Form 8-K dated October 13, 2005
- 4.15 Indenture between Texas Capital Bancshares, Inc., as Issuer, and Wilmington Trust Company, as Trustee, for Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures, dated as of October 6, 2005, which is incorporated by reference to our Current Report on Form 8-K dated October 13, 2005
- 4.16 Guarantee Agreement between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated as of October 6, 2005, which is incorporated by reference to our Current Report on Form 8-K dated October 13, 2005
- 4.17 Amended and Restated Declaration of Trust for Texas Capital Statutory Trust IV by and among Wilmington Trust Company, as Institutional Trustee and Delaware Trustee, Texas Capital Bancshares, Inc.

Edgar Filing: TEXAS CAPITAL BANCSHARES INC/TX - Form 10-K

as Sponsor, and the Administrators named therein, dated as of April 28, 2006, which is incorporated by reference to our Current Report on Form 8-K dated May 3, 2006

88

---

**Table of Contents**

- 4.18 Indenture between Texas Capital Bancshares, Inc., as Issuer, and Wilmington Trust Company, as Trustee, for Floating Rate Junior Subordinated Deferrable Interest Debentures dated as of April 28, 2006, which is incorporated by reference to our Current Report on Form 8-K dated May 3, 2006
- 4.19 Guarantee Agreement between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated as of April 28, 2006, which is incorporated by reference to our Current Report on Form 8-K dated May 3, 2006
- 4.20 Amended and Restated Trust Agreement for Texas Capital Statutory Trust V by and among Wilmington Trust Company, as Property Trustee and Delaware Trustee, Texas Capital Bancshares, Inc., as Depositor, and the Administrative Trustees named therein, dated as of September 29, 2006, which is incorporated by reference to our Current Report on Form 8-K dated October 5, 2006
- 4.21 Junior Subordinated Indenture between Texas Capital Bancshares, Inc. and Wilmington Trust Company, as Trustee, for Floating Rate Junior Subordinated Note dated as of September 29, 2006, which is incorporated by reference to our Current Report on Form 8-K dated October 5, 2006
- 4.22 Guarantee Agreement between Texas Capital Bancshares, Inc. and Wilmington Trust Company, dated as of September 29, 2006, which is incorporated by reference to our Current Report on Form 8-K dated October 5, 2006
- 10.1 Deferred Compensation Agreement, which is incorporated by reference to Exhibit 10.2 to our registration statement on Form 10-K dated August 24, 2001<sup>+</sup>
- 10.2 Amended and Restated Deferred Compensation Agreement Irrevocable Trust dated as of November 2, 2004, by and between Texas Capital Bancshares, Inc. and Texas Capital Bank, National Association, which is incorporated by reference to our Annual Report on Form 10-K dated March 14, 2005.<sup>+</sup>
- 10.3 Chairman Emeritus and Consulting Agreement between Joseph M. Grant and Texas Capital Bancshares, Inc., dated April 8, 2008, which is incorporated by reference to our Form 10-Q dated May 2, 2008.<sup>+</sup>
- 10.4 Executive Employment Agreement between George F. Jones, Jr. and Texas Capital Bancshares, Inc. dated December 31, 2008, which is incorporated by reference to our Current Report on Form 8-K dated January 6, 2009<sup>+</sup>
- 10.5 Executive Employment Agreement between C. Keith Cargill and Texas Capital Bancshares, Inc. dated December 31, 2008, which is incorporated by reference to our Current Report on Form 8-K dated January 6, 2009<sup>+</sup>
- 10.6 Executive Employment Agreement between Peter B. Bartholow and Texas Capital Bancshares, Inc. dated December 31, 2008, which is incorporated by reference to our Current Report on Form 8-K dated January 6, 2009<sup>+</sup>
- 10.7 Officer Indemnity Agreement dated December 20, 2004, by and between Texas Capital Bancshares, Inc. and George F. Jones, Jr., which is incorporated by reference to our Current Report on Form 8-K dated December 23, 2004<sup>+</sup>
- 10.8 Officer Indemnity Agreement dated December 20, 2004, by and between Texas Capital Bancshares, Inc. and C. Keith Cargill, which is incorporated by reference to our Current Report on Form 8-K dated December 23, 2004<sup>+</sup>
- 10.9 Officer Indemnity Agreement dated December 20, 2004, by and between Texas Capital Bancshares, Inc. and Peter B. Bartholow, which is incorporated by reference to our Current Report on Form 8-K dated December 23, 2004<sup>+</sup>
- 10.10 Texas Capital Bancshares, Inc. 1999 Omnibus Stock Plan, which is incorporated by reference to Exhibit 4.1 to our registration statement on Form 10 dated August 24, 2001<sup>+</sup>
- 10.11 Texas Capital Bancshares, Inc. 2006 Employee Stock Purchase Plan, which is incorporated by reference to our registration statement on Form S-8 dated February 3, 2006<sup>+</sup>
- 10.12 Texas Capital Bancshares, Inc. 2005 Long-Term Incentive Plan, which is incorporated by reference to our registration statement on Form S-8 dated June 3, 2005<sup>+</sup>



**Table of Contents**

- 10.13 Credit Agreement between Texas Capital Bancshares, Inc. and KeyBank National Association, dated as of September 27, 2007, which is incorporated by reference to our Current Report on Form 8-K dated October 1, 2007
- 10.14 Letter Agreement between Texas Capital Bancshares, Inc. and the United States Department of the Treasury dated as of January 16, 2009, which is incorporated by reference to our Current Report on Form 8-K dated January 16, 2009
- 21 Subsidiaries of the Registrant\*
- 23.1 Consent of Ernst & Young LLP\*
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act\*
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act\*
- 32.1 Section 1350 Certification of Chief Executive Officer\*
- 32.2 Section 1350 Certification of Chief Financial Officer\*

\* Filed herewith

+ Management contract or compensatory plan arrangement

**Table of Contents**

**SIGNATURES**

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

TEXAS CAPITAL BANCSHARES, INC.

By: /s/ GEORGE F. JONES , JR.

George F. Jones, Jr.  
President and Chief Executive Officer

Date: February 18, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JAMES R. HOLLAND, JR.  
James R. Holland, Jr.  
Chairman of the Board and Director

Date: February 18, 2010

/s/ GEORGE F. JONES, JR.  
George F. Jones, Jr.  
President, Chief Executive Officer and Director  
(principal executive officer)

Date: February 18, 2010

/s/ PETER BARTHLOW  
Peter Bartholow  
Executive Vice President, Chief Financial Officer and Director  
(principal financial officer)

Date: February 18, 2010

/s/ JULIE ANDERSON  
Julie Anderson  
Controller  
(principal accounting officer)

Date: February 18, 2010



**Table of Contents**

/s/ JAMES H. BROWNING  
James H. Browning  
Director

Date: February 18, 2010  
/s/ JOSEPH M. GRANT  
Joseph M. Grant  
Director

Date: February 18, 2010

/s/ FREDERICK B. HEGI, JR.  
Frederick B. Hegi, Jr.  
Director

Date: February 18, 2010

/s/ LARRY L. HELM  
Larry L. Helm  
Director

Date: February 18, 2010

/s/ WALTER W. MCALLISTER III  
Walter W. McAllister III  
Director

Date: February 18, 2010

/s/ LEE ROY MITCHELL  
Lee Roy Mitchell  
Director

Date: February 18, 2010

/s/ ELYSIA H. RAGUSA  
Elysia H. Ragusa  
Director

Date: February 18, 2010

/s/ STEVEN P. ROSENBERG  
Steven P. Rosenberg  
Director

Date: February 18, 2010

**Table of Contents**

/s/ ROBERT W. STALLINGS  
Robert W. Stallings  
Director

Date: February 18, 2010

/s/ IAN J. TURPIN  
Ian J. Turpin  
Director

Date: February 18, 2010