

TEXAS CAPITAL BANCSHARES INC/TX

Form 10-Q

August 02, 2007

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

**Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the quarterly period ended June 30, 2007**

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

**Commission file number 0-30533**

**TEXAS CAPITAL BANCSHARES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**75-2679109**

(I.R.S. Employer Identification Number)

**2100 McKinney Avenue, Suite 900, Dallas, Texas,  
U.S.A.**

(Address of principal executive officers)

**75201**

(Zip Code)

**214/932-6600**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

On July 31, 2007, the number of shares set forth below was outstanding with respect to each of the issuer's classes of common stock:

Common Stock, par value \$0.01 per share

26,192,598

Texas Capital Bancshares, Inc.  
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**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TEXAS CAPITAL BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED**

(In thousands except per share data)

	Three months ended June		Six months ended June 30	
	2007	2006	2007	2006
<b>Interest income</b>				
Interest and fees on loans	\$ 66,526	\$ 50,692	\$ 127,700	\$ 94,492
Securities	5,868	6,726	11,837	13,557
Federal funds sold	10	3	15	27
Deposits in other banks	15	13	30	24
Total interest income	72,419	57,434	139,582	108,100
<b>Interest expense</b>				
Deposits	29,731	22,369	60,621	41,676
Federal funds purchased	3,767	2,433	5,920	4,341
Repurchase agreements	270	1,562	664	2,764
Other borrowings	2,117	890	2,129	1,444
Trust preferred subordinated debentures	2,063	1,167	4,110	1,995
Total interest expense	37,948	28,421	73,444	52,220
<b>Net interest income</b>	34,471	29,013	66,138	55,880
<b>Provision for loan losses</b>	1,500	2,250	2,700	2,250
<b>Net interest income after provision for loan losses</b>	32,971	26,763	63,438	53,630
<b>Non-interest income</b>				
Service charges on deposit accounts	953	805	1,846	1,661
Trust fee income	1,194	866	2,271	1,709
Bank owned life insurance (BOLI) income	301	292	599	578
Brokered loan fees	574	483	1,053	852
Equipment rental income	1,493	815	2,952	1,328
Other	773	728	1,703	1,603
Total non-interest income	5,288	3,989	10,424	7,731
<b>Non-interest expense</b>				
Salaries and employee benefits	14,762	12,484	29,319	24,330
Net occupancy expense	2,055	1,953	4,075	3,964
Leased equipment depreciation	1,204	786	2,411	1,167
Marketing	728	905	1,485	1,607
Legal and professional	1,742	1,360	3,403	2,812
Communications and data processing	838	733	1,670	1,425
Franchise taxes	89	104	130	165
Other	3,993	2,831	7,013	5,815

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Total non-interest expense	25,411	21,156	49,506	41,285
<b>Income from continuing operations before income taxes</b>	12,848	9,596	24,356	20,076
Income tax expense	4,463	3,273	8,385	6,846
<b>Income from continuing operations</b>	8,385	6,323	15,971	13,230
<b>Income (loss) from discontinued operations (after-tax)</b>	(180)	18	(144)	(246)
<b>Net income</b>	\$ 8,205	\$ 6,341	\$ 15,827	\$ 12,984
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ .32	\$ .24	\$ .61	\$ .51
Net income	\$ .31	\$ .24	\$ .61	\$ .50
<b>Diluted earnings per share:</b>				
Income from continuing operations	\$ .31	\$ .24	\$ .60	\$ .50
Net income	\$ .31	\$ .24	\$ .60	\$ .49

See accompanying notes to consolidated financial statements.

**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands except per share data)

	June 30, 2007 (Unaudited)	December 31, 2006
<b>Assets</b>		
Cash and due from banks	\$ 83,603	\$ 93,716
Securities, available-for-sale	490,967	532,053
Loans held for sale	183,768	199,014
Loans held for sale from discontinued operations	1,264	16,844
Loans held for investment (net of unearned income)	3,083,911	2,722,097
Less: Allowance for loan losses	24,062	21,003
Loans held for investment, net	3,059,849	2,701,094
Premises and equipment, net	33,776	33,818
Accrued interest receivable and other assets	83,622	85,821
Goodwill and intangible assets, net	7,933	12,989
Total assets	\$3,944,782	\$ 3,675,349
<b>Liabilities and Stockholders Equity</b>		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 495,010	\$ 513,930
Interest bearing	1,631,397	1,670,956
Interest bearing in foreign branches	986,153	884,444
Total deposits	3,112,560	3,069,330
Accrued interest payable	6,678	5,781
Other liabilities	20,373	21,758
Federal funds purchased	148,450	165,955
Repurchase agreements	22,672	43,359
Other borrowings	250,546	2,245
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	3,674,685	3,421,834
Stockholders equity:		
Common stock, \$.01 par value:		
Authorized shares 100,000,000		
Issued shares 26,189,562 and 26,065,124 at June 30, 2007 and December 31, 2006, respectively	262	261
Additional paid-in capital	186,319	182,321
Retained earnings	91,990	76,163
	(581)	(573)

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Treasury stock (shares at cost: 84,691 and 84,274 at June 30, 2007 and December 31, 2006)

Deferred compensation	573	573
Accumulated other comprehensive loss, net of taxes	(8,466)	(5,230)
Total stockholders' equity	270,097	253,515
Total liabilities and stockholders' equity	\$3,944,782	\$ 3,675,349

See accompanying notes to consolidated financial statements.

**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(In thousands except share data)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Stock Amount	Deferred Compensation	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2005	25,771,718	\$ 258	\$ 176,131	\$ 47,239	(84,274)	\$ (573)	\$ 573	\$ (8,105)	\$ 215,523
Comprehensive income:									
Net income				28,924					28,924
Change in unrealized gain (loss) on available-for-sale securities, net of taxes of \$1,547								2,875	2,875
Total comprehensive income									31,799
Tax benefit related to exercise of stock options			1,431						1,431
Stock-based compensation expense recognized in earnings			2,847						2,847
Issuance of common stock	293,406	3	1,912						1,915
Balance at December 31, 2006	26,065,124	261	182,321	76,163	(84,274)	(573)	573	(5,230)	253,515
Comprehensive income:									
Net income (unaudited)				15,827					15,827
Change in unrealized gain (loss) on available-for-sale securities, net of tax benefit of								(3,236)	(3,236)

\$1,742 (unaudited)

Total comprehensive income (unaudited)										12,591
Tax benefit related to exercise of stock options (unaudited)			444							444
Stock-based compensation expense recognized in earnings (unaudited)			2,510							2,510
Issuance of stock related to stock-based awards (unaudited)	124,438	1	1,044							1,045
Purchase of treasury stock (unaudited)					(417)	(8)				(8)
Balance at June 30, 2007 (unaudited)	26,189,562	\$ 262	\$ 186,319	\$ 91,990	(84,691)	\$ (581)	\$ 573	\$ (8,466)	\$ 270,097	

See accompanying notes to consolidated financial statements.

**TEXAS CAPITAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS    UNAUDITED**

(In thousands)

	Six months ended June 30	
	2007	2006
<b>Operating activities</b>		
Net income	\$ 15,827	\$ 12,984
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	2,700	2,250
Depreciation and amortization	3,545	2,413
Amortization and accretion on securities	171	669
Bank owned life insurance (BOLI) income	(599)	(578)
Stock-based compensation expense	2,510	1,458
Tax benefit from stock option exercises	444	818
Excess tax benefits from stock-based compensation arrangements	(1,269)	(2,337)
Originations of loans held for sale	(2,153,557)	(1,247,038)
Proceeds from sales of loans held for sale	2,168,803	1,186,308
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	2,798	(2,624)
Accrued interest payable and other liabilities	1,255	1,701
Net cash (used in) provided by operating activities of continuing operations	42,628	(43,976)
Net cash provided by operating activities of discontinued operations	19,672	3,718
Net cash (used in) provided by operating activities	62,300	(40,258)
<b>Investing activities</b>		
Purchases of available-for-sale securities	(15,533)	(8,001)
Maturities and calls of available-for-sale securities	9,882	5,200
Principal payments received on securities	41,587	50,501
Net increase in loans	(359,712)	(337,634)
Purchase of premises and equipment, net	(4,282)	(8,367)
Net cash used in investing activities of continuing operations	(328,058)	(298,301)
Net cash used in investing activities of discontinued operations		(235)
Net cash used in investing activities	(328,058)	(298,536)
<b>Financing activities</b>		
Net increase in deposits	43,230	427,315
Issuance of stock related to stock-based awards	1,045	1,256
Issuance of trust preferred subordinated debentures		25,774
Net increase (decrease) in other borrowings	227,614	(88,554)
Excess tax benefits from stock-based compensation arrangements	1,269	2,337
Net federal funds purchased	(17,505)	(3,437)
Purchase of treasury stock	(8)	

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Net cash provided by financing activities of continuing operations	255,645	364,691
Net cash provided by financing activities of discontinued operations		
Net cash provided by financing activities	255,645	364,691
Net increase (decrease) in cash and cash equivalents	(10,113)	25,897
Cash and cash equivalents at beginning of period	93,716	137,840
Cash and cash equivalents at end of period	\$ 83,603	\$ 163,737
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 72,547	\$ 51,754
Cash paid during the period for income taxes	9,849	6,816
Non-cash transactions:		
Transfers from loans/leases to premises and equipment	845	1,945
See accompanying notes to consolidated financial statements.		

**TEXAS CAPITAL BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED**

**(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

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

**Basis of Presentation**

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

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make interim financial information not misleading. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (SEC). Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2006, included in our Annual Report on Form 10-K filed with the SEC on March 2, 2007 (the 2006 Form 10-K ).

**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.

**Loans**

Loans (which include equipment leases accounted for as financing leases) are either secured or unsecured based on the type of loan and the financial condition of the borrower. Repayment is generally expected from cash flows of borrowers. We are exposed to risk of loss on loans which may arise from any number of factors including problems within the respective industry of the borrower or from local economic conditions. Access to collateral, in the event of borrower default, is reasonably assured through adherence to applicable lending laws and through sound lending standards and credit review procedures.

Loans are stated at the amount of unpaid principal reduced by deferred income (net of costs) and an allowance for loan losses. 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 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.

The accrual of interest on loans is discontinued when it is considered impaired and/or 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.

#### **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 borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

#### **Stock-based Compensation**

On January 1, 2006, we changed our accounting policy related to stock-based compensation in connection with the adoption of Statement of Financial Accounting Standards (SFAS) No. 123, Share-Based Payment (Revised 2004) (SFAS 123R). Prior to adoption, we accounted for stock plans under the recognition and measurement principles of APB Opinion 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations. No stock-based compensation was reflected in net income, as all option grants had an exercise price equal to the market value of the underlying common stock on the date of the grant. SFAS 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such 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, SFAS 123R 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 were outstanding as of January 1, 2006 are recognized as the remaining requisite service is rendered during and after the period of adoption of SFAS 123R. 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.

#### **Income Taxes**

On January 1, 2007, we changed our accounting policy related to accounting for tax contingencies in connection with the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109 (Interpretation 48). See Note 9 New Accounting Pronouncements for additional information.

#### **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).

**Reclassifications**

Certain items in prior financial statements have been reclassified to conform to the current presentation.

**(2) EARNINGS PER SHARE**

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

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Numerator:				
Net income from continuing operations	\$ 8,385	\$ 6,323	\$ 15,971	\$ 13,230
Income (loss) from discontinued operations	(180)	18	(144)	(246)
Net income	\$ 8,205	\$ 6,341	\$ 15,827	\$ 12,984
Denominator:				
Denominator for basic earnings per share-weighted average shares	26,145,384	25,907,243	26,116,392	25,866,524
Effect of employee stock options <sup>(1)</sup>	566,053	617,309	460,353	679,579
Denominator for dilutive earnings per share-adjusted weighted average shares and assumed conversions	26,711,437	26,524,552	26,576,745	26,546,103
Basic earnings per share from continuing operations	\$ .32	\$ .24	\$ .61	\$ .51
Basic earnings per share from discontinued operations	(.01)			(.01)
Basic earnings per share	\$ .31	\$ .24	\$ .61	\$ .50
Diluted earnings per share from continuing operations	\$ .31	\$ .24	\$ .60	\$ .50
Diluted earnings per share from discontinued operations				(.01)
Diluted earnings per share	\$ .31	\$ .24	\$ .60	\$ .49