

TEXAS CAPITAL BANCSHARES INC/TX

Form 10-Q

July 26, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the quarterly period ended June 30, 2012

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

Commission file number 001-34657

TEXAS CAPITAL BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

75201
(Zip Code)

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

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

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

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Small Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

On July 25, 2012, 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 | 38,120,519 |
|------------------------------------------|------------|

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Texas Capital Bancshares, Inc.

Form 10-Q

Quarter Ended June 30, 2012

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TEXAS CAPITAL BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME UNAUDITED**

(In thousands except per share data)

| | Three months ended June 30, | | Six months ended June 30, | |
|--------------------------------------------------------------|--------------------------------|-----------|------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Interest income | | | | |
| Loans | \$ 94,291 | \$ 73,509 | \$ 186,065 | \$ 141,549 |
| Securities | 1,203 | 1,680 | 2,510 | 3,526 |
| Federal funds sold | 4 | 5 | 5 | 33 |
| Deposits in other banks | 48 | 65 | 97 | 262 |
| Total interest income | 95,546 | 75,259 | 188,677 | 145,370 |
| Interest expense | | | | |
| Deposits | 3,482 | 3,417 | 6,954 | 8,288 |
| Federal funds purchased | 240 | 94 | 521 | 201 |
| Repurchase agreements | 4 | 2 | 7 | 4 |
| Other borrowings | 492 | 14 | 927 | 14 |
| Trust preferred subordinated debentures | 688 | 638 | 1,399 | 1,271 |
| Total interest expense | 4,906 | 4,165 | 9,808 | 9,778 |
| Net interest income | 90,640 | 71,094 | 178,869 | 135,592 |
| Provision for credit losses | 1,000 | 8,000 | 4,000 | 15,500 |
| Net interest income after provision for credit losses | 89,640 | 63,094 | 174,869 | 120,092 |
| Non-interest income | | | | |
| Service charges on deposit accounts | 1,624 | 1,608 | 3,228 | 3,391 |
| Trust fee income | 1,232 | 1,066 | 2,346 | 2,020 |
| Bank owned life insurance (BOLI) income | 588 | 539 | 1,109 | 1,062 |
| Brokered loan fees | 4,128 | 2,558 | 7,779 | 5,078 |
| Equipment rental income | 172 | 676 | 333 | 1,459 |
| Other | 2,718 | 1,504 | 4,857 | 2,625 |
| Total non-interest income | 10,462 | 7,951 | 19,652 | 15,635 |
| Non-interest expense | | | | |
| Salaries and employee benefits | 30,230 | 24,109 | 59,249 | 48,281 |
| Net occupancy expense | 3,679 | 3,443 | 7,283 | 6,753 |
| Leased equipment depreciation | 143 | 447 | 282 | 1,003 |
| Marketing | 3,174 | 2,733 | 5,997 | 4,856 |
| Legal and professional | 3,330 | 4,264 | 7,321 | 6,987 |
| Communications and technology | 2,720 | 2,584 | 5,203 | 4,931 |
| FDIC insurance assessment | 1,596 | 1,972 | 3,165 | 4,483 |
| Allowance and other carrying costs for OREO | 3,812 | 1,023 | 7,154 | 5,053 |
| Other | 5,289 | 4,688 | 10,595 | 9,315 |
| Total non-interest expense | 53,973 | 45,263 | 106,249 | 91,662 |

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| | | | | |
|-------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|
| Income from continuing operations before income taxes | 46,129 | 25,782 | 88,272 | 44,065 |
| Income tax expense | 16,506 | 9,074 | 31,568 | 15,418 |
| Income from continuing operations | 29,623 | 16,708 | 56,704 | 28,647 |
| Income (loss) from discontinued operations (after-tax) | (1) | (54) | 3 | (114) |
| Net income | \$ 29,622 | \$ 16,654 | \$ 56,707 | \$ 28,533 |
| Basic earnings per common share | | | | |
| Income from continuing operations | \$ 0.78 | \$ 0.45 | \$ 1.50 | \$ 0.77 |
| Net income | \$ 0.78 | \$ 0.45 | \$ 1.50 | \$ 0.77 |
| Diluted earnings per common share | | | | |
| Income from continuing operations | \$ 0.76 | \$ 0.44 | \$ 1.45 | \$ 0.75 |
| Net income | \$ 0.76 | \$ 0.43 | \$ 1.45 | \$ 0.74 |
| Other comprehensive income | | | | |
| Unrealized gain (loss) on available-for-sale securities arising during period, before tax | \$ (625) | \$ 43 | \$ (912) | \$ (205) |
| Income tax benefit (expense) related to unrealized gain (loss) on available-for-sale securities | (219) | 15 | (319) | (72) |
| Other comprehensive gain/(loss) net of tax | (406) | 28 | (593) | (133) |
| Comprehensive income | \$ 29,216 | \$ 16,682 | \$ 56,114 | \$ 28,400 |

See accompanying notes to consolidated financial statements.

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(In thousands except per share data)

| | June 30, 2012 (Unaudited) | December 31, 2011 |
|--------------------------------------------------------------------------------|---------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 93,377 | \$ 79,248 |
| Interest-bearing deposits | 49,254 | 31,310 |
| Federal funds sold | 20 | |
| Securities, available-for-sale | 114,964 | 143,710 |
| Loans held for sale | 2,408,032 | 2,080,081 |
| Loans held for sale from discontinued operations | 388 | 393 |
| Loans held for investment (net of unearned income) | 6,234,692 | 5,572,371 |
| Less: Allowance for loan losses | 72,404 | 70,295 |
| Loans held for investment, net | 6,162,288 | 5,502,076 |
| Premises and equipment, net | 12,037 | 11,457 |
| Accrued interest receivable and other assets | 284,207 | 268,863 |
| Goodwill and intangible assets, net | 20,181 | 20,480 |
| Total assets | \$ 9,144,748 | \$ 8,137,618 |
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | \$ 2,019,473 | \$ 1,751,944 |
| Interest bearing | 4,230,806 | 3,324,040 |
| Interest bearing in foreign branches | 410,011 | 480,273 |
| Total deposits | 6,660,290 | 5,556,257 |
| Accrued interest payable | 887 | 599 |
| Other liabilities | 80,421 | 82,909 |
| Federal funds purchased | 271,835 | 412,249 |
| Repurchase agreements | 22,148 | 23,801 |
| Other borrowings | 1,315,056 | 1,332,066 |
| Trust preferred subordinated debentures | 113,406 | 113,406 |
| Total liabilities | 8,464,043 | 7,521,287 |
| Stockholders equity: | | |
| Preferred stock, \$.01 par value, \$1,000 liquidation value: | | |
| Authorized shares 10,000,000 | | |
| Common stock, \$.01 par value: | | |
| Authorized shares 100,000,000 | | |
| Issued shares 38,114,429 and 37,666,708 at June 30, 2012 and December 31, 2011 | 381 | 376 |
| Additional paid-in capital | 357,713 | 349,458 |
| Retained earnings | 318,490 | 261,783 |
| Treasury stock (shares at cost: 417 at June 30, 2012 and December 31, 2011) | (8) | (8) |
| Accumulated other comprehensive income, net of taxes | 4,129 | 4,722 |

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| | | |
|--------------------------------------------|--------------|--------------|
| Total stockholders' equity | 680,705 | 616,331 |
| Total liabilities and stockholders' equity | \$ 9,144,748 | \$ 8,137,618 |

See accompanying notes to consolidated financial statements.

Table of Contents**TEXAS CAPITAL BANCSHARES, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands except share data)

| | Preferred Stock | | Common Stock | | | Treasury Stock | | Accumulated Other Comprehensive Income, Net of Taxes | Total | |
|-----------------------------------------------------------------------------------------------|-----------------|--------|--------------|--------|----------------------------------|----------------------|--------|---------------------------------------------------------------------|----------|------------|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Shares | Amount | | |
| Balance at December 31, 2010 | | \$ | 36,957,104 | \$ 369 | \$ 336,796 | \$ 185,807 | (417) | \$ (8) | \$ 5,355 | \$ 528,319 |
| Comprehensive income: | | | | | | | | | | |
| Net income (unaudited) | | | | | | 28,533 | | | | 28,533 |
| Change in unrealized gain on available-for-sale securities, net of taxes of \$72 (unaudited) | | | | | | | | | (133) | (133) |
| Total comprehensive income (unaudited) | | | | | | | | | | 28,400 |
| Tax expense related to exercise of stock-based awards (unaudited) | | | | | 1,616 | | | | | 1,616 |
| Stock-based compensation expense recognized in earnings (unaudited) | | | | | 4,185 | | | | | 4,185 |
| Issuance of stock related to stock-based awards (unaudited) | | | 373,039 | 4 | 1,400 | | | | | 1,404 |
| Balance at June 30, 2011 (unaudited) | | \$ | 37,330,143 | \$ 373 | \$ 343,997 | \$ 214,340 | (417) | \$ (8) | \$ 5,222 | \$ 563,924 |
| Balance at December 31, 2011 | | \$ | 37,666,708 | \$ 376 | \$ 349,458 | \$ 261,783 | (417) | \$ (8) | \$ 4,722 | \$ 616,331 |
| Comprehensive income: | | | | | | | | | | |
| Net income (unaudited) | | | | | | 56,707 | | | | 56,707 |
| Change in unrealized gain on available-for-sale securities, net of taxes of \$319 (unaudited) | | | | | | | | | (593) | (593) |
| Total comprehensive income (unaudited) | | | | | | | | | | 56,114 |
| Tax expense related to exercise of stock-based awards (unaudited) | | | | | 3,261 | | | | | 3,261 |
| Stock-based compensation expense recognized in earnings (unaudited) | | | | | 3,553 | | | | | 3,553 |
| Issuance of stock related to stock-based awards (unaudited) | | | 447,721 | 5 | 1,441 | | | | | 1,446 |
| | | \$ | 38,114,429 | \$ 381 | \$ 357,713 | \$ 318,490 | (417) | \$ (8) | \$ 4,129 | \$ 680,705 |

Balance at June 30, 2012
(unaudited)

See accompanying notes to consolidated financial statements

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

(In thousands)

| | Six months ended June 30, | |
|---------------------------------------------------------------------------------------------|---------------------------|--------------|
| | 2012 | 2011 |
| Operating activities | | |
| Net income from continuing operations | \$ 56,704 | \$ 28,647 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for credit losses | 4,000 | 15,500 |
| Depreciation and amortization | 2,378 | 2,822 |
| Amortization and accretion on securities | 24 | 46 |
| Bank owned life insurance (BOLI) income | (1,109) | (1,062) |
| Stock-based compensation expense | 3,553 | 4,185 |
| Tax benefit from stock option exercises | 3,261 | 1,616 |
| Excess tax benefits from stock-based compensation arrangements | (4,971) | (4,618) |
| Originations of loans held for sale | (22,189,120) | (10,105,686) |
| Proceeds from sales of loans held for sale | 21,861,172 | 10,177,565 |
| Gain on sale of assets | (785) | (200) |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable and other assets | (17,904) | (2,437) |
| Accrued interest payable and other liabilities | (1,882) | (2,307) |
| Net cash provided by (used in) operating activities of continuing operations | (284,679) | 114,071 |
| Net cash provided by (used in) operating activities of discontinued operations | 8 | (20) |
| Net cash provided by (used in) operating activities | (284,671) | 114,051 |
| Investing activities | | |
| Purchases of available-for-sale securities | (6) | |
| Maturities and calls of available-for-sale securities | 13,425 | 2,690 |
| Principal payments received on available-for-sale securities | 14,392 | 24,661 |
| Net increase in loans held for investment | (664,215) | (472,225) |
| Purchase of premises and equipment, net | (2,377) | (2,196) |
| Proceeds from sale of foreclosed assets | 4,172 | 17,599 |
| Cash paid for acquisition | | (11,482) |
| Net cash used in investing activities of continuing operations | (634,609) | (440,953) |
| Financing activities | | |
| Net increase (decrease) in deposits | 1,104,033 | (33,675) |
| Proceeds from issuance of stock related to stock-based awards | 1,446 | 1,404 |
| Net increase (decrease) in other borrowings | (18,663) | 343,827 |
| Excess tax benefits from stock-based compensation arrangements | 4,971 | 4,618 |
| Net decrease in federal funds purchased | (140,414) | (79,812) |
| Net cash provided by financing activities of continuing operations | 951,373 | 236,362 |
| Net increase (decrease) in cash and cash equivalents | 32,093 | (90,540) |
| Cash and cash equivalents at beginning of period | 110,558 | 179,866 |
| Cash and cash equivalents at end of period | \$ 142,651 | 89,326 |

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| Supplemental disclosures of cash flow information: | | | |
|------------------------------------------------------------------|----|--------|-----------|
| Cash paid during the period for interest | \$ | 9,520 | \$ 10,784 |
| Cash paid during the period for income taxes | | 34,072 | 9,854 |
| Non-cash transactions: | | | |
| Transfers from loans/leases to OREO and other repossessed assets | | 3,410 | 6,593 |
| See accompanying notes to consolidated financial statements. | | | |

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TEXAS CAPITAL BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Texas Capital Bancshares, Inc. (the Company), a Delaware financial holding company, was incorporated in November 1996 and commenced doing business in March 1998, but did not commence banking operations until December 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 largely in Texas and concentrates on middle market commercial businesses and successful professionals and entrepreneurs.

Basis of Presentation

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

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make interim financial information not misleading. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (SEC). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2011, included in our Annual Report on Form 10-K filed with the SEC on February 23, 2012 (the 2011 Form 10-K). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for possible loan losses, the 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.

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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, 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 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 June 30, 2012 and December 31, 2011.

Loans

Loans Held for Investment

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 collectability 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.

Loans Held for Sale

We purchase participations in mortgage loans primarily for sale in the secondary market through our mortgage warehouse lending division. These are participations purchased from non-bank mortgage originators who are seeking additional funding through participation interests to facilitate their ability to originate loans in their own name. The mortgage originator has no obligation to offer and we have no obligation to purchase these participation interests. The originator closes mortgage loans consistent with underwriting standards established by approved investors and once the loan closes, the originator delivers the loan to a third party investor. We typically purchase up to a 99% participation interest with the originator financing the remaining percentage. These loans are held by us for an interim period, usually less than 30 days and more typically 10-20 days. 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.

If loan participations are not sold in accordance with the terms of the agreements, loans could be transferred to our loans held for investment portfolio at the lower of cost or market. Mortgage warehouse lending loans transferred to our loans held for investment portfolio could require future allocations of the allowance for loan losses or be subject to charge off in the event the loans become impaired.

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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 collectability 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

Reposessed assets, which are included in other assets on the balance sheet, consist of collateral that has been reposessed. Collateral that has been reposessed is recorded at fair value less selling costs through a charge to the allowance for loan losses, if necessary. Write-downs are provided for subsequent declines in value and are recorded in allowance and other carrying costs expense included in allowance and other carrying costs for OREO in non-interest expense.

Other Real Estate Owned

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 fair value of the real estate, less selling costs, 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, or taken directly to the asset, 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. 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

We account for all stock-based compensation transactions in accordance with 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

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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.

Accumulated Other Comprehensive Income

Unrealized gains or losses on our available-for-sale securities (after applicable income tax expense or benefit) are included in accumulated other comprehensive income, net. Accumulated comprehensive income, net for the six months ended June 30, 2012 and 2011 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 2 Earnings Per Common Share.

Fair Values of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements.

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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, | |
|--------------------------------------------------------------------------------------------------------|-----------------------------|------------|---------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income from continuing operations | \$ 29,623 | \$ 16,708 | \$ 56,704 | \$ 28,647 |
| Income (loss) from discontinued operations | (1) | (54) | 3 | (114) |
| Net income | \$ 29,622 | \$ 16,654 | \$ 56,707 | \$ 28,533 |
| Denominator: | | | | |
| Denominator for basic earnings per share - weighted average shares | 38,012,677 | 37,281,262 | 37,903,976 | 37,186,826 |
| Effect of employee stock-based awards ⁽¹⁾ | 674,343 | 741,569 | 697,924 | 850,831 |
| Effect of warrants to purchase common stock | 454,524 | 310,057 | 437,132 | 301,585 |
| Denominator for dilutive earnings per share - adjusted weighted average shares and assumed conversions | 39,141,544 | 38,332,888 | 39,039,032 | 38,339,242 |
| Basic earnings per common share from continuing operations | \$ 0.78 | \$ 0.45 | \$ 1.50 | \$ 0.77 |
| Basic earnings per common share | \$ 0.78 | \$ 0.45 | \$ 1.50 | \$ 0.77 |
| Diluted earnings per share from continuing operations | \$ 0.76 | \$ 0.44 | \$ 1.45 | \$ 0.75 |
| Diluted earnings per common share | \$ 0.76 | \$ 0.43 | \$ 1.45 | \$ 0.74 |

(1) Stock options, SARs and RSUs outstanding of 10,000 at June 30, 2012 and 50,500 at June 30, 2011 have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

(3) SECURITIES

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 in stockholders' equity, net of taxes. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments. 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.

At June 30, 2012, our net unrealized gain on the available-for-sale securities portfolio value was \$6.4 million, which represented 5.85% of the amortized cost. At December 31, 2011, the unrealized gain was \$7.3 million, or 5.32% of the amortized cost. As indicated by the difference in the gain as a percent of the amortized cost, the reduction in the total unrealized gain was due solely to the reduction in the balances of the securities held.

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

| | June 30, 2012 | | | Estimated Fair Value |
|----------------------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | |
| Available-for-Sale Securities: | | | | |
| Residential mortgage-backed securities | \$ 69,958 | \$ 5,089 | \$ | \$ 75,047 |
| Corporate securities | 5,000 | 200 | | 5,200 |
| Municipals | 26,141 | 904 | | 27,045 |
| Equity securities ⁽¹⁾ | 7,513 | 159 | | 7,672 |
| | \$ 108,612 | \$ 6,352 | \$ | \$ 114,964 |
| | | | | |
| | December 31, 2011 | | | Estimated Fair Value |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | |
| Available-for-Sale Securities: | | | | |
| Residential mortgage-backed securities | \$ 84,363 | \$ 5,720 | \$ | \$ 90,083 |
| Corporate securities | 5,000 | 225 | | 5,225 |
| Municipals | 29,577 | 1,165 | | 30,742 |
| Equity securities ⁽¹⁾ | 7,506 | 154 | | 7,660 |
| Other | 10,000 | | | 10,000 |
| | \$ 136,446 | \$ 7,264 | \$ | \$ 143,710 |

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

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

| | June 30, 2012 | | | | | Total |
|--------------------------------------------------------------|-----------------------|------------------------------------|------------------------------------|--------------------|--|------------|
| | Less Than One Year | After One Through Five Years | After Five Through Ten Years | After Ten Years | | |
| Available-for-sale: | | | | | | |
| Residential mortgage-backed securities:⁽¹⁾ | | | | | | |
| Amortized cost | \$ 191 | \$ 9,023 | \$ 23,753 | \$ 36,991 | | \$ 69,958 |
| Estimated fair value | 200 | 9,705 | 25,552 | 39,590 | | 75,047 |
| Weighted average yield ⁽³⁾ | 4.06% | 5.08% | 4.65% | 3.74% | | 4.22% |
| Corporate securities: | | | | | | |
| Amortized cost | | 5,000 | | | | 5,000 |
| Estimated fair value | | 5,200 | | | | 5,200 |
| Weighted average yield ⁽³⁾ | | 7.38% | | | | 7.38% |
| Municipals:⁽²⁾ | | | | | | |
| Amortized cost | 3,689 | 18,915 | 3,537 | | | 26,141 |
| Estimated fair value | 3,738 | 19,613 | 3,694 | | | 27,045 |
| Weighted average yield ⁽³⁾ | 5.80% | 5.57% | 5.94% | | | 5.65% |
| Equity securities: | | | | | | |
| Amortized cost | 7,513 | | | | | 7,513 |
| Estimated fair value | 7,672 | | | | | 7,672 |
| Total available-for-sale securities: | | | | | | |
| Amortized cost | | | | | | \$ 108,612 |
| Estimated fair value | | | | | | \$ 114,964 |

| | December 31, 2011 | | | | | Total |
|--------------------------------------------------------------|--------------------------|---------------------------------------|------------------------------------------|--------------------|--|-----------|
| | Less Than One Year | After One Through Five Years | After Five Through Ten Years | After Ten Years | | |
| Available-for-sale: | | | | | | |
| Residential mortgage-backed securities:⁽¹⁾ | | | | | | |
| Amortized cost | \$ 13 | \$ 10,420 | \$ 31,502 | \$ 42,428 | | \$ 84,363 |
| Estimated fair value | 13 | 11,095 | 33,745 | 45,230 | | 90,083 |
| Weighted average yield ⁽³⁾ | 6.50% | 4.85% | 4.71% | 3.79% | | 4.26% |
| Corporate securities: | | | | | | |
| Amortized cost | | 5,000 | | | | 5,000 |
| Estimated fair value | | 5,225 | | | | 5,225 |
| Weighted average yield ⁽³⁾ | | 7.38% | | | | 7.38% |
| Municipals:⁽²⁾ | | | | | | |
| Amortized cost | 4,184 | 18,980 | 6,413 | | | 29,577 |
| Estimated fair value | 4,213 | 19,784 | 6,745 | | | 30,742 |
| Weighted average yield ⁽³⁾ | 5.36% | 5.51% | 5.86% | | | 5.57% |
| Equity securities: | | | | | | |
| Amortized cost | 7,506 | | | | | 7,506 |
| Estimated fair value | 7,660 | | | | | 7,660 |
| Other:⁽³⁾ | | | | | | |
| Amortized cost | 10,000 | | | | | 10,000 |
| Estimated fair value | 10,000 | | | | | 10,000 |
| Weighted average yield ⁽³⁾ | 0.10% | | | | | 0.10% |

Total available-for-sale securities:

| | |
|----------------------|------------|
| Amortized cost | \$ 136,446 |
| Estimated fair value | \$ 143,710 |

- (1) Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

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(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 \$51.5 million were pledged to secure certain borrowings and deposits at June 30, 2012. Of the pledged securities at June 30, 2012, approximately \$22.5 million were pledged for certain deposits, and approximately \$29.0 million were pledged for repurchase agreements.

At June 30, 2012 and December 31, 2011, we did not have any investment securities in an unrealized loss position.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

At June 30, 2012 and December 31, 2011, loans were as follows (in thousands):

| | June 30, 2012 | December 31, 2011 |
|---------------------------------------------------|------------------|----------------------|
| Commercial | \$ 3,806,332 | \$ 3,275,150 |
| Construction | 589,552 | 422,026 |
| Real estate | 1,785,300 | 1,819,251 |
| Consumer | 20,791 | 24,822 |
| Leases | 68,983 | 61,792 |
| Gross loans held for investment | 6,270,958 | 5,603,041 |
| Deferred income (net of direct origination costs) | (36,266) | (30,670) |
| Allowance for loan losses | (72,404) | (70,295) |
| Total loans held for investment, net | 6,162,288 | 5,502,076 |
| Loans held for sale | 2,408,032 | 2,080,081 |
| Total | \$ 8,570,320 | \$ 7,582,157 |

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.

Real Estate Loans. A portion of our real estate loan 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.

Construction Loans. Our construction loan portfolio consists primarily of single- and multi-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 in 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, non-performing status, reserve allocation and actual credit loss and foreclosure. These

loans typically have floating rates and commitment fees.

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Loans Held for Sale. Our loans held for sale consist of participations purchased in single-family residential mortgages funded through our warehouse lending group. These loans are typically on our balance sheet for 10 to 20 days. We have agreements with mortgage lenders and participate in individual loans they originate. All loans are underwritten consistent with established programs for permanent financing with financially sound investors. Substantially all loans are conforming loans.

As of June 30, 2012, 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 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 appropriate to cover estimated losses on loans at each balance sheet date.

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 appropriate 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 loss potential. 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, and any needed reserve is recorded in other liabilities. 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.

We have several pass credit grades that are assigned to loans based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of monitoring. Within our criticized/classified credit grades are special mention, substandard, and doubtful. Special mention loans are those that are currently protected by sound worth and paying capacity of the borrower, but that are potentially weak and constitute an additional credit risk. The loan has the potential to deteriorate to a substandard grade due to the existence of financial or administrative deficiencies. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Some substandard loans are inappropriately protected by sound worth and paying capacity of the borrower and of the collateral pledged and may be considered impaired. Substandard loans can be accruing or can be on nonaccrual depending on the circumstances of the individual loans. Loans classified as doubtful have all the weaknesses inherent in substandard loans with the added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable. The possibility of loss is extremely high. All doubtful loans are on nonaccrual.

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. Historical loss rates are adjusted to account for current environmental conditions which we believe are likely to cause loss rates to be higher or lower than past experience. Each quarter we produce an adjustment range for environmental factors unique to us and our market. 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 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.

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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. 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 following tables summarize the credit risk profile of our loan portfolio by internally assigned grades and nonaccrual status as of June 30, 2012 and December 31, 2011 (in thousands):

June 30, 2012

| | Commercial | Construction | Real Estate | Consumer | Leases | Total |
|----------------------------------------|---------------------|-------------------|---------------------|------------------|------------------|---------------------|
| Grade: | | | | | | |
| Pass | \$ 3,715,923 | \$ 560,239 | \$ 1,693,899 | \$ 20,522 | \$ 63,774 | \$ 6,054,357 |
| Special mention | 38,628 | 4,772 | 33,122 | | 1,366 | 77,888 |
| Substandard-accruing | 32,533 | 4,582 | 41,574 | | 3,591 | 82,280 |
| Non-accrual | 19,248 | 19,959 | 16,705 | 269 | 252 | 56,433 |
| Total loans held for investment | \$ 3,806,332 | \$ 589,552 | \$ 1,785,300 | \$ 20,791 | \$ 68,983 | \$ 6,270,958 |

December 31, 2011

| | Commercial | Construction | Real Estate | Consumer | Leases | Total |
|----------------------------------------|---------------------|-------------------|---------------------|------------------|------------------|---------------------|
| Grade: | | | | | | |
| Pass | \$ 3,185,625 | \$ 385,639 | \$ 1,717,434 | \$ 24,453 | \$ 57,255 | \$ 5,370,406 |
| Special mention | 30,872 | 5,064 | 32,413 | 50 | 3,952 | 72,351 |
| Substandard-accruing | 45,740 | 10,204 | 49,601 | 6 | 153 | 105,704 |
| Non-accrual | 12,913 | 21,119 | 19,803 | 313 | 432 | 54,580 |
| Total loans held for investment | \$ 3,275,150 | \$ 422,026 | \$ 1,819,251 | \$ 24,822 | \$ 61,792 | \$ 5,603,041 |

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The following table details activity in the reserve for loan losses by portfolio segment for the six months ended June 30, 2012 and June 30, 2011. Allocation of a portion of the reserve to one category of loans does not preclude its availability to absorb losses in other categories.

| June 30, 2012 (in thousands) | Commercial | Construction | Real Estate | Consumer | Leases | Unallocated | Total |
|---------------------------------------------|------------|--------------|-------------|----------|----------|-------------|-----------|
| Beginning balance | \$ 17,337 | \$ 7,845 | \$ 33,721 | \$ 223 | \$ 2,356 | \$ 8,813 | \$ 70,295 |
| Provision for possible loan losses | 2,058 | 2,179 | (806) | 62 | 440 | (463) | 3,470 |
| Charge-offs | 1,510 | | 615 | | 121 | | 2,246 |
| Recoveries | 350 | | 456 | 8 | 71 | | 885 |
| Net charge-offs | 1,160 | | 159 | (8) | 50 | | 1,361 |
| Ending balance | \$ 18,235 | \$ 10,024 | \$ 32,756 | \$ 293 | \$ 2,746 | \$ 8,350 | \$ 72,404 |
| Period end amount allocated to: | | | | | | | |
| Loans individually evaluated for impairment | \$ 5,121 | \$ | \$ 1,232 | \$ 111 | \$ 48 | \$ | \$ 6,512 |
| Loans collectively evaluated for impairment | | | | | | | |
| Ending balance | \$ 5,121 | \$ | \$ 1,232 | \$ 111 | \$ 48 | \$ | \$ 6,512 |

| June 30, 2011 (in thousands) | Commercial | Construction | Real Estate | Consumer | Leases | Unallocated | Total |
|---------------------------------------------|------------|--------------|-------------|----------|----------|-------------|-----------|
| Beginning balance | \$ 15,918 | \$ 7,336 | \$ 38,049 | \$ 306 | \$ 5,405 | \$ 4,496 | \$ 71,510 |
| Provision for possible loan losses | 6,518 | (998) | 5,935 | 93 | (1,366) | 5,539 | 15,721 |
| Charge-offs | 5,647 | | 13,788 | 317 | 996 | | 20,748 |
| Recoveries | 689 | 243 | 153 | 4 | 176 | | 1,265 |
| Net charge-offs | 4,958 | (243) | 13,635 | 313 | 820 | | 19,483 |
| Ending balance | \$ 17,478 | \$ 6,581 | \$ 30,349 | \$ 86 | \$ 3,219 | \$ 10,035 | \$ 67,748 |
| Period end amount allocated to: | | | | | | | |
| Loans individually evaluated for impairment | \$ 3,154 | \$ 370 | \$ 6,628 | \$ 55 | \$ 205 | \$ | \$ 10,412 |
| Loans collectively evaluated for impairment | | | | | | | |
| Ending balance | \$ 3,154 | \$ 370 | \$ 6,628 | \$ 55 | \$ 205 | \$ | \$ 10,412 |

We have traditionally maintained an unallocated reserve component to allow for uncertainty in economic and other conditions affecting the quality of the loan portfolio. The unallocated portion of our loan loss reserve has decreased since June 30, 2011. We believe the level of unallocated reserves at June 30, 2012 is warranted due to the ongoing weak economic environment which has produced more frequent losses, including those resulting from fraud by borrowers. Our methodology used to calculate the allowance considers historical losses, however, the historical loss rates for specific product types or credit risk grades may not fully incorporate the effects of continued weakness in the economy. In addition, a substantial portion of losses realized over the past several years were related to commercial real estate loans. Continuing uncertainty and illiquidity in the commercial real estate market has produced and continues to cause material changes in appraised values that can influence our impairment calculations on currently impaired loans and on pass-rated loans that may experience weakness if economic conditions and valuations do not stabilize.

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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 collectability is questionable, then cash payments are applied to principal. The table below summarizes our non-accrual loans by type and purpose as of June 30, 2012 (in thousands):

| | |
|--------------------------------|------------------|
| Commercial | |
| Business loans | \$ 19,248 |
| Construction | |
| Market risk | 19,959 |
| Real estate | |
| Market risk | 6,310 |
| Commercial | 6,413 |
| Secured by 1-4 family | 3,982 |
| Consumer | 269 |
| Leases | 252 |
| Total non-accrual loans | \$ 56,433 |

As of June 30, 2012, non-accrual loans included in the table above included \$10.8 million related to loans that met the criteria for restructured.

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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. In accordance with *FASB ASC 310 Receivables*, we have also included all restructured loans in our impaired loan totals. The following tables detail our impaired loans, by portfolio class as of June 30, 2012 and December 31, 2011 (in thousands):

June 30, 2012

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-------------------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no related allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | \$ 651 | \$ 651 | \$ | \$ 630 | \$ |
| Energy | | | | | |
| Other | | | | | |
| Construction | | | | | |
| Market risk | 19,959 | 19,959 | | 19,216 | 341 |
| Secured by 1-4 family | | | | | |
| Other | | | | | |
| Real estate | | | | | |
| Market risk | 3,926 | 3,926 | | 5,187 | |
| Commercial | | | | | |
| Secured by 1-4 family | 6,375 | 6,376 | | 6,795 | |
| Consumer | | | | | |
| Leases | | | | | |
| Total impaired loans with no allowance recorded | \$ 32,353 | \$ 32,354 | \$ | \$ 33,281 | \$ 341 |
| With an allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | \$ 18,597 | \$ 23,553 | \$ 5,121 | \$ 12,109 | \$ |
| Energy | | | | | |
| Other | | | | | |
| Construction | | | | | |
| Market risk | | | | 1,237 | |
| Secured by 1-4 family | | | | | |
| Other | | | | | |
| Real estate | | | | | |
| Market risk | 16,327 | 16,326 | 878 | 15,752 | |
| Commercial | | | | | |
| Secured by 1-4 family | 38 | 38 | 6 | 13 | |
| Consumer | | | | | |
| Secured by 1-4 family | 2,540 | 2,670 | 349 | 2,303 | |
| Leases | | | | | |
| Consumer | 269 | 269 | 111 | 285 | |
| Leases | 252 | 252 | 48 | 309 | |
| Total impaired loans with an allowance recorded | \$ 38,023 | \$ 43,108 | \$ 6,513 | \$ 32,008 | \$ |
| Combined: | | | | | |
| Commercial | | | | | |
| Business loans | \$ 19,248 | \$ 24,204 | \$ 5,121 | \$ 12,739 | \$ |
| Energy | | | | | |
| Other | | | | | |
| Construction | | | | | |
| Market risk | 19,959 | 19,959 | | 20,453 | 341 |
| Secured by 1-4 family | | | | | |
| Other | | | | | |
| Real estate | | | | | |

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| | | | | | |
|-----------------------|-----------|-----------|----------|-----------|--------|
| Market risk | 20,253 | 20,252 | 878 | 20,939 | |
| Commercial | 6,413 | 6,414 | 6 | 6,808 | |
| Secured by 1-4 family | 3,982 | 4,112 | 349 | 3,756 | |
| Consumer | 269 | 269 | 111 | 285 | |
| Leases | 252 | 252 | 48 | 309 | |
| Total impaired loans | \$ 70,376 | \$ 75,462 | \$ 6,513 | \$ 65,289 | \$ 341 |

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December 31, 2011

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-------------------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no related allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | \$ 1,716 | \$ 10,378 | \$ | \$ 1,697 | \$ |
| Construction | | | | | |
| Market risk | 19,236 | 19,236 | | 19,315 | 291 |
| Real estate | | | | | |
| Market risk | 5,711 | 11,217 | | 7,064 | |
| Commercial | 4,575 | 4,575 | | 5,111 | |
| Secured by 1-4 family | | | | 899 | |
| Total impaired loans with no allowance recorded | \$ 31,238 | \$ 45,406 | \$ | \$ 34,086 | \$ 291 |
| With an allowance recorded: | | | | | |
| Commercial | | | | | |
| Business loans | \$ 11,197 | \$ 11,197 | \$ 3,124 | \$ 11,056 | \$ |
| Construction | | | | | |
| Market risk | 1,883 | 1,882 | 298 | 1,916 | |
| Real estate | | | | | |
| Market risk | 30,533 | 34,275 | 1,131 | 19,146 | |
| Commercial | 1,809 | 1,809 | 271 | 730 | |
| Secured by 1-4 family | 2,279 | 2,279 | 330 | 1,465 | |
| Consumer | 313 | 313 | 52 | 310 | |
| Leases | 432 | 432 | 65 | 2,328 | |
| Total impaired loans with an allowance recorded | \$ 48,446 | \$ 52,187 | \$ 5,271 | \$ 36,951 | \$ |
| Combined: | | | | | |
| Commercial | | | | | |
| Business loans | \$ 12,913 | \$ 21,575 | \$ 3,124 | \$ 12,753 | \$ |
| Construction | | | | | |
| Market risk | 21,119 | 21,118 | 298 | 21,231 | 291 |
| Real estate | | | | | |
| Market risk | 36,244 | 45,492 | 1,131 | 26,210 | |
| Commercial | 6,384 | 6,384 | 271 | 5,841 | |
| Secured by 1-4 family | 2,279 | 2,279 | 330 | 2,364 | |
| Consumer | 313 | 313 | 52 | 310 | |
| Leases | 432 | 432 | 65 | 2,328 | |
| Total impaired loans | \$ 79,684 | \$ 97,593 | \$ 5,271 | \$ 71,037 | \$ 291 |

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Average impaired loans outstanding during the six months ended June 30, 2012 and 2011 totaled \$65.3 million and \$103.6 million, respectively.

The table below provides an age analysis of our past due loans that are still accruing as of June 30, 2012 (in thousands):

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days and Accruing ⁽¹⁾ | Total Past Due | Current | Total |
|----------------------------------------|------------------------------|---------------------------|-----------------------------------------------------------|-------------------|---------------------|---------------------|
| Commercial | | | | | | |
| Business loans | \$ 22,528 | \$ 1,569 | \$ 4,155 | \$ 28,252 | \$ 2,852,275 | \$ 2,880,527 |
| Energy | 4,050 | | | 4,050 | 902,508 | 906,558 |
| Construction | | | | | | |
| Market risk | | | | | 561,471 | 561,471 |
| Secured by 1-4 family Real estate | | | | | 8,122 | 8,122 |
| Market risk | 16,448 | 6,794 | 266 | 23,508 | 1,389,456 | 1,412,964 |
| Commercial | | | | | 289,671 | 289,671 |
| Secured by 1-4 family | 3,463 | | | 3,463 | 62,497 | 65,960 |
| Consumer | 39 | | | 39 | 20,483 | 20,522 |
| Leases | 155 | | | 155 | 68,576 | 68,731 |
| Total loans held for investment | \$ 46,683 | \$ 8,363 | \$ 4,421 | \$ 59,467 | \$ 6,155,059 | \$ 6,214,526 |

(1) Loans past due 90 days and still accruing includes premium finance loans of \$3.2 million. 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.

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, or either forgiveness of either principal or accrued interest. As of June 30, 2012, we have \$13.9 million in loans considered restructured that are not on nonaccrual. These loans have \$727,000 in unfunded commitments. Of the nonaccrual loans at June 30, 2012, \$10.8 million met the criteria for restructured. These loans have no unfunded commitments. A loan continues to qualify as restructured until a consistent payment history or change in borrower's financial condition has been evidenced, generally no less than twelve months. Assuming that the restructuring agreement specifies an interest rate at the time of the restructuring that is greater than or equal to the rate that we are willing to accept for a new extension of credit with comparable risk, then the loan no longer has to be considered a restructuring if it is in compliance with modified terms in calendar years after the year of the restructure.

The following table summarizes, as of June 30, 2012, loans that have been restructured during 2012 (in thousands):

| | Number of Contracts | Pre-Restructuring Outstanding Recorded Investment | Post-Restructuring Outstanding Recorded Investment |
|---------------------------------------------|------------------------|------------------------------------------------------------|-------------------------------------------------------------|
| Commercial business loans | 1 | \$ 802 | \$ 791 |
| Real estate market risk | 2 | \$ 1,726 | \$ 1,177 |
| Total new restructured loans in 2012 | 3 | \$ 2,528 | \$ 1,968 |

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The restructured loans generally include terms to reduce the interest rate and extend payment terms. We have not forgiven any principal on the above loans. At June 30, 2012, \$1.7 million of the above loans restructured in 2012 are on non-accrual. The restructuring of the loans did not have a significant impact on our allowance for loan losses at June 30, 2012.

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The following table provides information on how loans were modified as a TDR during the six months ended June 30, 2012 (in thousands):

| | |
|-------------------------------------------------------------------|-----------------|
| Extended maturity | \$ 1,968 |
| Adjusted payment schedule | |
| Combination of maturity extension and payment schedule adjustment | |
| Other | |
| Total | \$ 1,968 |

The following table summarizes, as of June 30, 2012, loans that were restructured within the last 12 months that have subsequently defaulted (in thousands):

| | Number of Contracts | Recorded Investment |
|-------------------------------------|------------------------|------------------------|
| Commercial - secured by real estate | 1 | \$ 875 |
| Real estate - market risk | 1 | 2,453 |

The loans above were subsequently foreclosed and are included in the June 30, 2012 OREO balance.

(5) OREO AND VALUATION ALLOWANCE FOR LOSSES ON OREO

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

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------|-----------------------------|-----------|---------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Beginning balance | \$ 32,601 | \$ 26,172 | \$ 34,077 | \$ 42,261 |
| Additions | 875 | 5,667 | 3,397 | 6,593 |
| Sales | (2,471) | (3,829) | (3,728) | (17,524) |
| Valuation allowance for OREO | (2,700) | | (3,556) | (1,921) |
| Direct write-downs | (423) | (725) | (2,308) | (2,124) |
| Ending balance | \$ 27,882 | \$ 27,285 | \$ 27,882 | \$ 27,285 |

(6) 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.

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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.

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The table below summarizes our financial instruments whose contract amounts represent credit risk at June 30, 2012 (in thousands):

| | |
|------------------------------|--------------|
| Commitments to extend credit | \$ 2,119,754 |
| Standby letters of credit | 70,392 |

(7) REGULATORY MATTERS

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 June 30, 2012, 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 Company's capital ratios exceed the regulatory definition of well capitalized as of June 30, 2012 and 2011. As of June 30, 2011, 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.

| | June 30, | |
|---------------------|----------|--------|
| | 2012 | 2011 |
| Risk-based capital: | | |
| Tier 1 capital | 9.54% | 10.16% |
| Total capital | 10.48% | 11.25% |
| Leverage | 9.02% | 10.46% |

(8) STOCK-BASED COMPENSATION

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.

Stock-based compensation consists of options issued prior to the adoption of Accounting Standards Codification (ASC) 718, *Compensation Stock Compensation* (ASC 718), SARs and restricted stock units (RSUs). The SARs and RSUs were granted from 2006 through 2010.

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| (in thousands) | Three months ended March 31, | | Six months ended June 30, | |
|------------------------------------------------------|------------------------------|-----------------|---------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Stock- based compensation expense recognized: | | | | |
| SARs | \$ 187 | \$ 218 | 375 | 724 |
| RSUs | 1,416 | 1,834 | 3,178 | 3,462 |
| Total compensation expense recognized | \$ 1,603 | \$ 2,052 | \$ 3,553 | \$ 4,186 |

| | Options | June 30, 2012 SARs and RSUs |
|-----------------------------------------------------------------------------------|-----------|--------------------------------|
| Unrecognized compensation expense related to unvested awards | \$ | \$ 9,401 |
| Weighted average period over which expense is expected to be recognized, in years | | 3.09 |

(9) DISCONTINUED OPERATIONS

Subsequent to the end of the first quarter of 2007, we and the purchaser of our 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 statements.

During the three months ended June 30, 2012 and 2011, the loss from discontinued operations was \$1,000 and \$54,000, net of taxes, respectively. During the six months ended June 30, 2012 and 2011, the gain and loss from discontinued operations was \$3,000 and \$114,000, net of taxes, respectively. The 2011 loss is 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 \$388,000 in loans held for sale from discontinued operations that are carried at the estimated market value at quarter-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 June 30, 2012 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.

(10) FAIR VALUE DISCLOSURES

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), 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 price) in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date.

We determine the fair market values of our financial instruments based on the fair value hierarchy as prescribed in ASC 820. 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 obtained from independent pricing services.

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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 June 30, 2012 are as follows (in thousands):

| | Fair Value Measurements Using | | |
|-----------------------------------------------|-------------------------------|-----------|---------|
| | Level 1 | Level 2 | Level 3 |
| Available for sale securities: ⁽¹⁾ | | | |
| Residential mortgage-backed securities | \$ | \$ 75,047 | \$ |
| Corporate securities | | 5,200 | |
| Municipals | | 27,045 | |
| Other | | 7,672 | |
| Loans ^{(2) (4)} | | | 10,944 |
| OREO ^{(3) (4)} | | | 27,882 |
| Derivative asset ⁽⁵⁾ | | 25,400 | |
| Derivative liability ⁽⁵⁾ | | (25,400) | |

- (1) Securities are measured at fair value on a recurring basis, generally monthly.
- (2) 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.
- (5) Derivative assets and liabilities are measured at fair value on a recurring basis, generally quarterly.

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 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 three and six months ended June 30, 2012, certain impaired loans were reevaluated 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 \$10.9 million total above includes impaired loans at June 30, 2012 with a carrying value of \$12.2 million that were reduced by specific valuation allowance allocations totaling \$1.3 million for a total reported fair value of \$10.9 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.

OREO

Certain foreclosed assets, upon initial recognition, were valued based on third party appraisals. At June 30, 2012, OREO with a carrying value of \$36.9 million was reduced by specific valuation allowance allocations totaling \$9.0 million for a total reported fair value of \$27.9 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.

Table of Contents**Fair Value of Financial Instruments**

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):

| | June 30, 2012 | | December 31, 2011 | |
|--------------------------------------------------|-----------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Cash and cash equivalents | \$ 142,651 | \$ 142,651 | \$ 101,258 | \$ 101,258 |
| Securities, available-for-sale | 114,964 | 114,964 | 143,710 | 143,710 |
| Loans held for sale | 2,408,032 | 2,408,032 | 2,080,081 | 2,080,081 |
| Loans held for sale from discontinued operations | 388 | 388 | 393 | 393 |
| Loans held for investment, net | 6,162,288 | 6,168,056 | 5,502,076 | 5,506,899 |
| Derivative asset | 25,400 | 25,400 | 20,071 | 20,071 |
| Deposits | 6,660,290 | 6,660,748 | 5,556,257 | 5,557,062 |
| Federal funds purchased | 271,835 | 271,835 | 412,249 | 412,249 |
| Borrowings | 1,337,204 | 1,337,206 | 1,355,867 | 1,355,869 |
| Trust preferred subordinated debentures | 113,406 | 113,406 | 113,406 | 113,406 |
| Derivative liability | 25,400 | 25,400 | 20,071 | 20,071 |

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, which is characterized as a Level 1 asset in the fair value hierarchy.

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, which is characterized as a Level 2 asset in the fair value hierarchy. We have obtained documentation from the primary pricing service we use about their processes and controls over pricing. In addition, on a quarterly basis we independently verify the prices that we receive from the service provider using two additional independent pricing sources. Any significant differences are investigated and resolved.

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, which is characterized as a Level 3 asset in the fair value hierarchy. 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 and caps are obtained from independent pricing services, which is characterized as a Level 2 asset in the fair value hierarchy. On a quarterly basis, we independently verify the fair value using an additional independent pricing source.

Table of Contents*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, which is characterized as a Level 3 liability in the fair value hierarchy.

Federal funds purchased, other borrowings and trust preferred subordinated debentures

The carrying value reported in the consolidated balance sheet for federal funds purchased and other borrowings approximates their fair value. The fair value of other borrowings and trust preferred subordinated debentures is estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar borrowings, which is characterized as a Level 3 liability in the fair value hierarchy.

(11) 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 2012 and 2011, 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 June 30, 2012 presented in the following table (in thousands):

| | Notional Amount | Estimated Fair Value |
|-------------------------------------------|--------------------|-------------------------|
| Non-hedging interest rate derivative: | | |
| Commercial loan/lease interest rate swaps | \$ 357,336 | \$ 25,423 |
| Commercial loan/lease interest rate swaps | (357,336) | (25,423) |
| Commercial loan/lease interest rate caps | (34,450) | (23) |
| Commercial loan/lease interest rate caps | 34,450 | 23 |

The weighted-average receive and pay interest rates for interest rate swaps outstanding at June 30, 2012 were as follows:

| | Weighted-Average | |
|---------------------------------|------------------------------|--------------------------|
| | Interest Rate Received | Interest Rate Paid |
| Non-hedging interest rate swaps | 5.13% | 2.08% |

The weighted-average strike rate for outstanding interest rate caps was 2.33% at June 30, 2012.

Our credit exposure on interest rate swaps and caps is limited to the net favorable value and interest payments of all swaps and caps by each counterparty. In such cases collateral may be required from the counterparties involved if the net value of the swaps and caps exceeds a nominal amount considered to be immaterial. Our credit exposure, net of any collateral pledged, relating to interest rate swaps and caps was approximately \$25.4 million at June 30, 2012, all of which relates to bank customers. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap and cap values. At June 30, 2012, we had \$12.9 million in cash collateral pledged for these derivatives included in interest-bearing deposits.

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(12) STOCKHOLDERS EQUITY

We had comprehensive income of \$29.2 million for the three months ended June 30, 2012 and comprehensive income of \$16.7 million for the three months ended June 30, 2011. Comprehensive income during the three months ended June 30, 2012 included a net after-tax loss of \$406,000 and comprehensive income during the three months ended June 30, 2011 included a net after-tax gain of \$28,000 due to changes in the net unrealized gains/losses on securities available-for-sale.

(13) LEGAL MATTERS

We are aggressively defending against a \$65.4 million jury verdict that was rendered in August 2011, in rural southeastern Oklahoma. Post-trial motions were denied without comment in early July 2012, and an appeal has been filed in the Oklahoma Supreme Court.

The Oklahoma case was filed in May 2010 by one of the guarantors of a defaulted loan to an auto dealership in Hugo, Oklahoma, after we already had filed suit in Texas against the debtor and the three co-guarantors to recover the debt, and despite a forum selection clause in the guaranty requiring that any lawsuits be brought in Texas. The guarantor conceded he had signed the guaranty and that the guaranty was valid, but complained that he later had been defrauded because we had failed to notify him about on-going fraud at the dealership. We disputed that we had any such duty to him as guarantor under Oklahoma law, particularly since the guaranty expressly disclaimed such a duty and since he was a co-owner and salaried employee of the dealership. We repeatedly objected to the case proceeding in Oklahoma in view of the clause requiring any lawsuit to be brought in Texas, but these objections were rejected. We then obtained an injunction from the Texas court against the guarantor proceeding with the Oklahoma suit, but the guarantor nevertheless continued to trial in the Oklahoma suit in violation of that injunction.

Lacking much arguable economic loss, if any, the guarantor repeatedly emphasized to the jury in the Oklahoma case that we were claiming about \$6.7 million, plus accumulating interest, on the debt and guaranty in the Texas lawsuit, and that we were asking for those damages to be trebled because of RICO violations. The Oklahoma jury proceeded to award the guarantor a total of \$21.8 million in money damages, which was almost exactly three times his estimated prospective liability on his guaranty, and went on to award twice that amount in punitive damages.

Subsequent to the verdict in the Oklahoma case, the Texas Court of Appeals upheld the injunction and specifically ruled that the guaranty's forum selection clause required any claims by the guarantor to be brought in the Texas court.

We have been advised by counsel that we have numerous grounds to reverse the Oklahoma verdict entirely or substantially reduce the amount, such as the guarantor's pursuit of the Oklahoma case in violation of the forum selection clause in the guaranty and the Texas court's injunction, the absence of any alleged contractual or other legal duty to the guarantor, and the lack of proof of actual economic damages. In addition, we continued to pursue the Texas lawsuit over the guaranty, and on April 18, 2012, we received summary judgment ordering the guarantor to pay us approximately \$7 million on the debt, which could offset a portion of any arguable liability in the Oklahoma case. Counsel has also advised us the judgment in the Texas case may constitute a potential legal bar to any effectiveness of the Oklahoma judgment.

In light of these factors, we currently believe a materially negative outcome in this matter is not probable, despite the uncertainties inherent in litigation. We further have not been able to determine the amount or range of amounts, as likely for any liability. We thus have not established a reserve related to any potential exposure. The loss related to the loan was recognized in the second quarter of 2010 and we have no remaining balance sheet exposure on the principal balance of the loan.

(14) NEW ACCOUNTING PRONOUNCEMENTS

ASU 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04) amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and did not have a significant impact on our financial statements.

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ASU 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income (ASU 2011-05) amends Topic 220, Comprehensive Income, to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual and interim periods beginning after December 15, 2011; however certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 *Comprehensive Income (Topic 820) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05. ASU 2011-05 did not have a significant impact on our financial statements.

ASU 2011-08, Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment (ASU 2011-08) amends Topic 350, Intangibles Goodwill and Other, to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective of annual and interim impairment tests beginning after December 15, 2011, and did not have a significant impact on our financial statements.

Table of Contents**QUARTERLY FINANCIAL SUMMARY UNAUDITED**

Consolidated Daily Average Balances, Average Yields and Rates

(In thousands)

| | For the three months ended June 30, 2012 | | | For the three months ended June 30, 2011 | | |
|------------------------------------------------------|---------------------------------------------|------------------------------------|----------------|---------------------------------------------|------------------------------------|----------------|
| | Average Balance | Revenue/ Expense ⁽¹⁾ | Yield/ Rate | Average Balance | Revenue/ Expense ⁽¹⁾ | Yield/ Rate |
| Assets | | | | | | |
| Securities taxable | \$ 91,623 | \$ 948 | 4.16% | \$ 127,269 | \$ 1,346 | 4.24% |
| Securities non-taxable ⁽²⁾ | 26,817 | 393 | 5.89% | 35,804 | 514 | 5.76% |
| Federal funds sold | 8,077 | 4 | 0.20% | 14,303 | 5 | 0.14% |
| Deposits in other banks | 60,416 | 48 | 0.32% | 77,928 | 65 | 0.33% |
| Loans held for sale from continuing operations | 2,062,449 | 21,087 | 4.11% | 808,165 | 9,591 | 4.76% |
| Loans | 5,950,913 | 73,204 | 4.95% | 4,890,696 | 63,918 | 5.24% |
| Less reserve for loan losses | 71,779 | | | 68,031 | | |
| Loans, net of reserve | 7,941,583 | 94,291 | 4.78% | 5,630,830 | 73,509 | 5.24% |
| Total earning assets | 8,128,516 | 95,684 | 4.73% | 5,886,134 | 75,439 | 5.14% |
| Cash and other assets | 394,086 | | | 306,372 | | |
| Total assets | \$ 8,522,602 | | | \$ 6,192,506 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Transaction deposits | \$ 694,463 | \$ 198 | 0.11% | \$ 375,084 | \$ 55 | 0.06% |
| Savings deposits | 2,664,598 | 2,107 | 0.32% | 2,465,118 | 1,700 | 0.28% |
| Time deposits | 584,581 | 831 | 0.57% | 541,337 | 1,351 | 1.00% |
| Deposits in foreign branches | 444,478 | 346 | 0.31% | 415,998 | 311 | 0.30% |
| Total interest bearing deposits | 4,388,120 | 3,482 | 0.32% | 3,797,537 | 3,417 | 0.36% |
| Other borrowings | 1,428,575 | 736 | 0.21% | 233,388 | 110 | 0.19% |
| Trust preferred subordinated debentures | 113,406 | 688 | 2.44% | 113,406 | 638 | 2.26% |
| Total interest bearing liabilities | 5,930,101 | 4,906 | 0.33% | 4,144,331 | 4,165 | 0.40% |
| Demand deposits | 1,864,456 | | | 1,455,366 | | |
| Other liabilities | 69,076 | | | 40,177 | | |
| Stockholders equity | 658,969 | | | 552,632 | | |
| Total liabilities and stockholders equity | \$ 8,522,602 | | | \$ 6,192,506 | | |
| Net interest income | | \$ 90,778 | | | \$ 71,274 | |
| Net interest margin | | | 4.49% | | | 4.86% |
| Net interest spread | | | 4.40% | | | 4.74% |
| Additional information from discontinued operations: | | | | | | |
| Loans held for sale | \$ 389 | | | \$ 415 | | |
| Borrowed funds | 389 | | | 415 | | |

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| | | | | |
|------------------------------------|----|-------|----|-------|
| Net interest income | \$ | 6 | \$ | 7 |
| Net interest margin - consolidated | | 4.49% | | 4.86% |

- (1) The loan averages include loans on which the accrual of interest has been discontinued and are stated net of unearned income.
- (2) Taxable equivalent rates used where applicable.

Table of Contents**QUARTERLY FINANCIAL SUMMARY UNAUDITED**

Consolidated Daily Average Balances, Average Yields and Rates

(In thousands)

| | For the six months ended June 30, 2012 | | | For the six months ended June 30, 2011 | | |
|------------------------------------------------------|-------------------------------------------|------------------------------------|----------------|-------------------------------------------|------------------------------------|----------------|
| | Average Balance | Revenue/ Expense ⁽¹⁾ | Yield/ Rate | Average Balance | Revenue/ Expense ⁽¹⁾ | Yield/ Rate |
| Assets | | | | | | |
| Securities taxable | \$ 100,313 | \$ 1,989 | 3.99% | \$ 133,603 | \$ 2,846 | 4.30% |
| Securities non-taxable ⁽²⁾ | 27,662 | 802 | 5.83% | 36,475 | 1,046 | 5.78% |
| Federal funds sold | 7,463 | 5 | 0.13% | 29,230 | 33 | 0.23% |
| Deposits in other banks | 54,943 | 97 | 0.36% | 177,027 | 262 | 0.30% |
| Loans held for sale from continuing operations | 2,049,536 | 42,402 | 4.16% | 772,124 | 18,268 | 4.77% |
| Loans | 5,805,953 | 143,663 | 4.98% | 4,806,778 | 123,281 | 5.17% |
| Less reserve for loan losses | 71,020 | | | 69,081 | | |
| Loans, net of reserve | 7,784,469 | 186,065 | 4.81% | 5,509,821 | 141,549 | 5.18% |
| Total earning assets | 7,974,850 | 188,958 | 4.76% | 5,886,156 | 145,736 | 4.99% |
| Cash and other assets | 391,046 | | | 301,742 | | |
| Total assets | \$ 8,365,896 | | | \$ 6,187,898 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Transaction deposits | \$ 629,891 | \$ 338 | 0.11% | \$ 360,611 | \$ 110 | 0.06% |
| Savings deposits | 2,600,005 | 4,190 | 0.32% | 2,467,265 | 4,071 | 0.33% |
| Time deposits | 604,702 | 1,751 | 0.58% | 625,006 | 3,272 | 1.06% |
| Deposits in foreign branches | 426,950 | 675 | 0.32% | 396,393 | 835 | 0.42% |
| Total interest bearing deposits | 4,261,548 | 6,954 | 0.33% | 3,849,275 | 8,288 | 0.43% |
| Other borrowings | 1,491,646 | 1,455 | 0.20% | 196,623 | 219 | 0.22% |
| Trust preferred subordinated debentures | 113,406 | 1,399 | 2.48% | 113,406 | 1,271 | 2.26% |
| Total interest bearing liabilities | 5,866,600 | 9,808 | 0.34% | 4,159,304 | 9,778 | 0.47% |
| Demand deposits | 1,782,423 | | | 1,436,654 | | |
| Other liabilities | 73,592 | | | 43,944 | | |
| Stockholders equity | 643,281 | | | 547,996 | | |
| Total liabilities and stockholders equity | \$ 8,365,896 | | | \$ 6,187,898 | | |
| Net interest income | | \$ 179,150 | | | \$ 135,958 | |
| Net interest margin | | | 4.52% | | | 4.66% |
| Net interest spread | | | 4.43% | | | 4.52% |
| Additional information from discontinued operations: | | | | | | |
| Loans held for sale | \$ 391 | | | \$ 452 | | |

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| | | | | |
|------------------------------------|-----|-------|-------|-------|
| Borrowed funds | 391 | | 452 | |
| Net interest income | | \$ 14 | | \$ 18 |
| Net interest margin - consolidated | | | 4.52% | 4.66% |

- (1) The loan averages include loans on which the accrual of interest has been discontinued and are stated net of unearned income.
- (2) Taxable equivalent rates used where applicable.

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ITEM 2. 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 statements 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, 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
- (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 and differences in assumptions utilized by banking regulators which could have retroactive impact
- (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 recent economic crisis. On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry. Many of the related regulations are still not written so the potential impact is still unknown
- (8) Claims and litigation, whether founded or unfounded, may result in significant financial liability if legal actions are not resolved in a manner favorable to us.

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 quarterly report might not occur.

Results of Operations

Except as otherwise noted, all amounts and disclosures throughout this document reflect continuing operations. See Part I, Item 1 herein for a discussion of discontinued operations at Note (9) Discontinued Operations.

Summary of Performance

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We reported net income of \$29.6 million, or \$0.76 per diluted common share, for the second quarter of 2012 compared to \$16.7 million, or \$0.44 per diluted common share, for the second quarter of 2011. Return on average equity was 18.08% and return on average assets was 1.40% for the second quarter of 2012, compared to 12.13% and 1.08%, respectively, for the second quarter of 2011. Net income for the six months ended June

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30, 2012 totaled \$56.7 million, or \$1.45 per diluted common share, compared to \$28.6 million, or \$0.75 per diluted common share, for the same period in 2011. Return on average equity was 17.73% and return on average assets was 1.36% for the six months ended June 30, 2012, compared to 10.54% and .93%, respectively, for the six months ended June 30, 2011.

Net income increased \$12.9 million, or 77%, for the three months ended June 30, 2012 as compared to the same period in 2011. The \$12.9 million increase during the three months ended June 30, 2012, was primarily the result of a \$19.5 million increase in net interest income, a \$7.0 million decrease in the provision for credit losses and a \$2.5 million increase in non-interest income, offset by an \$8.7 million increase in non-interest expense and a \$7.4 million increase in income tax expense. The \$28.1 million increase during the six months ended June 30, 2012 was primarily the result of a \$43.2 million increase in net interest income, an \$11.5 million decrease in the provision for credit losses and a \$4.1 million increase in non-interest income, offset by a \$14.5 million increase in non-interest expense and a \$16.2 million increase 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 \$90.6 million for the second quarter of 2012, compared to \$71.1 million for the second quarter of 2011. The increase was due to an increase in average earning assets of \$2.2 billion as compared to the second quarter of 2011. The increase in average earning assets included a \$1.1 billion increase in average loans held for investment and a \$1.3 billion increase in loans held for sale, offset by a \$44.6 million decrease in average securities. For the quarter ended June 30, 2012, average net loans and securities represented 98% and 1%, respectively, of average earning assets compared to 96% and 3% in the same quarter of 2011.

Average interest bearing liabilities increased \$1.8 billion from the second quarter of 2011, which included a \$590.6 million increase in interest bearing deposits and a \$1.2 billion increase in other borrowings. The increase in average other borrowings was directly related to the growth in loans held for sale. Demand deposits increased from \$1.5 billion at June 30, 2011 to \$1.9 billion at June 30, 2012. The average cost of interest bearing deposits decreased from .36% for the quarter ended June 30, 2011 to .32% for the same period of 2012. The change in funding composition reduced the cost of deposits and borrowed funds to .29% in the second quarter of 2012 compared to .35% in the second quarter of 2011.

Net interest income was \$178.9 million for the six months ended June 30, 2012, compared to \$135.6 million for the same period of 2011. The increase was due to an increase in average earning assets of \$2.1 billion as compared to the six months ended June 30, 2011. The increase in average earning assets included a \$1.0 billion increase in average loans held for investment and a \$1.3 billion increase in loans held for sale, offset by a \$42.1 million decrease in average securities. For the six months ended June 30, 2012, average net loans and securities represented 98% and 2%, respectively, of average earning assets compared to 94% and 3% in the same period of 2011.

Average interest bearing liabilities increased \$1.7 billion compared to the first six month of 2011, which included a \$412.3 million increase in interest bearing deposits and a \$1.3 billion increase in other borrowings. The increase in average other borrowings was directly related to the growth in loans held for sale. Demand deposits increased from \$1.4 billion at June 30, 2011 to \$1.8 billion at June 30, 2012. The average cost of interest bearing deposits decreased from .43% for the six months ended June 30, 2011 to .33% for the same period of 2012. The change in funding composition reduced the cost of deposits and borrowed funds to .29% for the six months ended June 30, 2012 compared to .42% in the same period of 2011.

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The following table presents the changes (in thousands) in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of earning assets and interest-bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities.

| | Three months ended June 30, 2012/2011 | | | Six months ended June 30, 2012/2011 | | |
|------------------------------|------------------------------------------|------------------|-------------------|----------------------------------------|------------------------------|--------------------|
| | Net Change | Change Due To | | Net Change | Change Due To ⁽¹⁾ | |
| | | Volume | Yield/Rate | | Volume | Yield/Rate |
| Interest income: | | | | | | |
| Securities ⁽²⁾ | \$ (519) | \$ (510) | \$ (9) | \$ (1,101) | \$ (956) | \$ (145) |
| Loans held for sale | 11,496 | 14,810 | (3,314) | 24,134 | 30,371 | (6,237) |
| Loans held for investment | 9,286 | 13,564 | (4,278) | 20,382 | 26,136 | (5,754) |
| Federal funds sold | (1) | (2) | 1 | (28) | (25) | (3) |
| Deposits in other banks | (17) | (15) | (2) | (165) | (181) | 16 |
| Total | 20,245 | 27,847 | (7,602) | 43,222 | 55,345 | (12,123) |
| Interest expense: | | | | | | |
| Transaction deposits | 143 | 47 | 96 | 228 | 83 | 145 |
| Savings deposits | 407 | 136 | 271 | 119 | 242 | (123) |
| Time deposits | (520) | 109 | (629) | (1,521) | (106) | (1,415) |
| Deposits in foreign branches | 35 | 20 | 15 | (160) | 64 | (224) |
| Borrowed funds | 676 | 561 | 115 | 1,364 | 1,448 | (84) |
| Total | 741 | 873 | (132) | 30 | 1,731 | (1,701) |
| Net interest income | \$ 19,504 | \$ 26,974 | \$ (7,470) | \$ 43,192 | \$ 53,614 | \$ (10,422) |

(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, was 4.49% for the second quarter of 2012 compared to 4.86% for the second quarter of 2011. This 37 basis point decrease was a result of a decrease in interest income as a percent of earning assets offset by a reduction in funding costs. Total cost of funding, including demand deposits and stockholders' equity decreased from .27% for the second quarter of 2011 to .23% for the second quarter of 2012.

Non-interest Income

The components of non-interest income were as follows (in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------------|-----------------------------|-----------------|---------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Service charges on deposit accounts | \$ 1,624 | \$ 1,608 | \$ 3,228 | \$ 3,391 |
| Trust fee income | 1,232 | 1,066 | 2,346 | 2,020 |
| Bank owned life insurance (BOLI) income | 588 | 539 | 1,109 | 1,062 |
| Brokered loan fees | 4,128 | 2,558 | 7,779 | 5,078 |
| Equipment rental income | 172 | 676 | 333 | 1,459 |
| Other | 2,718 | 1,504 | 4,857 | 2,625 |
| Total non-interest income | \$ 10,462 | \$ 7,951 | \$ 19,652 | \$ 15,635 |

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Non-interest income increased \$2.5 million during the three months ended June 30, 2012 compared to the same period of 2011. This increase is primarily related to an increase of \$1.6 million in brokered loan fees which relates to our mortgage warehouse lending business and a \$1.2 million increase in other non-interest income. Offsetting these increases was a \$504,000 decrease in equipment rental income related to the decline in the leased equipment portfolio.

Non-interest income increased \$4.1 million during the six months ended June 30, 2012 compared to the same period of 2011. This increase is primarily related to an increase of \$2.7 million in brokered loan fees which relates to our mortgage warehouse lending business and a \$2.3 million increase in other non-interest income. Offsetting these increases was a \$1.1 million decrease in equipment rental income related to the decline in the leased equipment portfolio.

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. In order to achieve

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continued growth in non-interest income, we may need to introduce new products or enter into new lines of business or expand existing lines of business. Any new product introduction or new market entry could place additional demands on capital and managerial resources.

Non-interest Expense

The components of non-interest expense were as follows (in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------------------------|-----------------------------|------------------|---------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Salaries and employee benefits | \$ 30,230 | \$ 24,109 | \$ 59,249 | \$ 48,281 |
| Net occupancy expense | 3,679 | 3,443 | 7,283 | 6,753 |
| Leased equipment depreciation | 143 | 447 | 282 | 1,003 |
| Marketing | 3,174 | 2,733 | 5,997 | 4,856 |
| Legal and professional | 3,330 | 4,264 | 7,321 | 6,987 |
| Communications and technology | 2,720 | 2,584 | 5,203 | 4,931 |
| FDIC insurance assessment | 1,596 | 1,972 | 3,165 | 4,483 |
| Allowance and other carrying costs for OREO | 3,812 | 1,023 | 7,154 | 5,053 |
| Other | 5,289 | 4,688 | 10,595 | 9,315 |
| Total non-interest expense | \$ 53,973 | \$ 45,263 | \$ 106,249 | \$ 91,662 |

Non-interest expense for the second quarter of 2012 increased \$8.7 million, or 19%, to \$54.0 million from \$45.3 million in the second quarter of 2011. The increase is primarily attributable to a \$6.1 million increase in salaries and employee benefits, which was primarily due to general business growth and incentive expense directly related to our performance and the increase in the price of our common stock.

Occupancy expense for the three months ended June 30, 2012 increased \$236,000, or 7%, compared to the same quarter in 2011 as a result of general business growth.

Leased equipment depreciation expense for the three months ended June 30, 2012 decreased \$304,000 compared to the same quarter in 2011 as a result of the continued decline in the leased equipment portfolio.

Marketing expense for the three months ended June 30, 2012 increased \$441,000, or 16%, compared to the same quarter in 2011, which was primarily due to general business growth and treasury management programs.

Legal and professional expense for the three months ended June 30, 2012 decreased \$934,000, or 22%, compared to same quarter in 2011. Our legal and professional expense will continue to fluctuate from quarter to quarter and could increase in the future as we respond to continued regulatory changes, strategic initiatives and other legal issues.

FDIC insurance assessment expense for the three months ended June 30, 2012 decreased by \$376,000 from \$2.0 million in 2011 to \$1.6 million as a result of changes to the FDIC assessment method in 2011.

For the three months ended June 30, 2012, allowance and other carrying costs for OREO increased \$2.8 million, to \$3.8 million, \$3.1 million of which related to deteriorating values of assets held in OREO. Of the \$3.1 million valuation expense in the second quarter of 2012, \$2.7 million related to increasing the valuation allowance and \$423,000 related to direct write-downs of the OREO balance.

Non-interest expense for the six months ended June 30, 2012 increased \$14.5 million, or 16%, to \$106.2 million from \$91.7 million compared to the same period in 2011. The increase is primarily attributable to an \$11.0 million increase in salaries and employee benefits, which was primarily due to general business growth and incentive expense directly related to our performance and the increase in the price of our common stock.

Occupancy expense for the six months ended June 30, 2012 increased \$530,000, or 8%, compared to the same quarter in 2011 as a result of general business growth.

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Leased equipment depreciation expense for the six months ended June 30, 2012 decreased \$721,000 compared to the same quarter in 2011 as a result of the continued decline in the leased equipment portfolio.

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Marketing expense for the six months ended June 30, 2012 increased \$1.1 million, or 23%, compared to the same quarter in 2011, which was primarily due to general business growth and treasury management programs.

Legal and professional expense for the six months ended June 30, 2012 increased \$334,000, or 5%, compared to same quarter in 2011. Our legal and professional expense will continue to fluctuate from quarter to quarter and could increase in the future as we respond to continued regulatory changes, strategic initiatives and other legal issues.

FDIC insurance assessment expense for the six months ended June 30, 2012 decreased by \$1.3 million from \$4.5 million in 2011 to \$3.2 million as a result of changes to the FDIC assessment method in 2011.

For the six months ended June 30, 2012, allowance and other carrying costs for OREO increased \$2.1 million, to \$7.2 million, \$5.9 million of which related to deteriorating values of assets held in OREO. Of the \$5.9 million valuation expense in the first six months of 2012, \$3.6 million related to increasing the valuation allowance and \$2.3 million related to direct write-downs of the OREO balance.

Analysis of Financial Condition**Loan Portfolio**

Total loans net of allowance for loan losses at June 30, 2012 increased \$985.2 million from December 31, 2011 to \$8.6 billion. Combined commercial, construction loans and leases increased \$705.9 million, offset by a combined decrease in real estate and consumer loans of \$38.0 million. Loans held for sale increased \$328.0 million from December 31, 2011 as a result of continued low mortgage rates.

Loans were as follows as of the dates indicated (in thousands):

| | June 30, 2012 | December 31, 2011 |
|---------------------------------------------------|------------------|----------------------|
| Commercial | \$ 3,806,332 | \$ 3,275,150 |
| Construction | 589,552 | 422,026 |
| Real estate | 1,785,300 | 1,819,251 |
| Consumer | 20,791 | 24,822 |
| Leases | 68,983 | 61,792 |
| Gross loans held for investment | 6,270,958 | 5,603,041 |
| Deferred income (net of direct origination costs) | (36,266) | (30,670) |
| Allowance for loan losses | (72,404) | (70,295) |
| Total loans held for investment, net | 6,162,288 | 5,502,076 |
| Loans held for sale | 2,408,032 | 2,080,081 |
| Total | \$ 8,570,320 | \$ 7,582,157 |

We continue to lend primarily in Texas. As of June 30, 2012, a substantial majority of the principal amount of the loans held for investment in our portfolio was to businesses and successful professionals and entrepreneurs in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions in Texas. 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.

We originate a substantial majority of all the loans held for investment. We also participate in syndicated loan relationships, both as a participant and as an agent. As of June 30, 2012, we have \$978.7 million in syndicated loans, \$284.0 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 June 30, 2012, \$18.5 million of our syndicated loans were on non-accrual, with \$18.3 million earning on a cash basis.

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Loans held for sale relates to our mortgage warehouse lending operations where we invest in mortgage loan participations that are typically sold within 10 to 20 days. We purchase participations in mortgage loans from regional mortgage originators throughout the country. Volumes fluctuate based on the level of market demand in the product and the number of days between purchase and sale of the participated loans. If loans are

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not sold in accordance with the terms of the agreements, loans could be transferred to the loans held for investment portfolio at a lower of cost or fair value. The loans are then subject to normal loan review, grading and reserve allocation requirements.

Summary of Loan Loss Experience

The provision for credit losses is a charge to earnings to maintain the reserve for loan losses at a level consistent with management's assessment of the loan portfolio in light of current economic conditions and market trends. We recorded a provision of \$1.0 million during the second quarter of 2012 compared to \$8.0 million in the second quarter of 2011 and \$3.0 million in the first quarter of 2012. The amount of reserves and provision required to support the reserve generally increased in 2009 and 2010 as a result of credit deterioration in our loan portfolio driven by negative changes in national and regional economic conditions and the impact of those conditions on the financial condition of borrowers and the values of assets, including real estate assets, pledged as collateral. However, in 2011 and continuing in 2012 we have experienced improvements in credit quality and seen levels of reserves and provision decrease.

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 appropriate 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 loss potential. 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.

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 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. The changes are reflected in the general reserve and in specific reserves as the collectability of larger classified loans are 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. 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 combined reserve for credit losses, which includes a liability for losses on unfunded commitments, totaled \$75.4 million at June 30, 2012, \$72.8 million at December 31, 2011 and \$69.4 million at June 30, 2011. Due to the growth in loans, the total reserve percentage decreased to 1.21% at June 30, 2012 from 1.31% of loans held for investment at December 31, 2011 and decreased from 1.34% of loans held for investment at June 30, 2011. The total reserve percentage had increased in 2009 and 2010 as a result of the effects of national and regional economic conditions on borrowers and values of assets pledged as collateral. The combined reserve percentage

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is starting to trend down as we recognize losses on loans for which there were specific or general allocations of reserves and see improvement in our overall credit quality. The overall reserve for loan losses continues to result from consistent application of the loan loss reserve methodology as described above. At June 30, 2012, 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.

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Activity in the reserve for loan losses is presented in the following table (in thousands):

| | Six months ended June 30, 2012 | Six months ended June 30, 2011 | Year ended December 31, 2011 |
|-------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|------------------------------------|
| Reserve for loan losses: | | | |
| Beginning balance | \$ 70,295 | \$ 71,510 | \$ 71,510 |
| Loans charged-off: | | | |
| Commercial | 1,510 | 5,647 | 8,518 |
| Real estate - term | 615 | 13,788 | 21,275 |
| Consumer | | 317 | 317 |
| Equipment leases | 121 | 996 | 1,218 |
| Total charge-offs | 2,246 | 20,748 | 31,328 |
| Recoveries: | | | |
| Commercial | 350 | 689 | 1,188 |
| Real estate - construction | | 243 | 248 |
| Real estate - term | 456 | 153 | 350 |
| Consumer | 8 | 4 | 9 |
| Equipment leases | 71 | 176 | 383 |
| Total recoveries | 885 | 1,265 | 2,178 |
| Net charge-offs | 1,361 | 19,483 | 29,150 |
| Provision for loan losses | 3,470 | 15,721 | 27,935 |
| Ending balance | \$ 72,404 | \$ 67,748 | \$ 70,295 |
| Reserve for off-balance sheet credit losses: | | | |
| Beginning balance | \$ 2,462 | \$ 1,897 | \$ 1,897 |
| Provision (benefit) for off-balance sheet credit losses | 530 | (221) | 565 |
| Ending balance | \$ 2,992 | \$ 1,676 | \$ 2,462 |
| Total reserve for credit losses | \$ 75,396 | \$ 69,424 | \$ 72,757 |
| Total provision for credit losses | \$ 4,000 | \$ 15,500 | \$ 28,500 |
| Reserve for loan losses to loans held for investment ⁽²⁾ | 1.16% | 1.31% | 1.26% |
| Net charge-offs to average loans ^{(1) (2)} | 0.05% | 0.82% | 0.58% |
| Total provision for credit losses to average loans ⁽²⁾ | 0.14% | 0.65% | 0.56% |
| Recoveries to total charge-offs | 39.40% | 6.10% | 6.95% |
| Reserve for off-balance sheet credit losses to off-balance sheet credit commitments | 0.14% | 0.10% | 0.14% |
| Combined reserves for credit losses to loans held for investment ⁽²⁾ | 1.21% | 1.34% | 1.31% |
| Non-performing assets: | | | |
| Non-accrual loans ⁽⁵⁾ | \$ 56,433 | \$ 77,884 | \$ 54,580 |
| OREO ⁽⁴⁾ | 27,882 | 27,285 | 34,077 |
| Other repossessed assets | 19 | 80 | 1,516 |
| Total | \$ 84,334 | \$ 105,249 | \$ 90,173 |
| Restructured loans | \$ 13,943 | \$ 23,540 | \$ 25,104 |

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| | | | |
|-------------------------------------------------------------|-------|--------|-------|
| Loans past due 90 days and still accruing ⁽³⁾ | 4,421 | 10,333 | 5,467 |
| Reserve as a percent of non-performing loans ⁽²⁾ | 1.3x | .9x | 1.3x |

- (1) Interim period ratios are annualized.
- (2) Excludes loans held for sale.
- (3) At June 30, 2012, December 31, 2011 and June 30, 2011, loans past due 90 days and still accruing includes premium finance loans of \$3.2 million, \$2.5 million and \$2.7 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 June 30, 2012, December 31, 2011 and June 30, 2011, OREO balance is net of \$9.0 million, \$10.7 million and \$9.2 million valuation allowance, respectively.
- (5) As of June 30, 2012, December 31, 2011 and June 30, 2011, non-accrual loans included \$10.8 million, \$13.8 million and \$26.9 million, respectively, in loans that met the criteria for restructured.

Table of Contents**Non-performing Assets**

Non-performing assets include non-accrual loans and leases and repossessed assets. The table below summarizes our non-accrual loans by type (in thousands):

| | June 30, 2012 | June 30, 2011 | December 31, 2011 |
|--------------------------------|------------------|------------------|----------------------|
| Non-accrual loans | | | |
| Commercial | \$ 19,248 | \$ 13,721 | \$ 12,913 |
| Construction | 19,959 | 22,254 | 21,119 |
| Real estate | 16,705 | 40,708 | 19,803 |
| Consumer | 269 | 323 | 313 |
| Leases | 252 | 878 | 432 |
| Total non-accrual loans | \$ 56,433 | \$ 77,884 | \$ 54,580 |

The table below summarizes the non-accrual loans as segregated by loan type and type of property securing the credit as of June 30, 2012 (in thousands):

| | |
|----------------------------------------------------------------------|------------------|
| Non-accrual loans: | |
| Commercial | |
| Lines of credit secured by the following: | |
| Various single family residences and notes receivable | \$ 3,944 |
| Assets of the borrowers | 13,045 |
| Other | 2,259 |
| Total commercial | 19,248 |
| Construction | |
| Secured by: | |
| Unimproved land and/or undeveloped residential lots | 19,959 |
| Total construction | 19,959 |
| Real estate | |
| Secured by: | |
| Commercial property | 6,945 |
| Unimproved land and/or undeveloped residential lots | 4,837 |
| Single family residences | 2,211 |
| Other | 2,712 |
| Total real estate | 16,705 |
| Consumer | 269 |
| Leases (commercial leases primarily secured by assets of the lessor) | 252 |
| Total non-accrual loans | \$ 56,433 |

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 collectability is questionable, then cash payments are applied to principal. As of June 30, 2012, \$18.3 million of our non-accrual loans were earning on a cash basis.

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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. All loans classified as TDRs are also considered impaired. 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.

At June 30, 2012, we had \$4.4 million in loans past due 90 days and still accruing interest. At June 30, 2012, \$3.2 million of the loans past due 90 days and still accruing are premium finance loans. These loans are primarily 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.

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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, or forgiveness of either principal or accrued interest. As of June 30, 2012, we have \$13.9 million in loans considered restructured that are not on nonaccrual. Of the nonaccrual loans at June 30, 2012, \$10.8 million met the criteria for restructured. A loan continues to qualify as restructured until a consistent payment history or change in borrower's financial condition 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 June 30, 2012 and 2011, we had \$9.4 million and \$14.7 million, respectively, in loans of this type which were not included in either non-accrual or 90 days past due categories.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------|-----------------------------|-----------|---------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Beginning balance | \$ 32,601 | \$ 26,172 | \$ 34,077 | \$ 42,261 |
| Additions | 875 | 5,667 | 3,397 | 6,593 |
| Sales | (2,471) | (3,829) | (3,728) | (17,524) |
| Valuation allowance for OREO | (2,700) | | (3,556) | (1,921) |
| Direct write-downs | (423) | (725) | (2,308) | (2,124) |
| Ending balance | \$ 27,882 | \$ 27,285 | \$ 27,882 | \$ 27,285 |

The following table summarizes the assets held in OREO at June 30, 2012 (in thousands):

| | |
|-------------------------------------------------|------------------|
| Unimproved commercial real estate lots and land | \$ 4,594 |
| Commercial buildings | 4,789 |
| Undeveloped land and residential lots | 13,754 |
| Multifamily lots and land | 546 |
| Single family residences | 2,454 |
| Other | 1,745 |
| Total OREO | \$ 27,882 |

When foreclosure occurs, fair value, which is generally based on appraised values, may result in partial charge-off of a loan upon taking property, and so long as property is retained, subsequent 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 six months ended June 30, 2012 and June 30, 2011, we recorded \$5.9 million and \$4.0 million in valuation expense, respectively. Of the \$5.9 million recorded for the six months ended June 30, 2012, \$3.6 million related to increases to the valuation allowance and \$2.3 million related to direct write-downs.

Table of Contents**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 demonstrated 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 year ended December 31, 2011 and for six months ended June 30, 2012, our principal source of funding has been our customer deposits, supplemented by our short-term and long-term borrowings, primarily from federal funds purchased and Federal Home Loan Bank (FHLB) borrowings.

Our liquidity needs have typically 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 for loans held for investment and other earnings assets as possible from deposits of these core customers. These deposits are generated 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 loans held for sale or other specific categories of loans, compared to customer deposits. The following table summarizes our period-end and average year-to-date core customer deposits and brokered deposits (in millions):

| | June 30, 2012 | June 30, 2011 | December 31, 2011 |
|------------------------------------------------------------------------------------------------------|------------------|------------------|----------------------|
| Deposits from core customers | \$ 6,490.2 | \$ 5,421.7 | \$ 5,391.1 |
| Deposits from core customers as a percent of total deposits | 97.4% | 100.0% | 97.0% |
| Brokered deposits | \$ 170.1 | \$ | \$ 165.1 |
| Brokered deposits as a percent of total deposits | 2.6% | 0.0% | 3.0% |
| Average deposits from core customers ⁽¹⁾ | \$ 5,879.9 | \$ 5,285.9 | \$ 5,344.2 |
| Average deposits from core customers as a percent of total quarterly average deposits ⁽¹⁾ | 97.3% | 100.0% | 99.7% |
| Average brokered deposits ⁽¹⁾ | \$ 164.1 | \$ | \$ 17.3 |
| Average brokered deposits as a percent of total quarterly average deposits ⁽¹⁾ | 2.7% | 0.0% | 0.3% |

(1) Annual averages presented for December 31, 2011.

We have access to sources of brokered deposits of not less than an additional \$3.3 billion. Customer deposits (total deposits minus brokered CDs) increased by \$1.1 billion from June 30, 2011 and increased \$1.1 billion from December 31, 2011.

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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 typically 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 as of June 30, 2012 (in thousands):

| | |
|------------------------------------------------------|------------------|
| Federal funds purchased | \$ 271,835 |
| Customer repurchase agreements | 22,148 |
| FHLB borrowings | 1,300,056 |
| Non-revolving line of credit | 15,000 |
| Trust preferred subordinated debentures | 113,406 |
| | |
| Total borrowings | \$ 1,722,445 |
| | |
| Maximum outstanding at any month-end during the year | \$ 2,098,298 |

The following table summarizes our other borrowing capacities in excess of balances outstanding at June 30, 2012 (in thousands):

| | |
|------------------------------------------------------------|----------------|
| FHLB borrowing capacity relating to loans | \$ |
| FHLB borrowing capacity relating to securities | 33,861 |
| | |
| Total FHLB borrowing capacity | \$ 33,861 |
| | |
| Unused federal funds lines available from commercial banks | \$ 510,840 |

Our equity capital averaged \$643.3 million for the six months ended June 30, 2012, as compared to \$548.0 million for the same period in 2011. This increase reflects our retention of net earnings during this period. We have not paid any cash dividends on our common stock since we commenced operations and have no plans to do so in the near future.

Our capital ratios remain above the levels required to be well capitalized and have been enhanced with the additional capital raised since 2008 and will allow us to grow organically with the addition of loan and deposit relationships.

On March 27, 2012 we entered into a loan agreement which provides for a non-revolving amortizing line of credit up to \$50 million that matures on March 27, 2014. The loan proceeds may be used for general corporate purposes including funding regulatory capital infusions into the Bank. The loan agreement contains customary financial covenants and restrictions. As of June 30, 2012 \$15.0 million in borrowings were outstanding.

During the second quarter of 2012, we filed an S-3 Registration Statement with the SEC which was effective June 25, 2012. The registration statement covers potential issuance of up to \$250.0 million of debt or equity securities. On July 25, 2012 in connection with that filing we announced a public offering of 1,750,000 shares of the Company's common stock. The additional equity will be used for general corporate purposes, including retirement of \$15.0 million of debt discussed above and additional capital to support continued loan growth at our bank.

Table of Contents**Commitments and Contractual Obligations**

The following table presents 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. As of June 30, 2012, our significant fixed and determinable contractual obligations to third parties were as follows (in thousands):

| | Within One Year | After One but Within Three Years | After Three but Within Five Years | After Five Years | Total |
|--------------------------------------------------------|---------------------|-------------------------------------------|-----------------------------------------|---------------------|---------------------|
| Deposits without a stated maturity ⁽¹⁾ | \$ 5,652,410 | \$ | \$ | \$ | \$ 5,652,410 |
| Time deposits ⁽¹⁾ | 968,676 | 22,921 | 16,196 | 87 | 1,007,880 |
| Federal funds purchased ⁽¹⁾ | 271,835 | | | | 271,835 |
| Customer repurchase agreements ⁽¹⁾ | 22,148 | | | | 22,148 |
| FHLB borrowings ⁽¹⁾ | 1,300,000 | | 56 | | 1,300,056 |
| Non-revolving line of credit ⁽¹⁾ | | 15,000 | | | 15,000 |
| Operating lease obligations ⁽¹⁾⁽²⁾ | 9,691 | 9,578 | 26,721 | 39,174 | 85,164 |
| Trust preferred subordinated debentures ⁽¹⁾ | | | | 113,406 | 113,406 |
| Total contractual obligations | \$ 8,224,760 | \$ 47,499 | \$ 42,973 | \$ 152,667 | \$ 8,467,899 |

(1) Excludes interest.

(2) Non-balance sheet item.

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.

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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 June 30, 2012, 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 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. The Company employs interest rate floors in certain variable rate loans to enhance the yield on those loans at times when market interest rates are extraordinarily low. The degree of asset sensitivity, spreads on loans and net interest margin may be reduced until rates increase by an amount sufficient to eliminate the effects of floors. The adverse effect of floors as market rates increase may also be offset by the positive gap, the extent to which rates on deposits and other funding sources lag increasing market rates and changes in composition of funding.

Table of Contents**Interest Rate Sensitivity Gap Analysis****June 30, 2012**

(In thousands)

| | 0-3 mo Balance | 4-12 mo Balance | 1-3 yr Balance | 3+ yr Balance | Total Balance |
|-----------------------------------------------------------------|-------------------|--------------------|-------------------|------------------|------------------|
| Securities ⁽¹⁾ | \$ 22,363 | \$ 36,121 | \$ 31,619 | \$ 24,861 | \$ 114,964 |
| Total variable loans | 7,531,869 | 28,848 | 389 | 445 | 7,561,551 |
| Total fixed loans | 571,985 | 296,053 | 160,876 | 88,913 | 1,117,827 |
| Total loans ⁽²⁾ | 8,103,854 | 324,901 | 161,265 | 89,358 | 8,679,378 |
| Total interest sensitive assets | \$ 8,126,217 | \$ 361,022 | \$ 192,884 | \$ 114,219 | \$ 8,794,342 |
| Liabilities: | | | | | |
| Interest bearing customer deposits | \$ 4,042,948 | \$ | \$ | \$ | \$ 4,042,948 |
| CDs & IRAs | 225,013 | 163,591 | 22,921 | 16,283 | 427,808 |
| Wholesale deposits | 170,061 | | | | 170,061 |
| Total interest bearing deposits | 4,438,022 | 163,591 | 22,921 | 16,283 | 4,640,817 |
| Repurchase agreements, Federal funds purchased, FHLB borrowings | 1,593,983 | | 56 | | 1,594,039 |
| Non-revolving line of credit | | 15,000 | | | 15,000 |
| Trust preferred subordinated debentures | | | | 113,406 | 113,406 |
| Total borrowings | 1,593,983 | 15,000 | 56 | 113,406 | 1,722,445 |
| Total interest sensitive liabilities | \$ 6,032,005 | \$ 178,591 | \$ 22,977 | \$ 129,689 | \$ 6,363,262 |
| GAP | \$ 2,094,212 | \$ 182,431 | \$ 169,907 | \$ (15,470) | \$ |
| Cumulative GAP | 2,094,212 | 2,276,643 | 2,446,550 | 2,431,080 | 2,431,080 |
| Demand deposits | | | | | \$ 2,019,473 |
| Stockholders' equity | | | | | 680,705 |
| Total | | | | | \$ 2,700,178 |

(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 June 30, 2012 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.

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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 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 2009 and remained low through 2012, we could not assume interest rate decreases 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%.

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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
200 bp Increase June 30, 2012

| | |
|--------------------------------------|-----------------|
| Change in net interest income | \$49,087 |
|--------------------------------------|-----------------|

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.

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ITEM 4. CONTROLS AND PROCEDURES

Our management, including our chief executive officer and chief financial officer, have evaluated our disclosure controls and procedures as of June 30, 2012, and concluded that those disclosure controls and procedures are effective. There have been no changes in our internal controls or in other factors known to us that could materially affect these controls subsequent to their evaluation, nor any corrective actions with regard to significant deficiencies and material weaknesses. While we believe that our existing disclosure controls and procedures have been effective to accomplish these objectives, we intend to continue to examine, refine and formalize our disclosure controls and procedures and to monitor ongoing developments in this area.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are aggressively defending against a \$65.4 million jury verdict that was rendered in August 2011, in rural southeastern Oklahoma. Post-trial motions were denied without comment in early July 2012, and an appeal has been filed in the Oklahoma Supreme Court.

The Oklahoma case was filed in May 2010 by one of the guarantors of a defaulted loan to an auto dealership in Hugo, Oklahoma, after we already had filed suit in Texas against the debtor and the three co-guarantors to recover the debt, and despite a forum selection clause in the guaranty requiring that any lawsuits be brought in Texas. The guarantor conceded he had signed the guaranty and that the guaranty was valid, but complained that he later had been defrauded because we had failed to notify him about on-going fraud at the dealership. We disputed that we had any such duty to him as guarantor under Oklahoma law, particularly since the guaranty expressly disclaimed such a duty and since he was a co-owner and salaried employee of the dealership. We repeatedly objected to the case proceeding in Oklahoma in view of the clause requiring any lawsuit to be brought in Texas, but these objections were rejected. We then obtained an injunction from the Texas court against the guarantor proceeding with the Oklahoma suit, but the guarantor nevertheless continued to trial in the Oklahoma suit in violation of that injunction.

Lacking much arguable economic loss, if any, the guarantor repeatedly emphasized to the jury in the Oklahoma case that we were claiming about \$6.7 million, plus accumulating interest, on the debt and guaranty in the Texas lawsuit, and that we were asking for those damages to be trebled because of RICO violations. The Oklahoma jury proceeded to award the guarantor a total of \$21.8 million in money damages, which was almost exactly three times his estimated prospective liability on his guaranty, and went on to award twice that amount in punitive damages.

Subsequent to the verdict in the Oklahoma case, the Texas Court of Appeals upheld the injunction and specifically ruled that the guaranty's forum selection clause required any claims by the guarantor to be brought in the Texas court.

We have been advised by counsel that we have numerous grounds to reverse the Oklahoma verdict entirely or substantially reduce the amount, such as the guarantor's pursuit of the Oklahoma case in violation of the forum selection clause in the guaranty and the Texas court's injunction, the absence of any alleged contractual or other legal duty to the guarantor, and the lack of proof of actual economic damages. In addition, we continued to pursue the Texas lawsuit over the guaranty, and on April 18, 2012, we received summary judgment ordering the guarantor to pay us approximately \$7 million on the debt, which could offset a portion of any arguable liability in the Oklahoma case. Counsel has also advised us the judgment in the Texas case may constitute a potential legal bar to any effectiveness of the Oklahoma judgment.

In light of these factors, we currently believe a materially negative outcome in this matter is not probable, despite the uncertainties inherent in litigation. We further have not been able to determine the amount or range of amounts, as likely for any liability. We thus have not established a reserve related to any potential exposure. The loss related to the loan was recognized in the second quarter of 2010 and we have no remaining balance sheet exposure on the principal balance of the loan.

ITEM 1A. RISK FACTORS

There has not been any material change in the risk factors previously disclosed in the Company's 2011 Form 10-K for the fiscal year ended December 31, 2011.

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ITEM 5. EXHIBITS

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

101 The following materials from Texas Capital Bancshares, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements

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SIGNATURES

Pursuant to the requirements 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.

Date: July 26, 2012

/s/ Peter B. Bartholow
Peter B. Bartholow
Chief Financial Officer
(Duly authorized officer and principal financial officer)

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EXHIBIT INDEX

Exhibit
Number

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- 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
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*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.