TEXAS CAPITAL BANCSHARES INC/TX
Form 10-Q
July 23, 2009

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

þ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
For the quarterly period ended June 30, 2009

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

Commission file number 0-30533
TEXAS CAPITAL BANCSHARES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**75-2679109**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2000 McKinney Avenue, Suite 700, Dallas, Texas, U.S.A.	**75201**
(Address of principal executive officers)	(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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filerþ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

On July 22, 2009, 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	35,697,184

Texas Capital Bancshares, Inc.
Form 10-Q
Quarter Ended June 30, 2009
Index

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME UNAUDITED

(In thousands except per share data)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Interest income				
Interest and fees on loans	$56,455	$56,389	$108,367	$118,286
Securities	3,544	4,550	7,395	9,410
Federal funds sold	9	61	24	101
Deposits in other banks	5	8	33	20
Total interest income	60,013	61,008	115,819	127,817
Interest expense				
Deposits	8,769	16,715	20,348	38,439
Federal funds purchased	740	1,963	1,358	4,913
Repurchase agreements	14	54	28	376
Other borrowings	570	2,652	1,748	5,979
Trust preferred subordinated debentures	1,118	1,464	2,318	3,351
Total interest expense	11,211	22,848	25,800	53,058
Net interest income	48,802	38,160	90,019	74,759
Provision for loan losses	11,000	8,000	19,500	11,750
Net interest income after provision for loan losses	37,802	30,160	70,519	63,009
Non-interest income				
Service charges on deposit accounts	1,614	1,288	3,139	2,405
Trust fee income	952	1,206	1,836	2,422
Bank owned life insurance (BOLI) income	423	315	697	626
Brokered loan fees	2,670	671	4,702	1,144
Equipment rental income	1,453	1,510	2,909	3,026
Other	304	962	1,033	2,012
Total non-interest income	7,416	5,952	14,316	11,635
Non-interest expense				
Salaries and employee benefits	18,000	15,369	34,219	30,711
Net occupancy expense	3,387	2,432	6,141	4,797
Leased equipment depreciation	1,115	1,179	2,238	2,372
Marketing	655	649	1,210	1,326
Legal and professional	3,106	2,645	5,177	4,471
Communications and data processing	979	770	1,815	1,624
FDIC insurance assessment	3,493	359	5,040	722
Other	4,638	3,853	9,839	7,510

Total non-interest expense	35,373	27,256	65,679	53,533
Income from continuing operations before income taxes	9,845	8,856	19,156	21,111
Income tax expense	3,363	3,056	6,549	7,281
Income from continuing operations	6,482	5,800	12,607	13,830
Loss from discontinued operations (after-tax)	(44)	(116)	(139)	(264)
Net income	6,438	5,684	12,468	13,566
Preferred stock dividends	4,453		5,383	
Net income available to common stockholders	$ 1,985	$ 5,684	$ 7,085	$ 13,566
Basic earnings per common share:				
Income from continuing operations	$ .06	$ .22	$ .22	$ .52
Net income	$ .06	$ .21	$ .22	$ .51
Diluted earnings per common share:				
Income from continuing operations	$ .06	$ .22	$ .22	$ .52
Net income	$ .06	$ .21	$ .22	$ .51

See accompanying notes to consolidated financial statements

3

Table of Contents

TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands except per share data)

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and due from banks	$ 74,478	$ 77,887
Federal funds sold	6,000	4,140
Securities, available-for-sale	308,187	378,752
Loans held for sale	544,652	496,351
Loans held for sale from discontinued operations	578	648
Loans held for investment (net of unearned income)	4,211,304	4,027,871
Less: Allowance for loan losses	56,893	46,835
Loans held for investment, net	4,154,411	3,981,036
Premises and equipment, net	11,088	9,467
Accrued interest receivable and other assets	197,376	184,242
Goodwill and intangible assets, net	7,608	7,689
Total assets	$5,304,378	$5,140,212
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 730,034	$ 587,161
Interest bearing	2,530,562	2,245,991
Interest bearing in foreign branches	382,986	500,035
Total deposits	3,643,582	3,333,187
Accrued interest payable	2,900	6,421
Other liabilities	20,892	19,518
Federal funds purchased	632,945	350,155
Repurchase agreements	61,816	77,732
Other short-term borrowings	364,811	812,720
Long-term borrowings		40,000
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	4,840,352	4,753,139
Stockholders equity:		
Common stock, $.01 par value:		
Authorized shares 100,000,000		
Issued shares 35,688,661 and 30,971,189 at June 30, 2009 and December 31, 2008, respectively	357	310
Additional paid-in capital	321,987	255,051

Retained earnings	136,936	129,851
Treasury stock (shares at cost: 417 at June 30, 2009 and 84,691 at December 31, 2008)	(8)	(581)
Deferred compensation		573
Accumulated other comprehensive income, net of taxes	4,754	1,869
Total stockholders equity	464,026	387,073
Total liabilities and stockholders equity	$5,304,378	$5,140,212

See accompanying notes to consolidated financial statements.

TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY UNAUDITED
(In thousands except share data)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Deferred Compensation	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
Balance at December 31, 2007		$	26,389,548	$ 264	$ 190,175	$ 105,585	(84,691)	$ (581)	$ 573	$ (878)	$ 295,138
Comprehensive income:											
Net income (unaudited)						13,566					13,566
Change in unrealized loss on available-for-sale securities, net of tax benefit of $176 (unaudited)										(326)	(326)
Total comprehensive income (unaudited)											13,240
Tax benefit related to exercise of stock options (unaudited)					1,152						1,152
Stock-based compensation expense recognized in earnings (unaudited)					2,567						2,567
Issuance of stock related to stock-based awards (unaudited)			390,838	4	2,816						2,820
Balance at June 30, 2008 (unaudited)		$	26,780,386	$ 268	$ 196,710	$ 119,151	(84,691)	$ (581)	$ 573	$ (1,204)	$ 314,917

Balance at December 31, 2008		$	30,971,189	$ 310	$ 255,051	$ 129,851	(84,691)	$ (581)	$ 573	$ 1,869	$ 387,073
Comprehensive income:											
Net income (unaudited)						12,468					12,468
Change in unrealized loss on available-for-sale securities, net of taxes of $1,553 (unaudited)										2,885	2,885
Total comprehensive income (unaudited)											15,353
Tax expense related to exercise of stock options (unaudited)					(129)						(129)
Stock-based compensation expense recognized in earnings (unaudited)					2,889						2,889
Deferred compensation							(84,274)	573	(573)		
Issuance of stock related to stock-based awards (unaudited)			117,472	1	612						613
Issuance of common stock			4,600,000	46	59,400						59,446
Issuance of preferred stock and related warrant (unaudited)	75,000	70,836			4,164						75,000
Repurchase of preferred stock (unaudited)	(75,000)	(71,069)				(3,931)					(75,000)
Preferred stock dividend and accretion of preferred stock discount		233				(1,452)					(1,219)

(unaudited)										
Balance at June 30, 2009 (unaudited)	$	35,688,661	$ 357	$ 321,987	$ 136,936	(417)	$ (8)	$	$ 4,754	$ 464,026

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	
	2009	2008
Operating activities		
Net income from continuing operations	$ 12,607	$ 13,566
Adjustments to reconcile net income to net cash (used in) operating activities:		
Provision for loan losses	19,500	11,750
Depreciation and amortization	4,087	3,790
Amortization and accretion on securities	128	160
Bank owned life insurance (BOLI) income	(697)	(626)
Stock-based compensation expense	2,889	2,567
Tax benefit (expense) from stock option exercises	(129)	1,152
Excess tax benefits (expense) from stock-based compensation arrangements	369	(3,292)
Originations of loans held for sale	(8,990,736)	(3,066,259)
Proceeds from sales of loans held for sale	8,942,435	2,911,587
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(14,675)	(11,755)
Accrued interest payable and other liabilities	(3,700)	(7,791)
Net cash (used in) operating activities of continuing operations	(27,922)	(145,151)
Net cash provided by (used in) operating activities of discontinued operations	(82)	7
Net cash (used in) operating activities	(28,004)	(145,144)
Investing activities		
Purchases of available-for-sale securities		(4,377)
Maturities and calls of available-for-sale securities	28,500	15,200
Principal payments received on available-for-sale securities	46,375	38,410
Net (increase) in loans held for investment	(192,862)	(247,766)
Purchase of premises and equipment, net	(3,389)	(689)
Net cash (used in) investing activities of continuing operations	(121,376)	(199,222)
Financing activities		
Net increase in deposits	310,395	526,700
Proceeds from issuance of stock related to stock-based awards	60,059	2,820
Proceeds from issuance of preferred stock and related warrants	75,000	
Repurchase of preferred stock	(75,000)	
Dividends paid	(1,219)	
Net (decrease) in other borrowings	(503,825)	(216,089)
	(369)	3,292

Excess tax benefits (expense) from stock-based compensation arrangements		
Net increase (decrease) in federal funds purchased	282,790	53,365
Net cash provided by financing activities of continuing operations	147,831	370,088
Net increase (decrease) in cash and cash equivalents	(1,549)	25,722
Cash and cash equivalents at beginning of period	82,027	89,463
Cash and cash equivalents at end of period	$ 80,478	$ 115,185
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 28,530	$ 52,558
Cash paid during the period for income taxes	10,700	13,925
Non-cash transactions:		
Transfers from loans/leases to other repossessed assets	5,501	2,943

See accompanying notes to consolidated financial statements.

6

Table of Contents

TEXAS CAPITAL BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED
(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Presentation

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

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make interim financial information not misleading. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (SEC). Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2008, included in our Annual Report on Form 10-K filed with the SEC on February 19, 2009 (the 2008 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. We have evaluated subsequent events for potential recognition and/or disclosure through July 22, 2009, the date the consolidated financial statements were issued.

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.

Accumulated Other Comprehensive Income (Loss), net

Unrealized gains or losses on our available-for-sale securities (after applicable income tax expense or benefit) are included in accumulated other comprehensive income (loss), net. Accumulated comprehensive income (loss), net for the six months ended June 30, 2009 and 2008 is reported in the accompanying consolidated statements of changes in stockholders equity. We had comprehensive income of $6.1 million for the three months ended June 30, 2009 and comprehensive income of $106,000 for the three months ended June 30, 2008. Comprehensive income during the three months ended June 30, 2009 included a net after-tax loss of $352,000, and comprehensive income during the three months ended June 30, 2008 included a net after-tax loss of $5.6 million due to changes in the net unrealized gains/losses on securities available-for-sale.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or the value of assets and liabilities not considered financial instruments. Effective January 1, 2008, we adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157). The adoption of SFAS 157 did not have an impact on our financial statements except for the expanded disclosures noted in Note 9 Fair Value Disclosures.

(2) EARNINGS PER COMMON SHARE

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Numerator:				
Net income from continuing operations	$ 6,482	$ 5,800	$ 12,607	$ 13,830
Preferred stock dividends	4,453		5,383	
Net income from continuing operations available to common shareholders	2,029	5,800	7,224	13,830
Loss from discontinued operations	(44)	(116)	(139)	(264)
Net income available to common shareholders	$ 1,985	$ 5,684	$ 7,085	$ 13,566
Denominator:				
Denominator for basic earnings per share-weighted average shares	33,784,178	26,706,223	32,396,804	26,586,135
Effect of employee stock options (1)	82,059	99,135	85,018	80,496
Denominator for dilutive earnings per share-adjusted weighted average shares and assumed conversions	33,866,237	26,805,358	32,481,822	26,666,631
Basic earnings per common share from continuing operations	$ .06	$ .22	$ .22	$ .52
Basic earnings per common share from discontinued operations	(.00)	(.01)	(.00)	(.01)
Basic earnings per common share	$ .06	$ .21	$ .22	$ .51
Diluted earnings per share from continuing operations	$ .06	$ .22	$ .22	$ .52
Diluted earnings per share from discontinued operations	(.00)	(.01)	(.00)	(.01)

Diluted earnings per common share	$	.06	$	.21	$	.22	$	.51

(1) Stock options and stock appreciation rights (SARs) outstanding of 1,966,330 at June 30, 2009 and 1,585,660 at June 30, 2008 have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented. Stock options and SARs are anti-dilutive when the exercise price is higher than the average market price of our common stock.

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

Table of Contents

Our net unrealized gain on the available-for-sale securities portfolio value increased from a gain of $2.9 million, which represented 0.77% of the amortized cost at December 31, 2008, to a gain of $7.3 million, which represented 2.43% of the amortized cost at June 30, 2009.

The following table discloses, as of June 30, 2009, our investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months (in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	$	$	$3,150	$(75)	$ 3,150	$ (75)
Corporate securities	4,609	(391)			4,609	(391)
Municipals	6,066	(131)			6,066	(131)
	$10,675	$(522)	$3,150	$(75)	$13,825	$(597)

At June 30, 2009, the number of investment positions in this unrealized loss position totals 18. We do not believe these unrealized losses are other than temporary as (1) we have the ability and intent to hold the investments for a period of time sufficient to allow for a recovery in market value, and (2) it is not probable that we will be unable to collect the amounts contractually due. The unrealized losses noted are interest rate related, and losses have decreased as rates decreased in 2008. We have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

At June 30, 2009 and December 31, 2008, loans were as follows (in thousands):

	June 30, 2009	December 31, 2008
Commercial	$2,374,098	$2,276,054
Construction	673,906	667,437
Real estate	1,065,519	988,784
Consumer	28,374	32,671
Leases	96,173	86,937
Gross loans held for investment	4,238,070	4,051,883
Deferred income (net of direct origination costs)	(26,766)	(24,012)
Allowance for loan losses	(56,893)	(46,835)
Total loans held for investment, net	$4,154,411	$3,981,036

We continue to lend primarily in Texas. As of June 30, 2009, a substantial majority of the principal amount of the loans held for investment in our portfolio was to businesses and individuals in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions in Texas. We originate substantially all of the loans in our portfolio, except in certain instances we have purchased selected loan participations and interests in certain syndicated credits and United States Department of Agriculture (USDA) government guaranteed loans. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at each balance sheet date.

9

Table of Contents

Non-Performing Assets

Non-performing loans and leases at June 30, 2009, December 31, 2008 and June 30, 2008 are summarized as follows (in thousands):

	June 30, 2009	December 31, 2008	June 30, 2008
Non-accrual loans: (1)(3)			
Commercial	$22,548	$15,676	$ 2,438
Construction	23,123	22,362	12,650
Real estate	3,617	6,239	1,339
Consumer	96	296	194
Equipment leases	208	2,926	132
Total non-accrual loans	49,592	47,499	16,753
Other repossessed assets:			
Other real estate owned (3)	31,404	25,904	5,615
Other repossessed assets	55	25	25
Total other repossessed assets	31,459	25,929	5,640
Total non-performing assets	$81,051	$73,428	$22,393
Loans past due (90 days) (2)(3)	$ 3,539	$ 4,115	$22,763

(1) The accrual of interest on loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest

is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectability is questionable, then cash payments are applied to principal.

(2) At June 30, 2009, $2.3 million of the loans past due 90 days and still accruing are premium finance loans. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

(3) At June 30, 2009, non-performing assets include

$3.0 million of mortgage warehouse loans that were transferred to our loans held for investment portfolio at lower of cost or market, and some subsequently moved to other real estate owned.

Allowance for Loan Losses

Activity in the allowance for loan losses was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Balance at the beginning of the period	$52,727	$34,021	$46,835	$32,821
Provision for loan losses	11,000	8,000	19,500	11,750
Net charge-offs:				
Loans charged-off	6,887	3,747	9,523	6,867
Recoveries	53	186	81	756
Net charge-offs	6,834	3,561	9,442	6,111
Balance at the end of the period	$56,893	$38,460	$56,893	$38,460

(5) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

(In thousands)	June 30, 2009
Financial instruments whose contract amounts represent credit risk:	
Commitments to extend credit	$3,760,103
Standby letters of credit	68,495

(6) 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, 2009, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

We participated in the U.S. Treasury Capital Purchase Program in the first quarter 2009 and issued $75 million of Series A preferred stock and related warrants. In the second quarter 2009, we repurchased the preferred stock related to the Program and completed a public offering of 4.6 million shares of common stock in May 2009. The new capital from this offering qualifies as Tier 1 capital and increased our Tier 1 and total capital ratios. For additional information regarding the preferred stock and warrant and the common stock offering, see Note 10 to the consolidated financial statements.

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 adequately capitalized as of June 30, 2009 and 2008. As of June 30, 2008, 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. Based on the bank capital ratio information in our most recently filed call report we continue to meet the capital ratios necessary to be well capitalized under the regulatory framework for prompt corrective action.

	June 30,	
	2009	2008
Risk-based capital:		

Tier 1 capital	11.20%	9.28%
Total capital	12.33%	10.31%
Leverage	10.56%	9.32%

(7) 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.

We recognized stock-based compensation expense of $1.5 million and $1.3 million for the three months ended June 30, 2009 and 2008, respectively, and $2.9 million and $2.6 million for the six months ended June 30, 2009 and 2008, respectively. The amount for the three months ended June 30, 2009 is comprised of $168,000 related to unvested options issued prior to the adoption of SFAS 123R, $413,000 related to SARs issued in 2006, 2007 and 2008, and $884,000 related to restricted stock units (RSUs) issued in 2006, 2007, 2008 and 2009. The amount for the six months ended June 30, 2009 is comprised of $348,000 related to unvested options issued prior to the adoption of SFAS 123R, $808,000 related to SARs issued in 2006, 2007, 2008 and 2009, and $1,735,000 related to RSUs issued in 2006, 2007, 2008 and 2009. Unrecognized stock-based compensation expense related to unvested options issued prior to adoption of SFAS 123R is $500,000. At June 30, 2009, the weighted average period over which this unrecognized expense is expected to be recognized was 0.9 years. Unrecognized stock-based compensation expense related to grants subsequent to 2005 is $14.3 million. At June 30, 2009, the weighted average period over which this unrecognized expense is expected to be recognized was 2.0 years.

(8) 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, 2009 and June 30, 2008, the loss from discontinued operations was $44,000 and $116,000, net of taxes, respectively. For the six months ended June 30, 2009 and 2008, the loss from discontinued operations was $139,000 and $264,000, net of taxes, respectively. The 2009 losses are primarily related to continuing legal and salary expenses incurred in dealing with the remaining loans and requests from investors related to the repurchase of previously sold loans. We still have approximately $578,000 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, 2009 include a liability for exposure to additional contingencies, including risk of having to repurchase loans previously sold, we recognize that market conditions may result in additional exposure to loss and the extension of time necessary to complete the discontinued mortgage operation.

(9) FAIR VALUE DISCLOSURES

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 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. The adoption of SFAS 157 did not have an impact on our financial statements except for the expanded disclosures noted below.

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

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include U.S. Treasuries that are highly liquid and are actively traded in over-the-counter markets.

12

Table of Contents

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 also includes impaired loans and OREO where collateral values have been based on third party appraisals and derivative assets and liabilities where values are based on internal cash flow models supported by market data inputs.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. This category generally includes certain mortgage loans that are 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, 2009 are as follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
Available for sale securities: (1)			
Treasuries	$	$	$
Mortgage-backed securities		249,197	
Corporate securities		4,609	
Municipals		46,818	
Other		7,563	
Loans (2)(4)		56,470	5,749
OREO (3)(4)		31,404	
Derivative asset (5)		1,922	
Derivative liability (5)		(1,922)	

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

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

impaired loans that have been measured for impairment at the fair value of the loan s collateral.

(3) Other real estate owned 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.

(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 Certain mortgage loans that are transferred from loans held for sale to loans held for investment are valued based on third party broker pricing. As the dollar amount and number of loans being valued is very small, a comprehensive market analysis is not obtained or considered necessary. Instead, we conduct a general polling of one or more mortgage brokers for indications of general market prices for the types of mortgage loans being valued, and we consider values based on recent experience in selling loans of like terms and comparable quality.

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, 2009	
	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$ 74,478	$ 74,478
Securities, available-for-sale	308,187	308,187
Loans held for sale	544,652	544,652
Loans held for sale from discontinued operations	578	578
Loans held for investment, net	4,154,411	4,168,524
Derivative asset	1,922	1,922
Deposits	3,643,582	3,645,254
Federal funds purchased	632,945	632,945
Borrowings	426,627	426,627
Trust preferred subordinated debentures	113,406	114,114
Derivative liability	1,922	1,922

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

Cash and cash equivalents

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

Securities

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

Loans, net

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

Derivatives

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

Deposits

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

Federal funds purchased, other borrowings and trust preferred subordinated debentures

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

Off-balance sheet instruments

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

(10) STOCKHOLDERS EQUITY

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

On January 16, 2009, we completed the issuance of $75 million of Series A perpetual preferred stock and related warrant under the U.S. Department of Treasury s voluntary Capital Purchase Program (CPP). The warrant represents the right to purchase 758,086 shares of our common stock at an initial exercise price of $14.84 per share. The warrant was valued at $4.2 million, which was calculated using a Black-Scholes option pricing model. The warrant valuation model required several inputs, including the risk free rate, and volatility factor. In addition to the Black-Scholes method we applied the Binomial Lattice Model and determined there was no material difference in value between the two methods. On May 8, 2009, we repurchased the $75 million in preferred stock from the Treasury. We recorded a $3.9 million accelerated deemed dividend representing the unamortized value of the outstanding warrants issued to the U.S. Department of Treasury to account for the difference between the book value and the carrying value of the preferred stock repurchased from the Treasury. The $3.9 million accelerated deemed dividend, combined with the previously scheduled preferred dividend of $523,000 resulted in a total dividend of $4.4 million during the second quarter of 2009. We did not repurchase the warrants, so the Treasury has the option to sell the warrants in the open market to a third party.

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

(11) NEW ACCOUNTING PRONOUNCEMENTS

Statements of Financial Accounting Standards

SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 5, (SFAS 160) amends Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 was effective for us on January 1, 2009 and did not have a significant impact on our financial statements.

SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133, (SFAS 161) amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities, to amend and enhance the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivative instruments, quantitative disclosures about fair values of derivative instruments and their gains and losses and disclosures about credit-risk-related contingent features of the derivative instruments and their potential impact on an entity s liquidity. SFAS 161 was effective for us on January 1, 2009 and did not have a significant impact on our financial statements.

SFAS No. 165, Subsequent Events (SFAS 165) established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 defines (i) the period after the balance sheet date during which a reporting entity s management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 became effective for periods ending after June 15, 2009 and did not have a significant impact on our financial statements.

Financial Accounting Standards Board Staff Positions and Interpretations

The FASB issued three related Staff Positions to clarify the application of SFAS 157 to fair value measurements in the current economic environment, modify the recognition of other-than-temporary impairments of debt securities, and require companies to disclose the fair values of financial instruments in interim periods. The final Staff Positions are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, if all three Staff Positions or both the fair-value measurements and other-than-temporary impairment Staff Positions are adopted simultaneously. None are expected to have a significant impact on our financial statements, but each is described in more detail below.

FASB Staff Position (FSP) 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. It emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale), between market participations at the measurement date under current market conditions.

FSP 115-2 and FSP 124-2 amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. It does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

FSP FAS 107-1 and APB 28-1 amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. It also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized information in interim reporting periods.

FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 became effective on January 1, 2009 and did not impact 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, 2009			For the three months ended June 30, 2008		
	Average Balance	Revenue/ Expense[1]	Yield/ Rate	Average Balance	Revenue/ Expense[1]	Yield/ Rate
Assets						
Securities taxable	$ 280,372	$ 3,124	4.47%	$ 356,445	$ 4,114	4.64%
Securities non-taxable[2]	45,901	646	5.64%	48,129	671	5.61%
Federal funds sold	5,649	9	0.64%	11,127	61	2.20%
Deposits in other banks	12,268	5	0.16%	1,103	8	2.92%
Loans held for sale from continuing operations	656,462	7,775	4.75%	246,026	3,654	5.97%
Loans	4,124,937	48,680	4.73%	3,597,342	52,735	5.90%
Less reserve for loan losses	51,601			33,181		
Loans, net of reserve	4,729,798	56,455	4.79%	3,810,187	56,389	5.95%
Total earning assets	5,073,988	60,239	4.76%	4,226,991	61,243	5.83%
Cash and other assets	251,960			198,946		
Total assets	$ 5,325,948			$ 4,425,937		
Liabilities and Stockholders Equity						
Transaction deposits	$ 135,756	$ 55	0.16%	$ 111,587	$ 129	0.46%
Savings deposits	974,275	2,003	0.82%	840,933	3,563	1.70%
Time deposits	1,082,691	5,105	1.89%	930,698	8,345	3.61%
Deposits in foreign branches	394,251	1,606	1.63%	755,593	4,678	2.49%
Total interest bearing deposits	2,586,973	8,769	1.36%	2,638,811	16,715	2.55%
Other borrowings	1,404,881	1,324	0.38%	830,482	4,669	2.26%
Trust preferred subordinated debentures	113,406	1,118	3.95%	113,406	1,464	5.19%
Total interest bearing liabilities	4,105,260	11,211	1.10%	3,582,699	22,848	2.56%
Demand deposits	724,487			513,327		
Other liabilities	18,899			14,613		
Stockholders equity	477,302			315,298		
	$ 5,325,948			$ 4,425,937		

Total liabilities and stockholders equity						
Net interest income		$ 49,028			$ 38,395	
Net interest margin			3.88%			3.65%
Net interest spread			3.66%			3.27%

(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.

Additional information from discontinued operations:						
Loans held for sale	$ 582			$ 730		
Borrowed funds	582			730		
Net interest income		$ 14			$ 12	
Net interest margin consolidated			3.88%			3.65%

Table of Contents

QUARTERLY FINANCIAL SUMMARY UNAUDITED
Consolidated Daily Average Balances, Average Yields and Rates
(In thousands)

	For the six months ended June 30, 2009			For the six months ended June 30, 2008		
	Average Balance	Revenue/ Expense[1]	Yield/ Rate	Average Balance	Revenue/ Expense[1]	Yield/ Rate
Assets						
Securities taxable	$ 300,973	$ 6,555	4.39%	$ 368,351	$ 8,538	4.66%
Securities non-taxable[2]	45,978	1,292	5.67%	48,137	1,342	5.61%
Federal funds sold	10,260	24	0.47%	7,921	101	2.56%
Deposits in other banks	11,740	33	0.57%	1,177	20	3.42%
Loans held for sale from continuing operations	622,122	14,262	4.62%	208,849	6,264	6.03%
Loans	4,073,842	94,105	4.66%	3,540,591	112,022	6.36%
Less reserve for loan losses	49,157			33,350		
Loans, net of reserve	4,646,807	108,367	4.70%	3,716,090	118,286	6.40%
Total earning assets	5,015,758	116,271	4.67%	4,141,676	128,287	6.23%
Cash and other assets	245,379			203,269		
Total assets	$ 5,261,137			$ 4,344,945		
Liabilities and Stockholders Equity						
Transaction deposits	$ 132,819	$ 99	0.15%	$ 109,968	$ 274	0.50%
Savings deposits	860,447	3,423	0.80%	815,559	8,681	2.15%
Time deposits	1,179,719	13,171	2.25%	829,096	16,220	3.93%
Deposits in foreign branches	419,261	3,655	1.76%	856,098	13,264	3.12%
Total interest bearing deposits	2,592,246	20,348	1.58%	2,610,721	38,439	2.96%
Other borrowings	1,386,389	3,134	0.46%	801,815	11,268	2.83%
Trust preferred subordinated debentures	113,406	2,318	4.12%	113,406	3,351	5.94%
Total interest bearing liabilities	4,092,041	25,800	1.27%	3,525,942	53,058	3.03%
Demand deposits	680,838			491,313		
Other liabilities	21,247			18,342		
Stockholders equity	467,011			309,348		
	$ 5,261,137			$ 4,344,945		

Total liabilities and stockholders equity				
Net interest income	$ 90,471		$ 75,229	
Net interest margin		3.64%		3.65%
Net interest spread		3.40%		3.20%

(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.

Additional information from discontinued operations:					
Loans held for sale	$ 614			$ 731		
Borrowed funds	614			731		
Net interest income		$ 28			$ 125	
Net interest margin consolidated			3.64%			3.65%

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 statement within the meaning of the Act. Forward-looking statements describe our future plans, strategies and expectations and are based on certain assumptions. Words such as believes , anticipates , expects , intends , targeted , continue , remain , will , should , may and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties, many of which are beyond our control that may cause actual results to differ materially from those in such statements. The important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to, the following:

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

(2) Changes in the levels of loan prepayments, which could affect the value of our loans or investment securities

(3) Changes in general economic and business conditions in areas or markets where we compete

(4) Competition from banks and other financial institutions for loans and customer deposits

(5) The failure of assumptions underlying the establishment of and provisions made to the allowance for credit losses

(6) The loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels

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 (8) Discontinued Operations.

Summary of Performance

We reported net income of $6.5 million for the second quarter of 2009 compared to $5.8 million for the second quarter of 2008. We reported net income available to common shareholders of $2.0 million, or $.06 per diluted common share, for the second quarter of 2009 compared to $5.8 million, or $.22 per diluted common share, for the second quarter of 2008. Return on average equity was 5.45% and return on average assets was .49% for the second quarter of 2009, compared to 7.40% and ..53%, respectively, for the second quarter of 2008. Net income for the six months ended June 30, 2009, totaled $12.6 million compared to $13.8 million for the same period in 2008. Net income available to common shareholders was $7.2 million, or $.22 per diluted common share, for the six months ended June 30, 2009, compared to $13.8 million, or $.52 per diluted common share, for the same period in 2008. Return on average equity was 5.44% and return on average assets was .48% for the six months ended June 30, 2009 compared to 8.99% and .64%, respectively, for the same period in 2008.

Net income increased $682,000, or 12%, for the three months ended June 30, 2009, and net income available to common shareholders decreased $3.8 million, or 65% for the three months ended June 30, 2009 compared to the same period in 2008; and decreased $1.2 million, or 9%, and decreased $6.6 million, or 48%, respectively, for the six months ended June 30, 2009 compared to the same period in 2008. The $682,000 increase during the three months ended June 30, 2009 was primarily the result of a $3.0 million increase in the provision for loan losses, an $8.1 million increase in non-interest expense and a $307,000 increase in income tax expense offset by a $10.6 million increase in net interest income and a $1.5 million increase in non-interest income. The $1.2 million decrease during the six months ended June 30, 2009 was primarily the result of a $7.8 million increase in the provision for loan losses and a $12.1 million increase in non-interest expense offset by a $15.3 million increase in net interest income, a $2.7 million increase in non-interest income and a $732,000 decrease in income tax expense.

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

Net Interest Income

Net interest income was $48.8 million for the second quarter of 2009, compared to $38.2 million for the second quarter of 2008. The increase was due to an increase in average earning assets of $847.0 million as compared to the second quarter of 2008. The increase in average earning assets included a $527.6 million increase in average loans held for investment and an increase of $410.4 million in loans held for sale, offset by a $78.3 million decrease in average securities. For the quarter ended June 30, 2009, average net loans and securities represented 93% and 7%, respectively, of average earning assets compared to 90% and 10% in the same quarter of 2008.

Average non-interest bearing deposits increased from $513.3 million for the second quarter of 2008 to $724.5 million, and average stockholders equity increased from $315.3 million to $477.3 million for the same periods. Average interest bearing liabilities increased $522.6 million from the second quarter of 2008, which included a $51.8 million decrease in interest bearing deposits and a $574.4 million increase in other borrowings. The significant increase in average other borrowings is a result of the combined effects of maturities of transaction-specific deposits and growth in loans during the second quarter of 2009. The average cost of interest bearing liabilities decreased from 2.56% for the quarter ended June 30, 2008 to 1.10% for the same period of 2009.

Net interest income was $90.0 million for the six months ended of 2009, compared to $74.8 million for the same period of 2008. The increase was due to an increase in average earning assets of $874.1 million as compared to the first quarter of 2008. The increase in average earning assets included a $533.3 million increase in average loans held for investment and an increase of $413.3 million in loans held for sale, offset by a $69.5 million decrease in average securities. For the six months ended June 30, 2009, average net loans and securities represented 93% and 7%, respectively, of average earning assets compared to 90% and 10% in the same quarter of 2008.

Average non-interest bearing deposits increased from $491.3 million for the first six month of 2008 to $680.8 million, and average stockholders equity increased from $309.3 million to $467.0 million for the same periods. Average interest bearing liabilities increased $566.1 million compared to the first six months of 2008, which included an $18.5 million decrease in interest bearing deposits and a $584.6 million increase in other borrowings. The significant increase in average other borrowings is a result of the combined effects of maturities of transaction-specific deposits and growth in loans during the first half of 2009. The average cost of interest bearing liabilities decreased from 3.03% for the six months ended June 30, 2008 to 1.27% for the same period of 2009.

Table of Contents

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, 2009/2008			Six months ended June 30, 2009/2008		
		Change Due To (1)			Change Due To (1)	
	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Interest income:						
Securities(2)	$ (1,015)	$ (899)	$ (116)	$ (2,033)	$ (1,641)	$ (392)
Loans held for sale	4,121	6,128	(2,007)	7,998	12,335	(4,337)
Loans held for investment	(4,055)	7,487	(11,542)	(17,917)	17,121	(35,038)
Federal funds sold	(52)	(30)	(22)	(77)	30	(107)
Deposits in other banks	(3)	81	(84)	13	166	(153)
Total	(1,004)	12,767	(13,771)	(12,016)	28,011	(40,027)
Interest expense:						
Transaction deposits	(74)	28	(102)	(175)	58	(233)
Savings deposits	(1,560)	564	(2,124)	(5,258)	478	(5,736)
Time deposits	(3,240)	1,358	(4,598)	(3,049)	6,943	(9,992)
Deposits in foreign branches	(3,072)	(2,234)	(838)	(9,609)	(6,775)	(2,834)
Borrowed funds	(3,691)	3,225	(6,916)	(9,167)	8,224	(17,391)
Total	(11,637)	2,941	(14,578)	(27,258)	8,928	(36,186)
Net interest income	$(10,633)	$ 9,826	$ (807)	$(15,242)	$19,083	$ (3,841)

(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 3.88% for the second quarter of 2009 compared to 3.65% for the second quarter of 2008. This 23 basis points increase in margin was a result of a steep decline in the costs of interest bearing liabilities and growth in non-interest bearing deposits and stockholders equity. Total cost of funding decreased from 2.08% for the second quarter of 2008 compared to .84% for the second quarter 2009. The benefit of the reduction in funding costs was partially offset by a 107 basis point decline in yields on earning assets.

Non-interest Income

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Service charges on deposit accounts	$1,614	$1,288	$ 3,139	$ 2,405
Trust fee income	952	1,206	1,836	2,422
Bank owned life insurance (BOLI) income	423	315	697	626
Brokered loan fees	2,670	671	4,702	1,144
Equipment rental income	1,453	1,510	2,909	3,026
Other	304	962	1,033	2,012
Total non-interest income	$7,416	$5,952	$14,316	$11,635

Non-interest income increased $1.4 million compared to the same quarter of 2008. The increase is primarily related to a $2.0 million increase in brokered loan fees due to an increase in mortgage warehouse volume. Service charges increased $326,000 due to lower earnings credit rates and some increases in fees. These increases were offset by a $254,000 decrease in trust fee income, which is due to the overall lower market values of trust assets.

Non-interest income increased $2.7 million during the six months ended June 30, 2008 to $14.3 million compared to $11.6 million during the same period of 2008. The increase is primarily related to a $3.6 million increase in brokered loan fees due to an increase in mortgage warehouse volume. Service charges increased $734,000 due to lower earnings credit rates and some increases in fees. These increases were offset by a $586,000 decrease in trust fee income, which is due to the overall lower market values of trust assets.

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

Non-interest Expense

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Salaries and employee benefits	$18,000	$15,369	$34,219	$30,711
Net occupancy expense	3,387	2,432	6,141	4,797
Leased equipment depreciation	1,115	1,179	2,238	2,372
Marketing	655	649	1,210	1,326
Legal and professional	3,106	2,645	5,177	4,471
Communications and data processing	979	770	1,815	1,624
FDIC insurance assessment	3,493	359	5,040	722
Other	4,638	3,853	9,839	7,510
Total non-interest expense	$35,373	$27,256	$65,679	$53,533

Non-interest expense for the second quarter of 2009 increased $8.1 million, or 30%, to $35.4 million from $27.3 million. Salaries and employee benefits increased $2.6 million to $18.0 million from $15.4 million, which was primarily due to general business growth.

Occupancy expense for the three months ended June 30, 2009 increased $955,000, or 39%, compared to the same quarter in 2008 related to general business growth.

Legal and professional expense for the three months ended June 30, 2009 increased $461,000, or 17% compared to the same quarter in 2008 mainly related to business growth and continued regulatory and compliance costs. Regulatory and compliance costs continue to be a factor in our expense growth, and we anticipate that they will continue to increase.

FDIC insurance assessment expense for the second quarter of 2009 increased $3.1 million compared to the same period in 2008 due to the rate increase effective for the first quarter 2009. The second quarter of 2009 also includes a special assessment of $2.4 million. The FDIC assessment rates may continue to increase and will continue to be a factor in our expense growth.

Non-interest expense for the first six months of 2009 increased $12.2 million, or 23%, to $65.7 million from $53.5 million. Salaries and employee benefits increased $3.5 million to $34.2 million from $30.7 million, which was primarily due to general business growth.

Occupancy expense for the six months ended June 30, 2009 increased $1.3 million, or 27%, compared to the same quarter in 2008 related to general business growth.

Legal and professional expense for the six months ended June 30, 2009 increased $706,000, or 16% compared to the same quarter in 2008 mainly related to business growth and continued regulatory and compliance costs. Regulatory and compliance costs continue to be a factor in our expense growth, and we anticipate that they will continue to increase.

FDIC insurance assessment expense for the six months ended June 30, 2009 increased $4.3 million compared to the same period in 2008 due to the rate increase effective for the first quarter 2009. The second quarter of 2009 also includes a special assessment of $2.4 million. The FDIC assessment rates may continue to increase and will continue to be a factor in our expense growth.

Table of Contents

Other non-interest expense increased $2.3 million, or 31%, compared to the same period in 2008 mainly related to a $1.1 million increase in OREO-related expenses.

Analysis of Financial Condition

The aggregate loan portfolio at June 30, 2009 increased $222.7 million from December 31, 2008 to $4.7 billion. Commercial loans, construction loans, real estate loans and leases and loans held for sale increased $98.0 million, $6.5 million, $76.7 million, $9.2 million and $48.3 million, respectively. Consumer loans decreased $4.3 million. We anticipate that overall loan growth during the remainder of 2009 will be down from prior years as a result of tightened credit standards and reduced demand for credit due to overall economic conditions.

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

	June 30, 2009	December 31, 2008
Commercial	$2,374,098	$2,276,054
Construction	673,906	667,437
Real estate	1,065,519	988,784
Consumer	28,374	32,671
Leases	96,173	86,937
Gross loans held for investment	4,238,070	4,051,883
Deferred income (net of direct origination costs)	(26,766)	(24,012)
Allowance for loan losses	(56,893)	(46,835)
Total loans held for investment, net	4,154,411	3,981,036
Loans held for sale	544,652	496,351
Total	$4,699,063	$4,477,387

We continue to lend primarily in Texas. As of June 30, 2009, a substantial majority of the principal amount of the loans 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. We originate substantially all of the loans in our portfolio, except in certain instances we have purchased selected loan participations and interests in certain syndicated credits and USDA government guaranteed loans. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses is adequate to cover estimated losses on loans at each balance sheet date.

Summary of Loan Loss Experience

During the second quarter of 2009, we recorded net charge-offs in the amount of $6.8 million, compared to net charge-offs of $3.6 million for the same period in 2008. For the first half of 2009, the ratio of net charge-offs to loans held for investment was .47% compared to .35% for the same period in 2008. The reserve for loan losses, which is available to absorb losses inherent in the loan portfolio, totaled $56.9 million at June 30, 2009, $46.8 million at December 31, 2008 and $38.5 million at June 30, 2008. This represents 1.35%, 1.16% and 1.04% of loans held for investment (net of unearned income) at June 30, 2009, December 31, 2008 and June 30, 2008, respectively.

The provision for loan losses is a charge to earnings to maintain the reserve for loan losses at a level consistent with management s assessment of the loan portfolio in light of current economic conditions and market trends. We recorded an $11.0 million provision for loan losses during the second quarter of 2009 compared to $8.0 million in the second quarter of 2008 and $8.5 million in the first quarter of 2009.

The reserve for loan losses is comprised of specific reserves for impaired loans and an estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We regularly evaluate our reserve for loan losses to maintain an adequate level to absorb estimated loan losses inherent in the loan portfolio. Factors contributing to the determination of reserves include the credit worthiness of the borrower, changes in the value of pledged collateral, and general economic conditions. All loan commitments rated substandard or worse and greater than $500,000 are specifically reviewed for impairment. For loans deemed to be impaired, a specific allocation is assigned based on the losses expected to be realized from those loans. For purposes of determining the general reserve, the portfolio is segregated by product types to recognize differing risk profiles among categories, and then further segregated by credit grades. Credit grades are assigned to all loans greater than $50,000. 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 that portion of the required reserve assigned to unfunded loan commitments. 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, and historical loss rates at selected peer banks, adjusted for certain qualitative factors. Qualitative adjustments for such things as general economic conditions, changes in credit policies and lending standards, and changes in the trend and severity of problem loans, can cause the estimation of future losses to differ from past experience. In addition, the reserve considers the results of reviews performed by independent third party reviewers as reflected in their confirmations of assigned credit grades within the portfolio. The portion of the allowance that is not derived by the allowance allocation percentages compensates for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. We evaluate many factors and conditions in determining the unallocated portion of the allowance, including the economic and business conditions affecting key lending areas, credit quality trends and general growth in the portfolio. The allowance is considered adequate and appropriate, given management s assessment of potential losses within the portfolio as of the evaluation date, the significant growth in the loan and lease portfolio, current economic conditions in the Company s market areas and other factors.

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

Table of Contents

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

	Six months ended June 30, 2009	Six months ended June 30, 2008	Year ended December 31, 2008
Beginning balance	$46,835	$ 32,821	$32,821
Loans charged-off:			
Commercial	1,787	6,251	7,395
Real estate construction	1,881	118	1,866
Real estate term	1,486	469	4,168
Consumer	419		193
Leases	3,950	29	12
Total charge-offs	9,523	6,867	13,634
Recoveries:			
Commercial	69	689	759
Real estate term			47
Consumer	5		13
Leases	7	67	79
Total recoveries	81	756	898
Net charge-offs	9,442	6,111	12,736
Provision for loan losses	19,500	11,750	26,750
Ending balance	$56,893	$ 38,460	$46,835
Reserve to loans held for investment [2]	1.35%	1.04%	1.16%
Net charge-offs to average loans [1][2]	.47%	.35%	.35%
Provision for loan losses to average loans [1][2]	.97%	.67%	.73%
Recoveries to total charge-offs	.85%	11.01%	6.59%
Reserve as a multiple of net charge-offs	6.0x	6.3x	3.7x
Non-performing assets (NPAs):			
Non-accrual [4]	$49,592	$ 16,753	$47,499
Other real estate owned (OREO)	31,404	5,615	25,904
Total	$80,996	$ 22,368	$73,403
Non-accrual loans to loans [2]	1.18%	.58%	1.18%
Total NPAs to loans plus OREO	1.91%	.65%	1.81%
Reserve to non-accrual loans [2]	1.1x	1.8x	1.0x
Loans past due 90 days and still accruing [3][4]	$ 3,539	$ 22,763	$ 4,115

Loans past due 90 days to loans [2]	.08%	.11%	.10%

(1) Interim period ratios are annualized.

(2) Excludes loans held for sale.

(3) At June 30, 2009, $2.3 million of the loans past due 90 days and still accruing are premium finance loans. 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 up to 180 days or longer from the cancellation date.

(4) At June 30, 2009, non-performing assets include $3.0 million of mortgage warehouse loans which were transferred to the loans held for investment portfolio at lower of cost or

market, and some were subsequently moved to other real estate owned.

Table of Contents

Non-performing Assets

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

	June 30, 2009	June 30, 2008	December 31, 2008
Non-accrual loans:			
Commercial	$22,548	$ 2,438	$15,676
Construction	23,123	12,650	22,362
Real estate	3,617	1,339	6,239
Consumer	96	194	296
Leases	208	132	2,926
Total non-accrual loans	$49,592	$16,753	$47,499

At June 30, 2009, our total non-accrual loans were $49.6 million. Of these, $22.5 million were characterized as commercial loans. This included a $7.3 million lender finance loan secured by the borrower s material assets, a $6.1 million residence rehabilitation loan secured by single family residences, a $4.4 million manufacturing loan secured by the assets of the borrower, a $2.5 million loan secured by a first lien security interest in the borrower s accounts receivable and assets, and $1.4 million in auto dealer loans secured by the borrower s accounts receivable and inventory. Non-accrual loans also included $23.1 million characterized as construction loans. This included a $6.8 million commercial real estate loan secured by undeveloped lots, a $5.0 million commercial real estate loan secured by unimproved land, a $3.8 million commercial real estate loan secured by retail property and $2.8 million in commercial real estate loans secured by single family residences. Also included in this category is $1.8 million in commercial real estate loans secured by a developed condo project, a $1.6 million commercial real estate loan secured by unimproved lots, and a $1.1 million real estate investment loan secured by unimproved lots. Non-accrual loans also included $3.6 million characterized as real estate loans, $2.4 of which relates to single family mortgages that were originated in our mortgage warehouse operation. Each of these loans were reviewed for impairment and specific reserves were allocated as necessary and included in the allowance for loan losses as of June 30, 2009 to cover any probable loss.

At June 30, 2009, our other real estate owned (OREO) totaled $31.4 million. This included an unimproved commercial real estate lot valued at $7.5 million, fully-developed residential real estate lots valued at $1.6 million and undeveloped land valued at $7.1 million, commercial real estate property consisting of single family residences and developed lots valued at $4.3 million, commercial real estate property consisting of single family residences and a mix of lots at various levels of completion valued at $2.0 million, an unimproved commercial real estate lot valued at $2.9 million and an office building valued at $2.6 million.

At June 30, 2009, we had $3.5 million in loans past due 90 days and still accruing interest. At June 30, 2009, $2.3 million of the loans past due 90 days and still accruing are premium finance loans. 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 up to 180 days or longer from the cancellation date.

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, 2009, none of our non-accrual loans were earning on a cash basis.

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

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, 2009 and December 31, 2008, we had $18.4 million and $22.5 million in loans of this type which were not included in either non-accrual or 90 days past due categories.

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 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, 2008 and for the six months ended June 30, 2009, our principal source of funding has been our customer deposits, supplemented by our short-term and long-term borrowings, primarily from securities sold under repurchase agreements and federal funds purchased from our downstream correspondent bank relationships (which consist of banks that are considered to be smaller than our bank) Federal Home Loan Bank (FHLB) borrowings and Fed 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 as possible from deposits of these core customers, which as of June 30, 2009, comprised $2,861.3 million, or 78.5%, of total deposits. On an average basis, for the quarter ended June 30, 2009, deposits from core customers comprised $2,873.9 million, or 86.8%, of total quarterly average deposits. 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, 90 to 180 days or less, and are used to supplement temporary differences in the growth in loans, including growth in specific categories of loans, compared to customer deposits. As of June 30, 2009, brokered retail CDs comprised $782.3 million, or 21.5%, of total deposits. On an average basis, for the quarter ended June 30, 2009, brokered retail CDs comprised $437.6 million, or 13.2%, of total quarterly average deposits. We believe the Company has access to sources of brokered deposits of not less than an additional $2.5 billion.

Additionally, we have borrowing sources available to supplement deposits and meet our funding needs. These borrowing sources include federal funds purchased from our downstream correspondent bank relationships (which consist of banks that are smaller than our bank) and from our upstream correspondent bank relationships (which consist of banks that are larger than our bank), customer repurchase agreements, treasury, tax and loan notes, and advances from the FHLB and the Fed. The following table summarizes our borrowings (in thousands):

	June 30, 2009
Federal funds purchased	$ 632,945
Customer repurchase agreements	61,816
Treasury, tax and loan notes	4,311
Fed borrowings	350,000
TLGP borrowings	10,500
Trust preferred subordinated debentures	113,406
Total borrowings	$ 1,172,978
Maximum outstanding at any month end during the year	$ 1,866,587

27

The following table summarizes our other borrowing capacities in excess of balances outstanding at June 30, 2009 (in thousands):

FHLB borrowing capacity relating to loans	$ 1,381,000
FHLB borrowing capacity relating to securities	44,000
Total FHLB borrowing capacity	$ 1,425,000
Unused federal funds lines available from commercial banks	$ 693,000

In connection with the FDIC s Temporary Liability Guarantee Program (TLGP), we have the capacity to issue up to $1.1 billion in indebtedness which will be guaranteed by the FDIC for a limited period of time to newly issued senior unsecured debt and non-interest bearing deposits. We may issue any notes prior to October 31, 2009 with maturities no later than December 31, 2012. As of June 30, 2009 $10.5 million of these notes was outstanding.

Our equity capital averaged $467.0 million for the six months ended June 30, 2009 as compared to $309.3 million for the same period in 2008. This increase reflects our retention of net earnings during this period and the proceeds of sales of our common stock. 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.

On September 10, 2008, we completed a sale of 4 million shares of our common stock in a private placement to a number of institutional investors. The purchase price was $14.50 per share, and net proceeds from the sale totaled $55 million. On May 8, 2009, we completed a sale of 4.6 million shares of our common stock in a public offering. The purchase price was $13.75 per share, and net proceeds from the sale totaled $59.4 million. The new capital from these offerings is being used for general corporate purposes, including capital for support of anticipated growth of our bank.

On January 16, 2009, we completed the issuance of $75 million of Series A perpetual preferred stock and related warrant under the U.S. Department of Treasury s voluntary Capital Purchase Program (CPP). The preferred stock was repurchased in May 2009. In connection with the repurchase, we recorded a $3.9 million accelerated deemed dividend in the second quarter of 2009 representing the unamortized value of the outstanding warrants issued to the U.S. Department of Treasury to account for the difference between the book value and the carrying value of the preferred stock repurchased from the Treasury. The $3.9 million accelerated deemed dividend, combined with the previously scheduled preferred dividend of $523,000 resulted in a total dividend and reduction of earnings available to common stock of $4.4 million during the second quarter of 2009.

Our Bank capital ratios remain above the levels required to be well capitalized and our consolidated capital ratios have been enhanced with $114.4 million from the two common stock transactions discussed above and will allow us to grow organically with the addition of loan and deposit relationships.

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, 2009, 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)	$ 1,825,073	$	$	$	$ 1,825,073
Time deposits (1)	1,778,867	31,778	7,765	99	1,818,509
Federal funds purchased (1)	632,945				632,945
Customer repurchase agreements (1)	61,816				61,816
Treasury, tax and loan notes (1)	4,311				4,311
Fed borrowings (1)	350,000				350,000
TLGP borrowings (1)	10,500				10,500
Operating lease obligations (1) (2)	7,437	13,495	12,669	43,248	76,849
Trust preferred subordinated debentures (1)				113,406	113,406
Total contractual obligations	$ 4,670,949	$ 45,273	$ 20,434	$ 156,753	$ 4,893,409

(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 SFAS No. 114, Accounting by Creditors for Impairment of a Loan , and SFAS No. 5, Accounting for 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.

Table of Contents

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, 2009, and is not necessarily indicative of positions on other dates. The balances of interest rate sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are aggregated to show the interest rate sensitivity gap. The mismatch between repricings or maturities within a time period is commonly referred to as the gap for that period. A positive gap (asset sensitive), where interest rate sensitive assets exceed interest rate sensitive liabilities, generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative 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.

Table of Contents

Interest Rate Sensitivity Gap Analysis
June 30, 2009
(In thousands)

	0-3 mo Balance	4-12 mo Balance	1-3 yr Balance	3+ yr Balance	Total Balance
Securities [1]	$ 59,679	$ 65,144	$ 83,872	$ 99,492	$ 308,187
Total variable loans	4,020,243	1,739	4,377		4,026,359
Total fixed loans	188,952	207,361	287,334	73,294	756,941
Total loans [2]	4,209,195	209,100	291,711	73,294	4,783,300
Total interest sensitive assets	$ 4,268,874	$ 274,244	$ 375,583	$ 172,786	$ 5,091,487
Liabilities:					
Interest bearing customer deposits	$ 1,478,025	$	$	$	$ 1,478,025
CDs & IRAs	403,598	210,018	31,778	7,864	653,258
Wholesale deposits	742,987	39,278			782,265
Total interest bearing deposits	2,624,610	249,296	31,778	7,864	2,913,548
Repurchase agreements, Federal funds purchased, FHLB borrowings	1,044,761	14,811			1,059,572
Trust preferred subordinated debentures				113,406	113,406
Total borrowings	1,044,761	14,811		113,406	1,172,978
Total interest sensitive liabilities	$ 3,669,371	$ 264,107	$ 31,778	$ 121,270	$ 4,086,526
GAP	599,503	10,137	343,805	51,516	
Cumulative GAP	599,503	609,640	953,445	1,004,961	1,004,961
Demand deposits					$ 730,034
Stockholders equity					464,684
Total					$ 1,194,718

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

The most likely rate scenario is based on the consensus forecast of future interest rates published by independent sources. These forecasts incorporate future spot rates and relevant spreads of instruments that are actively traded in the open market. The Federal Reserve s Federal Funds target affects short-term borrowing; the prime lending rate and the LIBOR are the basis for most of our variable-rate loan pricing. The 10-year mortgage rate is also monitored because of its effect on prepayment speeds for mortgage-backed securities. These are our primary interest rate exposures. We are currently not using derivatives to manage our interest rate exposure.

The two shock test scenarios assume a sustained parallel 200 basis point increase or decrease, respectively, in interest rates. As short-term rates continued to fall during 2008, 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%.

Table of Contents

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, 2009
Change in net interest income	$ 14,799

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

ITEM 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, 2009, 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.

Table of Contents

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

There has not been any material change in the risk factors previously disclosed in the Company s 2008 Form 10-K for the fiscal year ended December 31, 2008.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

On May 19, 2009, we held our annual meeting of stockholders (the Annual Meeting). At the Annual Meeting, out of 31,014,158 shares of common stock entitled to vote at the meeting, the holders of 26,104,263 shares were present in person or by proxy. At the Annual Meeting, each nominee for director discussed in our Proxy Statement dated April 9, 2009 regarding the Annual Meeting was elected a director of the Company and the compensation of the Company s executives was approved, on an advisory basis. The votes received by each nominee for director and the advisory vote on compensation are set forth below:

Proposal	Votes For	Votes Against	Votes Withheld
Proposal 1: Election of Directors			
Peter B. Bartholow	24,266,481		1,837,782
Joseph M. Grant	25,718,815		385,448
Frederick B. Hegi, Jr.	25,329,085		775,178
Larry L. Helm	23,769,094		2,335,169
James R. Holland, Jr.	24,907,539		1,196,724
George F. Jones, Jr.	25,777,765		326,498
Walter W. McAllister III	24,389,351		1,714,912
Lee Roy Mitchell	24,485,305		1,618,958
Steve Rosenberg	25,777,825		326,438
Robert W. Stallings	25,757,238		347,025
Ian J. Turpin	25,777,613		326,650
Proposal 2: Advisory approval of executives compensation	17,796,620	8,205,219	102,424

ITEM 6. 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.

Table of Contents

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 23, 2009

/s/ Peter B. Bartholow

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

34

Table of Contents

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