TEXAS CAPITAL BANCSHARES INC/TX
Form 10-K
February 26, 2008

Table of Contents

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

þ Annual Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the fiscal year ended December 31, 2007
o Transition Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the transition period from ____ to ____(No fee required)

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

Delaware	000-30533	75-2679109
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)
2100 McKinney Avenue, Suite 900, Dallas, Texas, U.S.A.	75201	214-932-6600
(Address of principal executive officers)	(Zip Code)	(Registrant s telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

As of June 30, 2007, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the shares of common stock held by non-affiliates, based upon the closing price per share of the registrant s common stock as reported on The NASDAQ National Market, was approximately $525,250,000. There were 26,454,565 shares of the registrant s common stock outstanding on February 25, 2008.

Documents Incorporated by Reference

Portions of the registrant s Proxy Statement relating to the 2008 Annual Meeting of Stockholders, which will be filed no later than April 29, 2008, are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

Item 1.	Business	1
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	17
Item 3.	Legal Proceedings	18
Item 4.	Submission of Matters to a Vote of Security Holders	18

PART II

Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
Item 6.	Selected Consolidated Financial Data	21
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 7A.	Quantitative and Qualitative Disclosure About Market Risk	45
Item 8.	Financial Statements and Supplementary Data	48
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosures	84
Item 9A.	Controls and Procedures	85
Item 9B.	Other Information	87

PART III

Item 10.	Directors and Executive Officers and Corporate Governance	87
Item 11.	Executive Compensation	87
Item 12.	Security Ownership of Certain Beneficial Owners and Management	87
Item 13.	Certain Relationships and Related Transactions	87
Item 14.	Principal Accountant Fees and Services	87

PART IV

Item 15.	Exhibits	87

Subsidiaries
Consent of Ernst & Young LLP
Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)
Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
Section 1350 Certification of Chief Executive Officer
Section 1350 Certification of Chief Financial Officer

Table of Contents

ITEM 1. *BUSINESS*

Background

We were organized in March 1998 to serve as the holding company for Texas Capital Bank, National Association, an independent bank managed by Texans and oriented to the needs of the Texas marketplace. We decided that the most efficient method of building an independent bank was to acquire an existing bank and substantially increase the equity capitalization of that bank through private equity financing. The acquisition of an existing bank was attractive because it enabled us to avoid the substantial delay involved in chartering a new national or state bank. Our predecessor bank, Resource Bank, N.A., headquartered in Dallas, Texas, had completed the chartering process and commenced operations in October 1997. We acquired Resource Bank in December 1998.

We also concluded that substantial equity capital was needed to enable us to compete effectively with the subsidiary banks of nationwide banking and financial services organizations that operate in the Texas market. Accordingly, in June 1998, we commenced a private offering of our common stock and were successful in raising approximately $80.0 million upon completion of the offering. In August 2003, we completed our initial public offering, raising $33.9 million.

Growth History

We have grown substantially in both size and profitability since our formation. The table below sets forth data regarding the growth of key areas of our business from December 2003 through December 2007.

	December 31				
(in thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Loans held for investment	$ 3,462,608	$ 2,722,097	$ 2,075,961	$ 1,564,578	$ 1,229,773
Total loans(1)	3,636,774	2,921,111	2,148,344	1,656,163	1,307,751
Assets(1)	4,286,718	3,658,505	3,003,430	2,583,211	2,190,073
Deposits	3,066,377	3,069,330	2,495,179	1,789,887	1,445,030
Stockholders equity	295,138	253,515	215,523	195,275	171,756

(1) From continuing operations.

The following table provides information about the growth of our loan portfolio by type of loan from December 2003 to December 2007.

	December 31				
(in thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Commercial loans	$ 2,035,049	$ 1,602,577	$ 1,182,734	$ 818,156	$ 608,542
Total real estate loans	1,522,326	1,284,821	976,975	844,640	675,983
Construction loans	573,459	538,586	387,163	328,074	256,134
Permanent real estate loans	773,970	530,377	478,634	397,029	339,069
Loans held for sale	174,166	199,014	72,383	91,585	77,978

Loans held for sale from discontinued operations	731	16,844	38,795	27,952	2,802
Equipment leases	74,523	45,280	16,337	9,556	13,152
Consumer loans	28,334	21,113	19,962	15,562	16,564

The Texas Market

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

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

Business Strategy

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

- Target middle market businesses and high net worth individuals;
- Grow our loan and deposit base in our existing markets by hiring additional experienced Texas bankers;
- Continue the emphasis on credit policy to provide for credit quality consistent with long-term objectives;
- Improve our financial performance through the efficient management of our infrastructure and capital base, which includes:
  - Leveraging our existing infrastructure to support a larger volume of business;
  - Maintaining tight internal approval processes for capital and operating expenses; and
  - Extensive use of outsourcing to provide cost-effective operational support with service levels consistent with large-bank operations; and
- Extend our reach within target markets through service innovation and service excellence.

Products and Services

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

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

- commercial loans for general corporate purposes including financing for working capital, internal growth, acquisitions, leveraged buyouts, and financing for business insurance premiums;
- permanent real estate and construction loans;
- equipment leasing;
- cash management services;
- trust and escrow services; and

letters of credit

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

personal trust and wealth management services;

certificates of deposit;

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

traditional money market and savings accounts;

consumer loans, both secured and unsecured;

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

internet banking through BankDirect, our internet banking division

Lending Activities

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

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

Commercial Loans and Leases. Our commercial loan portfolio is comprised of lines of credit for working capital and term loans and leases to finance equipment and other business assets. Our energy production loans are generally collateralized with proven reserves based on appropriate valuation standards. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit and term loans typically are reviewed annually and are supported by accounts receivable, inventory, equipment and other assets of our clients businesses. At December 31, 2007, funded commercial loans and leases totaled approximately $2.1 billion, approximately 58% of our total funded loans.

Real Estate Loans. Approximately 26% of our real estate loan portfolio is comprised of loans secured by commercial properties occupied by the borrower. We also provide temporary financing for commercial and residential property. Our real estate loans generally have terms of five to seven years, and we provide loans with both floating and fixed rates. We generally avoid long-term loans for commercial real estate held for investment. At December 31, 2007, permanent real estate loans totaled approximately $774.0 million, approximately 21% of our total funded loans; of this total, $548.4 million were loans with floating rates and $225.6 million were loans with fixed rates.

Construction Loans. Our construction loan portfolio consists primarily of single-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and

contractors that have an established record of successful project completion and loan repayment and have a substantial investment of the borrowers equity. These loans typically have floating rates and commitment fees. At December 31, 2007, funded construction real estate loans totaled approximately $573.5 million, approximately 16% of our total funded loans.

Loans Held for Sale. Our loans held for sale portfolio consists primarily of single-family residential mortgages funded through our mortgage warehouse group. These loans are typically on our balance sheet less than

30 days. At December 31, 2007, loans held for sale totaled approximately $174.2 million, approximately 5% of our total funded loans.

Letters of Credit. We issue standby and commercial letters of credit, and can service the international needs of our clients through correspondent banks. At December 31, 2007, our commitments under letters of credit totaled approximately $55.6 million.

The table below sets forth information regarding the distribution of our funded loans among various industries at December 31, 2007.

	Funded Loans	
(dollars in thousands)	**Amount**	**Percent of Total**
Agriculture	$ 10,591	0.3%
Contracting construction and real estate development	567,078	15.5%
Contracting trades	84,245	2.3%
Government	10,668	0.3%
Manufacturing	175,972	4.8%
Personal/household	360,926	9.9%
Petrochemical and mining	417,358	11.4%
Retail	106,805	2.9%
Services	1,364,808	37.3%
Wholesale	168,445	4.6%
Investors and investment management companies	393,336	10.7%
Total	$ 3,660,232	100.0%

Loans extended to borrowers within the contracting industry are comprised largely of loans to land developers and to both heavy construction and general commercial contractors. Many of these loans are secured by real estate properties, the development of which is or may be financed by our bank. Loans extended to borrowers within the petrochemical and mining industries are predominantly loans to finance the exploration and production of petroleum and natural gas. These loans are generally secured by proven petroleum and natural gas reserves. Personal/household loans include loans to certain high net worth individuals for commercial purposes and mortgage loans, in addition to consumer loans. Loans extended to borrowers within the services industries include loans to finance working capital and equipment, as well as loans to finance investment and owner-occupied real estate. Significant trade categories represented within the services industries include, but are not limited to, real estate services, financial services, leasing companies, transportation and communication, and hospitality services. Borrowers represented within the real estate services category are largely owners and managers of both residential and non-residential commercial real estate properties.

We make loans that are appropriately collateralized under our credit standards. Over 90% of our funded loans are secured by collateral. The table below sets forth information regarding the distribution of our funded loans among various types of collateral at December 31, 2007.

	Funded Loans	
(dollars in thousands)	**Amount**	**Percent of Total**
Business assets	$ 1,256,858	34.4%
Energy	312,264	8.5%
Highly liquid assets	286,753	7.8%
Real property	1,333,435	36.5%
Rolling stock	48,326	1.3%
U. S. Government guaranty	41,044	1.1%
Other assets	125,313	3.4%
Unsecured	256,239	7.0%
Total	$ 3,660,232	100.0%

Deposit Products

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

Trust and Asset Management

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

Cayman Islands Branch

In June 2003, we received authorization from the Cayman Islands Monetary Authority to establish a branch of our bank in the Cayman Islands. We believe that a Cayman Islands branch of our bank enables us to offer more competitive cash management and deposit products to our core customers. Our Cayman Islands branch consists of an agented office to facilitate our offering of these products. We opened our Cayman Islands branch in September 2003. All deposits in the Cayman Branch come from U.S. based customers of our Bank. Deposits do not originate from foreign sources, and funds transfers neither come from nor go to facilities outside of the U.S. All deposits are in US dollars. As of December 31, 2007, our Cayman Islands deposits totaled $967.5 million.

Employees

As of December 31, 2007, we had 510 full-time employees relating to our continuing operations. None of our employees is represented by a collective bargaining agreement and we consider our relations with our employees to be good.

Table of Contents

Regulation and Supervision

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

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

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

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

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

Supervision by the Federal Reserve. We operate as a financial holding company registered under the Bank Holding Company Act, and, as such, we are subject to supervision, regulation and examination by the Federal Reserve. The Bank Holding Company Act and other Federal laws subject financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Because we are a legal entity separate and distinct from our bank, our right to participate in the distribution of assets of any subsidiary upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors. In the event of a liquidation or other resolution of a subsidiary, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of

holders of any obligation of the institution to its stockholders, including any financial holding company (such as ours) or any stockholder or creditor thereof.

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

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

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

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

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

Transactions with Affiliates and Insiders. Our bank is subject to Section 23A of the Federal Reserve Act which places limits on the amount of loans or extensions of credit to affiliates that it may make. In addition, extensions of credit must be collateralized by Treasury securities or other collateral in prescribed amounts. Most of these loans and other transactions must be secured in prescribed amounts. It also limits the amount of advances to third parties which are collateralized by our securities or obligations or the securities or obligations of any of our non-banking subsidiaries.

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

stockholders and their related interests. These restrictions contained in the Federal Reserve Act and Federal Reserve Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their

related interests. These loans cannot exceed the institution s total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

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

Pursuant to regulations promulgated under the Federal Deposit Insurance Corporation Improvement Act, the corrective actions that the banking agencies either must or may take are tied primarily to an institution s capital levels. In accordance with the framework adopted by the Federal Deposit Insurance Corporation Improvement Act, the banking agencies have developed a classification system, pursuant to which all banks and thrifts will be placed into one of five categories. Agency regulations define, for each capital category, the levels at which institutions are well capitalized , adequately capitalized , undercapitalized , significantly undercapitalized and critically undercapitalized. well capitalized bank has a total risk-based capital ratio (total capital to risk-weighted assets) of 10% or higher; a Tier 1 risk-based capital ratio (Tier 1 capital to risk-weighted assets) of 6% or higher; a leverage ratio (Tier 1 capital to total adjusted assets) of 5% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. Our bank s total risk-based capital ratio was 10.49% at December 31, 2007 and, as a result, it is currently classified as well capitalized for purposes of the FDIC s prompt corrective action regulations.

In addition to requiring undercapitalized institutions to submit a capital restoration plan which must be guaranteed by its holding company (up to specified limits) in order to be accepted by the bank regulators, agency regulations contain broad restrictions on activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With some exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution s capital decreases, the OCC s enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The OCC has only very limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator (the FDIC) if the capital deficiency is not corrected promptly.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) contains important new requirements for public companies in the area of financial disclosure and corporate governance. In accordance with Section 302(a) of Sarbanes-Oxley, written certifications by our chief executive officer and chief financial officer are required. These certifications attest that our quarterly and annual reports do not contain any untrue statement of a material fact. During 2004, we implemented a program designed to comply with Section 404 of Sarbanes-Oxley, which includes the identification of significant processes and accounts, documentation of the design of control

effectiveness over processes and entity level controls, and testing of the operating effectiveness of key controls.

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

- allows bank holding companies meeting management, capital and Community Reinvestment Act standards to engage in a substantially broader range of non-banking activities than was permissible prior to enactment, including insurance underwriting and making merchant banking investments in commercial and financial companies;
- allows insurers and other financial services companies to acquire banks; and
- removes various restrictions that applied to bank holding company ownership of securities firms and mutual fund advisory companies; and establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

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

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

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than historical or current facts, including, without limitation, statements about our business, financial condition, business strategy, plans and objectives of management and our future prospects, are forward-looking statements. Such forward-looking statements are subject to

risks and uncertainties that could cause actual results to differ materially from these expectations.

Available Information

Under the Securities Exchange Act of 1934, we are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may read and copy any document in our files with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. We file electronically with the SEC.

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

ITEM 1A. *RISK FACTORS*

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

Risk Factors Associated With Our Business

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

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

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

increase in the allowance for loan losses required by these regulatory agencies could have a negative effect on our results of operations and financial condition. For additional descriptions of risks in the loan portfolio, the methodology for determining, and information related to, the adequacy of the reserve for loan losses, see the Summary of Loan Loss Experience section in Management s Discussion and Analysis of Financial Condition and Results of Operations.

The growth plans for the Bank are dependent on the availability of capital and funding. The Company s dependence on trust preferred and other forms of debt capital, as well as other short-term sources of funding may become limited by market conditions beyond our control. Pricing of capital, in terms of interest or dividend requirements or dilutive impact on earnings available to shareholders may increase dramatically, and an increase in costs of capital could have a direct impact on operating performance and the ability to achieve growth objectives. Costs of funding could also increase dramatically and affect our growth objectives, as well as our financial performance. Adverse changes in operating performance and financial condition could make capital necessary to support or maintain well capitalized status either difficult to obtain or extremely expensive.

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

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

- national and local economic conditions;
- the supply and demand for investable funds;
- interest rates; and
- federal, state and local laws affecting these matters.

Any substantial deterioration in any of the foregoing conditions could have a material adverse effect on our results of operation and financial condition, which would likely adversely affect the market price of our common stock. Our bank s customer base is primarily commercial in nature, and our bank does not have a significant branch network or retail deposit base. In periods of economic downturn, business and commercial deposits may tend to be more volatile than traditional retail consumer deposits and, therefore, during these periods our financial condition and results of operations could be adversely affected to a greater degree than our competitors that have a larger retail customer base.

Our recent operating results may not be indicative of our future operating results. We may not be able to sustain our historical rate of growth. Various factors, such as competition, economic conditions, interest rates and regulatory considerations, may impede growth in our business and markets we serve.

Table of Contents

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

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

Our business strategy includes significant growth plans and, if we fail to manage our growth effectively as we pursue our expansion strategy, it could negatively affect our operations. We intend to develop our business by pursuing a significant growth strategy. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. In order to execute our growth strategy successfully, we must, among other things:

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

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

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

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

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

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

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

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

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

We are subject to extensive government regulation and supervision. We are subject to extensive federal and state regulation and supervision. See Business Regulation and Supervision . Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy, operations and growth, among other things. These regulations also impose obligations to maintain appropriate policies, procedures and controls, among other things, to detect, prevent and report money laundering and terrorist financing and to verify the identities of our customers. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. We expend substantial effort and incur costs to improve our systems, audit capabilities, staffing and training in order to satisfy regulatory requirements, but the regulatory authorities may determine that such efforts are insufficient. Failure to comply with relevant laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

Furthermore, the Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the SEC and NASD that are applicable to us, have increased the scope, complexity and cost of corporate governance,

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reporting and disclosure practices. As a result, we have experienced, and may continue to experience, greater compliance costs.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business. Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. For example, during 2005, hurricanes Katrina and Rita made landfall and subsequently caused extensive flooding and destruction along the coastal areas of the Gulf of Mexico, including communities where we conduct business. Operations in Houston were disrupted to a minor degree. While the impact of these hurricanes did not significantly affect us, other severe weather or natural disasters, acts of war or terrorism or other adverse external events may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on the our financial condition and results of operations.

Our management maintains significant control over us. Our current executive officers and directors beneficially own slightly more than 10% of the outstanding shares of our common stock. Accordingly, our current executive officers and directors are able to influence, to a significant extent, the outcome of all matters required to be submitted to our stockholders for approval (including decisions relating to the election of directors), the determination of day-to-day corporate and management policies and other significant corporate activities.

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

Anti-takeover provisions of our certificate of incorporation, bylaws and Delaware law may make it more difficult for you to receive a change in control premium. Certain provisions of our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest more difficult, even if such events were perceived by many of our stockholders as beneficial to their interests. These provisions include advance notice for nominations of directors and stockholders proposals, and authorize the issuance of blank check preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. Although we have no present intention to issue any shares of our preferred stock, there can be no assurance that we will not do so in the future. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an interested stockholder, defined generally as a person owning 15% or more of a corporation s outstanding voting stock, from engaging in a business combination with our company for three years following the date that person became an interested stockholder unless certain specified conditions are satisfied.

We are subject to claims and litigation pertaining to fiduciary responsibility. From time to time, customers make claims and take legal action pertaining to our performance of our fiduciary responsibilities. Whether customer claims and legal action related to our performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us they may result in significant financial liability and/or adversely affect the market perception of us and our products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Our controls and procedures may fail or be circumvented. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of

controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

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

Risks Associated With Our Common Stock

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

- Actual or anticipated variations in quarterly results of operations;
- Recommendations by securities analysts;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends, concerns and other issues in the financial services industry;
- Perceptions in the marketplace regarding us and/or our competitors;
- New technology used, or services offered, by competitors;
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- Failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to

decrease regardless of operating results.

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

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

Our certificate of incorporation and bylaws as well as certain Delaware and banking laws may have an anti-takeover effect. Provisions of our certificate of incorporation and bylaws, as well as Delaware General Corporation Law, and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of tour common stock.

The holders of our junior subordinated debentures have rights that are senior to those of our shareholders. As of December 31, 2007, we had $113.4 million in junior subordinated debentures outstanding that were issued to our statutory trusts. The trusts purchased the junior subordinated debentures from us using the proceeds from the sale of trust preferred securities to third party investors. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us to the extent not paid or made by each trust, provided the trust has funds available for such obligations.

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

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

Risks Associated With Our Industry

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

The earnings of financial services companies are significantly affected by general business and economic conditions. Our operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance and the strength of the U.S. economy and the local economies in which we operate, all of which

are beyond our control. Deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, among other things, any of which could have a material adverse impact on our results of operation and financial condition.

Table of Contents

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

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

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None

ITEM 2. *PROPERTIES*

As of December 31, 2007, we conducted business at nine full service banking locations and one operations center. Our operations center houses our loan and deposit operations and the BankDirect call center. We lease the space in which our banking centers and the operations call center are located. These leases expire between July 2009 and June 2015, not including any renewal options that may be available.

Table of Contents

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

Type of Location	Address
Executive offices, banking location	2100 McKinney Avenue Suite 900 Dallas, Texas 75201
Operations center	6060 North Central Expressway Suite 800 Dallas, Texas 75206
Banking location	14131 Midway Road Suite 100 Addison, Texas 75001
Banking location	5910 North Central Expressway Suite 150 Dallas, Texas 75206
Banking location	5800 Granite Parkway Suite 150 Plano, Texas 75024
Banking location	500 Throckmorton Suite 300 Fort Worth, Texas 76102
Banking location	114 W. 7th St. Suite 100 Austin, Texas 78701
Banking location	745 East Mulberry Street Suite 350 San Antonio, Texas 78212
Banking location	7373 Broadway Suite 100 San Antonio, Texas 78209
Banking location	One Riverway Suit 150 Houston, Texas 77056

ITEM 3. ***LEGAL PROCEEDINGS***

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

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

Our common stock began trading on The NASDAQ National Market on August 13, 2003, and is traded under the symbol TCBI . Our common stock was not publicly traded, nor was there an established market therefore, prior to August 13, 2003. On February 22, 2008 there were approximately 435 holders of record of our common stock.

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

The following table presents the range of high and low bid prices reported on The NASDAQ National Market for each of the four quarters of 2006 and 2007.

Quarter Ended	Price Per Share High	Price Per Share Low
March 31, 2006	$ 24.17	$ 20.57
June 30, 2006	24.92	21.45
September 30, 2006	23.92	18.08
December 31, 2006	20.75	18.11
March 31, 2007	21.88	18.51
June 30, 2007	23.31	19.77
September 30, 2007	23.49	19.54
December 31, 2007	22.94	17.78

Equity Compensation Plan Information

Plan category	Number of Securities to be Issued Upon Exercise Price of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	2,881,787	$ 13.28	510,749
Equity compensation plans not approved by security holders(1)	84,274	6.80	
Total	2,966,061	$ 13.10	510,749

(1) Refers to deferred compensation agreement. See further discussion in Note 10 to the Consolidated Financial Statements.

Table of Contents

Stock Performance Graph

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

	August 12, 2003	December 31, 2003	December 31, 2004	December 31, 2005	December 31, 2006	December 31, 2007
Texas Capital (TCBI)	$ 11.00	$ 14.48	$ 21.62	$ 22.38	$ 19.88	$ 18.25
Russell 2000 Index RTY	466.95	556.91	658.72	681.26	796.70	775.75
NASDAQ Bank Index CBNK	2,535.62	2,899.18	3,288.71	3,154.28	3,498.55	2,746.89

TCBI Stock Performance Graph

Source: Bloomberg

In December 2005, we discovered that we had inadvertently sold 16,361 shares of our common stock to our employees pursuant to our 2000 Employee Stock Purchase Plan in excess of the 160,000 shares of common stock authorized to be issued under the 2000 Employee Stock Purchase Plan. The sale of the excess shares took place on June 30, 2005. The 16,361 shares represented less than one-tenth of one percent of the 25,616,829 shares of common stock outstanding at June 30, 2005.

We filed a Registration Statement on Form S-3 (File No. 333-138207) (the Registration Statement), pertaining to the registration of such 16,361 shares of common stock, with the Securities and Exchange Commission on October 25, 2006, and amended by Amendment No. 1 to the Registration Statement on November 14, 2006. The Registration Statement was declared effective by the Securities and Exchange Commission on November 17, 2006. The rescission offer for which we filed the Registration Statement has expired. Five stockholders representing 417 shares of common stock elected to accept our rescission offer. As a result of the rescission offer s expiration pursuant to the terms and conditions set forth in the Registration Statement, we removed from registration 15,944 shares of common stock registered under the Registration Statement which were not repurchased by us pursuant to the rescission offer as of February 1, 2007 (the date of the Post-Effective Amendment No. 1 to the Registration Statement).

Table of Contents

ITEM 6. ***SELECTED CONSOLIDATED FINANCIAL DATA***

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

(in thousands, except per share, average share and percentage data)	At or For The Year Ended December 31 2007	2006	2005	2004	2003
Consolidated Operating Data(1)(3)					
Interest income	$ 290,207	$ 237,125	$ 159,459	$ 107,828	$ 85,484
Interest expense	149,540	119,312	65,329	35,965	32,329
Net interest income	140,667	117,813	94,130	71,863	53,155
Provision for loan losses	14,000	4,000		1,688	4,025
Net interest income after provision for loan losses	126,667	113,813	94,130	70,175	49,130
Non-interest income	19,712	17,041	12,001	10,197	10,892
Non-interest expense	98,606	86,912	65,344	50,381	48,380
Income from continuing operations before income taxes	47,773	43,942	40,787	29,991	11,642
Income tax expense (benefit)	16,420	14,961	13,860	10,006	(2,192)
Income from continuing operations	31,353	28,981	26,927	19,985	13,834
Income (loss) from discontinued operations	(1,931)	(57)	265	(425)	
Net income	$ 29,422	$ 28,924	$ 27,192	$ 19,560	$ 13,834
Consolidated Balance Sheet Data(1)(3)					
Total assets	$ 4,286,718	$ 3,658,505	$ 3,003,430	$ 2,583,211	$ 2,192,875
Loans held for investment	3,462,608	2,722,097	2,075,961	1,564,578	1,229,773
Loans held for sale	174,166	199,014	72,383	91,585	80,780
Loans held for sale from discontinued operations	731	16,844	38,795	27,952	
Securities available-for-sale	467,314	532,053	630,482	804,544	775,338
Deposits	3,066,377	3,069,330	2,495,179	1,789,887	1,445,030
Federal funds purchased	344,813	165,955	103,497	113,478	78,961
Other borrowings	439,038	45,604	162,224	481,513	466,793
Trust preferred subordinated debentures	113,406	113,406	46,394	20,620	20,620
Stockholders equity	295,138	253,515	215,523	195,275	171,756

(in thousands, except per share, average share and percentage data)	**2007**	**At or For The Year Ended December 31** **2006**	**2005**	**2004**	**2003**
Other Financial Data(3)					
Income per share:					
Basic					
Income from continuing operations	$ 1.20	$ 1.12	$ 1.05	$ .79	$ .62
Net income	1.12	1.11	1.06	.77	.62
Diluted					
Income from continuing operations	1.18	1.10	1.01	.76	.60
Net income	1.10	1.09	1.02	.75	.60
Tangible book value per share**(4)**	10.92	9.32	8.19	7.61	6.81
Book value per share**(4)**	11.22	9.82	8.68	7.57	6.74
Weighted average shares:					
Basic	26,187,084	25,945,065	25,619,594	25,260,526	21,332,746
Diluted	26,678,571	26,468,811	26,645,198	26,234,637	23,118,804
Selected Financial Ratios:					
***Performance Ratios*(3)**					
From continuing operations:					
Net interest margin	3.83%	3.85%	3.66%	3.25%	2.87%
Return on average assets	.80%	.88%	.97%	.84%	.70%
Return on average equity	11.51%	12.62%	13.16%	10.97%	9.71%
Efficiency ratio (excludes securities gains)	61.48%	64.45%	61.57%	61.40%	76.33%
Non-interest expense to average earning assets	2.67%	2.82%	2.52%	2.26%	2.43%
From consolidated:					
Net interest margin	3.83%	4.01%	3.91%	3.37%	2.87%
Return on average assets	.75%	.87%	.97%	.82%	.70%
Return on average equity	10.80%	12.59%	13.29%	10.74%	9.71%
Asset Quality Ratios					
Net charge-offs (recoveries) to average loans **(2)**	.07%	.08%	(.01)%	.05%	.08%
Reserve to loans held for investment**(2)**	.95%	.77%	.91%	1.20%	1.44%
Reserve to non-performing loans	1.3x	1.9x	2.2x	3.1x	1.7x
Non-accrual loans to loans**(2)**	.62%	.33%	.27%	.37%	.83%
Non-performing loans to loans**(2)**	.74%	.41%	.41%	.39%	.83%

Table of Contents

(in thousands, except per share, average share and percentage data)	**At or For The Year Ended December 31**				
	2007	**2006**	**2005**	**2004**	**2003**
Capital and Liquidity Ratios					
Total capital ratio	10.56%	11.16%	10.83%	11.67%	13.14%
Tier 1 capital ratio	9.41%	9.68%	10.09%	10.72%	12.00%
Tier 1 leverage ratio	9.38%	9.18%	8.68%	8.31%	8.82%
Average equity/average assets	6.98%	6.96%	7.40%	7.68%	7.16%
Tangible equity/assets**(4)**	6.72%	6.72%	6.94%	7.40%	7.76%
Average net loans/average deposits	103.64%	93.89%	89.74%	92.56%	91.49%

(1) The consolidated statement of operating data and consolidated balance sheet data presented above for the five most recent fiscal years ended December 31 have been derived from our audited consolidated financial statements, which have been audited by Ernst & Young LLP, our independent registered public accounting firm. The historical results are not necessarily indicative of the results to be expected in any future period.

(2) Excludes loans held for sale.

(3) 2007, 2006, 2005 and 2004 financial data and ratios reflect from continuing operations unless otherwise noted. 2003 financial data has not been restated to reflect continuing operations as operating results from discontinued operations were either not meaningful or not applicable.

(4) Excludes unrealized gains/losses on securities.

Consolidated Interim Financial Information (Unaudited)

(in thousands except per share data)	2007 Selected Quarterly Financial Data Fourth	Third	Second	First
Interest income	$ 74,257	$ 76,368	$ 72,419	$ 67,163
Interest expense	36,487	39,609	37,948	35,496
Net interest income	37,770	36,759	34,471	31,667
Provision for loan losses	9,300	2,000	1,500	1,200
Net interest income after provision for loan losses	28,470	34,759	32,971	30,467
Non-interest income	4,641	4,647	5,288	5,136
Non-interest expense	23,206	25,894	25,411	24,095
Income from continuing operations before income taxes	9,905	13,512	12,848	11,508
Income tax expense	3,367	4,668	4,463	3,922
Income from continuing operations	6,538	8,844	8,385	7,586
Income (loss) from discontinued operations (after-tax)	(1,185)	(602)	(180)	36
Net income	$ 5,353	$ 8,242	$ 8,205	$ 7,622
Basic earnings per share:				
Income from continuing operations	$ .25	$ .34	$ .32	$ .29
Net income	$ .20	$ .31	$ .31	$ .29
Diluted earnings per share:				
Income from continuing operations	$ .24	$ .33	$ .31	$ .29
Net income	$ .20	$ .31	$ .31	$ .29
Average shares:				
Basic	26,301,000	26,212,000	26,145,000	26,087,000
Diluted	26,791,000	26,767,000	26,711,000	26,441,000

(in thousands except per share data)	2006 Selected Quarterly Financial Data Fourth	Third	Second	First
Interest income	$ 66,178	$ 62,848	$ 57,434	$ 50,666
Interest expense	34,346	32,747	28,421	23,799
Net interest income	31,832	30,101	29,013	26,867
Provision for loan losses	1,000	750	2,250	
Net interest income after provision for loan losses	30,832	29,351	26,763	26,867
Non-interest income	4,833	4,478	3,989	3,742
Non-interest expense	23,993	21,635	21,156	20,129
Income from continuing operations before income taxes	11,672	12,194	9,596	10,480
Income tax expense	3,958	4,157	3,273	3,573
Income from continuing operations	7,714	8,037	6,323	6,907
Income (loss) from discontinued operations (after-tax)	356	(167)	18	(264)
Net income	$ 8,070	$ 7,870	$ 6,341	$ 6,643
Basic earnings per share:				
Income from continuing operations	$ .30	$ .31	$ .24	$ .27
Net income	$ .31	$ .30	$ .24	$ .26
Diluted earnings per share:				
Income from continuing operations	$ .29	$ .30	$ .24	$ .26
Net income	$ .31	$ .30	$ .24	$ .25
Average shares:				
Basic	26,047,000	25,998,000	25,907,000	25,825,000
Diluted	26,374,000	26,412,000	26,525,000	26,568,000

ITEM 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Overview of Our Operating Results

We commenced operations in December 1998. An important aspect of our growth strategy has been our ability to service and effectively manage a large number of loans and deposit accounts in multiple markets in Texas.

Accordingly, we created an operations infrastructure sufficient to support state-wide lending and banking operations.

The following discussions and analyses present the significant factors affecting our financial condition as of December 31, 2007 and 2006 and results of operations for each of the three years in the period ended December 31, 2007. This discussion should be read in conjunction with our consolidated financial statements and notes to the financial statements appearing later in this report. Please also note the below description about our discontinued operations and how it is reflected in the following discussions of our financial condition and results of operations.

On October 16, 2006, we completed the sale of our residential mortgage lending division (RML). The sale was effective as of September 30, 2006, and, accordingly, all operating results for this discontinued component of our operations were reclassified to discontinued operations. All prior periods were restated to reflect the change. Subsequent to the end of the first quarter of 2007, Texas Capital Bank and the purchaser of its residential mortgage loan division (RML) agreed to terminate and settle the contractual arrangements related to the sale of the division. We have completed the exiting of RML s activities. Our mortgage warehouse operations were not part of the sale, and are included in the results from continuing operations. Except as otherwise noted, all amounts and disclosures throughout this document reflect only the Company s continuing operations.

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

Year ended December 31, 2007 compared to year ended December 31, 2006

We recorded net income of $31.4 million for the year ended December 31, 2007 compared to $29.0 million for the same period in 2006. Diluted income per common share was $1.18 for 2007 and $1.10 for the same period in 2006. Returns on average assets and average equity were 0.80% and 11.51%, respectively, for the year ended December 31, 2007 compared to 0.88% and 12.62%, respectively, for the same period in 2006.

The increase in net income for the year ended December 31, 2007 over the same period of 2006 was primarily due to an increase in net interest income and non-interest income, offset by an increase in non-interest expense and provision for loan losses. Net interest income increased by $22.9 million, or 19.4%, to $140.7 million for the year ended December 31, 2007 compared to $117.8 million for the same period in 2006. The increase in net interest income was primarily due to an increase of $609.1 million in average earning assets, offset by a 2 basis point decrease in the net interest margin.

Non-interest income increased by $2.7 million, or 15.9%, during the year ended December 31, 2007 to $19.7 million, compared to $17.0 million during the same period in 2006. The increase was primarily due to an increase in equipment rental income, which increased $2.2 million to $6.1 million for the year ended December 31, 2007, compared to $3.9 million for the same period in 2006 related to expansion of our operating lease portfolio. Trust income increased by $901,000 to $4.7 million during the year ended December 31, 2007 compared to $3.8 million for the same period in 2006, due to continued growth in trust assets. Offsetting these increases was the reduced contribution from mortgage warehouse, including brokered loan fees and mark to market adjustments of $1.3 million.

Non-interest expense increased by $11.7 million, or 13.5%, to $98.6 million during the year ended December 31, 2007 compared to $86.9 million during the same period in 2006. This increase is primarily related to a $6.0 million increase in salaries and employee benefits resulting primarily from growth. Occupancy expense increased by $447,000 to $8.4 million during the year ended December 31, 2007 compared to the same period in 2006 and is related to our general business growth. Leased equipment depreciation increased $1.9 million to $5.0 million during the year ended December 31, 2007 from $3.1 million related to expansion of our operating lease portfolio. Marketing expense decreased $78,000 to $3.0 million during the year ended December 31, 2007 from $3.1 million during the same period in 2006. Legal and professional expense increased $759,000 to $7.2 million during the year ended December 31, 2007, compared to $6.5 million for the same period in 2006 mainly related to growth and increased cost of compliance with laws and regulations.

Year ended December 31, 2006 compared to year ended December 31, 2005

We recorded net income of $29.0 million for the year ended December 31, 2006 compared to $26.9 million for the same period in 2005. Diluted income per common share was $1.10 for 2006 and $1.01 for the same period in 2005. Returns on average assets and average equity were 0.88% and 12.62%, respectively, for the year ended December 31, 2006 compared to 0.97% and 13.16%, respectively, for the same period in 2005.

The increase in net income for the year ended December 31, 2006 over the same period of 2005 was primarily due to an increase in net interest income and non-interest income, offset by an increase in non-interest expense and provision for loan losses. Net interest income increased by $23.7 million, or 25.2%, to $117.8 million for the year ended December 31, 2006 compared to $94.1 million for the same period in 2005. The increase in net interest income was primarily due to an increase of $491.5 million in average earning assets, coupled with a 19 basis point improvement in the net interest margin.

Non-interest income increased by $5.0 million, or 41.7%, during the year ended December 31, 2006 to $17.0 million, compared to $12.0 million during the same period in 2005. The increase was primarily due to an increase in equipment rental income, which increased $3.7 million to $3.9 million for the year ended December 31, 2006, compared to $236,000 for the same period in 2005 related to expansion of our operating lease portfolio. Trust income increased by $1.1 million to $3.8 million during the year ended December 31, 2006 compared to $2.7 million for the same period in 2005, due to continued growth in trust assets. Brokered loan fees increased $270,000 to $2.0 million for the year ended December 31, 2006, compared to $1.8 million for the same period in 2005.

Non-interest expense increased by $21.6 million, or 33.1%, to $86.9 million during the year ended December 31, 2006 compared to $65.3 million during the same period in 2005. This increase is primarily related to a $12.1 million increase in salaries and employee benefits. The increase in salaries and employee benefits resulted from the total number of employees related to the addition of the premium finance business and general business growth. Occupancy expense increased by $1.9 million to $8.0 million during the year ended December 31, 2006 compared to the same period in 2005 and is related to our general business growth. Leased equipment depreciation increased $2.9 million to $3.1 million during the year ended December 31, 2006 from $194,000 related to expansion of our operating lease portfolio. Marketing expense increased $116,000 to $3.1 million during the year ended December 31, 2006 from $3.0 million during the same period in 2005. Legal and professional expense increased $1.5 million to $6.5 million during the year ended December 31, 2006, compared to $5.0 million for the same period in 2005 mainly related to growth and increased cost of compliance with laws and regulations.

Net Interest Income

Net interest income was $140.7 million for the year ended December 31, 2007 compared to $117.8 million for the same period of 2006. The increase in net interest income was primarily due to an increase of $609.1 million in average earning assets, offset by a 2 basis point decrease in the net interest margin, which resulted from the repricing of our earning assets with decreasing rates and change in our funding mix. The increase in average earning assets from 2006 included a $690.8 million increase in average net loans offset by an $82.3 million decrease in average securities. For the year ended December 31, 2007, average net loans and securities represented 87% and 13%, respectively, of average earning assets compared to 81% and 19%, respectively, in 2006.

Average interest bearing liabilities increased $553.0 million from the year ended December 31, 2006, which included a $414.4 million increase in interest bearing deposits and a $99.7 million decrease in other borrowings. For the same periods, the average balance of demand deposits increased slightly to $463.1 million from $462.3 million. The average cost of interest bearing liabilities increased from 4.61% for the year ended December 31, 2006 to 4.76% in 2007, reflecting the shift in interest bearing liabilities. Of the increase in average interest bearing liabilities, total borrowings grew due to combined effects of maturities of transaction-specific deposits and strong loan growth during the fourth quarter of 2007.

Net interest income was $117.8 million for the year ended December 31, 2006 compared to $94.1 million for the same period of 2005. The increase in net interest income was primarily due to an increase of $491.5 million in average earning assets, coupled with a 19 basis point improvement in the net interest margin, which resulted from the repricing of our earning assets with rising rates. The increase in average earning assets from 2006 included a $650.4 million

increase in average net loans offset by a $138.4 million decrease in average securities. For the year ended December 31, 2007, average net loans and securities represented 81% and 19%, respectively, of average earning assets compared to 72% and 27%, respectively, in 2006.

Average interest bearing liabilities increased $452.0 million from the year ended December 31, 2005, which included a $549.0 million increase in interest bearing deposits offset by a $144.8 million decrease in other borrowings. For the same periods, the average balance of demand deposits increased 12.7% to $462.3 million

from $410.2 million. The average cost of interest bearing liabilities increased from 3.06% for the year ended December 31, 2005 to 4.61% in 2006, reflecting the rise in market interest rates.

Volume/Rate Analysis