RAMCO GERSHENSON PROPERTIES TRUST
Form 10-Q
November 06, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**
For the quarterly period ended September 30, 2007

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**
For the transition period from to

Commission file number 1-10093

RAMCO-GERSHENSON PROPERTIES TRUST
(Exact name of registrant as specified in its charter)

MARYLAND	**13-6908486**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
31500 Northwestern Highway Farmington Hills, Michigan	**48334**
(Address of principal executive offices)	*(Zip code)*

248-350-9900
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Larger Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

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

Number of common shares of beneficial interest ($0.01 par value) of the registrant outstanding as of November 1, 2007: 18,469,456

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

RAMCO-GERSHENSON PROPERTIES TRUST

CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (Unaudited)	December 31, 2006
	(In thousands, except per share amounts)	
ASSETS		
Investment in real estate, net	$ 916,901	$ 897,975
Cash and cash equivalents	7,662	11,550
Restricted cash	9,664	7,772
Accounts receivable, net	34,736	33,692
Equity investments in and advances to unconsolidated entities	79,020	75,824
Other assets, net	39,073	38,057
Total Assets	$ 1,087,056	$ 1,064,870
LIABILITIES		
Mortgages and notes payable	$ 676,383	$ 676,225
Accounts payable and accrued expenses	36,036	26,424
Distributions payable	10,478	10,391
Capital lease obligation	7,504	7,682
Total Liabilities	730,401	720,722
Minority Interest	42,653	39,565
SHAREHOLDERS EQUITY		
Preferred Shares of Beneficial Interest, par value $0.01, 10,000 shares authorized:		
9.5% Series B Cumulative Redeemable Preferred Shares; 1,000 shares issued and outstanding, liquidation value of $25,000	23,804	23,804
7.95% Series C Cumulative Convertible Preferred Shares; 1,889 shares issued and 1,888 shares outstanding and liquidation value of $53,808, as of December 31, 2006		51,714
Common Shares of Beneficial Interest, par value $0.01, 45,000 shares authorized; 18,469 and 16,580 issued and outstanding as of September 30, 2007 and December 31, 2006, respectively	185	166
Additional paid-in capital	386,824	335,738
Accumulated other comprehensive income (loss)	(283)	247

Cumulative distributions in excess of net income	(96,528)	(107,086)
Total Shareholders Equity	314,002	304,583
Total Liabilities and Shareholders Equity	$ 1,087,056	$ 1,064,870

See notes to consolidated financial statements.

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RAMCO-GERSHENSON PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited) (In thousands, except per share amounts)			
REVENUES:				
Minimum rents	$ 24,102	$ 25,328	$ 72,870	$ 75,113
Percentage rents	117	225	525	610
Recoveries from tenants	10,452	10,738	32,921	30,920
Fees and management income	1,132	1,312	5,162	4,073
Other income	1,949	1,212	3,625	3,092
Total revenues	37,752	38,815	115,103	113,808
EXPENSES:				
Real estate taxes	5,072	5,025	15,304	14,793
Recoverable operating expenses	5,968	6,000	18,225	17,236
Depreciation and amortization	8,132	8,105	24,600	24,058
Other operating	770	1,263	2,044	2,882
General and administrative	4,043	3,328	10,950	10,724
Interest expense	9,887	11,767	31,649	33,326
Total expenses	33,872	35,488	102,772	103,019
Income from continuing operations before gain (loss) on sale of real estate assets, minority interest and earnings from unconsolidated entities	3,880	3,327	12,331	10,789
Gain (loss) on sale of real estate assets	(107)	1,204	31,269	2,937
Minority interest	(1,177)	(877)	(7,212)	(2,549)
Earnings from unconsolidated entities	688	864	1,806	2,356
Income from continuing operations	3,284	4,518	38,194	13,533
Discontinued operations, net of minority interest:				
Gain (loss) on sale of real estate assets		(28)		926
Income from operations		9		402
Income (loss) from discontinued operations		(19)		1,328
Net income	3,284	4,499	38,194	14,861
Preferred stock dividends	(593)	(1,664)	(2,863)	(4,991)
Loss on redemption of preferred shares			(35)	

Net income available to common shareholders	$ 2,691	$ 2,835	$ 35,296	$ 9,870
Basic earnings per common share:				
Income from continuing operations	$ 0.15	$ 0.17	$ 2.00	$ 0.51
Income from discontinued operations				0.08
Net income	$ 0.15	$ 0.17	$ 2.00	$ 0.59
Diluted earnings per common share:				
Income from continuing operations	$ 0.15	$ 0.17	$ 1.96	$ 0.51
Income from discontinued operations				0.08
Net income	$ 0.15	$ 0.17	$ 1.96	$ 0.59
Cash dividends declared per common share	$ 0.4625	$ 0.4475	$ 1.3875	$ 1.3425
Basic weighted average common shares outstanding	18,469	16,569	17,642	16,698
Diluted weighted average common shares outstanding	18,520	16,621	18,544	16,739
COMPREHENSIVE INCOME				
Net income	$ 3,284	$ 4,499	$ 38,194	$ 14,861
Other comprehensive income :				
Unrealized gain (loss) on interest rate swaps	(727)	(1,005)	(530)	190
Comprehensive income	$ 2,557	$ 3,494	$ 37,664	$ 15,051

See notes to consolidated financial statements.

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RAMCO-GERSHENSON PROPERTIES TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30,	
	2007	2006
	(Unaudited) (In thousands)	
Cash Flows from Operating Activities:		
Net income	$ 38,194	$ 14,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,600	24,058
Amortization of deferred financing costs	902	795
Gain on sale of real estate assets	(31,269)	(2,937)
Earnings from unconsolidated entities	(1,806)	(2,356)
Discontinued operations		(1,552)
Minority interest, continuing operations	7,212	2,549
Distributions received from unconsolidated entities	5,337	2,007
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	802	(5,894)
Other assets	2,769	742
Accounts payable and accrued expenses	3,668	(1,954)
Net Cash Provided by Continuing Operating Activities	50,409	30,319
Operating Cash from Discontinued Operations		702
Net Cash Provided by Operating Activities	50,409	31,021
Cash Flows from Investing Activities:		
Real estate developed or acquired, net of liabilities assumed	(42,798)	(37,677)
Investment in and advances to unconsolidated entities	(22,370)	(465)
Proceeds from sales of real estate	82,573	14,978
Increase in restricted cash	(1,892)	(2,224)
Proceeds from repayment of note receivable from joint venture	14,128	
Net Cash Provided by (Used in) Continuing Investing Activities	29,641	(25,388)
Investing Cash from Discontinued Operations		45,366
Net Cash Provided by Investing Activities	29,641	19,978
Cash Flows from Financing Activities:		
Distributions to shareholders	(23,621)	(22,323)
Distributions to operating partnership unit holders	(4,011)	(3,903)
Dividends to preferred shareholders	(3,932)	(4,992)
Distributions to minority partners	(72)	(63)
Payment of unsecured revolving credit facility	(113,700)	(73,300)

Principal repayments on mortgages payable	(69,494)	(10,723)
Payment of unsecured subordinated term loan	(9,892)	
Payment of secured term loan	(2,142)	
Principal repayments on capital lease obligation	(178)	(203)
Payment of deferred financing costs	(572)	(880)
Borrowings on unsecured revolving credit facility	90,450	63,750
Borrowings on secured revolving credit facility		8,554
Proceeds from mortgages payable	53,846	249
Redemption of preferred shares	(888)	
Purchase and retirement of common shares		(7,804)
Proceeds from exercise of stock options	268	157
Net Cash Used in Continuing Financing Activities	(83,938)	(51,481)
Financing Cash from Discontinued Operations		
Net Cash Used in Financing Activities	(83,938)	(51,481)
Net Decrease in Cash and Cash Equivalents	(3,888)	(482)
Cash and Cash Equivalents, Beginning of Period	11,550	7,136
Cash and Cash Equivalents, End of Period	$ 7,662	$ 6,654
Supplemental Cash Flow Disclosure, including Non-Cash Activities:		
Cash paid for interest during the period	$ 31,661	$ 32,452
Capitalized interest	2,029	1,126
Assumed debt of acquired property	87,197	7,521
Increase (decrease) in fair value of interest rate swaps	(530)	190

See notes to consolidated financial statements.

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RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

1. Organization and Basis of Presentation

Ramco-Gershenson Properties Trust (the Company) is a Maryland real estate investment trust (REIT) organized on October 2, 1997. The Company is a publicly-traded REIT which, through its subsidiaries, owns, develops, acquires, manages and leases community shopping centers (including power centers and single tenant retail properties) and one regional mall. At September 30, 2007, the Company had a portfolio of 86 shopping centers, with approximately 19.2 million square feet of gross leasable area (GLA), located in the Midwestern, Southeastern and Mid-Atlantic regions of the United States. Including centers owned by joint ventures in which the Company has an equity interest, the Company owned approximately 15.3 million square feet of such GLA, with the remaining portion owned by various anchor stores. The Company s centers are usually anchored by discount department stores or supermarkets and the tenant base consists primarily of national and regional retail chains and local retailers.

The accompanying consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in audited financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission. These consolidated financial statements, in the opinion of management, include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods and dates presented. Interim operating results are not necessarily indicative of operating results for the full year.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority owned subsidiary, Ramco-Gershenson Properties, L.P. (the Operating Partnership, 86.4% and 85.0% owned by the Company at September 30, 2007 and December 31, 2006, respectively), and all wholly owned subsidiaries, including bankruptcy remote single purpose entities, and all majority owned joint ventures over which the Company has control. Investments in real estate joint ventures which the Company has the ability to exercise significant influence over, but for which the Company does not have financial or operating control, are accounted for using the equity method of accounting. Accordingly, the Company s share of the earnings of these joint ventures is included in consolidated net income. All intercompany accounts and transactions have been eliminated in consolidation.

The Operating Partnership owns 100% of the non-voting and voting common stock of Ramco-Gershenson, Inc. (Ramco), which provides property management services to the Company and to other entities, and therefore Ramco is included in the consolidated financial statements. Ramco has elected to be a taxable REIT subsidiary for federal income tax purposes.

New Accounting Pronouncements

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. FIN 48 defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Adoption of FIN 48 did not have a material effect on the Company s results of operations or financial position.

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company had no unrecognized tax benefits as of the January 1, 2007 adoption date or as of September 30, 2007. The Company expects no significant increases or decreases in unrecognized tax benefits due to changes in tax positions within one year of September 30, 2007. The Company has no interest or penalties relating to income taxes recognized in the statement of operations for the nine months ended September 30, 2007 or in the balance sheet as of September 30, 2007. It is the Company s accounting policy to classify interest and penalties relating to unrecognized tax benefits as interest expense and tax expense, respectively. As of September 30, 2007, returns for the calendar years 2004 through 2006 remain subject to examination by the Internal Revenue Service (IRS) and various state and local tax jurisdictions. As of September 30, 2007, certain returns for calendar year 2003 also remain subject to examination by various state and local tax jurisdictions.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Statement No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, although early application is allowed. The Company is currently evaluating the application of this Statement and its effect on the Company s financial position and results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements.* This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies to accounting pronouncements that require or permit fair value measurements, except for share-based payments transactions under FASB Statement No. 123 (Revised) *Share-Based Payment.* This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. As Statement No. 157 does not require any new fair value measurements or remeasurements of previously computed fair values, the Company does not believe adoption of this Statement will have a material effect on its financial statements.

Reclassifications

Certain reclassifications of 2006 amounts have been made to conform to the 2007 presentation.

2. Sale of Real Estate Assets

On January 23, 2006, the Company sold seven of its shopping centers held for sale for $47,000 in aggregate, resulting in a gain of approximately $954, net of the minority interest in the Operating Partnership. The shopping centers, which were sold as a portfolio to an unrelated third party, include: Cox Creek Plaza in Florence, Alabama; Crestview Corners in Crestview, Florida; Cumberland Gallery in New Tazewell, Tennessee; Holly Springs Plaza in Franklin, North Carolina; Indian Hills in Calhoun, Georgia; Edgewood Square in North Augusta, South Carolina; and Tellico Plaza in Lenoir City, Tennessee. The proceeds from the sale were used to pay down the Company s unsecured revolving credit facility. The operations of these seven shopping centers have been reflected as discontinued operations in the Company s consolidated statements of income and comprehensive income for the nine months ended September 30, 2006 in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Total revenue for the seven properties was $550 for the nine months ended September 30, 2006.

3. Accounts Receivable, Net

The Company s policy is to record a periodic provision for doubtful accounts based on a percentage of minimum rents. The Company monitors the collectibility of its accounts receivable (billed, unbilled and straight-line) from specific tenants, and analyzes historical bad debts, customer credit worthiness, current economic trends and changes in tenant payment terms when evaluating the adequacy of the allowance for bad debts. When tenants

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RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

are in bankruptcy, the Company makes estimates of the expected recovery of pre-petition and post-petition claims. The ultimate resolution of these claims can exceed one year. Accounts receivable in the accompanying balance sheet is shown net of an allowance for doubtful accounts of $2,414 and $2,913 at September 30, 2007 and December 31, 2006, respectively.

Accounts receivable includes $16,603 and $14,687 of unbilled straight-line rent receivables at September 30, 2007 and December 31, 2006, respectively.

Accounts receivable at September 30, 2007 and December 31, 2006 include $2,192 and $2,886, respectively, due from Atlantic Realty Trust (Atlantic) for reimbursement of state and local tax deficiencies and interest and professional fees related to the IRS examination of the Company s taxable years ended December 31, 1991 through 1995. According to the terms of a tax agreement that the Company entered into with Atlantic (the Tax Agreement), Atlantic assumed all of the Company s liability for tax and interest arising out of that IRS examination. See Note 10.

4. Investment in Real Estate, Net

Investment in real estate, net consists of the following:

	September 30, 2007	December 31, 2006
Land	$ 137,729	$ 132,327
Buildings and improvements	925,633	905,669
Construction in progress	15,739	10,606
	1,079,101	1,048,602
Less: accumulated depreciation	(162,200)	(150,627)
Investment in real estate, net	$ 916,901	$ 897,975

5. Other Assets, Net

Other assets, net consist of the following:

	September 30, 2007	December 31, 2006
Leasing costs	$ 34,851	$ 30,644
Intangible assets	8,849	9,592
Deferred financing costs	6,124	6,872
Other assets	5,312	5,813

		55,136		52,921
Less: accumulated amortization		(30,651)		(27,834)
		24,485		25,087
Prepaid expenses and other		12,697		11,819
Proposed development and acquisition costs		1,891		1,151
Other assets, net	$	39,073	$	38,057

Intangible assets at September 30, 2007 include $6,132 of lease origination costs and $2,636 of favorable leases related to the allocation of the purchase price for acquisitions made since 2002. These assets are being amortized over the lives of the applicable leases as reductions or additions to minimum rent revenue, as appropriate,

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

over the remaining terms of the respective leases. The average amortization period for intangible assets attributable to lease origination costs and for favorable leases is 7.4 years.

The Company recorded amortization of deferred financing costs of $902 and $795, respectively, during the nine months ended September 30, 2007 and 2006. This amortization has been recorded as interest expense in the Company s consolidated statements of income and comprehensive income.

The following table represents estimated future amortization expense as of September 30, 2007:

Year Ending December 31,	
2007 (October 1 December 31)	$ 1,539
2008	5,467
2009	4,355
2010	3,485
2011	2,688
Thereafter	6,951
Total	$ 24,485

6. Equity Investments in and Advances to Unconsolidated Entities

As of September 30, 2007, the Company had investments in the following unconsolidated entities:

Entity Name	**Ownership as of September 30, 2007**
S-12 Associates	50%
Ramco/West Acres LLC	40%
Ramco/Shenandoah LLC	40%
Ramco/Lion Venture LP	30%
Ramco 450 LLC	20%
Ramco 191 LLC	20%
Ramco Highland Disposition LLC	20%
Ramco HHF KL LLC	7%
Ramco HHF NP LLC	7%
Ramco Jacksonville North Industrial LLC	5%

The Company s investments in S-12 Associates, Ramco/West Acres LLC, and Ramco/Shenandoah LLC are not material to the Company s financial position or results of operations for the periods covered by the accompanying consolidated financial statements. A discussion of the Company s more significant investments in unconsolidated entities follows.

Ramco Jacksonville LLC

On April 16, 2007, the Company acquired the remaining 80% interest in Ramco Jacksonville LLC (Ramco Jacksonville) for $5,100 in cash and the assumption of a $75,000 mortgage note payable due April 2017. The share on net income for the period January 1, 2007 through April 15, 2007 which relates to the Company s 20% interest is included in earnings from unconsolidated entities in the consolidated statements of income and comprehensive income.

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Ramco/Lion Venture LP

In December 2004, the Company formed Ramco/Lion Venture LP with affiliates of Clarion Lion Properties Fund (Clarion), a private equity real estate fund sponsored by ING Clarion Partners. The Company owns 30% of the equity in the joint venture and Clarion owns 70%. The joint venture plans to acquire up to $450,000 of stable, well-located community shopping centers located in the Southeastern and Midwestern United States.

In February 2007, the joint venture acquired Cocoa Commons shopping center located in Cocoa, Florida and purchased land and building adjacent to the joint venture s Troy Marketplace located in Troy, Michigan at a combined cost of $38,000.

In March 2007, the joint venture acquired Cypress Point shopping center located in Clearwater, Florida at a cost of $24,500 plus the assumption of $14,500 of mortgage indebtedness in connection with the acquisition.

In August 2007, the joint venture acquired Old Orchard shopping center located in West Bloomfield, Michigan and purchased additional land adjacent to the joint venture s Troy Marketplace located in Troy, Michigan at a combined cost of $14,150. These acquisitions were funded with cash.

On a cumulative basis, the joint venture has acquired 16 shopping centers with a total aggregate purchase price of $443,900.

Ramco 450 LLC

In December 2006, the Company formed Ramco 450 LLC, a joint venture with an investor advised by Heitman LLC. The joint venture will acquire up to $450,000 of core and core-plus community shopping centers located in the Midwestern and Mid-Atlantic United States. The Company owns 20% of the equity in the joint venture and its joint venture partner owns 80%. The leverage on the acquired assets is expected to be 65%. In December 2006, the Company sold its Merchants Square shopping center in Carmel, Indiana and its Crofton Centre shopping center in Crofton, Maryland to the joint venture. The Company recognized 80% of the gain on the sale of these two centers to the joint venture, representing the gain attributable to the joint venture partner s 80% ownership interest. The remaining 20% of the gain on the sale of these two centers has been deferred and recorded as a reduction in the carrying amount of the Company s equity investments in and advances to unconsolidated entities.

In February 2007, the joint venture acquired Peachtree Hill shopping center in Duluth, Georgia at a cost of $24,100. The joint venture financed the acquisition of this shopping center through a short-term loan from a bank in the amount of $24,800. Subsequent to the acquisition of this shopping center, the joint venture paid down the loan to $16,300 as of September 30, 2007.

In March 2007, the Company sold its Chester Springs shopping center in Chester, New Jersey to the joint venture. The joint venture assumed debt of $23,841 in connection with the purchase of this center. The Company recognized a gain of $21,831, net of taxes of $3,153, on the sale of this center to the joint venture, representing the gain attributable to the joint venture partner s 80% ownership interest. The remaining 20% of the gain on the sale of this center has been deferred and recorded as a reduction in the carrying amount of the Company s equity investments in and advances to unconsolidated entities.

Ramco 191 LLC

In November 2006, the Company formed Ramco 191 LLC, a joint venture with Heitman Value Partners Investments LLC, to acquire $75,000 of neighborhood, community or power shopping centers with significant value-added opportunities in infill locations in metropolitan trade areas. The Company owns 20% of the joint venture and its joint venture partner owns 80%. In November 2006, the Company sold its Collins Pointe Plaza shopping center in Cartersville, Georgia to the joint venture. The Company recognized 80% of the gain on the sale of this center to the joint venture, representing the gain attributable to the joint venture partner s 80% ownership

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

interest. The remaining 20% of the gain on the sale of this center has been deferred and recorded as a reduction in the carrying amount of the Company s equity investments in and advances to unconsolidated entities.

In July 2007, the Company sold its Paulding Pavilion shopping center in Hiram, Georgia to the joint venture. The Company recognized a gain of approximately $216,000, net of taxes of $60,000, on the sale of this center to the joint venture, representing the gain attributable to the joint venture partner s 80% ownership interest. The remaining 20% of the gain on the sale of this center has been deferred and recorded as a reduction in the carrying amount of the Company s equity investments in and advances to unconsolidated entities.

Ramco Highland Disposition LLC

In June 2007, the Company formed Ramco Highland Disposition LLC, a joint venture with Hartland Realty Partners LLC to develop Hartland Towne Center, a 550,000 square foot traditional community center in Hartland, Michigan. The Company owns 20% of the joint venture and its joint venture partner owns 80%. In addition to its equity investment of $150 in the joint venture, the Company has made advances of $2,487 to the joint venture for a total equity investment in and advance to the joint venture of $2,637. The joint venture is currently negotiating a construction loan and mezzanine financing with various commercial lenders.

Ramco HHF KL LLC

In June 2007, the Company also formed Ramco HHF KL LLC, a joint venture with a discretionary fund managed by Heitman LLC that invests in core assets. The Company owns 7% of the joint venture and its joint venture partner owns 93%. During the quarter ended September 30, 2007, the Company sold two of its shopping centers, Shoppes of Lakeland in Lakeland, Florida and Kissimmee West in Kissimmee, Florida, to the joint venture. The Company recognized a gain of $8,097, net of taxes of $1,463, on the sale of these centers to the joint venture, representing the gain attributable to the joint venture partner s 93% ownership interest. The remaining 7% of the gain on the sale of this center has been deferred and recorded as a reduction in the carrying amount of the Company s equity investments in and advances to unconsolidated entities.

Ramco HHF NP LLC

In July 2007, the Company formed Ramco HHF NP LLC, a joint venture with a discretionary fund managed by Heitman LLC that invests in core assets. The Company owns 7% of the joint venture and its joint venture partner owns 93%. In August 2007, the joint venture acquired Nora Plaza located in Indianapolis, Indiana at a cost of $27,750. The acquisition was funded with cash.

Ramco Jacksonville North Industrial LLC

In September 2007, the Company formed Ramco Jacksonville North Industrial LLC, a joint venture with NIO Jacksonville LLC. The Company owns 5% of the joint venture and its joint venture partner owns 95%. Ramco River City, a wholly-owned subsidiary of the Company, sold 2.5 acres of land to Ramco Jacksonville North Industrial LLC valued at $1,127. The Company recognized a gain of $434, net of taxes of $262, representing the gain attributable to the joint venture partner s 95% ownership interest. The remaining 5% of the gain on this sale has been deferred and recorded as a reduction in the carrying amount of the Company s equity investment in and advances to unconsolidated entities.

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RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Debt

The Company s unconsolidated entities had the following debt outstanding at September 30, 2007:

Entity Name	Balance Outstanding	Interest Rate	Maturity Date	
S-12 Associates	$ 1,017	6.5%	May 2016	(1)
Ramco/West Acres LLC	8,847	8.1%	April 2030	(2)
Ramco/Shenandoah LLC	12,250	7.3%	February 2012	
Ramco/Lion Venture LP	231,423		Various	(3)
Ramco 450 LLC	89,625		Various	(4)
Ramco Highland Disposition LLC	10,497		Various	(5)
Ramco 191 LLC	4,675		June 2010	(6)
	$ 358,334			

(1) Interest rate is fixed until June 2008, then resets per formula annually.

(2) Under terms of the note, the anticipated payment date is April 2010.

(3) Interest rates range from 4.6% to 8.3% with maturities ranging from November 2009 to June 2020.

(4) Interest rates range from 5.5% to 7.5% with maturities ranging from February 2008 to May 2017.

(5) Interest rate is floating and has several components. At September 30, 2007, the rate was 7.0%.

(6) Interest rate is variable based on LIBOR plus 1.60%. At September 30, 2007, the rate was 7.3%.

Fees and Management Income

Under the terms of agreements with certain joint ventures, Ramco is the manager of the joint ventures and their properties, earning fees for acquisitions, development, management, leasing, and financing. The fees earned by Ramco, which are reported in the Company s consolidated statements of income and comprehensive income as fees and management income, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006

Acquisition fee income	$ 463	$ 418	$ 1,754	$ 1,744
Financing fee income		30	896	65
Management fee income	461	256	1,308	794
Leasing fee income	84	476	467	860
Total	$ 1,008	$ 1,180	$ 4,425	$ 3,463

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Combined Condensed Financial Information

Combined condensed financial information for the Company s unconsolidated entities is summarized as follows:

	September 30, 2007	December 31, 2006
ASSETS		
Investment in real estate, net	$ 737,299	$ 576,428
Other assets, net	27,016	19,214
Total Assets	$ 764,315	$ 595,642
LIABILITIES AND OWNERS EQUITY		
Mortgages notes payable	$ 358,334	$ 343,094
Other liabilities	24,554	23,143
Owners equity	381,427	229,405
Total Liabilities and Owners Equity	$ 764,315	$ 595,642
Company s equity investments in and advances to unconsolidated entities	$ 79,020	$ 75,824

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
TOTAL REVENUES	$ 18,407	$ 12,855	$ 50,595	$ 37,228
TOTAL EXPENSES	15,683	9,837	44,576	29,388
Net Income	$ 2,724	$ 3,018	$ 6,019	$ 7,840
Company s share of earnings from unconsolidated entities	$ 688	$ 864	$ 1,806	$ 2,356

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Mortgages and Notes Payable

Mortgages and notes payable consist of the following:

	September 30, 2007	December 31, 2006
Fixed rate mortgages with interest rates ranging from 4.8% to 8.1%, due at various dates through 2018	$ 477,192	$ 419,824
Floating rate mortgages with interest rates ranging from 7.3% to 7.5%, due at various dates through 2009	16,392	15,718
Secured Term Loan, with an interest rate at LIBOR plus 115 to 150 basis points, due December 2008. The effective rate at September 30, 2007 and December 31, 2006 was 7.0% and 6.7%, respectively	2,499	4,641
Unsecured Term Loan Credit Facility, with an interest rate at LIBOR plus 130 to 165 basis points, due December 2010, maximum borrowings $100,000. The effective rate at September 30, 2007 and December 31, 2006 was 6.6% and 6.5%, respectively	100,000	100,000
Unsecured Revolving Credit Facility, with an interest rate at LIBOR plus 115 to 150 basis points, due December 2008, maximum borrowings $150,000. The effective rate at September 30, 2007 and December 31, 2006 was 6.7%	80,300	103,550
Unsecured Bridge Term Loan, with an interest rate at LIBOR plus 135 basis points, paid in full in June 2007, effective rate of 6.7% at December 31, 2006		22,600
Unsecured Subordinated Term Loan , with an interest rate at LIBOR plus 225 basis points, paid in full in March 2007, effective rate of 7.6% at December 31, 2006		9,892
	$ 676,383	$ 676,225

The mortgage notes of approximately $494,000 are secured by mortgages on properties that have an approximate net book value of $560,653 as of September 30, 2007.

With respect to the various fixed rate mortgages and floating rate mortgages due in 2007, it is the Company s intent to refinance these mortgages and notes payable.

In March 2007, Ramco Jacksonville closed on a permanent mortgage loan with a third party lender. The total mortgage loan commitment was $110,000, of which $75,000 was funded as of March 31, 2007. An additional advance of $35,000 occurred on April 25, 2007, after the acquisition of the remaining 80% interest in the joint venture from the Company s joint venture partner. The mortgage loan is an interest only loan for ten years with an interest rate of 5.4% and matures on April 1, 2017.

The Company has a $250,000 unsecured credit facility (the Credit Facility) consisting of a $100,000 unsecured term loan credit facility and a $150,000 unsecured revolving credit facility. The Credit Facility provides that the unsecured revolving credit facility may be increased by up to $100,000 at the Company s request, for a total unsecured revolving credit facility commitment of $250,000. The unsecured term loan credit facility matures in December 2010 and bears interest at a rate equal to LIBOR plus 130 to 165 basis points, depending on certain debt ratios. The unsecured revolving credit facility matures in December 2008 and bears interest at a rate equal to LIBOR plus 115 to 150 basis points, depending on certain debt ratios. The Company has the option to extend the maturity date of the unsecured revolving credit facility to December 2010. It is anticipated that funds borrowed under the unsecured revolving credit facility will be used for general corporate purposes, including working capital, capital expenditures, the repayment of indebtedness or other corporate activities.

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RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At September 30, 2007, outstanding letters of credit issued under the Credit Facility, not reflected in the consolidated balance sheet, total approximately $1,910. At September 30, 2007, the Company also had other outstanding letters of credit, not reflected in the consolidated balance sheet, of approximately $12,291, related to the completion of the River City Marketplace development.

The Credit Facility and the secured term loan contain financial covenants relating to total leverage, fixed charge coverage, loan to asset value, tangible net worth and various other calculations. As of September 30, 2007, the Company was in compliance with the covenant terms.

The mortgage loans encumbering the Company s properties, including properties held by its unconsolidated joint ventures, are generally non-recourse, subject to certain exceptions for which the Company would be liable for any resulting losses incurred by the lender. These exceptions vary from loan to loan but generally include fraud or a material misrepresentation, misstatement or omission by the borrower, intentional or grossly negligent conduct by the borrower that harms the property or results in a loss to the lender, filing of a bankruptcy petition by the borrower, either directly or indirectly, and certain environmental liabilities. In addition, upon the occurrence of certain of such events, such as fraud or filing of a bankruptcy petition by the borrower, the Company would be liable for the entire outstanding balance of the loan, all interest accrued thereon and certain other costs, penalties and expenses.

Under terms of various debt agreements, the Company may be required to maintain interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. The Company has interest rate swap agreements with an aggregate notional amount of $80,000 at September 30, 2007. Based on rates in effect at September 30, 2007, the agreements provide for fixed rates ranging from 6.2% to 6.6% and expire December 2008 through March 2009.

The following table presents scheduled principal payments on mortgages and notes payable as of September 30, 2007:

Year Ending December 31,	
2007 (October 1 - December 31)	$ 41,521
2008	179,532
2009	35,416
2010	119,723
2011	27,932
Thereafter	272,259
Total	$ 676,383

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RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share (EPS) (in thousands, except per share data):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Numerator:				
Income from continuing operations before minority interest	$ 4,461	$ 5,395	$ 45,406	$ 16,082
Minority interest	(1,177)	(877)	(7,212)	(2,549)
Preferred stock dividends	(593)	(1,664)	(2,863)	(4,991)
Loss on redemption of preferred shares			(35)	
Income from continuing operations available to common shareholders	2,691	2,854	35,296	8,542
Discontinued operations, net of minority interest:				
Gain (loss) on sale of real estate assets		(28)		926
Income from operations		9		402
Net income available to common shareholders	$ 2,691	$ 2,835	$ 35,296	$ 9,870
Denominator:				
Weighted-average common shares for basic EPS	18,469	16,569	17,642	16,698
Effect of dilutive securities:				
Operating partnership units				
Preferred Shares			835	
Options outstanding	51	52	67	41
Weighted-average common shares for diluted EPS	18,520	16,621	18,544	16,739
Basic EPS:				
Income from continuing operations	$ 0.15	$ 0.17	$ 2.00	$ 0.51
Income from discontinued operations				0.08
Net income	$ 0.15	$ 0.17	$ 2.00	$ 0.59
Diluted EPS:				
Income from continuing operations	$ 0.15	$ 0.17	$ 1.96	$ 0.51
Income from discontinued operations				0.08
Net income	$ 0.15	$ 0.17	$ 1.96	$ 0.59

During the nine months ended September 30, 2007, the Company s Series C Preferred Shares were dilutive and therefore the Series C Preferred Shares were included in the calculation of diluted EPS. However, for all other periods presented, the Series C Preferred Shares were antidilutive and therefore the Series C Preferred Shares were not included in the calculation of diluted EPS. Operating partnership units were antidilutive for all periods presented and therefore not included in the calculations of diluted EPS. See Note 12.

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Leases

Approximate future minimum revenues from rentals under noncancelable operating leases in effect at September 30, 2007, assuming no new or renegotiated leases, option extensions or early lease terminations on lease agreements, are as follows:

Year Ending December 31,	
2007 (October 1 - December 31)	$ 23,544
2008	92,617
2009	81,166
2010	72,586
2011	63,367
Thereafter	303,632
Total	$ 636,912

The Company leases certain office facilities, including its corporate office, under leases that expire through 2014. The Company s corporate office lease has an option to renew for two consecutive periods of five years each.

Approximate future minimum rental payments under the Company s noncancelable office leases in effect at September 30, 2007, assuming no options extensions or early lease terminations, and a capital ground lease at one of its shopping centers, are as follows:

Year Ending December 31,	Office Leases	Capital Lease
2007 (October 1 - December 31)	$ 190	$ 169
2008	819	677
2009	862	677
2010	873	677
2011	881	677
Thereafter	2,517	7,309
Total minimum lease payments	6,142	10,187
Less: amounts representing interest		(2,683)
Total	$ 6,142	$ 7,504

10. Commitments and Contingencies

Construction Costs

In connection with the development and expansion of various shopping centers, the Company has entered into agreements for construction costs of approximately $11,923 as of September 30, 2007. These costs include approximately $2,897 for costs related to the development of River City Marketplace in Jacksonville, Florida and $7,242 for costs related to the redevelopment of Aquia Towne Center in Stafford, Virginia.

Internal Revenue Service Examinations

IRS Audit Resolution for Years 1991 to 1995

RPS Realty Trust (RPS), a Massachusetts business trust, was formed on September 21, 1988 to be a diversified growth-oriented REIT. From its inception, RPS was primarily engaged in the business of owning and managing a participating mortgage loan portfolio. From May 1, 1991 through April 30, 1996, RPS acquired ten real

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

estate properties by receipt of deed in-lieu of foreclosure. Such properties were held and operated by RPS through wholly-owned subsidiaries.

In May 1996, RPS acquired, through a reverse merger, substantially all the shopping centers and retail properties as well as the management company and business operations of Ramco-Gershenson, Inc. and certain of its affiliates. The resulting trust changed its name to Ramco-Gershenson Properties Trust and Ramco-Gershenson, Inc. s officers assumed management responsibility for the Company. The trust also changed its operations from a mortgage REIT to an equity REIT and contributed certain mortgage loans and real estate properties to Atlantic Realty Trust (Atlantic), an independent, newly formed liquidating real estate investment trust. The shares of Atlantic were immediately distributed to the shareholders of Ramco-Gershenson Properties Trust.

The terms Company , we , our or us refers to Ramco-Gershenson Properties Trust and/or its predecessors.

On October 2, 1997, with approval from our shareholders, we changed our state of organization from Massachusetts to Maryland by merging into a newly formed Maryland real estate investment trust thereby terminating the Massachusetts trust.

We were the subject of an IRS examination of our taxable years ended December 31, 1991 through 1995. We refer to this examination as the IRS Audit. On December 4, 2003, we reached an agreement with the IRS with respect to the IRS Audit. We refer to this agreement as the Closing Agreement. Pursuant to the terms of the Closing Agreement we agreed to pay deficiency dividends (that is, our declaration and payment of a distribution that is permitted to relate back to the year for which the IRS determines a deficiency in order to satisfy the requirement for REIT qualification that we distribute a certain minimum amount of our REIT taxable income for such year) in amounts not less than $1,400 and $809 for our 1992 and 1993 taxable years, respectively. We also consented to the assessment and collection of $770 in tax deficiencies and to the assessment and collection of interest on such tax deficiencies and on the deficiency dividends referred to above.

In connection with the incorporation, and distribution of all of the shares, of Atlantic in May 1996, we entered into the Tax Agreement with Atlantic under which Atlantic assumed all of our tax liabilities arising out of the IRS then ongoing examinations (which included, but is not otherwise limited to, the IRS Audit), excluding any tax liability relating to any actions or events occurring, or any tax return position taken, after May 10, 1996, but including liabilities for additions to tax, interest, penalties and costs relating to covered taxes. In addition, the Tax Agreement provides that, to the extent any tax which Atlantic is obligated to pay under the Tax Agreement can be avoided through the declaration of a deficiency dividend, we would make, and Atlantic would reimburse us for the amount of, such deficiency dividend.

On December 15, 2003, our Board of Trustees declared a cash deficiency dividend in the amount of $2,200, which was paid on January 20, 2004, to common shareholders of record on December 31, 2003. On January 21, 2004, pursuant to the Tax Agreement, Atlantic reimbursed us $2,200 in recognition of our payment of the deficiency dividend. Atlantic has also paid all other amounts (including the tax deficiencies and interest referred to above), on behalf of the Company, assessed by the IRS to date.

Pursuant to the Closing Agreement we agreed to an adjustment to our taxable income for each of our taxable years ended December 31, 1991 through 1995. The Company has advised the relevant taxing authorities for the state and local jurisdictions where it conducted business during those years of such adjustments and the terms of the Closing Agreement. We believe that our exposure to state and local tax, penalties, interest and other miscellaneous expenses will not exceed $1,332 as of September 30, 2007. It is management s belief that any liability for state and local tax, penalties, interest, and other miscellaneous expenses that may exist in relation to the IRS Audit will be covered under the Tax Agreement.

Effective March 31, 2006, Atlantic was merged into (acquired by) SI 1339, Inc., a wholly-owned subsidiary of Kimco Realty Corporation (Kimco), with SI 1339, Inc. continuing as the surviving corporation. By way of the

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

merger, SI 1339, Inc. acquired Atlantic s assets, subject to its liabilities (including its obligations to the Company under the Tax Agreement). Subsequent to the merger, SI 1339, Inc. changed its name to Kimco SI 1339, Inc. In a press release issued on the effective date of the merger, Kimco disclosed that the shareholders of Atlantic received common shares of Kimco valued at $81,800 in exchange for their shares in Atlantic.

Litigation

We are currently involved in certain litigation arising in the ordinary course of business. The Company believes that this litigation will not have a material adverse effect on our business or consolidated financial statements.

Environmental Matters

Under various Federal, state and local laws, ordinances and regulations relating to the protection of the environment (Environmental Laws), a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances disposed, stored, released, generated, manufactured or discharged from, on, at, onto, under or in such property. Environmental Laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of such hazardous or toxic substance. The presence of such substances, or the failure to properly remediate such substances when present, released or discharged, may adversely affect the owner s ability to sell or rent such property or to borrow using such property as collateral. The cost of any required remediation and the liability of the owner or operator therefore as to any property is generally not limited under such Environmental Laws and could exceed the value of the property and/or the aggregate assets of the owner or operator. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the cost of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such persons. In addition to any action required by Federal, state or local authorities, the presence or release of hazardous or toxic substances on or from any property could result in private plaintiffs bringing claims for personal injury or other causes of action.

In connection with the ownership (direct or indirect), operation, management and development of real properties, we may be potentially liable for remediation, releases or injury. In addition, Environmental Laws impose on owners or operators the requirement of on-going compliance with rules and regulations regarding business-related activities that may affect the environment. Such activities include, for example, the ownership or use of transformers or underground tanks, the treatment or discharge of waste waters or other materials, the removal or abatement of asbestos-containing materials (ACMs) or lead-containing paint during renovations or otherwise, or notification to various parties concerning the potential presence of regulated matters, including ACMs. Failure to comply with such requirements could result in difficulty in the lease or sale of any affected property and/or the imposition of monetary penalties, fines or other sanctions in addition to the costs required to attain compliance. Several of our properties have or may contain ACMs or underground storage tanks; however, we are not aware of any potential environmental liability which could reasonably be expected to have a material impact on our financial position or results of operations. No assurance can be given that future laws, ordinances or regulations will not impose any material environmental requirement or liability, or that a material adverse environmental condition does not otherwise exist.

Repurchase of Common Shares of Beneficial Interest

In December 2005, the Board of Trustees authorized the repurchase, at management s discretion, of up to $15,000 of the Company s common shares of beneficial interest. The program allows the Company to repurchase its common shares of beneficial interest from time to time in the open market or in privately negotiated transactions. As of September 30, 2007, the Company had purchased and retired 287,900 shares of the Company s common shares of beneficial interest under this program at an average cost of $27.11 per share. No repurchases were made during the nine months ended September 30, 2007.

RAMCO-GERSHENSON PROPERTIES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Other Taxes

In July 2007, the State of Michigan signed into law the Michigan Business Tax Act, replacing the Michigan single business tax with a business income tax and modified gross receipts tax. These new taxes take effect on January 1, 2008, and, because they are based on or derived from income-based measures, the provisions of SFAS No. 109, *Accounting for Income Taxes,* apply as of the enactment date. In September 2007, an amendment to the Michigan Business Tax Act was also singed into law establishing a deduction to the business income tax base if temporary differences associated with certain assets result in a net deferred tax liability as of December 31, 2007. The tax effect of this deduction, which will be equal to the amount of the aggregate deferred tax liability as of December 31, 2007, has an indefinite carryforward period. The enactment of the Michigan Business Tax Act and the related amendment created for the Company both a deferred tax liability and deferred tax asset of approximately $3,300 as of September 30, 2007.

In September 2007, the State of Michigan also enacted a new services tax law that takes effect on December 1, 2007. There is substantial uncertainty as to the applicability of the new law to certain of the Company s transactions and services, as well as the treatment of various items in the computation of the tax. The Company is currently evaluating the possible effects of the new tax on future results of operations and closely monitoring local efforts aimed at clarifying, amending, and/or repealing the law.

12. Redemption and Conversion of Preferred Shares

On April 2, 2007, the Company announced that it would redeem all of its outstanding 7.95% Series C Cumulative Convertible Preferred Shares of Beneficial Interest on June 1, 2007. As of June 1, 2007, 1,856,846 Series C Preferred Shares, or approximately 98% of the total outstanding as of the April 2007 redemption notice, had been converted into common shares of beneficial interest on a one-for one basis. The remaining 31,154 Series C Preferred Shares were redeemed on June 1, 2007, at the redemption price of $28.50 plus accrued and unpaid dividends.

13. Subsequent Event

On October 8, 2007, the Company announced that it will redeem all of its outstanding 9.5% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest on November 12, 2007. The shares will be redeemed at $25.00 per share, resulting in a charge to equity of approximately $1,000, plus accrued and unpaid dividends to the redemption date without interest.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements, including the respective notes thereto, which are included in this Form 10-Q.

Overview

We are a publicly-traded real estate investment trust (REIT) which owns, develops, acquires, manages and leases community shopping centers (including power centers and single-tenant retail properties) and one regional mall in the Midwestern, Southeastern and Mid-Atlantic regions of the United States. At September 30, 2007, our portfolio consisted of 86 shopping centers, of which 16 were power centers and two were single-tenant retail properties, as well as one enclosed regional mall, totaling approximately 19.2 million square feet of gross leasable area (GLA). Including centers owned by joint ventures in which the Company has an equity interest, we owned approximately 15.3 million square feet of such GLA, with the remaining portion owned by various anchor stores.

Our corporate strategy is to maximize total return for our shareholders by improving operating income and enhancing asset value. We pursue our goal through:

- The acquisition of community shopping centers, by consolidated entities or off-balance sheet joint ventures, with a focus on grocery and nationally-recognized discount department store anchor tenants;

- The development of new shopping centers in metropolitan markets where we believe demand for a center exists;

- A proactive approach to redeveloping, renovating and expanding our shopping centers; and

- A proactive approach to leasing vacant spaces and entering into new leases for occupied spaces when leases are about to expire.

We have followed a disciplined approach to managing our operations by focusing primarily on enhancing the value of our existing portfolio through strategic sales and successful leasing efforts. We continue to selectively pursue new acquisitions, development and redevelopment opportunities.

The highlights of our third quarter of 2007 activity reflect this strategy:

Joint Venture Activity

- During the quarter, we acquired the Old Orchard shopping center in West Bloomfield, Michigan as part of our joint venture with affiliates of Clarion Lion Properties Fund, a private equity real estate fund sponsored by ING Clarion Partners. The Old Orchard is a 95,000 square foot shopping center. The joint venture is currently redeveloping the property.

- During the quarter, we formed Ramco HHF NP LLC, joint venture with a discretionary fund managed by Heitman LLC that invests in core assets. We have a 7% ownership interest and we will manage the property and earn market fees for services we perform. The joint venture acquired Nora Plaza in Indianapolis, Indiana. Nora Plaza is a 264,000 square foot community shopping center and is anchored by a Target (shadow), Wild Oats Natural Marketplace and Marshalls.

Development

As previously announced, we are in various stages of development on four new projects. The developments are:

The Aquia Town Center in Stafford, Virginia involves the complete value-added redevelopment of an existing 200,000 square foot shopping center owned by us. When complete, the mixed-use asset will encompass over 730,000 square feet of upscale retail, office, and entertainment components and approximately 350 residential units. We are nearing completion on the construction of the first retail/office building on the site. Northrop Grumman has signed a lease to occupy 49,000 square feet or approximately one-half of

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the office building and will take possession of its space in the fourth quarter of 2007. The total project cost is estimated at $165 million.

Hartland Towne Center in Hartland, Michigan is being developed through our joint venture Ramco Highland Disposition LLC. Hartland Towne Center will be developed as a 550,000 square foot traditional community center featuring two major anchors, a department/grocery superstore and a home improvement store. Meijer discount department superstore chain has committed to build a 192,000 square foot superstore at the shopping center and we are currently in negotiations with a major home improvement operator as a second anchor for the project. The development will also include at least three mid-box national retailers as well as a number of outlots. The total project cost is estimated at $50 million.

Northpointe Town Center in Jackson, Michigan is being developed as a 575,000 square foot combination power center and town center and will include retail, entertainment and office components. The new development will complement two of our other properties in the market. The total project cost is estimated at $70 million.

The Company has made substantial progress on one additional development. The project is located in central Florida in close proximity to a number of the Company s existing centers. The planned development will encompass approximately 300,000 square feet in a traditional power center. The estimated project cost is $45 million.

Redevelopment

At September 30, 2007, we had seven value-added redevelopment projects in process for both wholly owned and joint venture properties impacting approximately 415,000 square feet with a total project cost of $34.7 million. We are in the process of finalizing the plans for 14 additional redevelopment projects, all of which are expected to begin prior to the end of 2008.

Leasing

During the third quarter, for both wholly owned and joint venture properties, we opened 20 new non-anchor stores totaling 63,134 square feet, at an average base rent of $18.77 per square foot, an increase of 19.5% over our portfolio average for non-anchor stores. We also renewed 21 non-anchor leases totaling 83,947 square feet, at an average base rent of $14.95 per square foot, achieving an increase of 11.6% over prior rental rates.

Overall total portfolio average base rents for non-anchor tenants increased to $15.71 per square foot as of September 30, 2007, as compared to $15.10 per square foot at December 31, 2006.

Our portfolio was 93.7% occupied at September 30, 2007, as compared to 93.6% at December 31, 2006.

Financing and Treasury

On October 8, 2007, we announced that we will redeem all of our outstanding 9.5% Series B Cumulative Redeemable Preferred Shares of Beneficial Interest on November 12, 2007. The shares will be redeemed at $25.00 per share, plus accrued and unpaid dividends to the redemption date without interest.

On October 2, 2007, the Company paid a third quarter common share dividend of $0.4625 per share and a third quarter dividend of $0.5938 per Series B cumulative redeemable preferred share for the period July 1, 2007 through September 30, 2007, to shareholders of record on September 30, 2007.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical

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experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the audit committee of our board of trustees. Actual results could materially differ from these estimates.

Critical accounting policies are those that are both significant to the overall presentation of our financial condition and results of operations and require management to make difficult, complex or subjective judgments. For example, significant estimates and assumptions have been made with respect to useful lives of assets, recovery ratios, capitalization of development and leasing costs, recoverable amounts of receivables and initial valuations and related amortization periods of deferred costs and intangibles, particularly with respect to property acquisitions. Our critical accounting policies as discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 have not materially changed during the first nine months of 2007.

Comparison of Three Months Ended September 30, 2007 to Three Months Ended September 30, 2006

For purposes of comparison between the three months ended September 30, 2007 and 2006, Same Center refers to the shopping center properties owned by consolidated entities as of July 1, 2006 and September 30, 2007.

In April 2007, we acquired an additional 80% ownership interest in River City Marketplace, bringing our total ownership interest to 100%. Subsequent to the acquisition of the additional 80% ownership interest, River City Marketplace has been consolidated in our financial statements. This property is collectively referred to as the Acquisition in the following discussion.

In November 2006, we sold Collins Pointe Plaza to Ramco 191 LLC, a joint venture with Heitman Value Partners Investments LLC. In December 2006, we sold two shopping centers, Crofton Centre and Merchants Square, to Ramco 450 LLC, our $450 million joint venture with an investor advised by Heitman LLC. In March 2007, we sold Chester Springs Shopping Center to this same joint venture. In June 2007, we sold two shopping centers, Shoppes of Lakeland and Kissimmee West, to Ramco HHF KL LLC, a newly formed joint venture with a discretionary fund that invests in core assets managed by Heitman LLC. In July 2007, we sold Paulding Pavilion to Ramco 191 LLC, our $75 million joint venture with Heitman Value Partners Investment LLC. These properties are collectively referred to as Dispositions in the following discussion.

Revenues

Total revenues for the three months ended September 30, 2007 were $37.8 million, a $1.1 million decrease over the comparable period in 2006.

Minimum rents decreased $1.2 million to $24.1 million for the three months ended September 30, 2007 as compared to $25.3 million for the same period in 2006. The Dispositions resulted in a decrease of approximately $2.9 million in minimum rents, partially offset by an increase of approximately $1.8 million in minimum rents from the Acquisition. Minimum rents at the Same Center properties during the three months ended September 30, 2007 were consistent with the comparable period in 2006.

Percentage rents decreased $108,000, from $225,000 for the three months ended September 30, 2006 to $117,000 in 2007. The decrease was mainly attributable to Dispositions.

Recoveries from tenants decreased $286,000 to $10.5 million for the three months ended September 30, 2007 as compared to $10.7 million for the same period in 2006. The Dispositions resulted in a decrease of approximately $921,000 in recoveries from tenants, offset by an increase of approximately $619,000 from the Acquisition. The increase of approximately $16,000 for the Same Center properties was primarily due to the expansion of our electric resale program. We expect our recovery ratio percentage to be in the range of 96.0% to 99.0% for the full year 2007.

Fees and management income decreased $180,000 to $1.1 million for the three months ended September 30, 2007 as compared to $1.3 million for the three months ended September 30, 2006. The decrease was primarily attributable to a $849,000 decrease in development and tenant coordination fees for our River City Marketplace development, partially offset by a $437,000 increase in acquisition fees related to the sale of Paulding Pavilion to

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our Ramco 191 LLC joint venture, an increase of $76,000 in acquisition fees related to the acquisition of Old Orchard by our Ramco/Lion Venture LP joint venture, and an increase of $212,000 in management fees attributable to managing the shopping centers owned by our joint ventures.

Other income for the three months ended September 30, 2007 was $1.9 million, an increase of $737,000 over the comparable period in 2006. The increase is primarily attributable to an increase in lease termination fees of $515,000 during the three months ended September 30, 2007 compared to the same period in 2006.

Expenses

Total expenses for the three months ended September 30, 2007 decreased $1.6 million to $33.9 million as compared to $35.5 million for the three months ended September 30, 2006.

Real estate taxes were $5.1 million during the three months ended September 30, 2007, consistent with the comparable period in 2006.

Recoverable operating expenses were $6.0 million during the three months ended September 30, 2007, consistent with the comparable period in 2006. Same Center recoverable operating expenses increased approximately $624,000 and the Acquisition resulted in an increase of $108,000, partially offset by a decrease of $497,000 related to Dispositions.

Depreciation and amortization was $8.1 million for the third quarter of 2007, consistent with the comparable period in 2006. Depreciation and amortization expense increased by $696,000 primarily due to the Acquisition, in particular the acquisition of the remaining 80% ownership interest in River City Marketplace made in April 2007, and an increase of approximately $200,000 for Same Center properties. The increase was offset by approximately $878,000 of depreciation and amortization expense related to Dispositions.

Other operating expenses decreased $493,000 to $770,000 for the three months ended September 30, 2007 as compared to $1.3 million for the comparable period in 2006. The decrease is primarily attributable to bad debt expense recorded in the three months ended September 30, 2006. No similar increase was recorded during the three months ended September 30, 2007.

General and administrative expenses increased $715,000, from $3.3 million for the three months ended September 30, 2006 to $4.0 million for the three months ended September 30, 2007. The increase in general and administrative expenses was primarily due to a $325,000 increase in payroll expenses related to staff increases associated with the growth of our portfolio and higher salaries and fringes, as well as an increase of $200,000 in the audit and tax professional fees.

Interest expense decreased $1.9 million to $9.9 million for the three months ended September 30, 2007, as compared to $11.8 million for the three months ended September 30, 2006. Average monthly debt outstanding was $45.7 million lower during the third quarter of 2007, resulting in a decrease in interest expense of approximately $713,000. In addition, the average interest rate on outstanding debt during the third quarter of 2007 was lower than the comparable period of 2006, resulting in a decrease in interest expense of approximately $580,000. Further, interest expense during the third quarter of 2007 was favorably impacted by approximately $489,000 as a result of higher capitalized interest on development and redevelopment projects, approximately $169,000 of decreased amortization of deferred financing costs and approximately $78,000 of decreased amortization of marked to market debt.

Other

Minority interest represents the equity in income attributable to the portion of the Operating Partnership not owned by us. Minority interest for the three months ended September 30, 2007 increased $300,000 to $1.2 million, as compared to $874,000 for the three months ended September 30, 2006. The increase is primarily the result of higher income from continuing operations of the Operating Partnership, Ramco-Gershenson Properties, L.P. for the three months ended September 30, 2007 compared to the same period in 2006.

Earnings from unconsolidated entities represent our proportionate share of the earnings of various joint ventures in which we have an ownership interest. Earnings from unconsolidated entities decreased $176,000, from

$864,000 for the three months ended September 30, 2006 to $688,000 for the three months ended September 30, 2007. The majority of the decrease is attributable to our purchase of the remaining 80% ownership in Ramco Jacksonville, the joint venture that owned the River City Marketplace development.

Loss from discontinued operations, net of minority interest, was $19,000 for the three months ended September 30, 2006. In January 2006, we sold seven of our shopping centers held for sale to an unrelated third party for $47.0 million in aggregate. Discontinued operations for the three months ended September 30, 2006 include a loss of $3,000, net of minority interest, on the sale of a portion of these centers, as well as $70,000 from the operations of a portion of these centers. There were no operations for these assets during the three months ended September 30, 2007.

Comparison of Nine Months Ended September 30, 2007 to Nine Months Ended September 30, 2006

For purposes of comparison between the nine months ended September 30, 2007 and 2006, Same Center refers to the shopping center properties owned by consolidated entities as of January 1, 2006 and September 30, 2007.

In April 2006, we acquired Paulding Pavilion, and we also acquired an additional 90% partnership interest in Beacon Square, bringing our total ownership interest to 100%. Subsequent to the acquisition of the additional 90% partnership interest, Beacon Square has been consolidated in our financial statements. In April 2007, we acquired an additional 80% ownership interest in River City Marketplace, bringing our total ownership interest to 100%. Subsequent to the acquisition of the additional 80% ownership interest, River City Marketplace has been consolidated in our financial statements. These properties are collectively referred to as the Acquisitions in the following discussion.

In November 2006, we sold Collins Pointe Plaza to Ramco 191 LLC, a joint venture with Heitman Value Partners Investments LLC. In December 2006, we sold two shopping centers, Crofton Centre and Merchants Square, to Ramco 450 LLC, our $450 million joint venture with an investor advised by Heitman LLC. In March 2007, we sold Chester Springs Shopping Center to this same joint venture. In June 2007, we sold two shopping centers, Shoppes of Lakeland and Kissimmee West, to Ramco HHF KL LLC, a newly formed joint venture with a discretionary fund that invests in core assets managed by Heitman LLC. In July 2007, we sold Paulding Pavilion to Ramco 191 LLC, our $75 million joint venture with Heitman Value Partners Investment LLC. These properties are collectively referred to as Dispositions in the following discussion.

Revenues

Total revenues for the nine months ended September 30, 2007 were $115.1 million, a $1.3 million increase over the comparable period in 2006.

Minimum rents decreased $2.2 million to $72.9 million for the nine months ended September 30, 2007 as compared to $75.1 million for the first nine months of 2006. The Dispositions resulted in a decrease of approximately $6.2 million in minimum rents, partially offset by an increase of approximately $3.6 million in minimum rents from Acquisitions and an increase of approximately $400,000 from Same Center properties. The $400,000 increase at the Same Center properties represents a 1.3% increase over the comparable period in 2006, and is the result of the completion of redevelopment projects at certain of our shopping centers, in particular Tel-Twelve and Spring Meadows Place. Both of these redevelopments involved the expansion or addition of at least one national anchor tenant.

Percentage rents decreased $85,000 from $610,000 for the nine months ended September 30, 2006 to $525,000 in 2007. Dispositions resulted in a decrease of $51,000 and Same Center decreased $37,000 when compared to the same period in 2006.

Recoveries from tenants increased $2.0 million to $32.9 million for the first nine months of 2007 as compared to $30.9 million for the same period in 2006. Same Center properties increased approximately $2.7 million and Acquisitions resulted in an increase of approximately $1.0 million, partially offset by a decrease of $1.7 million resulting from the Dispositions. The increase of approximately $2.7 million for the Same Center properties was primarily due to increases in real estate taxes and the expansion of our electric resale program. The overall property operating expense recovery ratio was 98.2% for the nine months ended September 30, 2007 as compared to 96.5% for the nine months ended September 30, 2006, primarily attributed to the two items noted above. We expect our recovery ratio percentage to be in the range of 96.0% to 99.0% for the full year 2007.

Fees and management income increased $1.1 million to $5.2 million for the nine months ended September 30, 2007 as compared to $4.1 million for the nine months ended September 30, 2006. The increase was mainly attributable to an increase in acquisition fees of approximately $1.5 million as well as an increase of $523,000 in management fees. The acquisition fees earned in 2007 relate to the purchase of Cocoa Commons, Old Orchard and Cypress Pointe by our Ramco/Lion Venture LP joint venture, the purchase of Peachtree Hill and Chester Springs by our Ramco 450 LLC joint venture, the purchase of Shoppes of Lakeland and Kissimmee West by our Ramco HHF KL LLC joint venture, and the purchase of Paulding Pavilion and Nora Plaza by our Ramco 191 LLC joint venture. The increase in management fees was mainly attributed to fees earned for managing the shopping centers owned by our joint ventures. Development fees decreased approximately $1.0 million as a result of our acquisition in April 2007 of the remaining 80% interest in Ramco Jacksonville LLC, the entity developed River City Marketplace.

Other income for the nine months ended September 30, 2007 was $3.6 million, an increase of $533,000 over the comparable period in 2006. Interest income increased approximately $538,000 on advances to Ramco Jacksonville related to the River City Marketplace development, there was approximately $253,000 of miscellaneous income related to the favorable resolution of disputes with tenants and there was income from insurance proceeds of $140,000 received in 2007. This increase was partially offset by a decrease in lease termination income of approximately $500,000.

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

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Consolidated Daily Average Balances, Average Yields and Rates

	Year Ended December 31							
	2009			2008			2007	
except percentage data)	**Average Balance**	**Revenue/ Expense(1)**	**Yield/ Rate**	**Average Balance**	**Revenue/ Expense(1)**	**Yield/ Rate**	**Average Balance**	**Revenue Expense(**
axable	$ 269,888	$ 11,928	4.42%	$ 343,870	$ 16,000	4.65%	$ 427,490	$ 20,23
on-taxable(2)	44,873	2,538	5.66%	47,450	2,650	5.58%	48,291	2,67
sold	8,196	31	0.38%	11,744	168	1.43%	1,903	9
her banks	12,266	44	0.36%	2,675	31	1.16%	1,175	5
r sale	596,271	28,336	4.75%	255,808	14,842	5.80%	155,046	10,72
	4,200,174	201,164	4.79%	3,685,301	216,167	5.87%	3,068,452	256,45
or loan losses	55,784			35,769			23,430	
	4,740,661	229,500	4.84%	3,905,340	231,009	5.92%	3,200,068	267,17
assets	5,075,884	244,041	4.81%	4,311,079	249,858	5.80%	3,678,927	290,22
r assets	245,034			206,634			220,914	
	$ 5,320,918			$ 4,517,713			$ 3,899,841	
stockholders equity								
eposits	$ 147,961	$ 242	0.16%	$ 106,720	$ 463	0.43%	$ 98,159	$ 92
its	1,182,442	10,082	0.85%	784,685	14,402	1.84%	831,370	35,48
	1,188,964	20,870	1.76%	1,086,252	37,347	3.44%	702,248	35,78
reign branches	411,116	6,630	1.61%	746,399	20,640	2.77%	992,837	49,05
bearing deposits	2,930,483	37,824	1.29%	2,724,056	72,852	2.67%	2,624,614	121,24
ngs	1,023,198	4,406	0.43%	798,647	17,896	2.24%	402,540	20,03
d subordinated	113,406	4,232	3.73%	113,406	6,445	5.68%	113,406	8,25
bearing liabilities	4,067,087	46,462	1.14%	3,636,109	97,193	2.67%	3,140,560	149,54
sits	760,776			529,471			463,142	
es	19,207			18,616			23,817	
equity	473,848			333,517			272,322	
s and stockholders equity	$ 5,320,918			$ 4,517,713			$ 3,899,841	
come		$ 197,579			$ 152,665			$ 140,68
argin			3.89%			3.54%		
read			3.67%			3.13%		

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

quivalent rates used where applicable.

ormation from discontinued operations:

r sale from discontinued			
	$ 600	$ 699	$ 4,546
ds	600	699	4,546
come	$ 61	$ 54	$ 18
argin consolidated	3.89%	3.54%	

Non-interest Income

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

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

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

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

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

Non-interest Expense

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

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

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

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

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

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

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

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

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

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

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

Analysis of Financial Condition

Loan Portfolio

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

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

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

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

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

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

Construction Loans. Our construction loan portfolio consists primarily of single-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and contractors that have an established record of successful project completion and loan repayment and have a substantial investment of the borrowers equity. However, construction loans are generally based upon estimates of costs and value associated with the completed project. Sources of repayment for these types of loans may be pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from us until permanent financing is obtained. The nature of these loans makes ultimate repayment extremely sensitive to overall economic conditions. Borrowers may not be able to correct conditions of default in loans, increasing risk of exposure to classification, NPA status, reserve allocation and actual credit loss and foreclosure. These loans typically have floating rates and commitment fees. At December 31, 2009, funded construction real estate loans totaled approximately $669.4 million, approximately 13% of our total funded loans.

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

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

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

Portfolio Geographic and Industry Concentrations

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

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

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

We make loans that are appropriately collateralized under our credit standards. Approximately 96% of our funded loans are secured by collateral. Over 90% of the real estate collateral is located in Texas. The table below sets forth information regarding the distribution of our funded loans among various types of collateral at December 31, 2009 (in thousands except percentage data):

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

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

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

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

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

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

Large Credit Relationships

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

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

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

Loan Maturity and Interest Rate Sensitivity on December 31, 2009

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

Interest Reserve Loans

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

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Non-performing Assets

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

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

(1) The accrual of interest on loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. If these loans had been current throughout their terms, interest and fees on loans would have increased by approximately $3.6 million, $2.9 million and $1.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

(2) At December 31, 2009, 2008 and 2007, loans past due 90 days and still accruing includes premium finance loans of $2.4 million, $2.1 million and $1.8 million, respectively. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

(3) At December 31, 2009, 2008 and 2007, non-performing assets include $2.6 million, $4.4 million, $4.1 million, respectively, of mortgage warehouse loans which were transferred to our loans held for investment portfolio at lower of cost or market during the past eighteen months, and some were subsequently moved to OREO.

(4) At December 31, 2009, OREO balance is net of $6.6 million valuation allowance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of Loan Loss Experience

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

The reserve for loan losses is comprised of specific reserves for impaired loans and an estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We regularly evaluate our reserve for loan losses to maintain an adequate level to absorb estimated loan losses inherent in the loan portfolio. Factors contributing to the determination of reserves include the credit worthiness of the borrower, changes in the value of pledged collateral, and general economic conditions. All loan commitments rated substandard or worse and greater than $500,000 are specifically reviewed for impairment. For loans deemed to be impaired, a specific allocation is assigned based on the losses expected to be realized from those loans. For purposes of determining the general reserve, the portfolio is segregated by product types to recognize differing risk profiles among categories, and then further segregated by credit grades. Credit grades are assigned to all loans. Each credit grade is assigned a risk factor, or reserve allocation percentage. These risk factors are multiplied by the outstanding principal balance and risk-weighted by product type to calculate the required reserve. A similar process is employed to calculate a reserve assigned to off-balance sheet commitments, specifically unfunded loan commitments and letters of credit. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management s judgment, should be charged off.

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

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

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

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

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

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

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(1) The accrual of interest on loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectibility is questionable, then cash payments are applied to principal. If these loans had been current throughout their terms, interest and fees on loans would have increased by approximately $3.6 million, $2.9 million and $1.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

(2) Excludes loans held for sale.

(3) At December 31, 2009, 2008 and 2007, loans past due 90 days and still accruing includes premium finance loans of $2.4 million, $2.1 million and $1.8 million, respectively. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

(4) At December 31, 2009, 2008 and 2007, non-performing assets include $2.6 million, $4.4 million and $4.1 million, respectively, of mortgage warehouse loans which were transferred to the loans held for investment portfolio at lower of cost or market during the past eighteen months, and some were subsequently moved to OREO.

(5) At December 31, 2009, OREO balance is net of $6.6 million valuation allowance.

Loan Loss Reserve Allocation

	December 31									
n thousands, except	**2009**		**2008**		**2007**		**2006**		**2005**	
ercentage data)	**Reserve**	**% of Loans**	**Reserve**	**% of Loans**	**Reserve**	**% of Loans**	**Reserve**	**% of Loans**	**Reserve**	**% of Loans**
oan category:										
ommercial	$ 33,269	47%	$ 23,348	50%	$ 16,466	55%	$ 8,992	54%	$ 9,996	53%
onstruction	10,974	13	7,563	15	5,032	16	4,081	18	2,346	18
eal estate(1)	14,874	37	10,518	32	4,736	26	2,910	25	3,095	27
onsumer	1,258	1	1,095	1	1,989	1	589	1	115	1
quipment leases	2,960	2	1,790	2	723	2	482	2	395	1
nallocated	4,596		1,051		2,740		3,009		2,950	
otal	$ 67,931	100%	$ 45,365	100%	$ 31,686	100%	$ 20,063	100%	$ 18,897	100%

(1) Includes loans held for sale.

During 2009, the reserve allocated to all categories of loans increased compared to 2008 primarily due to increases in the level of allocations required by our loan loss reserve methodology. Generally, loan loss reserve allocations between categories are consistent with prior year. The percentage of the reserve allocated to construction is a slightly higher percentage in the current year even though the percentage of our loans in that category has decreased from prior year. This increase in construction reserve allocation is related to the overall economic downturn and decreased values that have been experienced with construction projects, most especially lot development projects. This is also consistent with the increase in nonperforming loans in this category we ve experienced in 2009.

Securities Portfolio

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) Yields are calculated based on amortized cost.

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

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

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

Deposits

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

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

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

Deposit Analysis

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

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

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

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

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

Liquidity and Capital Resources

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, purchase securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies, which are formulated and monitored by our senior management and our Balance Sheet Management Committee (BSMC), and which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2009 and 2008, our principal source of funding has been our customer deposits, supplemented by short-term borrowings primarily from federal funds purchased and Federal Home Loan Bank (FHLB) borrowings.

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

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

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

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

	2009			**2008**			**2007**		
usands)	**Balance**	**Rate(1)**	**Maximum Outstanding at any Month End**	**Balance**	**Rate(1)**	**Maximum Outstanding at any Month End**	**Balance**	**Rate(1)**	**Maxi Outsta at a Mo Er**
l funds sed	$ 580,519	.33%		$ 350,155	.47%		$ 344,813	4.29%	
ner repurchase nents	25,070	.10%		77,732	.05%		7,148	3.30%	
ry, tax and loan	5,940	.00%		2,720	.00%		6,890	4.00%	
borrowings	325,000	.11%		800,000	.71%		400,000	4.18%	
short-term vings				10,000	1.19%		25,000	5.82%	
erm borrowings				40,000	1.19%				
borrowings	20,500	.84%							
preferred inated ures	113,406	3.19%		113,406	4.40%		113,406	6.77%	
orrowings	$ 1,070,435		$ 1,753,181	$ 1,394,013		$ 1,280,606	$ 897,257		$ 78

(1) Interest rate as of period end.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Commitments and Contractual Obligations

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

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

(1) Excludes interest.

Off-Balance Sheet Arrangements

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

(in thousands)	Within One Year	After One But Within Three Years	After Three But Within Five Years	After Five Years	Total

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

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

Critical Accounting Policies

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

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

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

New Accounting Standards

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

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

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

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

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

Interest Rate Risk Management

Our interest rate sensitivity is illustrated in the following table. The table reflects rate-sensitive positions as of December 31, 2009, and is not necessarily indicative of positions on other dates. The balances of interest rate sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are aggregated to show the interest rate sensitivity gap. The mismatch between repricings or maturities within a time period is commonly referred to as the gap for that period. A positive gap (asset sensitive), where interest rate sensitive assets exceed interest rate sensitive liabilities, generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite results on the net interest margin. To reflect anticipated prepayments, certain asset and liability categories are shown in the table using estimated cash flows rather than contractual cash flows.

Interest Rate Sensitivity Gap Analysis
December 31, 2009

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

(1) Securities based on fair market value.

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

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

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

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

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

	Anticipated Impact Over the Next Twelve Months as Compared to Most Likely Scenario	
	200 bp Increase December 31, 2009	**200 bp Increase December 31, 2008**
Change in net interest income	$ 17,731	$ 17,255

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

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

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

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

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

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

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

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

Dallas, Texas
February 18, 2010

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Texas Capital Bancshares, Inc.

Consolidated Balance Sheets

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

Treasury stock (shares at cost: 417 at December 31, 2009 and 84,691 at December 31, 2008		
Deferred compensation		573
Accumulated other comprehensive income, net of taxes	6,165	1,869
Total stockholders equity	481,360	387,073
Total liabilities and stockholders equity	$ 5,698,904	$ 5,141,682

See accompanying notes to consolidated financial statements

Texas Capital Bancshares, Inc.

Consolidated Statements of Operations

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

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

See accompanying notes to consolidated financial statements

Texas Capital Bancshares, Inc.

Consolidated Statements of Stockholders Equity

	Preferred Stock		Common Stock		Additional Paid-in	Retained	Treasury Stock		Deferred	Accun Ot Compr Inc
share data)	**Shares**	**Amount**	**Shares**	**Amount**	**Capital**	**Earnings**	**Shares**	**Amount**	**Compensation**	**(lo**
r 31, 2006		$	26,065,124	$ 261	$ 182,321	$ 76,163	(84,274)	$ (573)	$ 573	$ (5
me:										
						29,422				
l gain (loss) securities, 3										4
income										
exercise of					1,164					
sation										
n earnings					4,761					
stock							(417)	(8)		
stock related s			324,424	3	1,929					
r 31, 2007			26,389,548	264	190,175	105,585	(84,691)	(581)	573	
me:										
						24,266				
l gain (loss) securities, 9										2
income										
exercise of					1,584					
sation										
n earnings					4,676					
stock related s			581,641	6	3,663					
stock			4,000,000	40	54,953					
r 31, 2008			30,971,189	310	255,051	129,851	(84,691)	(581)	573	1
me:										
						24,152				
										4

l gain (loss)										
securities,										
3										
income										
o exercise of										
					75					
sation										
n earnings					5,959					
on							(84,274)	573	(573)	
ated to										
			348,752	3	1,575					
stock			4,600,000	46	59,400					
stock and										
	75,000	70,836			4,164					
red stock	(75,000)	(71,069)				(3,931)				
end and										
d stock										
		233				(1,452)				
r 31, 2009		$	35,919,941	$ 359	$ 326,224	$ 148,620	(417)	$ (8)	$	$ 6

See accompanying notes to consolidated financial statements

Texas Capital Bancshares, Inc.

Consolidated Statements of Cash Flows

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

Repurchase of preferred stock		(75,000)				
Dividends paid		(1,219)				
Net increase (decrease) in other borrowings		(553,942)		491,414		393,434
Excess tax benefits from stock-based compensation arrangements		213		4,527		3,325
Net federal funds purchased		230,364		5,342		178,858
Purchase of treasury stock						(8)
Net cash provided by financing activities of continuing operations		523,978		826,755		574,588
Net cash provided by financing activities of discontinued operations						
Net cash provided by financing activities		523,978		826,755		574,588
Net increase (decrease) in cash and cash equivalents		43,412		(7,436)		(4,253)
Cash and cash equivalents, beginning of year		82,027		89,463		93,716
Cash and cash equivalents, end of year	$	125,439	$	82,027	$	89,463

Supplemental disclosures of cash flow information:						
Cash paid during the year for interest	$	50,415	$	96,402	$	149,691
Cash paid during the year for income taxes		14,892		22,475		13,414
Non-cash transactions:						
Transfers from loans/leases to OREO and other repossessed assets		23,466		23,232		983
Transfers from loans/leases to other assets						10,549

See accompanying notes to consolidated financial statements

1. Operations and Summary of Significant Accounting Policies

Organization and Nature of Business

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

Basis of Presentation

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for possible loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly susceptible to significant change in the near term.

Cash and Cash Equivalents

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

Securities

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

Trading Account

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

Held-to-Maturity and Available-for-Sale

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

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

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

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

Loans

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

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

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

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

Allowance for Loan Losses

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

Repossessed Assets

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

Other Real Estate Owned

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

Premises and Equipment

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

Marketing and Software

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

Goodwill and Other Intangible Assets

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

Segment Reporting

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

Stock-based Compensation

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

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

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Accumulated Other Comprehensive Income (Loss)

Unrealized gains or losses on our available-for-sale securities (after applicable income tax expense or benefit) are included in accumulated other comprehensive income (loss), net. Accumulated comprehensive income (loss), net for the year ended December 31, 2009 and 2008 is reported in the accompanying consolidated statements of changes in stockholders equity.

Income Taxes

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

Basic and Diluted Earnings Per Common Share

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

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Effective January 1, 2008, we adopted the reporting requirements of ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820). The adoption of ASC 820 did not have an impact on our financial statements except for the expanded disclosures noted in Note 15 Fair Value Disclosures.

2. Securities

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

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

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

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

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

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

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

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

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

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

(3) Yields are calculated based on amortized cost.

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

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

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

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

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

Unrealized gains or losses on our available-for-sale securities (after applicable income tax expense or benefit) are included in accumulated other comprehensive income (loss), net. We had comprehensive income of $28.4 million for the year ended December 31, 2009 and comprehensive income of $27.0 million for the year ended December 31, 2008. Comprehensive income during the year ended December 31, 2009 included a net after-tax gain of $4.3 million, and comprehensive income during the year ended December 31, 2008 included a net after-tax gain of $2.7 million due to changes in the net unrealized gains/losses on securities available-for-sale.

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3. Loans and Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

4. OREO and Valuation Allowance for Losses on OREO

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

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

5. Goodwill and Other Intangible Assets

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

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

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

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

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

6. Premises and Equipment

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

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

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

7. Deposits

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

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

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

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

8. Borrowing Arrangements

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

2009	2008	2007

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

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(1) Securities pledged for customer repurchase agreements were $36.0 million, $88.2 million and $24.4 million at December 31, 2009, 2008 and 2007, respectively.

(2) Securities pledged for treasury, tax and loans notes were $11.3 million, $13.0 million and $7.1 million at December 31, 2009, 2008 and 2007, respectively.

(3) FHLB borrowings are collateralized by a blanket floating lien based on real estate loans and also certain pledged securities.

(4) Interest rate as of period end.

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

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

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

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

	Within One Year	After One But Within Three Years	After Three But Within Five Years	After Five Years	Total
Federal funds purchased(1)	$ 580,519	$	$	$	$ 580,519

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

(1) Excludes interest.

9. Trust Preferred Subordinated Debentures

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

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

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

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

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

10. Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. Employee Benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. Financial Instruments with Off-Balance Sheet Risk

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

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

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

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

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

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13. Regulatory Restrictions

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

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

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

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

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

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

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

14. Earnings Per Share

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

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

(1)

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

15. Fair Value Disclosures

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

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

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

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include U.S. government and agency mortgage-backed debt securities, corporate securities, municipal bonds, and Community Reinvestment Act funds. This category includes derivative assets and liabilities where values are based on internal cash flow models supported by market data inputs

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. This category also includes impaired loans and OREO where collateral values have been based on third party appraisals; however, due to current economic conditions, comparative sales data typically used in appraisals may be unavailable or more subjective due to lack of market activity. Additionally, this category includes certain mortgage loans that were transferred from loans held for sale to loans held for investment at a lower of cost or fair value.

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

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

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

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

value of the loan s collateral.

(3) OREO is transferred from loans to OREO at fair value less selling costs.

(4) Fair value of loans and OREO is measured on a nonrecurring basis, generally annually or more often as warranted by market and economic conditions

Level 3 Valuations

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. Currently, we measure fair value for certain loans on a nonrecurring basis as described below.

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

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

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

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

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

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

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

Cash and cash equivalents

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

Securities

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

Loans, net

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

Derivatives

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

Deposits

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

Federal funds purchased, other borrowings and trust preferred subordinated debentures

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

Off-balance sheet instruments

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

16. Commitments and Contingencies

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

December 31, 2009, 2008 and 2007, respectively.

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

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

17. Parent Company Only

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

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

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Statements of Earnings

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

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Statements of Cash Flows

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

18. Related Party Transactions

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

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

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

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

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

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

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

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

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

	Year Ended December 31, 2007		
	RML	**TexCap**	**Total**

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

20. Derivative Financial Instruments

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

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

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

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

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

	Weighted-Average	
	Interest Rate Received	Interest Rate Paid
Non-hedging interest rate swaps	4.75%	1.88%

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

21. Subsequent Event

On January 27, 2010, we announced that we have entered into an Equity Distribution Agreement with Morgan Stanley & Co. Incorporated, pursuant to which we may, from time to time, offer and sell shares of our common stock, having aggregate gross sales proceeds of up to $40,000,000. Sales of the shares are being made by means of brokers transactions on or through the NASDAQ Global Select Market at market prices prevailing at the time of the sale or as otherwise agreed to by the Company and Morgan Stanley. As of February 17, 2010 we have sold 271,973 shares at an average price of $16.88. Net proceeds on the sales are approximately $4.5 million, after payment of a 1% sales commission paid to Morgan Stanley, and are being used for general corporate purposes. In addition to the 1% sales commission, we paid Morgan Stanley a $400,000 program fee.

22. New Accounting Standards

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

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

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

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

None.

ITEM 9A. *CONTROLS AND PROCEDURES*

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

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

Management s Report on Internal Control Over Financial Reporting

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

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

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

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

Report of Independent Registered Public Accounting Firm

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

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

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

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

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

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

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

Dallas, Texas
February 18, 2010

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ITEM 9B. *OTHER INFORMATION*

None.

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

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

ITEM 11. *EXECUTIVE COMPENSATION*

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

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

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

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

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

ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES*

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

ITEM 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES*

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

(1) All financial statements

Independent Registered Public Accounting Firms   Report of Ernst & Young LLP

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

Independent Registered Public Accounting Firms   Report of Ernst & Young LLP

(3) *Exhibits*

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

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

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

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

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

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

* Filed herewith

\+ Management contract or compensatory plan arrangement

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SIGNATURES

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

TEXAS CAPITAL BANCSHARES, INC.

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

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

Date: February 18, 2010

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

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

Date: February 18, 2010

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

Date: February 18, 2010

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

Date: February 18, 2010

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

Date: February 18, 2010

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

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

Date: February 18, 2010

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

Date: February 18, 2010

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

Date: February 18, 2010

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

Date: February 18, 2010

/s/ LEE ROY MITCHELL
Lee Roy Mitchell
Director

Date: February 18, 2010

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

Date: February 18, 2010

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

Date: February 18, 2010

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

Date: February 18, 2010

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

Date: February 18, 2010