

TEXAS CAPITAL BANCSHARES INC/TX
Form 10-Q
October 22, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended September 30, 2015

.. Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____
Commission file number 001-34657

TEXAS CAPITAL BANCSHARES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	75-2679109 (I.R.S. Employer Identification Number)
2000 McKinney Avenue, Suite 700, Dallas, Texas, U.S.A. (Address of principal executive officers)	75201 (Zip Code)

214/932-6600
(Registrant's telephone number,
including area code)
N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

On October 21, 2015, the number of shares set forth below was outstanding with respect to each of the issuer's classes of common stock:

Common Stock, par value \$0.01 per share 45,844,361

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	\$ 101,758	\$ 96,524
Interest-bearing deposits	2,320,192	1,233,990
Federal funds sold and securities purchased under resale agreements	25,000	—
Securities, available-for-sale	31,998	41,719
Loans held for sale, at fair value	1,062	—
Loans held for investment, mortgage finance	4,312,790	4,102,125
Loans held for investment (net of unearned income)	11,562,828	10,154,887
Less: Allowance for loan losses	130,540	100,954
Loans held for investment, net	15,745,078	14,156,058
Premises and equipment, net	17,772	17,368
Accrued interest receivable and other assets	403,040	333,699
Goodwill and intangible assets, net	20,095	20,588
Total assets	\$ 18,665,995	\$ 15,899,946
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 6,545,273	\$ 5,011,619
Interest-bearing	8,620,072	7,348,972
Interest-bearing in foreign branches	—	312,709
Total deposits	15,165,345	12,673,300
Accrued interest payable	2,694	4,747
Other liabilities	154,665	145,622
Federal funds purchased and repurchase agreements	103,834	92,676
Other borrowings	1,250,000	1,100,005
Subordinated notes	286,000	286,000
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	17,075,944	14,415,756
Stockholders' equity:		
Preferred stock, \$.01 par value, \$1,000 liquidation value:		
Authorized shares – 10,000,000		
Issued shares – 6,000,000 shares issued at September 30, 2015 and December 31, 2014	50,000	150,000
Common stock, \$.01 par value:		
Authorized shares – 100,000,000		
Issued shares – 45,839,781 and 45,735,424 at September 30, 2015 and December 31, 2014, respectively	458	457
Additional paid-in capital	713,209	709,738
Retained earnings	725,502	622,714
Treasury stock (shares at cost: 417 at September 30, 2015 and December 31, 2014)	(8	) (8
Accumulated other comprehensive income, net of taxes	890	1,289
Total stockholders' equity	1,590,051	1,484,190

Total liabilities and stockholders' equity	\$18,665,995	\$15,899,946
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See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME – UNAUDITED

(In thousands except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest income				
Interest and fees on loans	\$ 151,749	\$ 134,618	\$ 442,529	\$ 374,724
Securities	298	428	979	1,439
Federal funds sold and securities purchased under resale agreements	193	68	427	116
Deposits in other banks	1,616	176	4,203	435
Total interest income	153,856	135,290	448,138	376,714
Interest expense				
Deposits	6,240	4,606	17,510	12,882
Federal funds purchased	56	82	217	292
Repurchase agreements	6	5	14	13
Other borrowings	672	68	1,590	321
Subordinated notes	4,191	4,241	12,573	11,961
Trust preferred subordinated debentures	643	627	1,892	1,862
Total interest expense	11,808	9,629	33,796	27,331
Net interest income	142,048	125,661	414,342	349,383
Provision for credit losses	13,750	6,500	39,250	15,500
Net interest income after provision for credit losses	128,298	119,161	375,092	333,883
Non-interest income				
Service charges on deposit accounts	2,096	1,817	6,339	5,277
Trust fee income	1,222	1,190	3,709	3,714
Bank owned life insurance (BOLI) income	484	517	1,444	1,547
Brokered loan fees	4,885	3,821	14,394	10,002
Swap fees	254	464	3,275	2,098
Other	2,439	2,587	7,257	8,647
Total non-interest income	11,380	10,396	36,418	31,285
Non-interest expense				
Salaries and employee benefits	48,583	43,189	142,611	125,141
Net occupancy expense	5,874	5,279	17,373	15,120
Marketing	3,999	4,024	12,142	11,578
Legal and professional	5,510	4,874	15,176	17,457
Communications and technology	5,180	4,928	15,905	13,213
FDIC insurance assessment	4,489	2,775	12,490	8,044
Allowance and other carrying costs for OREO	1	5	16	61
Other	8,052	6,841	23,768	20,383
Total non-interest expense	81,688	71,915	239,481	210,997
Income before income taxes	57,990	57,642	172,029	154,171
Income tax expense	20,876	20,810	61,928	55,653
Net income	37,114	36,832	110,101	98,518
Preferred stock dividends	2,438	2,438	7,313	7,313
Net income available to common stockholders	\$ 34,676	\$ 34,394	\$ 102,788	\$ 91,205
Other comprehensive income (loss)	\$ (216) \$ (295) \$ (613) \$ (414

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Change in net unrealized gain on available-for-sale securities arising during period, before-tax				
Income tax benefit related to net unrealized gain on available-for-sale securities	(75	) (103	) (214	) (145
Other comprehensive loss, net of tax	(141	) (192	) (399	) (269
Comprehensive income	\$36,973	\$36,640	\$109,702	\$98,249
Basic earnings per common share	\$0.76	\$0.80	\$2.24	\$2.13
Diluted earnings per common share	\$0.75	\$0.78	\$2.21	\$2.09
See accompanying notes to consolidated financial statements.				

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED

(In thousands except share data)

	Preferred Stock		Common Stock			Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
	Shares	Amount	Shares	Amount	Additional Paid-in Capital		Shares	Amount		
Balance at December 31, 2013	6,000,000	\$150,000	41,036,787	\$410	\$448,208	\$496,112	(417)	\$(8)	\$1,628	\$1,096,350
Comprehensive income:										
Net income	—	—	—	—	—	98,518	—	—	—	98,518
Change in unrealized gain on available-for-sale securities, net of taxes of \$145	—	—	—	—	—	—	—	—	(269)	(269)
Total comprehensive income										98,249
Tax benefit related to exercise of stock-based awards	—	—	—	—	2,534	—	—	—	—	2,534
Stock-based compensation expense recognized in earnings	—	—	—	—	3,628	—	—	—	—	3,628
Issuance of preferred stock	—	—	—	—	—	—	—	—	—	—
Preferred stock dividend	—	—	—	—	—	(7,313)	—	—	—	(7,313)
Issuance of stock related to stock-based awards	—	—	168,535	2	(2,076)	—	—	—	—	(2,074)
Issuance of common stock	—	—	1,875,000	19	106,529	—	—	—	—	106,548
Issuance of common stock related to warrants	—	—	99,229	1	(1)	—	—	—	—	—
	6,000,000	\$150,000	43,179,551	\$432	\$558,822	\$587,317	(417)	\$(8)	\$1,359	\$1,297,922

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Balance at
September 30,
2014

Balance at December 31, 2014	6,000,000	\$ 150,000	45,735,424	\$457	\$ 709,738	\$ 622,714	(417)	\$(8)	\$ 1,289	\$ 1,484,190
Comprehensive income:										
Net income	—	—	—	—	—	110,101	—	—	—	110,101
Change in unrealized gain on available-for-sale securities, net of taxes of \$215	—	—	—	—	—	—	—	—	(399)	(399)
Total comprehensive income										109,702
Tax benefit related to exercise of stock-based awards	—	—	—	—	1,092	—	—	—	—	1,092
Stock-based compensation expense recognized in earnings	—	—	—	—	3,328	—	—	—	—	3,328
Preferred stock dividend	—	—	—	—	—	(7,313)	—	—	—	(7,313)
Issuance of stock related to stock-based awards	—	—	104,357	1	(949)	—	—	—	—	(948)
Balance at September 30, 2015	6,000,000	\$ 150,000	45,839,781	\$458	\$ 713,209	\$ 725,502	(417)	\$(8)	\$ 890	\$ 1,590,051

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS—UNAUDITED
(In thousands)

	Nine months ended September 30,	
	2015	2014
Operating activities		
Net income from continuing operations	\$ 110,101	\$ 98,518
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	39,250	15,500
Depreciation and amortization	12,230	10,583
Bank owned life insurance (BOLI) income	(1,444	) (1,547
Stock-based compensation expense	9,286	11,690
Excess tax expense from stock-based compensation arrangements	(1,134	) (2,534
Net increase in loans held for sale, including proceeds from sales and repayments	(1,062) —
(Gain) loss on sale of assets	134	(821
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(77,873	) (13,762
Accrued interest payable and other liabilities	2,339	(1,166
Net cash provided by operating activities	91,827	116,461
Investing activities		
Maturities and calls of available-for-sale securities	2,430	11,150
Principal payments received on available-for-sale securities	6,677	7,712
Originations of mortgage finance loans	(66,786,322	) (40,244,845
Proceeds from pay-offs of mortgage finance loans	66,575,657	39,254,648
Net increase in loans held for investment, excluding mortgage finance loans	(1,417,605	) (1,206,606
Purchase (disposal) of premises and equipment, net	(3,729	) (9,110
Proceeds from sale of foreclosed assets	1,430	5,823
Net cash used in investing activities	(1,621,462	) (2,181,228
Financing activities		
Net increase in deposits	2,492,045	2,458,429
Net expense from issuance of stock related to stock-based awards	(948	) (2,074
Net proceeds from issuance of common stock	—	106,548
Preferred dividends paid	(7,313	) (7,313
Net increase (decrease) in other borrowings	149,995	(397,462
Excess tax benefits from stock-based compensation arrangements	1,134	2,534
Net increase in Federal funds purchased and repurchase agreements	11,158	107,521
Net proceeds from issuance of subordinated notes	—	172,375
Net cash provided by financing activities	2,646,071	2,440,558
Net increase in cash and cash equivalents	1,116,436	375,791
Cash and cash equivalents at beginning of period	1,330,514	153,911
Cash and cash equivalents at end of period	\$ 2,446,950	\$ 529,702
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 35,849	\$ 26,172
Cash paid during the period for income taxes	70,208	51,722
Transfers from loans/leases to OREO and other repossessed assets	1,177	851
See accompanying notes to consolidated financial statements.		

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TEXAS CAPITAL BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Texas Capital Bancshares, Inc. (the “Company”), a Delaware corporation, was incorporated in November 1996 and commenced banking operations in December 1998. The consolidated financial statements of the Company include the accounts of Texas Capital Bancshares, Inc. and its wholly owned subsidiary, Texas Capital Bank, National Association (the “Bank”). We serve the needs of commercial businesses and successful professionals and entrepreneurs located in Texas as well as operate several lines of business serving a regional and national clientele of commercial borrowers. We are primarily a secured lender, with our greatest concentration of loans in Texas.

Basis of Presentation

Our accounting and reporting policies conform to accounting principles generally accepted in the United States (“GAAP”) and to generally accepted practices within the banking industry. Certain prior period balances have been reclassified to conform to the current period presentation.

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with GAAP have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make the interim financial information not misleading. The consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2014, included in our Annual Report on Form 10-K filed with the SEC on February 19, 2015 (the “2014 Form 10-K”). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly susceptible to significant change in the near term.

Loans Held for Sale

Through our Mortgage Correspondent Aggregation (“MCA”) program, we commit to purchase residential mortgage loans from independent correspondent lenders and deliver those loans into the secondary market via whole loan sales to independent third parties or in securitization transactions to government sponsored entities (“GSEs”) such as Fannie Mae, Freddie Mac or Ginnie Mae. In some cases, we retain the mortgage servicing rights. Once purchased, these loans are classified as held for sale and are carried at fair value pursuant to our election of the fair value option in accordance with ASC 825 “Financial Instruments”. At the commitment date, we enter into a corresponding forward sale commitment with a third party, typically a GSE, to deliver the loans within a specified timeframe. The estimated gain/loss for the entire transaction (from initial purchase commitment to final delivery of loans) is recorded as an asset or liability. Fair value is derived from observable current market prices, when available, and includes the fair value of the mortgage servicing rights. Adjustments to reflect unrealized gains and losses resulting from changes in fair value and realized gains and losses upon ultimate sale of the loans are classified as non-interest income in the Consolidated Statements of Income and Other Comprehensive Income.

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(2) EARNINGS PER COMMON SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income	\$37,114	\$36,832	\$110,101	\$98,518
Preferred stock dividends	2,438	2,438	7,313	7,313
Net income available to common stockholders	34,676	34,394	\$102,788	91,205
Denominator:				
Denominator for basic earnings per share— weighted average shares	45,827,902	43,143,580	45,792,470	42,842,143
Effect of employee stock-based awards(1)	216,499	284,859	216,448	333,690
Effect of warrants to purchase common stock	426,989	421,399	416,574	464,305
Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions	46,471,390	43,849,838	46,425,492	43,640,138
Basic earnings per common share	\$0.76	\$0.80	\$2.24	\$2.13
Diluted earnings per common share	\$0.75	\$0.78	\$2.21	\$2.09

Stock options, SARs and RSUs outstanding of 101,100 at September 30, 2015 and 50,500 at September 30, 2014 (1) have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

(3) SECURITIES

At September 30, 2015, our net unrealized gain on the available-for-sale securities portfolio was \$1.4 million compared to \$2.0 million at December 31, 2014. As a percent of outstanding balances, the unrealized gain was 4.47% and 4.99% at September 30, 2015, and December 31, 2014, respectively. The decrease in the unrealized gain percentage at September 30, 2015 is related to the reduction in the portfolio balance due to paydowns and maturities.

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The following is a summary of available-for-sale securities (in thousands):

	September 30, 2015			Estimated
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Residential mortgage-backed securities	\$22,278	\$1,556	\$—	\$23,834
Municipals	828	3	—	831
Equity securities(1)	7,522	23	(212	) 7,333
	\$30,628	\$1,582	\$(212	) \$31,998
	December 31, 2014			