FORM 10−K405

TEXAS CAPITAL BANCSHARES INC/TX − TCBI

Filed: March 26, 2002 (period: December 31, 2001)

Annual report. The Regulation S−K Item 405 box on the cover page is checked

Part IV

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

FORM 10-K

[X] Annual Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the fiscal year ended December 31, 2001

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934 for the transition period from ______________ to ______________ (No fee required)

TEXAS CAPITAL BANCSHARES, INC.
(Name of Registrant)

DELAWARE	000-30533	75-2671109
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

2100 MCKINNEY AVENUE, SUITE 900, DALLAS, TEXAS, U.S.A.
(Address of principal executive officers)

75201
(Zip Code)

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	Not applicable

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

COMMON STOCK, PAR VALUE $0.01 PER SHARE
(Title of class)

Check whether the issuer (1) 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.
[X] Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Information required by Part III of Form 10-K is incorporated by reference in this report from the Issuer's Definitive Proxy Materials in accordance with Schedule 14A regarding the Issuer's annual meeting of stockholders to be held May 21, 2002, which Definitive Proxy Materials will be filed no later than April 30, 2002.

State issuer's revenues for its most recent fiscal year: $76,577,000

At February 28, 2002, there were 9,568,804 shares of the Issuer's common stock outstanding. The aggregate market value of common stock held by non-affiliates of the Issuer (the most recent sale price of the common stock's purchase to a private offering in June 2000) was approximately $115,730,000.

Texas Capital Bancshares, Inc.
2100 McKinney Avenue, Suite 900
Dallas, Texas 75201

Annual Report
for the
Fiscal Year Ended
December 31, 2001

TABLE OF CONTENTS

*Not Applicable

ITEM 1. BUSINESS

Texas Capital Bancshares, Inc. was formed as a Delaware corporation in March 1998. All of our business is conducted through our subsidiary bank, Texas Capital Bank, National Association. Texas Capital Bank was formed in 1998 through the acquisition of Resource Bank, National Association in Dallas, Texas which had been in business since 1997. We operate an Internet banking site under the name BankDirect, as a division of Texas Capital Bank.

We believe Texas Capital Bank and BankDirect are complimentary to each other because of their differing business models and customer base. Texas Capital Bank services primarily commercial entities and high net worth individuals that require flexible financial products that can be customized to reflect their specific needs. On the other hand, BankDirect is primarily consumer−oriented and offers a complete line of consumer deposit products.

Our corporate headquarters is located at 2100 McKinney Avenue, Suite 900, Dallas, Texas 75201.

Since all of our business is conducted through Texas Capital Bank and BankDirect, Texas Capital Bancshares has no employees other than three corporate officers, who are also officers and employees of Texas Capital Bank. None of our employees is represented by a collective bargaining agreement and we consider our relations with our employees to be good.

TEXAS CAPITAL BANK

Texas Capital Bank was formed in 1998 through the acquisition of Resource Bank, National Association in Dallas, Texas which had been in business since 1997. Texas Capital Bank currently has banking operations in Texas.

PRIMARY CUSTOMERS AND MARKETS. Texas Capital Bank concentrates on business customers with annual revenues between $5 million and $250 million, commonly referred to as "middle market" businesses, and individual customers with net worth in excess of $1 million, which are often referred to in the banking community as "private client" customers. We believe middle market businesses have been under−served in Texas and the surrounding states since the late 1980s. Within the middle market business community in those cities where Texas Capital Bank currently has banking centers, we seek to develop broad customer relationships based on service and convenience. Since the acquisition of Resource Bank, Texas Capital Bank has opened new banking centers exclusively through internal growth.

Texas Capital Bank's current primary market is the greater Dallas/Fort Worth metropolitan area. It operates three banking centers in Dallas, one banking center in Fort Worth and one banking center in Plano, a very large suburban community in the Dallas metropolitan area. It also currently has banking centers in San Antonio, Texas and Austin, Texas and it plans to enter the Houston market. We believe that economic conditions and trends in the metropolitan areas of Texas and the surrounding states have been similar to the economic conditions and trends in metropolitan areas of the United States generally.

The diverse nature of the business community in each of the markets Texas Capital Bank serves provides it with a varied customer base and allows it to spread its lending risk throughout a number of different industries. Texas Capital Bank's primary competition in its market areas are well−capitalized local banks or branches of large regional or national banks. We believe that, as a result of Texas Capital Bank's focus on the middle market business community and our understanding of these communities in Texas and the surrounding states, it has a competitive advantage in its market areas and excellent growth opportunities through acquisitions, new branch locations and additional business development.

BANKING OPERATIONS. Texas Capital Bank offers a variety of traditional loan and deposit products to our customers. At December 31, 2001, it maintained approximately 6,800 deposit accounts and 2,100 loan accounts.

Texas Capital Bank offers a full range of business-oriented banking products and services, including:

- commercial loans to businesses to finance internal growth, acquisitions and leveraged buy-outs
- equipment leasing
- real estate and construction loans
- focused lending to energy-related businesses
- cash management services
- commercial trust and escrow services
- international services, including letters of credit

In addition, we also provide complete consumer-oriented banking services, which include:

- consumer loans
- mortgages and home equity loans
- checking accounts with debit cards and overdraft protection available
- credit cards, including gold-status cards
- traditional savings accounts and certificates of deposit
- personal trust services
- 24 hour telephone banking

Texas Capital Bank has been an active business lender, with commercial loans comprising approximately 45% of its total loans as of December 31, 2001. Targeted businesses are primarily those that require aggregate loans in the $100,000 to $10 million range.

BUSINESS STRATEGIES. Texas Capital Bank's main objective is to take advantage of expansion opportunities while maintaining efficiency and individualized customer service and maximizing profitability. To achieve this objective, we have emphasized the following strategies:

Continue Middle Market Commercial and Private Client Banking Emphasis. Texas Capital Bank intends to continue operating as a regional banking organization focused on meeting the specific needs of medium-sized businesses and private clients in our market areas. We will continue to provide a high degree of responsiveness combined with a wide variety of banking products and services. Texas Capital Bank's banking centers have been built around experienced bankers with lending expertise in the specific industries found in that market area, giving them authority to make pricing and credit decisions, thereby attempting to avoid much of the bureaucratic structure of large banks.

Expand Operations through Internal Growth. Texas Capital Bank intends to continue seeking opportunities, both inside and outside its existing markets, to expand by establishing new lines of business and by expanding into Houston. Factors we use to evaluate expansion opportunities include the nature and projected profitability of the market, the opportunity to enhance Texas Capital Bank's image and market presence and, most importantly, whether the expansion will be accretive to earnings and enhance stockholder value.

Increase Loan Volume and Diversify Loan Portfolio. Texas Capital Bank emphasizes both new and existing loan products, focusing on medium-sized commercial businesses and private client relationships. Texas Capital Bank's focus in this area and sensitivity to customer needs will allow it to increase the number of loans it makes.

Enhance Cross-Selling through Incentives and Technology. Texas Capital Bank's customer base provides significant opportunities to cross-sell various products. Texas Capital Bank seeks to develop broader customer relationships by identifying those cross-selling opportunities. It uses training and incentives to encourage cross-selling efforts and increase cross-selling results. To assist with cross-selling efforts, Texas Capital Bank uses technology to help officers and associates identify cross-selling opportunities.

Improve Efficiency. Texas Capital Bank maintains stringent cost control practices and policies. It has invested significantly in the infrastructure required to centralize many of its critical operations, such as credit policy, finance, data processing and loan application processing. This infrastructure can accommodate substantial additional growth while enabling Texas Capital Bank to minimize operational costs through economies of scale.

LENDING PRACTICES. Texas Capital Bank targets its lending on middle market businesses and private clients that meet its credit standards. The credit standards are set by a standing Credit Policy Committee with the assistance of the Chief Credit Officer, who is charged with ensuring that credit standards are met by loans in Texas Capital Bank's portfolio. The Credit Policy Committee is comprised of senior bank officers including the President of Texas Capital Bank, the Chief Lending Officer and the Chief Credit Officer. Texas Capital Bank's credit standards reference numerous criteria with respect to the borrower, including historical and projected financial information, strength of management, acceptable collateral and associated advance rates, and market conditions and trends in the borrower's industry. In addition, prospective loans are also analyzed based on current industry concentrations in Texas Capital Bank's loan portfolio to prevent an unacceptable concentration of loans in any particular industry. We believe the credit standards employed by Texas Capital Bank are similar to the standards generally employed by national banks in the markets we serve. We believe that Texas Capital Bank differentiates itself from its competitors by focusing on and aggressively marketing to middle market commercial and high net worth individual clients and accommodating, to the extent permitted by its credit standards, their individual needs.

Texas Capital Bank generally extends variable rate loans in which the interest rate fluctuates with a predetermined indicator such as the United States prime rate or the London Inter-Bank Offered Rate. Variable rate loans protect Texas Capital Bank from risks associated with interest rate fluctuations since the rates of interest earned by Texas Capital Bank will automatically reflect such fluctuations. Over 85% of the loans in Texas Capital Bank's portfolio are variable rate loans.

Texas Capital Bank strives to diversify its loan portfolio and does not focus on any particular industry or group of related industries. Credit policies and underwriting guidelines are tailored to address the unique risks associated with each industry represented in the portfolio. The table below sets forth information regarding the distribution of Texas Capital Bank funded loans among various industries at December 31, 2001.

(In Thousands)	Funded Loans Amount	Percent of Total
Agriculture	$ 11,701	1.3%
Contracting	77,817	8.6
Government	6,760	0.7
Manufacturing	73,800	8.2
Personal/household	115,677	12.8
Petrochemical and mining	94,728	10.5
Retail	9,413	1.0
Services	364,522	40.3
Wholesale	54,721	6.1
Investors and investment management companies	87,758	9.7
Other	7,082	.8
Total	$903,979	100.0%

Texas Capital Bank seeks to make loans that are appropriately collateralized under its credit standards. Over 90% of Texas Capital Bank's funded loans are secured by collateral. The table below sets forth information regarding the distribution of Texas Capital Bank funded loans among various types of collateral at December 31, 2001.

(In Thousands)	Funded Loans Amount	Percent of Total
Business assets	$185,740	20.5%
Energy	83,059	9.2
Highly liquid assets	105,566	11.7
Real property	398,655	44.1
Rolling stock	22,500	2.5
Unsecured	80,941	9.0
U. S. Government guaranty	17,668	1.9
Agricultural assets	250	0.0
Other assets	9,600	1.1
Total	$903,979	100.0%

MANAGEMENT OF TEXAS CAPITAL BANCSHARES AND TEXAS CAPITAL BANK. We believe we have assembled an excellent management team that understands both the business communities in Texas and the surrounding states and the needs of middle market businesses and private client customers in those communities. Executive officers of Texas Capital Bancshares and certain other officers of Texas Capital Bank are set forth below:

Joseph M. Grant	Chairman of the Board and Chief Executive Officer, Texas Capital Bancshares
Raleigh Hortenstine	President, Texas Capital Bancshares
Gregory Hultgren	Chief Financial Officer, Texas Capital Bancshares
George Jones, Jr.	President, Texas Capital Bank
Mark Johnson	President, San Antonio Region
Kerry Hall	President, Austin Region
Michael Palmer	President, Fort Worth Region
John Hudgens	Executive Vice President and Chief Credit Officer
Keith Cargill	Executive Vice President and Chief Lending Officer
Vince Ackerson	Executive Vice President, Corporate Banking

David Cargill	Executive Vice President, Business Banking
Robert McDaniel	Executive Vice President, Cash Management
Tim Loudermilk	Executive Vice President, Real Estate
Terry McCarter	Executive Vice President, Energy Group
Dan Strodel	Executive Vice President, Private Client Banking
David Folz	Executive Vice President, Wealth Management

COMPETITION. The banking business is highly competitive, and Texas Capital Bank's profitability depends principally on its ability to compete successfully in its market areas. Texas Capital Bank competes with other commercial banks, savings banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, non-bank asset-based lenders and other financial entities, including credit providers associated with retail stores which may maintain their own credit programs and certain governmental organizations which may offer more favorable financing than Texas Capital Bank. We believe Texas Capital Bank will be able to compete effectively with other financial institutions by emphasizing customer service, technology and responsive decision making and by building long term customer relationships built upon products and services designed to address the specific needs of its customers. However, we expect competition from both financial and non-financial institutions to continue and, in some areas, increase.

EMPLOYEES. As of December 31, 2001, Texas Capital Bank had 184 full-time employees, 111 of whom were officers of Texas Capital Bank. We provide medical and hospitalization insurance to its full-time employees. We consider Texas Capital Bank's relations with its employees to be good. Texas Capital Bank is not a party to any collective bargaining agreement.

BANKDIRECT

INTERNET RETAIL FOCUS. Texas Capital Bancshares' retail strategy is executed through the Internet, which provides a valuable source of funds and a low cost channel to serve individuals who desire convenient low-cost electronic banking services. The Internet has no geographic boundaries and is ideally suited for the acquisition of consumer core deposits.

BankDirect, the branded Internet offering, operates as a division of Texas Capital Bank. It provides a complete line of deposit services but offers no loans. It executes its strategy through affinity partnership relationships in order to take advantage of the employee and customer loyalty and the direct marketing channel of the affinity partner. It is contemplated that the American Airlines AAdvantage program will be the Company's exclusive affinity partner for the foreseeable future.

As of December 31, 2001, BankDirect has established over 10,000 accounts containing total deposits of approximately $250.0 million. It intends to continue to capitalize on this advantage by seeking new customers through both online and traditional marketing efforts in order to provide an alternative funding source for Texas Capital Bank, although the marketing efforts have been substantially reduced in 2001 as compared to 2000 and 1999.

BankDirect's customer demographics parallel those of the general Internet population and illustrate BankDirect's appeal to households with relatively high incomes. Over seventy percent (70%) of our customers report household income over $50,000 per year and more than 75% of our customers are college graduates.

Convenience and Ease Of Access. BankDirect provides customers with a level of convenience that cannot be achieved in a traditional bank branch or through PC-based home banking. The Internet allows its customers to conduct banking activities on a 7 day-a-week, 24 hour-a-day basis from any computer, wherever located, that has access to the Internet and a secure Web browser. In addition, BankDirect's Web site is designed to be user friendly and to expedite customer transactions with BankDirect.

Products and Services. In order to build its customer base, BankDirect offers a variety of deposit products at attractive interest rates. BankDirect's deposit products and services include interest bearing checking, savings and money market accounts and certificates of deposit. In addition, customers can pay their bills online through electronic funds transfer or a written draft prepared and sent to the creditor. Each customer automatically receives a free ATM card when he or she opens an account. Customers can access their accounts at the ATM of the customer's choice. Since BankDirect is not affiliated with a network of ATMs, it reimburses customers for the administrative fees charged with respect to a certain number of withdrawals per month. In addition, BankDirect provides customers access to various loan programs, including automobile, mortgage, home equity, refinance and debt consolidation loans through its relationship with LendingTree.com. Furthermore, through the BankDirect Insurance Center, BankDirect allows the customer to compare free, no obligation insurance quotes from leading insurance companies through its relationship with InsWeb.com. Customers can receive quotes on automobile, life, health, home, rent and home warranty insurance.

High Quality Service and Customer Satisfaction. BankDirect continually seeks ways to enhance customer satisfaction. In an effort to serve the needs of its customers, BankDirect offers services such as free electronic bill payment and ATM cards. It also emphasizes responsive, courteous customer service and utilizes a fully trained dedicated staff who respond to inquiries from existing and potential customers and process new accounts. Its customers can access account data and information regarding products and services 24 hours a day. BankDirect strives for customer satisfaction and believes the significant growth in its customer base illustrates its ability to meet customers' needs and retain customers. We make every effort to ensure contacting BankDirect is as easy as possible by toll-free telephone number, online request, email or fax. Our toll-free customer service number is 877-839-2737.

Advanced Security. A significant barrier to online financial transactions has been the secure transmission of confidential information over public networks. BankDirect uses technology developed by Electronic Data Systems, Inc. to provide what it believes to be among the most advanced security measures currently available in the Internet banking industry. All banking transactions are encrypted and all transactions are routed to and from the Internet server behind Electronic Data Systems' security system.

Account Activity. Customers can access BankDirect's services through any Internet service provider by means of a secure Web browser such as recent versions of Netscape's Navigator or Microsoft's Internet Explorer.

EMPLOYEES. As of December 31, 2001, BankDirect had 14 full-time employees. BankDirect provides medical and hospitalization insurance to its full-time employees. We consider BankDirect's relations with its employees to be good. BankDirect is not a party to any collective bargaining agreement.

SUPERVISION AND REGULATION

BankDirect will continue to operate as a division of Texas Capital Bank and be subject to the regulations applicable to Texas Capital Bank.

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

REGULATION OF TEXAS CAPITAL BANK

A bank that operates as a national banking association incorporated under the laws of the United States is subject to examination by the Office of the United States Comptroller of the Currency. Deposits in a national bank are insured by the Federal Deposit Insurance Corporation up to a maximum amount (generally $100,000 per depositor) in the event an insured bank is closed without adequately providing for payment of claims of depositors and preventing the continuance or development of unsound banking practices. The Comptroller of the Currency and the Federal Deposit Insurance Corporation regulate or monitor all areas of a national bank's operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, interest rate risk management, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The Comptroller of the Currency requires national banks to maintain capital ratios and imposes limitations on its aggregate investment in real estate, bank premises, and furniture and fixtures. National banks are currently required by the Comptroller of the Currency to prepare quarterly reports on their financial condition and to conduct an annual audit of their financial affairs in compliance with minimum standards and procedures prescribed by the Comptroller of the Currency.

RESTRICTIONS ON DIVIDENDS

Texas Capital Bank is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, national banks may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings plus the retained earnings from the prior two years. In addition, under the Federal Deposit Insurance Corporation Improvement Act of 1991, Texas Capital Bank may not pay any dividend if payment would cause it to become undercapitalized or in the event it is undercapitalized.

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

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

SUPPORT OF SUBSIDIARY BANKS

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

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

SUPERVISION BY THE FEDERAL RESERVE BOARD

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

Because we are a legal entity separate and distinct from our subsidiary, our right to participate in the distribution of assets of any subsidiary upon the subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors. In the event of a liquidation or other resolution of a subsidiary, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its stockholders, including any depository institution holding company (such as ours) or any stockholder or creditor thereof.

Activities "Closely Related" to Financial Activities. The Bank Holding Company Act prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of any company which is not a bank or from engaging in any activities other than those substantially related to financial activities. As a bank holding company, our activities and those of our banking and non−banking subsidiaries will be limited to the business of activities closely related or incidental to financial activities, and we may not directly or indirectly acquire the ownership or control of more than 5% of any class of voting shares or substantially all of the assets of any company, including a bank, without the prior approval of the Federal Reserve Board.

Sound Banking Practice. Bank holding companies are not permitted to engage in unsound banking practices. For example, the Federal Reserve Board's Regulation Y requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. As another example, a holding company could not impair its subsidiary bank's soundness by causing it to make funds available to non−banking subsidiaries or their customers if the Federal Reserve Board believed it not prudent to do so.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 expanded the Federal Reserve Board's authority to prohibit activities of bank holding companies and their non−banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. The Financial Institutions Reform, Recovery and Enforcement Act increased the amount of civil money penalties which the Federal Reserve Board can assess for activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1,000,000 for each day the activity continues. The Financial Institutions Reform, Recovery and Enforcement Act also expanded the scope of individuals and entities against which such penalties may be assessed.

Anti−Tying Restrictions. Bank holding companies and affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Annual Reporting; Examinations. Bank holding companies are required to file an annual report with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may examine a bank holding company or any of its subsidiaries, and charge the bank holding company for the cost of such an examination.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk−based capital guidelines to evaluate the capital adequacy of bank holding companies. Under the guidelines, specific categories of assets and off−balance sheet assets such as letters of credit are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk weighted" asset base. The guidelines require a minimum total risk−based capital ratio of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements).

In addition to the risk−based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Bank holding companies must maintain a minimum leverage ratio of at least 3.0%, although most organizations are expected to maintain leverage ratios that are 100 to 200 basis points above this minimum ratio.

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

The Federal Reserve Board and the Comptroller of the Currency recently adopted amendments to their risk−based capital regulations to provide for the consideration of interest rate risk in the agencies' determination of a banking institution's capital adequacy.

TRANSACTIONS WITH AFFILIATES AND INSIDERS

As a federally chartered bank holding company, we are subject to Section 23A of the Federal Reserve Act which places limits on the amount of loans or extensions of credit to, or investments in, or other transactions with, affiliates. In addition, limits are placed on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Most of these loans and other transactions must be secured in prescribed amounts. It also limits the amount of advances to third parties which are collateralized by our securities or obligations or the securities or obligations of any of our non−banking subsidiaries.

We also are subject to Section 23B of the Federal Reserve Act, which, among other things, prohibits an institution from engaging in transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non−affiliated companies. We are subject to restrictions on extensions of credit to executive officers, directors, principal stockholders, and their related interests. These restrictions contained in the Federal Reserve Act and Federal Reserve Regulation O apply to all insured institutions and their subsidiaries and holding companies. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the Federal Deposit Insurance Corporation may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

CORRECTIVE MEASURES FOR CAPITAL DEFICIENCIES

The Federal Deposit Insurance Corporation Improvement Act imposes a regulatory matrix which requires the federal banking agencies, which include the United States Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Federal Reserve Board to take "prompt corrective action" with respect to capital deficient institutions. The prompt corrective action provisions require undercapitalized institutions to become subject to an increasingly stringent array of restrictions, requirements and prohibitions, as their capital levels deteriorate and supervisory problems mount. Should these corrective measures prove unsuccessful in recapitalizing the institution and correcting its problems, the Federal Deposit Insurance Corporation Improvement Act mandates that the institution be placed in receivership.

Pursuant to regulations promulgated under the Federal Deposit Insurance Corporation Improvement Act, the corrective actions that the banking agencies either must or may take are tied primarily to an institution's capital levels. In accordance with the framework adopted by the Federal Deposit Insurance Corporation Improvement Act, the banking agencies have developed a classification system, pursuant to which all banks and thrifts will be placed into one of five categories. Agency regulations define, for each capital category, the levels at which institutions are "well capitalized," "adequately capitalized," "under capitalized," "significantly under capitalized" and "critically under capitalized." A well capitalized bank has a total risk-based capital ratio (total capital to risk weighted assets) of 10.0% or higher; a Tier 1 risk-based capital ratio (Tier I capital to risk-weighted assets) of 6.0% or higher; a leverage ratio (Tier I capital to total adjusted assets) of 5.0% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. Texas Capital Bank's risk-based capital ratio was 11.4% at December 31, 2001 and, as a result, it is currently classified as "well capitalized" for purposes of the Federal Deposit Insurance Corporation's prompt corrective action regulations.

In addition to requiring undercapitalized institutions to submit a capital restoration plan, agency regulations contain broad restrictions on activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With some exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

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

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

DEPOSIT INSURANCE ASSESSMENTS

Banks must pay assessments to the Federal Deposit Insurance Corporation for federal deposit insurance protection. The Federal Deposit Insurance Corporation has adopted a risk-based assessment system as required by the Federal Deposit Insurance Corporation Improvement Act. Under this system, Federal Deposit Insurance Corporation insured depository institutions pay insurance premiums at rates based on their risk classification. Institutions assigned to higher risk classifications (that is, institutions that pose a risk of loss to their respective deposit insurance funds) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. In addition, the Federal Deposit Insurance Corporation can impose special assessments in certain instances.

SECURITIES ACTIVITIES

The Bank Holding Company Act ("BHCA") permits bank holding companies to engage, through non-bank subsidiaries, in certain securities-related activities under certain circumstances. In such circumstances, holding companies may be able to use such subsidiaries to underwrite and deal in corporate debt and equity securities.

CONTROL ACQUISITIONS

The Change in Bank Control Act prohibits a person or group of persons from acquiring control of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as us, would, under the circumstances set forth in the presumption, constitute acquisition of control of us.

In addition, any entity is required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of our outstanding common stock, or otherwise obtaining control or a "controlling influence" over us.

AUDIT REPORTS

Institutions insured by the Federal Deposit Insurance Corporation with total assets of $500 million or more must submit annual audit reports prepared by independent auditors to federal and state regulators. In some instances, the audit report of the institution's holding company can be used to satisfy this requirement. Auditors must receive examination reports, supervisory agreements and reports of enforcement actions. In addition, financial statements prepared in accordance with generally accepted accounting principles, management's certifications concerning responsibility for the financial statements, internal controls and compliance with legal requirements designated by the Federal Deposit Insurance Corporation, and an attestation by the auditor regarding the statements of management relating to the internal controls must be submitted. For institutions with total assets of more than $3 billion, independent auditors may be required to review quarterly financial statements. The Federal Deposit Insurance Corporation Improvement Act requires that independent audit committees be formed, consisting of outside directors only. The committees of such institutions must include members with experience in banking or financial management, must have access to outside counsel, and must not include representatives of large customers.

BRANCHING

National bank branches are required by the National Bank Act of 1864, as amended, to adhere to branch banking laws applicable to state banks in the states in which they are located. Under federal legislation, a bank may merge or consolidate across state lines unless, prior to May 31, 1997, either of the states involved elected to prohibit such mergers or consolidations. Prior to the effective date of this legislation, a bank may merge or consolidate across state lines only if both of the states involved elect to "opt-in" early to the provisions of the legislation. States may also authorize banks from other states to engage in branching across state lines de novo and by acquisition of branches without acquiring a whole banking institution. Texas has chosen to opt-out of the provisions of this federal law. State law in Texas permits branching anywhere in the state.

COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act requires that, in connection with examinations of national banks and bank holding companies, within the Office of the Comptroller of the Currency's jurisdiction, the

Office of the Comptroller of the Currency evaluates the record of such financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Texas Capital Bank received a satisfactory rating from the Comptroller of the Currency after its most recent examination.

FAIR LENDING

Congress and various federal agencies (including, in addition to the bank regulatory agencies, the Department of Housing and Urban Development, the Federal Trade Commission and the Department of Justice) responsible for implementing the nation's fair lending laws have been increasingly concerned that prospective home buyers and other borrowers are experiencing discrimination in their efforts to obtain loans. In recent years, the Department of Justice has filed suit against institutions that it determined had discriminated, seeking fines and restitution for borrowers who allegedly suffered from discriminatory practices. Most, if not all, of these suits have been settled (some for substantial sums) without a full adjudication on the merits.

On March 8, 1994, these various federal agencies, in an effort to clarify what constitutes lending discrimination and to specify the factors the agencies will consider in determining if lending discrimination exists, announced a joint policy statement detailing specific discriminatory practices prohibited under the Equal Credit Opportunity Act and the Fair Housing Act. In the policy statement, three methods of proving lending discrimination were identified: (i) overt evidence of discrimination, when a lender blatantly discriminates on a prohibited basis, (ii) evidence of disparate treatment, when a lender treats applicants differently based on a prohibited factor even where there is no showing that the treatment was motivated by prejudice or a conscious intention to discriminate against a person and (iii) evidence of disparate impact, when a lender applies a practice uniformly to all applicants, but the practice has a discriminatory effect, even where such practices are neutral on their face and are applied equally, unless the practice can be justified on the basis of business necessity.

FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Bank System consists of 12 regional Federal Home Loan Banks, each subject to supervision and regulation by the Federal Housing Finance Board. The Federal Home Loan Banks provide a central credit facility for member savings associations. Collateral is required. The maximum amount that the Federal Home Loan Bank of Dallas will advance fluctuates from time to time in accordance with changes in policies of the Federal Housing Finance Board and the Federal Home Loan Bank of Dallas, and the maximum amount generally is reduced by borrowings from any other source. In addition, the amount of Federal Home Loan Bank advances that a savings association may obtain will be restricted in the event the institution fails to constitute a Qualified Thrift Lender. Texas Capital Bank is a member of the Federal Home Loan Bank System.

OTHER REGULATIONS

Interest and other charges collected or contracted for by Texas Capital Bank are subject to state usury laws and federal laws concerning interest rates. The loan operations of Texas Capital Bank are also subject to federal laws applicable to credit transactions, such as the federal Truth-In-Lending Act governing disclosures of credit terms to consumer borrowers, the Home Mortgage Disclosure Act of 1975 requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves, the Equal Credit Opportunity Act prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit, the Fair Credit Reporting Act of 1978 governing the use and provision of information to credit reporting agencies, the Fair Debt Collection Act governing the manner in which consumer debts may be collected by collection agencies, and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations of Texas Capital Bank also are subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

EXAMINATIONS

Texas Capital Bank is examined periodically by representatives of the Comptroller of the Currency. Texas Capital Bank is also examined by the Federal Deposit Insurance Corporation. Such examinations will review areas such as capital adequacy, reserves, loan portfolio quality and management, consumer and other compliance issues, investments and management practices. In addition to these regular examinations, Texas Capital Bank is required to furnish quarterly and annual reports to its regulators. The Comptroller of the Currency may exercise cease and desist or other supervisory powers over a national bank. Although Texas Capital Bank is subject to extensive regulation, supervision and examination, such activities do not eliminate and may not lessen the investment risk associated with purchase of our common stock and may increase our costs of doing business.

The Federal Deposit Insurance Corporation periodically examines and evaluates insured banks. Based on such an evaluation, the Federal Deposit Insurance Corporation may revalue the assets of the institution and require that it establish specific reserves to compensate for the difference between the Federal Deposit Insurance Corporation determined value and the book value of such assets.

GOVERNMENTAL FISCAL AND MONETARY POLICIES

The commercial banking business is affected not only by general economic conditions but also by the fiscal and monetary policies of the Federal Reserve Board. Some of the instruments of fiscal and monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the "discount window," open market operations, the imposition of and changes in reserve requirements against member banks' deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates, and the placing of limits on interest rates that member banks may pay on time and savings deposits. Such policies influence to a significant extent the overall growth of bank loans, investments, and deposits and the interest rates charged on loans or paid on time and savings deposits. The nature of future fiscal and monetary policies and the effect of such policies on the future business and our earnings cannot be predicted.

ENFORCEMENT POWERS OF BANKING AGENCIES

The Federal Reserve Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Failure to comply with applicable laws, regulations and supervisory agreements could subject us and Texas Capital Bank, as well as officers, directors and other of our affiliates, to administrative sanctions and substantial civil money penalties. The appropriate federal banking agency may appoint the Federal Deposit Insurance Corporation as conservator or receiver for a banking institution (or the Federal Deposit Insurance Corporation may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist, including, without limitation, the fact that the banking institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized; fails to become adequately capitalized when required to do so; fails to submit a timely and acceptable capital restoration plan; or materially fails to implement an accepted capital restoration plan.

Imposition of Liability for Undercapitalized Subsidiaries. The Federal Deposit Insurance Corporation Improvement Act requires bank regulators to take "prompt corrective action" to resolve problems associated with insured depository institutions whose capital declines below required levels. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan. Under the Federal Deposit Insurance Corporation Improvement Act, the aggregate liability of all companies controlling an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The guarantee and limit on liability expire after the regulators notify the institution that it has remained adequately capitalized for each of four consecutive calendar quarters. The Federal Deposit Insurance Corporation Improvement Act grants greater powers to the bank regulators in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Acquisitions by Bank Holding Companies. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire all or substantially all of the assets of any bank, or direct or indirect ownership or control of more than 5% of any class of voting shares of any bank. Accordingly, the acquisition of Texas Capital Bank or any other bank subsidiary would be subject to the prior approval of the Federal Reserve Board. The Federal Reserve Board will allow the acquisition by a bank holding company of an interest in any bank located in another state only if the laws of the state in which the target bank is located expressly authorize such acquisition. The Texas Banking Code permits, in certain circumstances, out-of-state bank holding companies to acquire banks and bank holding companies in Texas.

Economic Growth and Regulatory Paperwork Reduction Act. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 principal provisions relate to capitalization of the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation, but it also contains numerous regulatory relief measures, including provisions to reduce regulatory burdens associated with compliance with various consumer and other laws applicable to the Bank, including, for example, provisions designed to coordinate the disclosure and other requirements under the Truth-in-Lending Act and the Real Estate Settlement Procedures Act and modify insider lending restrictions and anti-tying prohibitions.

BROKERED DEPOSIT RESTRICTIONS

Institutions that are only "adequately capitalized" (as defined for purposes of the prompt corrective action rules described above) cannot accept, renew or roll over brokered deposits except with a waiver from the Federal Deposit Insurance Corporation, and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew, or roll over brokered deposits.

CROSS-GUARANTEE PROVISIONS

The Financial Institutions Reform, Recovery and Enforcement Act contains a "cross-guarantee" provision which generally makes commonly controlled insured depository institutions liable to the Federal Deposit Insurance Corporation for any losses incurred in connection with the failure of a commonly controlled depository institution.

INSTABILITY AND REGULATORY STRUCTURE

Various legislation, including proposals to overhaul the bank regulatory system, expand the powers of banking institutions and bank holding companies and limit the investments that a depository institution may make with insured funds, is introduced in Congress and the Texas Legislature from time to time. Such legislation may change banking statutes and the environment in which we and our banking subsidiaries operate in substantial and unpredictable ways. We cannot determine the ultimate effect that potential legislation, if enacted, or implementing regulations with respect thereto, would have upon our financial condition or results of operations or that of our subsidiary.

EXPANDING ENFORCEMENT AUTHORITY

One of the major effects of the Federal Deposit Insurance Corporation Improvements Act was the increased ability of banking regulators to monitor the activities of banks and their holding companies. In addition, the Federal Reserve Board and Federal Deposit Insurance Corporation have extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. For example, the Federal Deposit Insurance Corporation may terminate the deposit insurance of any institution which it determines has engaged in an unsafe or unsound practice. The agencies can also assess civil money penalties, issue cease and desist or removal orders, seek injunctions, and publicly disclose such actions.

ITEM 2. PROPERTIES

As of December 31, 2001, Texas Capital Bank conducted business at seven full service banking center locations and one operations center which houses loan and deposit operations and the BankDirect call center. We lease the space in which our banking centers and BankDirect call center are located. These leases expire between July 2002 and January 2011, not including any renewal options that may be available.

ITEM 3. LEGAL PROCEEDINGS

None of Texas Capital Bancshares or Texas Capital Bank is a party to a material pending legal proceeding or has any property subject to a pending legal proceeding. In addition, none of Texas Capital Bancshares or Texas Capital Bank is aware of a proceeding being contemplated by a governmental authority with it as a party.

ITEM 5. MARKET FOR CAPITAL STOCK AND DIVIDEND POLICY

There is no established public trading market for our common stock. Our authorized capital stock consists of 20,000,000 shares of common stock and 2,500,000 shares of preferred stock. As of December 31, 2001, there were 9,569,230 shares of common stock outstanding. There are 753,301 shares of preferred stock outstanding. Common stock and preferred stock are held by approximately 835 identified holders. Certain holders hold both common and preferred shares and have only been counted as one holder. Additionally, there are 751,324 shares of common stock subject to outstanding options or warrants.

We have not paid cash dividends on our shares of common stock to date, and we intend during the near term to retain any earnings available for dividends for the development and growth of our business. In addition, our ability to pay dividends is restricted by Federal banking regulations. Our long−term plan, however, calls for the payment of cash dividends when circumstances permit, although no assurance can be given if or when we will adopt a policy of paying cash dividends. The declaration and payment of future cash dividends will depend on, among other things, our earnings, the general economic and regulatory climate, our liquidity and capital requirements, and other factors deemed relevant by our Board of Directors. In accordance with the term of the preferred stock issue, dividends of $26,000 were accrued and payable to preferred stockholders at December 31, 2001.

RECENT OFFERINGS OF UNREGISTERED SECURITIES

Between January and March 1999, we sold 1,050,903 shares of our common stock for $12.50 per share in a private offering pursuant to Rule 506. In June 2000, we sold 1,841,024 shares of our common stock for $14.50 per share in a private offering pursuant to Rule 506. In December 2001 and January 2002, we sold 753,301 shares and 303,841 shares, respectively, of 6.0% Series A Convertible Preferred Stock for $17.50 per share in a private offering pursuant to Rule 506. With respect to each of the private offerings pursuant to Rule 506 discussed above, we determined the exemption was available based on our compliance with the requirements to Rule 506 and the representations by each investor in such offering that such investor qualified as an "accredited investor" under Rule 506 or was represented by an appropriate purchaser representative.

The 6.0% Series A Convertible Preferred Stock (the "Preferred Stock") has an annual dividend rate of 6.0%, payable quarterly. Each share of the Preferred Stock is convertible into one share of the common stock of the Company. The Preferred Stock is automatically converted into common stock in the event of (a) a change of control; (b) a public offering of the common stock of the Company at a price of $17.50 per share or more; (c) if the Company's common stock is listed on the New York Preferred Stock Exchange or the Nasdaq National Market and the average closing price of such stock for 30 days is $17.50 or more; or (d) if, as a result of a change in the Federal Reserve capital adequacy guidelines, the Preferred Stock does not qualify as Tier I capital. The Preferred Stock may also be converted at any time at the discretion of the holder. The Preferred Stock is mandatorily converted upon the fifth anniversary of the issuance date of the Preferred Stock. The voting rights with respect to the Preferred Stock are identical to those of the common stock of the Company with each share of the Preferred Stock having one vote.

SHARES ELIGIBLE FOR FUTURE SALE

As of December 31, 2001, there were 9,569,230 shares of our common stock outstanding (assuming no exercise of existing employee stock options to purchase our common stock). Currently, none of such shares are freely tradable without restriction or registration under the Securities Act. All of the shares of our common stock currently outstanding may be sold only pursuant to Rule 144 or another exemption from registration under the Securities Act.

In general, under Rule 144, a person who has beneficially owned shares for at least one year, including persons who may be deemed "affiliates" of Texas Capital Bancshares, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of the average weekly trading volume during the four calendar weeks preceding such sale or 1% of the then outstanding shares of our common stock. A person who is deemed not to have been an affiliate of ours at any time during the 90 days preceding a sale, and who has beneficially owned such shares for at least two years, would be entitled to sell such shares under Rule 144 without regard to the limitations described above. Sales pursuant to Rule 144 are also subject to requirements relating to the manner of sale, notice and availability of public information about us.

In addition to our common stock and preferred stock, at December 31, 2001, we had options to purchase 751,324 shares of our common stock outstanding, of which options with respect to 349,442 shares were currently exercisable. Shares of our common stock issued upon exercise of these options would be "restricted securities" under Rule 144 and could be sold only pursuant to Rule 144 or another exemption from registration under the United States Securities Act.

No prediction can be made regarding the effect that sales of the securities described above could have on the market price of our common stock. There is a possibility that substantial amounts of such securities may be sold in large quantities or over a short period of time and such sales could adversely affect the prevailing market price of our common stock.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We are subject to the information reporting requirements and file annual reports, quarterly reports, special reports, proxy statements and other information with the United States Securities and Exchange Commission. We file such reports and statements electronically so those filings will be available to the public on the world wide web at the United States Securities and Exchange Commission's web site. The address of that site is www.sec.gov. These materials are also available at the public reference facilities of the United States Securities and Exchange Commission at:

- 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549
- 500 West Madison Street, Suite 1400, Chicago, Illinois 60661
- 75 Park Place, Room 1400, New York, New York 10007

In addition, you can have copies made and sent to you by contacting the Public Reference Section of the United States Securities and Exchange Commission by telephone at 1−800−732−0330. If you prefer, you can also write to the Public Reference Section at 450 Fifth Street, N.W., Washington, D.C. 20549.

ITEM 6. SELECTED FINANCIAL DATA

Texas Capital Bancshares formed its wholly owned subsidiary, Texas Capital Bank, through the acquisition of Resource Bank, National Association on December 18, 1998. Texas Capital Bancshares' financial statements include the operations of Texas Capital Bank (formerly Resource Bank) from December 18, 1998. The operations of Resource Bank prior to December 18, 1998 are shown separately as predecessor financial statements. See Note 1 to the consolidated financial statements.

	Texas Capital Bancshares				Resource Bank	
	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	March 1, 1998 (Inception) through December 31, 1998	January 1 through December 18, 1998	October 3, 1997 (Inception) through December 31, 1997
	(In thousands, except per share and percentage data)					
SELECTED FINANCIAL DATA						
For the period:						
Interest income	$ 70,594	$ 55,769	$ 14,414	$ 213	$ 1,097	$ 86
Interest expense	35,539	32,930	6,166	32	377	10
Net interest income	35,055	22,839	8,248	181	720	76
Provision for loan losses	5,762	6,135	2,687	1	69	30
Net income (loss)	5,844	(16,497)	(9,298)	(739)	(346)	(222)
Period-end:						
Loans, net	885,671	616,951	224,795	10,992		1,502
Assets	1,164,779	908,428	408,579	89,311		8,060
Deposits	886,077	794,857	287,068	16,018		3,386
Federal funds purchased	76,699	11,525	--	--		--
Short-term borrowings	86,125	5,000	46,267	--		--
Other borrowings	774	2,061	--	--		--
Shareholders' equity	106,359	86,197	72,912	73,186		4,638
PROFITABILITY STATISTICS						
Earnings (loss) per share:						
Basic	.61	(1.89)	(1.23)	(1.23)		
Diluted	.61	(1.89)	(1.23)	(1.23)		
SELECTED BALANCE SHEET STATISTICS						
Period-end:						
Total capital ratio	11.7%	11.0%	23.8%	267.0%		184.65%
Tier 1 capital ratio	10.5%	9.9%	23.0%	266.6%		183.47%
Tier 1 leverage ratio	9.5%	9.6%	21.5%	397.9%		71.41%
Reserve for loan losses to loans	1.39%	1.42%	1.22%	.90%		1.96%

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

SUMMARY OF PERFORMANCE

Texas Capital Bancshares was formed on March 1, 1998 and conducts business through its subsidiary, Texas Capital Bank. Texas Capital Bank was formed through the acquisition of Resource Bank, National Association on December 18, 1998. Prior to December 18, 1998, Texas Capital Bancshares had no substantive operations and focused its efforts primarily on raising capital. Since that time, Texas Capital Bancshares has focused on building an infrastructure to support the growth of the traditional banking operations of Texas Capital Bank, as well as establishing Internet banking through BankDirect, a division of Texas Capital Bank.

The results of Texas Capital Bancshares for the years ended December 31, 2001, 2000 and 1999 include the results of Texas Capital Bank for the entire years and include the costs of establishing the infrastructure to support the traditional and Internet bank.

TEXAS CAPITAL BANCSHARES 2001 COMPARED TO 2000

Texas Capital Bancshares recorded net income of $5.8 million for 2001 compared to a net loss of $16.5 million for 2000. Diluted earnings (loss) per common share were $.61 for 2001 and $(1.89) for 2000. Returns on average assets and average equity were .58% and 6.44%, respectively, for 2001 compared to (2.42)% and (20.02)%, respectively, for 2000.

Increase in net income for 2001 was due to an increase in net interest margin and non−interest income and a decrease in non−interest expenses. Net interest income increased by $12.2 million or 53.5%. Net interest income totaled $35.1 million for 2001 compared to $22.8 million for 2000. The increase in net interest income was primarily due to a significant increase in average earning assets.

Non−interest income increased by $4.0 million in 2001 to $6.0 million compared to $2.0 million in 2000. The increase is in part due to an overall increase in deposits for 2001, which resulted in more service charges on deposit accounts. Also, Texas Capital Bank's trust income increased by $252,000, to $826,000 for 2001. Other non−interest income increased by $521,000 in 2001 primarily related to mortgage warehouse fees, letter of credit fees, investment fees, rental income, and gain on sale of leases. Gain on sale of securities in 2001 is $1.9 million compared to $19,000 in 2000.

Non−interest expense decreased in 2001 to $29.4 million compared to $35.2 million in 2000. The decrease was due to a reduction in total full time employees from 234 at December 31, 2000 to 198 at December 31, 2001. Also, Texas Capital Bancshares reduced advertising expenses to $278,000 in 2001 compared to $4.2 million in 2000. 2000 advertising expenses included direct marketing and branding for Texas Capital Bank and BankDirect as well as American Airlines AAdvantage(R) minimum mile requirements and co−branded advertising with American Airlines AAdvantage(R). Also, a reduction in other non−interest expense is due to the accrual in 2000 of a $1.8 million contingent liability discussed in Note 16 in the consolidated financial statements. Approximately $300,000 of this liability was reversed in 2001.

TEXAS CAPITAL BANCSHARES 2000 COMPARED TO 1999

Texas Capital Bancshares recorded a net loss of $16.5 million for 2000 compared to $9.3 million for 1999. Basic and diluted (loss) earnings per common share were $(1.89) for 2000 and $(1.23) for 1999. Returns on average assets and average equity were (2.42)% and (20.02)%, respectively, for 2000 compared to (4.45)% and (12.13)%, respectively, for 1999.

The increase in net loss for 2000 was due to an increase of $19.9 million or 131% in non-interest expenses, related primarily to infrastructure established by Texas Capital Bancshares to support Texas Capital Bank and BankDirect and an increase in loan loss provision of $3.5 million. Net interest income, totaled $22.8 million for 2000 compared to $8.3 million for 1999. The increase in net interest income was primarily due to a significant increase in average earning assets.

Non-interest income increased by $1.6 million in 2000 to $2.0 million compared to $358,000 in 1999. The increase is in part due to an overall increase in deposits for 2000, which resulted in more service charges on deposit accounts. Also, Texas Capital Bank's trust income increased by $416,000, to $574,000 for 2000. Other non-interest income increased by $803,000 in 2000 primarily related to letter of credit fees, merchant fee income, investment fees, and rental income.

Non-interest expense increased in 2000 to $35.2 million compared to $15.2 million in 1999. The increase was due primarily to the infrastructure that was established in 2000, which included an increase in total full time employees from 139 at December 31, 1999 to 234 at December 31, 2000. Also, Texas Capital Bancshares incurred advertising expenses of $4.2 million in 2000 compared to $2.1 million in 1999. 2000 advertising expenses included direct marketing and branding for Texas Capital Bank and BankDirect as well as American Airlines AAdvantage(R) minimum mile requirements and co-branded advertising with American Airlines AAdvantage(R). Also, the accrual of a $1.8 million contingent liability discussed in Note 16 in the consolidated financial statements increased the non-interest expense in 2000.

NET INTEREST INCOME

Net interest income increased 53.5% to $35.1 million in 2001 compared to $22.8 million in 2000. The increase in net interest income was primarily due to a significant increase in average earning assets. Average earning assets increased by $317 million during 2001, primarily due to continued growth in Texas Capital Bank's lending portfolio. Additionally, the mix of earning assets improved during 2001. Average loans, which generally have higher yields than other types of earning assets, increased to 80.3% of earning assets in 2001 compared to 64.5% in 2000.

Average interest bearing liabilities also increased by $269.9 million during 2001. The average cost of interest bearing liabilities decreased in 2001 to 4.35% from 6.02% in 2000. The decrease is mainly due to the overall decline in market interest rates, as well as the additional lowering of rates on internet deposits.

VOLUME/RATE ANALYSIS

(In Thousands)	Texas Capital Bancshares					
	2001/2000			2000/1999		
		Change Due To(1)			Change Due To(1)	
	Change	Volume	Yield/Rate	Change	Volume	Yield/Rate
Interest income:						
Securities	$ (2,848)	$ (1,811)	$ (1,037)	$ 8,048	$ 6,820	$ 1,228
Loans	18,954	34,432	(15,478)	31,989	27,516	4,473
Federal funds sold	(1,198)	(846)	(352)	1,227	820	407
Deposits in other banks	(83)	1	(84)	91	8	83
	14,825	31,776	(16,951)	41,355	35,164	6,191
Interest expense:						
Transaction deposits	383	584	(201)	456	305	151
Savings deposits	(2,621)	4,497	(7,118)	13,787	11,461	2,326
Time deposits	2,295	5,734	(3,439)	11,897	9,706	2,191
Borrowed funds	2,553	5,218	(2,665)	624	448	176
	2,610	16,033	(13,423)	26,764	21,920	4,844
Net interest income	$ 12,215	$ 15,743	$ (3,528)	$ 14,591	$ 13,244	$ 1,347

(1) Changes attributable to both volume and yield/rate are allocated to both volume and yield/rate on an equal basis.

Net interest margin, the ratio of net interest income to average earning assets, increased from 3.51% in 2000 to 3.62% in 2001. This increase was due primarily to lower cost of funds and continued strong asset yields in a falling rate environment. The cost of interest bearing liabilities decreased by 27.7% in 2001, primarily due to lower interest rates offered and overall lower market interest rates.

The financial service environment in Texas Capital Bank's primary markets is highly competitive due to a large number of commercial banks, thrifts, credit unions and brokerage firms. Additionally, many customers already had access to national and regional financial institutions for many products and services. Management expects that we will continue to be able to successfully compete with these financial institutions by delivering the products and services traditionally associated with a large bank with the responsiveness of a smaller, community bank.

Net interest income totaled $22.8 million for 2000 compared to $8.3 million for 1999. The increase in net interest income was primarily due to a significant increase in average earning assets. Average earning assets increased by $451 million during 2000, primarily due to growth related to Texas Capital Bank's focus on commercial middle markets and an investment of additional funds in securities. Additionally, the mix of earning assets improved during 2000. Average loans, which generally have higher yields than other types of earning assets, increased to 64.5% of earning assets in 2000 compared to 48.7% in 1999.

NON−INTEREST INCOME

(In Thousands)	Texas Capital Bancshares		
	Year ended December 31,		
	2001	2000	1999
Service charges on deposit accounts	$ 1,857	$ 487	$ 127
Trust fee income	826	574	158
Gain (loss) on sale of securities	1,902	19	(1)
Other	1,398	877	74
Total non−interest income	$ 5,983	$ 1,957	$ 358

Non−interest income for the year ended December 31, 2001 increased 205.7% to $6.0 million compared with $2.0 million in 2000. Non−interest income was $358,000 in 1999. Service charges on deposit accounts, which are included in non−interest income, increased $1.4 million or 281.3% in 2001 as compared to 2000 due to the large increase in total deposits, which resulted in a higher volume of transactions. Service charges on deposit accounts contributed 31.0% of our non−interest income for 2001 compared to 24.9% in 2000. Trust fee income increased by $252,000 in 2001, while contributing 13.8% of non−interest income for 2001 compared to 29.3% for 2000. Other non−interest income increased by $521,000, or 59.4% as compared to 2000 due to mortgage warehouse fees, letter of credit fees, investment fees, rental income, and gain on sale of leases. Gain on sale of securities increased in 2001 to $1.9 million compared to $19,000 in 2000.

While management expects continued growth in other operating revenue, the future rate of increase could be affected by increased competition from national and regional financial institutions. Continued growth may require us to introduce new products or to enter new markets. This growth introduces additional demands on capital and managerial resources.

NON−INTEREST EXPENSE

(In Thousands)	Texas Capital Bancshares		
	Year ended December 31,		
	2001	2000	1999
Salaries and employee benefits	$ 15,033	$ 15,330	$ 7,761
Net occupancy expense	4,795	4,122	1,825
Advertising	278	4,182	2,112
Legal and professional	1,898	2,823	1,067
Communications and data processing	2,930	1,804	496
Franchise taxes	120	145	181
Other	4,378	6,752	1,775
Total	$ 29,432	$ 35,158	$ 15,217

Non−interest expense totaled $29.4 million for 2001 compared to $35.1 million in 2000, a decrease of 16.3%. Non−interest expense was $15.2 million in 1999. Approximately $297,000, or 5.2%, of this decrease in 2001 compared to 2000 was related to salary and employee benefits. Total full time employees decreased from 234 at December 31, 2000 to 198 at December 31, 2001. The decrease was due to the Company realigning its staffing levels during the second quarter of 2001.

Net occupancy expense for 2001 increased $673,000 or 16.3%. The increase was primarily due to a complete year in all of the Bank's primary locations, as well as an additional location for operations and the BankDirect call center.

Advertising expense for 2001 totaled $278,000 compared to $4.2 million in 2000. Advertising expense in 2000 included direct marketing with print and online ads, branding for the traditional bank and BankDirect, and minimum miles and co−branding related to the American Airlines AAdvantage(R) program. Legal and professional expense for 2001 totaled $1.9 million compared to $2.8 million in 2000. The decrease is partially due to costs incurred in 2000 related to obtaining final regulatory approval for the formation of a state chartered savings bank, an investment banking fee related to BankDirect, and normal legal and professional expenses related to operations. The 2000 amount also included a $150,000 accrual related to legal expenses associated with the contingent liability discussed in Note 16 in the consolidated financial statements. Communications and data processing expenses increased to $2.9 million in 2001, as compared to $1.8 million in 2000. This increase is due to the strong growth in our loans and non−interest bearing deposits, which created significantly more transactions to be processed. Included in other expenses in 2000 was a $1.8 million contingent liability related to merchant chargebacks. Other expenses in 2001 include a reversal of approximately $300,000 of the $1.8 million. This contingent liability is discussed in Note 16 in the consolidated financial statements.

INCOME TAXES

As the Company incurred net operating losses for 2000 and 1999, and utilized net operating loss carryforwards for 2001, there was no current or deferred provision for income taxes. Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At December 31, 2001 and 2000, we had a net deferred tax asset of $7.0 million and $9.1 million, respectively, with a reserve equal to those amounts. Net operating loss carryforwards at December 31, 2001 and 2000 were $6.3 million and $13.3 million, respectively.

LINES OF BUSINESS

The Company operates two principal lines of business under Texas Capital Bank (the "Bank"): the traditional bank and BankDirect, an Internet only bank. BankDirect has been a net provider of funds and the traditional bank has been a net user of funds. In order to provide a consistent measure of the net interest margin for BankDirect, the Company uses a multiple pool funds transfer rate to calculate credit for funds provided. This method takes into consideration the current market conditions during the reporting period.

TRADITIONAL BANKING
(In thousands)

	Year Ended December 31		
	2001	2000	1999
Net interest income	$ 34,344	$ 20,860	$ 8,132
Provision for loan losses	5,762	6,135	2,687
Non-interest income	5,671	1,927	356
Non-interest expense	25,431	24,288	12,149
Net income (loss)	$ 8,822	$ (7,636)	$ (6,348)
Average assets	$ 1,016,301	$ 682,497	$ 196,825
Total assets	1,164,763	908,412	357,072
Return on average assets	.87%	(1.12)%	(3.19)%

BANKDIRECT
(In thousands)

	Year Ended December 31		
	2001	2000	1999
Net interest income	$ 711	$ 1,901	$ 100
Non-interest income	312	30	2
Non-interest expense	2,985	8,692	1,878
Net loss	$ (1,962)	$ (6,761)	$ (1,776)

(In Thousands except Per Share Data)	2001			
	Selected Quarterly Financial Data			
	Fourth	Third	Second	First
Interest income	$ 16,391	$ 18,514	$ 17,678	$ 18,011
Interest expense	7,018	8,862	9,416	10,243
Net interest income	9,373	9,652	8,262	7,768
Provision for loan losses	1,910	1,730	1,292	830
Net interest income after provision for loan losses	7,463	7,922	6,970	6,938
Non-interest income	1,341	1,006	921	813
Securities gains, net	567	354	540	441
Non-interest expense	7,277	7,235	7,265	7,655
Income before taxes	2,094	2,047	1,166	537
Income tax expense	--	--	--	--
Net income	$ 2,094	$ 2,047	$ 1,166	$ 537
Earnings per share:				
Basic	$ .22	$ .22	$ .12	$ .06
Diluted	$ .22	$ .21	$ .12	$ .06
Average shares:				
Basic	9,517,000	9,488,000	9,459,000	9,451,000
Diluted	9,699,000	9,573,000	9,545,000	9,537,000

(In Thousands except Per Share Data)	2000			
	Selected Quarterly Financial Data			
	Fourth	Third	Second	First
Interest income	$ 18,683	$ 16,050	$ 12,450	$ 8,586
Interest expense	11,173	9,656	7,194	4,907
Net interest income	7,510	6,394	5,256	3,679
Provision for loan losses	3,086	1,050	1,299	700
Net interest income after provision for loan losses	4,424	5,344	3,957	2,979
Non-interest income	308	731	562	337
Securities gains, net	18	--	1	--
Non-interest expense	10,710	9,075	9,087	6,286
Income (loss) before taxes	(5,960)	(3,000)	(4,567)	(2,970)
Income tax expense	--	--	--	--
Net loss	$ (5,960)	$ (3,000)	$ (4,567)	$ (2,970)
Earnings (loss) per share:				
Basic and diluted	$ (.63)	$ (.32)	$ (.54)	$ (.39)
Average shares:				
Basic and diluted	9,437,000	9,437,000	8,391,000	7,592,000

ANALYSIS OF FINANCIAL CONDITION

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 those that may be sold prior to maturity based upon asset/liability management decisions. Securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income in shareholders' equity. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments.

During 2001, we maintained an average securities portfolio of $176.0 million compared to an average portfolio of $203.0 million in 2000. The December 31, 2001 portfolio is primarily comprised of mortgage-backed securities.

Our unrealized loss on the securities portfolio value increased slightly from $482,000, which represented .23% of the amortized cost at December 31, 2000, to $507,000, which represented .25 % of the amortized cost at December 31, 2001.

The average expected life of the mortgage-backed securities was 4.7 years at December 31, 2001. The effect of changes in interest rates on our earnings and equity is discussed in the Market Risk section of this report.

The following presents the book values and fair values of the securities portfolio at December 31, 2001, 2000 and 1999. Additional information regarding the securities portfolio is presented in Note 2 to the consolidated financial statements.

SECURITIES

(In Thousands)	Texas Capital Bancshares					
	December 31, 2001		December 31, 2000		December 31, 1999	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:						
U.S. Treasuries	$ 1,298	$ 1,297	$ --	$ --	$ --	$ --
U.S. Government Agency	--	--	71,488	70,847	72,846	70,586
Mortgage backed securities	199,060	198,571	76,957	77,088	58,463	57,716
Other debt securities	--	--	31,726	31,755	31,823	31,632
Equity securities	6,514	6,497	5,262	5,262	4,475	4,475
Total available-for-sale	$ 206,872	$ 206,365	185,433	184,952	$ 167,607	$ 164,409
Held-to-maturity:						
Other debt securities			28,366	28,539		
Total held-to-maturity			28,366	28,539		
Total securities			$ 213,799	$ 213,491		

LOAN PORTFOLIO

Loans increased $275 million or 43.7% during 2001. Commercial loans increased by $77 million or 23.5% over 2000. This strong growth in commercial loans results primarily from our continued focus on middle market lending. Commercial loans comprise 44.5% of total loans compared to 51.8% at December 31, 2000. Total construction loans grew by $96.2 million or 114.6% during 2001. Total permanent real estate loans grew by $53.3 million or 32.3%. Total real estate loans (construction and permanent) comprise 44.1% of total loans at December 31, 2001 compared to 39.8% at December 31, 1999. This increase is a result of the establishment of a real estate group in the last quarter of 1999. Additionally, total consumer loans decreased $11.0 million, or 30.6%. Leases increased by $17.5 million due mainly to several large bulk purchases of leases. Loans held for sale include mortgage warehouse loans which are generally on the books for less than 30 days.

LOANS

(In Thousands)	Texas Capital Bancshares				Resource Bank
	December 31, 2001	December 31, 2000	December 31, 1999	December 31, 1998	December 31, 1997
Commercial	$ 402,302	$ 325,774	$ 152,749	$ 2,227	$ 1,119
Construction	180,115	83,931	11,565	4,554	--
Real estate	218,192	164,873	51,779	3,142	352
Consumer	25,054	36,092	10,865	1,169	61
Leases	34,552	17,093	642	--	--
Loans held for sale	43,764	1,346	--	--	--
Total	$ 903,979	$ 629,109	$ 227,600	$ 11,092	$ 1,532

We continue to lend primarily in Texas. Notable loan concentrations by primary borrowers industry are discussed in Note 3 to the consolidated financial statements.

LOAN MATURITY AND INTEREST RATE SENSITIVITY ON DECEMBER 31, 2001

(In Thousands)		Remaining Maturities of Selected Loans		
	Total	Within 1 Year	1-5 Years	After 5 Years
Loan maturity:				
Commercial	$ 402,302	$ 172,595	$ 211,217	$ 18,490
Construction	180,115	112,596	62,320	5,199
Total	$ 582,417	$ 285,191	$ 273,537	$ 23,689
Interest rate sensitivity for selected loans with:				
Predetermined interest rates	$ 32,969	$ 6,522	$ 23,138	$ 3,309
Floating or adjustable interest rates	549,448	278,669	250,399	20,380
Total	$ 582,417	$ 285,191	$ 273,537	$ 23,689

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 loan portfolio in light of current economic conditions and market trends. We recorded a provision of $5.8 million for 2001, $6.1 million for 2000, and $2.7 million for 1999. These provisions were made to reflect management's assessment of the risk of loan losses specifically including the significant growth in outstanding loans during each of these years.

The reserve for loan losses is comprised of specific reserves assigned to certain classified loans and general reserves. We continuously evaluate our reserve for loan losses to maintain an adequate level to absorb loan losses inherent in the loan portfolio. 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. All loans rated doubtful and all loans rated substandard that are at least $1,000,000 are specifically reviewed for impairment and a specific allocation is assigned as appropriate based on the losses expected to be realized from those loans. As of December 31, 2001, there were $28.0 million in loans rated substandard or worse. For purposes of determining the general reserve, the portfolio is segregated by product types to recognize differing risk profiles among categories, and then further segregated by credit grades. Credit grades are assigned to all loans greater than $50,000. Each credit grade is assigned a risk factor, or reserve allocation percentage. These risk factors are multiplied by the outstanding principal balance and risk−weighted by product type to calculate the required reserve. A similar process is employed to calculate that portion of the required reserve assigned to unfunded loan commitments.

The reserve allocation percentages assigned to each credit grade have been developed based on an analysis of historical loss rates at selected peer banks, adjusted for certain qualitative factors. Qualitative adjustments for such things as general economic conditions, changes in credit policies and lending standards, and changes in the trend and severity of problem loans, can cause the estimation of future losses to differ from past experience. The unallocated portion of the general reserve serves to compensate for additional areas of uncertainty and to reconcile the Bank's total reserve to industry comparable reserve ratios. 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 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 actual credit losses. The changes are reflected in both the general reserve and in specific reserves as the collectibility of larger classified loans is continuously recalculated with new information. As our portfolio matures, historical loss ratios will be tracked. Eventually, our reserve adequacy analysis will rely more on our loss history and less on the experience of peer banks. Currently, the review of reserve adequacy is performed by executive management and presented to the Board of Directors for their review, consideration and ratification on a quarterly basis.

The reserve for loans losses, which is available to absorb losses inherent in the loan portfolio, totaled $12.6 million at December 31, 2001, $8.9 million at December 31, 2000 and $2.8 million at December 31, 1999. This represents 1.39%, 1.42% and 1.22% of total loans at December 31, 2001, 2000 and 1999, respectively.

The table below presents a summary of the loan loss experience for the past five years.

SUMMARY OF LOAN LOSS EXPERIENCE

(In Thousands)	Texas Capital Bancshares				Resource Bank	
	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Inception through December 31, 1998	January 1, 1998 through December 18, 1998	Inception through December 31, 1997
Beginning balance	$ 8,910	$ 2,775	$ 100	$ --	$ 30	$ --
Loans charged-off:						
Commercial	1,418	--	--	--	--	--
Consumer	--	--	12	--	--	--
Leases	656	--	--	--	--	--
Total	2,074	--	12	--	--	--
Provision for loan losses	5,762	6,135	2,687	1	69	30
Additions due to acquisition of Resource Bank	--	--	--	99	--	--
Ending balance	$ 12,598	$ 8,910	$ 2,775	$ 100	$ 99	$ 30
Reserve for loan losses to loans outstanding at year-end	1.39%	1.42%	1.22%	.90%		1.96%
Net chargeoffs to average loans	.26	--	--	--		--
Provision for loan losses to average loans	.73	1.44	2.73	--		22.72
Recoveries to gross charge-offs	--	--	--	--		--
Reserve as a multiple of net charge-offs	6.1	--	--	--		--
Non-performing and renegotiated loans:						
Loans past due (90 days)	$ 384	$ --	$ --	$ 15		$ --
Non-accrual	6,032	--	--	--		--
Renegotiated	5,013	--	--	--		--
Total	$ 11,429	$ --	$ --	$ 15		$ --
Reserve as a percent of non-performing and renegotiated loans	110.23%	--	--	--		--

LOAN LOSS RESERVE ALLOCATION

(In Thousands)	Texas Capital Bancshares								Resource Bank	
	December 31, 2001		December 31, 2000		December 31, 1999		December 31, 1998		December 31, 1997	
	Reserve	% of Loans	Reserve	% of Loans	Reserve	% 199 Loans	Reserve	% of Loans	Reserve	% of Loans
Loan category:										
Commercial	$ 7,549	45%	$ 3,136	52%	$ 1,428	67%	$ --	20%	$ --	73%
Construction	1,004	20	498	13	174	5	--	41	--	--
Real estate	1,738	29	2,250	26	499	23	--	28	--	23
Consumer	116	2	144	6	187	5	--	11	--	4
Leases	623	4	384	3	--	--	--	--	--	--
Unallocated	1,568	--	2,498	--	487	--	100	--	30	--
Total	$ 12,598	100%	$ 8,910	100%	$ 2,775	100%	$ 100	100%	$ 30	100%

NON-PERFORMING ASSETS

We had non-performing loans and leases of $6,032,000 at December 31, 2001, a non-performing lease of $572,000 at December 31, 2000 and no non-performing loans or other real estate at December 31, 1999 and 1998.

DEPOSITS

Average deposits for 2001 increased $237.6 million compared to 2000. Demand deposits, interest bearing transaction accounts, savings, and time deposits increased by $51.0 million, $21.5 million, $77.3 million and $87.9 million, respectively. The average cost of deposits decreased in 2001 mainly due to lower market interest rates.

DEPOSIT ANALYSIS

(In Thousands)	Texas Capital Bancshares Average Balances		
	2001	2000	1999
Non-interest bearing	$ 99,471	$ 48,483	$ 12,371
Interest bearing transaction	40,673	19,198	3,417
Savings	360,865	283,594	54,423
Time deposits	312,826	224,933	50,020
Total average deposits	$ 813,835	$ 576,208	$ 120,231

Uninsured deposits increased to 47.0% of total deposits for 2001 compared to 36.0% in 2000. Uninsured deposits as used in this presentation is based on a simple analysis of account balances and does not reflect combined ownership and other account styling that would determine insurance based on FDIC regulations.

MATURITY OF DOMESTIC CDS AND OTHER TIME DEPOSITS IN AMOUNTS OF $100,000 OR MORE

(In Thousands)	Texas Capital Bancshares		
	December 31, 2001	December 31, 2000	December 31, 1999
Months to maturity:			
3 or less	$ 143,264	$ 51,579	$ 19,890
Over 3 through 6	20,854	28,588	14,036
Over 6 through 12	29,491	28,739	16,213
Over 12	32,486	7,431	7,742
Total	$ 226,095	$ 116,337	$ 57,881

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 the customers. However, our strategy to provide service and convenience to customers does not include a large branch network. The traditional bank offers five full service branches, courier services, and online banking. BankDirect serves its customers primarily through online banking.

LIQUIDITY

We use several borrowing sources to supplement deposits as a funding source to support loan and securities growth. These include downstream and upstream federal funds purchased, securities sold under repurchase, customer repurchase agreements, Treasury, Tax and Loan notes, and advances from the Federal Home Loan Bank. Average borrowed funds increased $83.3 million over 2000. The maximum amount outstanding at any month-end in 2001 was $176.0 million, as compared to $41.9 million in 2000.

Interest rates and maturity dates for the various sources of funds are matched with specific types of assets in the asset/liability management process. See Note 7 in the consolidated financial statements for an additional description of our borrowings.

Our equity capital averaged $90.8 million for 2001 as compared to $82.4 million in 2000. See Note 12 in the consolidated financial statements for additional information regarding the capital adequacy of Texas Capital Bancshares and Texas Capital Bank.

NEW ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, Statement 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized.

The Company will apply Statement 142 beginning in the first quarter of 2002. Application of the non-amortization provisions of Statement 142 is expected to result in an increase in net income of $125,000 in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment test of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

TEXAS CAPITAL BANCSHARES, INC.
ANNUAL FINANCIAL SUMMARY - UNAUDITED
CONSOLIDATED DAILY AVERAGE BALANCES, AVERAGE YIELDS AND RATES
(In Thousands except Per Share and Percentage Data)

	Texas Capital Bancshares								
	Year ended 2001			Year ended 2000			Year ended 1999		
	Average Balance	Revenue/ Expense (1)	Yield/ Rate	Average Balance	Revenue/ Expense (2)	Yield/ Rate	Average Balance	Revenue/ Expense	Yield/ Rate
Assets									
Taxable securities	$ 175,945	$ 10,760	6.12%	$ 202,955	$ 13,608	6.70%	$ 91,092	$ 5,560	6.10%
Federal funds sold	14,688	580	3.95%	28,025	1,778	6.34%	11,260	551	4.89%
Deposits in other banks	351	18	5.13%	348	101	28.99%	193	10	5.18%
Loans	787,879	59,236	7.52%	424,782	40,282	9.48%	98,408	8,293	8.43%
Less reserve for loan losses	10,335	--	--	4,619	--	--	874	--	--
Loans, net	777,544	59,236	7.62%	420,163	40,282	9.59%	97,534	8,293	8.50%
Total earning assets	968,528	70,594	7.29%	651,491	55,769	8.56%	200,079	14,414	7.20%
Cash and other assets	47,789			31,023			8,951		
Total assets	$ 1,016,317			$ 682,514			$ 209,030		
Liabilities and Shareholders' Equity									
Transaction deposits	$ 40,673	$ 905	2.23%	$ 19,198	$ 522	2.72%	$ 3,417	$ 66	1.93%
Savings deposits	360,865	13,885	3.85%	283,594	16,506	5.82%	54,423	2,719	5.00%
Time deposits	312,826	16,969	5.42%	224,933	14,675	6.52%	50,020	2,778	5.55%
Total interest bearing deposits	714,364	31,759	4.45%	527,725	31,703	6.01%	107,860	5,563	5.16%
Other borrowings	102,840	3,780	3.68%	19,579	1,227	6.27%	11,251	603	5.37%
Total interest bearing liabilities	817,204	35,539	4.35%	547,304	32,930	6.02%	119,111	6,166	5.18%
Demand deposits	99,471			48,483			12,371		
Other liabilities	8,878			4,326			899		
Shareholders' equity	90,764			82,401			76,649		
Total liabilities and shareholders' equity	$ 1,016,317			$ 682,514			$ 209,030		
Net interest income		$ 35,055			$ 22,839			$ 8,248	
Net interest income to earning assets			3.62%			3.51%			4.12%
Net interest income		$ 35,055			$ 22,839			$ 8,248	
Provision for loan losses		5,762			6,135			2,687	
Non-interest income		5,983			1,957			358	
Non-interest expense		29,432			35,158			15,217	
Income (loss) before taxes		5,844			(16,497)			(9,298)	
Federal and state income tax		--			--			--	
Net income (loss)		$ 5,844			$ (16,497)			$ (9,298)	
Return on equity		6.44%			(20.02%)			(12.13%)	
Return on assets		.58%			(2.42%)			(4.45%)	
Equity to assets		8.93%			12.07%			36.67%	

(1) The loan averages include loans on which the accrual of interest has been discontinued and are stated net of unearned income.

(2) Revenue from deposits in other banks includes interest earned on capital while held in an escrow account.

ITEM 7A. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices, and/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 Balance Sheet Management Committee (BSMC), which operates under policy guidelines established by the Board of Directors. The negative acceptable variation in net interest income due to a 200 basis point increase or decrease in interest rates is generally limited by these guidelines to +/− 10%. 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 the full Board on a quarterly basis.

INTEREST RATE RISK MANAGEMENT

We perform a sensitivity analysis to identify interest rate risk exposure on net interest income. Currently, gap analysis is used to estimate the effect of changes in interest rates over the next 12 months based on three interest rate scenarios. These are a "most likely" rate scenario and two "shock test" scenarios. The first assuming a sustained parallel 200 basis point increase and the second a sustained parallel 200 basis point decrease in interest rates. As short−term rates fell below 2.0% by the end of 2001, we could not shock rates 200 basis points as the results would be negative rates. Therefore, we are using 150 basis points shocks until short−term rates rise above 2.0%.

An independent source is used to determine the most likely interest rates for the next year. The Federal Reserve's Federal Funds target affects short−term borrowing; the prime lending rate and the London Interbank Offering Rate (LIBOR) are the basis for most of the variable−rate loan pricing. The 30−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.

The Federal Reserve's actions to decrease interest rates have negatively affected the net interest margins of many banks, as interest rates on earning assets have declined more rapidly than rates paid on interest bearing liabilities. Further decreases in interest rates may further compress net interest margins. The Bank believes that it is likely that its margin will continue to be compressed in the first quarter as a result of the Federal Reserve's lowering rates by 25 basis points on December 11, 2001. This margin compression will have a negative effect on net income in the first quarter. The actual effect on net interest margin is not known and depends on many factors, including further decreases in interest rates.

The 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. The 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 is as follows:

(In Thousands)	Texas Capital Bancshares			
	Anticipated Impact Over the Next Twelve Months as Compared to Most Likely Scenario			
	150 bp Increase December 31, 2001	150 bp Decrease December 31, 2001	200 bp Increase December 31, 2000	200 bp Decrease December 31, 2000
Change in net interest income	$ 3,246	$ (3,811)	$ 2,278	$(3,082)

The estimated changes in interest rates on net interest income are within guidelines established by the Board of Directors for all interest rate scenarios.

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 Financial Statements

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Texas Capital Bancshares, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Capital Bancshares, Inc. at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Dallas, Texas
February 15, 2002

Texas Capital Bancshares, Inc.
Consolidated Balance Sheets
(In Thousands except Share Data)

	December 31 2001	December 31 2000
ASSETS		
Cash and due from banks	$ 44,260	$ 29,431
Federal funds sold	12,360	30,860
Securities, available-for-sale	206,365	184,952
Securities, held-to-maturity (fair value of $28,539)	--	28,366
Loans, net	841,907	616,951
Loans held for sale	43,764	--
Premises and equipment, net	4,950	6,111
Accrued interest receivable and other assets	9,677	10,136
Goodwill, net	1,496	1,621
Total assets	$ 1,164,779	$ 908,428
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 136,266	$ 71,856
Interest bearing	749,811	723,001
	886,077	794,857
Accrued interest payable	2,848	3,653
Other liabilities	5,897	5,135
Federal funds purchased	76,699	11,525
Other borrowings	86,899	7,061
Total liabilities	1,058,420	822,231
Commitments and contingencies--Note 16		
Shareholders' equity:		
Convertible preferred stock, non-voting, $.01 par value, 6%:		
Authorized shares - 2,500,000		
Issued shares - 753,301 at December 31, 2001	8	--
Common stock, $.01 par value:		
Authorized shares - 20,000,000		
Issued shares - 9,224,155 and 9,170,417 at December 31, 2001 and 2000, respectively	92	92
Series A-1 Non-voting common stock, $.01 par value:		
Issued shares -346,696 and 387,508 at December 31, 2001 and 2000, respectively	4	4
Additional paid-in capital	127,473	113,971
Accumulated deficit	(20,690)	(26,534)
Treasury stock (shares at cost: 43,758 and 110,414 at December 31, 2001 and 2000, respectively)	(594)	(1,427)
Deferred compensation	573	573
Accumulated other comprehensive loss	(507)	(482)
Total shareholders' equity	106,359	86,197
Total liabilities and shareholders' equity	$ 1,164,779	$ 908,428

See accompanying notes.

Texas Capital Bancshares, Inc.
Consolidated Statements of Operations
(In Thousands except Share Data)

	Year ended December 31 2001	2000	1999
Interest income:			
Interest and fees on loans	$ 59,236	$ 40,282	$ 8,293
Securities	10,760	13,608	5,560
Federal funds sold	580	1,778	551
Deposits in other banks	18	101	10
Total interest income	70,594	55,769	14,414
Interest expense:			
Deposits	31,759	31,703	5,563
Federal funds purchased	2,107	485	--
Other borrowings	1,673	742	603
Total interest expense	35,539	32,930	6,166
Net interest income	35,055	22,839	8,248
Provision for loan losses	5,762	6,135	2,687
Net interest income after provision for loan losses	29,293	16,704	5,561
Non-interest income:			
Service charges on deposit accounts	1,857	487	127
Trust fee income	826	574	158
Gain (loss) on sale of securities	1,902	19	(1)
Other	1,398	877	74
Total non-interest income	5,983	1,957	358
Non-interest expense:			
Salaries and employee benefits	15,033	15,330	7,761
Net occupancy expense	4,795	4,122	1,825
Advertising	278	4,182	2,112
Legal and professional	1,898	2,823	1,067
Communications and data processing	2,930	1,804	496
Franchise taxes	120	145	181
Other	4,378	6,752	1,775
Total non-interest expense	29,432	35,158	15,217
Income (loss) before income taxes	5,844	(16,497)	(9,298)
Income tax expense (benefit)	--	--	--
Net income (loss)	$ 5,844	$ (16,497)	$ (9,298)
Income (loss) per share:			
Basic	$ .61	$ (1.89)	$ (1.23)
Diluted	$ .61	$ (1.89)	$ (1.23)

See accompanying notes.

Texas Capital Bancshares, Inc.
Consolidated Statements of Changes in Shareholders' Equity
(In Thousands except Share Data)

	Convertible Preferred Stock		Common Stock		Series A-1 Non-voting Common Stock			
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit
Balance at December 31, 1998	--	$ --	6,160,441	$ 61	474,870	$ 5	$ 73,863	$ (739)
Comprehensive income (loss):								
Net loss	--	--	--	--	--	--	--	(9,298)
Change in unrealized loss on available-for-sale securities, net of reclassification amount of $1	--	--	--	--	--	--	--	--
Total comprehensive income (loss)								
Stock issued	--	--	1,050,903	11	--	--	13,054	--
Transfers	--	--	48,176	1	(48,176)	(1)	--	--
Purchase of treasury stock	--	--	--	--	--	--	--	--
Deferred compensation arrangement	--	--	--	--	--	--	--	--
Balance at December 31, 1999	--	--	7,259,520	73	426,694	4	86,917	(10,037)
Comprehensive income (loss):								
Net loss	--	--	--	--	--	--	--	(16,497)
Change in unrealized loss on available-for-sale securities, net of reclassification amount of $19	--	--	--	--	--	--	--	--
Total comprehensive income (loss)								
Stock issued	--	--	1,871,711	19	--	--	27,054	--
Transfers	--	--	39,186	--	(39,186)	--	--	--
Purchase of treasury stock	--	--	--	--	--	--	--	--
Sale of treasury stock	--	--	--	--	--	--	--	--
Deferred compensation arrangement	--	--	--	--	--	--	--	--
Balance at December 31, 2000	--	--	9,170,417	92	387,508	4	113,971	(26,534)
Comprehensive income (loss):								
Net income	--	--	--	--	--	--	--	5,844
Change in unrealized loss on available-for-sale securities, net of reclassification amount of $1,902	--	--	--	--	--	--	--	--
Total comprehensive income								
Sale of convertible preferred stock	753,301	8	--	--	--	--	13,175	--
Sale of common stock	--	--	12,926	--	--	--	159	--
Preferred dividends payable	--	--	--	--	--	--	(26)	--
Transfers	--	--	40,812	--	(40,812)	--	--	--
Purchase of treasury stock	--	--	--	--	--	--	--	--
Sale of treasury stock	--	--	--	--	--	--	194	--
Balance at December 31, 2001	753,301	$ 8	9,224,155	$ 92	346,696	$ 4	$ 127,473	$ (20,690)

	Treasury Stock				
	Shares	Amount	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 1998	--	$ --	$ --	$ (4)	$ 73,186
Comprehensive income (loss):					
Net loss	--	--	--	--	(9,298)
Change in unrealized loss on available-for-sale securities, net of reclassification amount of $1	--	--	--	(3,194)	(3,194)
Total comprehensive income (loss)					(12,492)
Stock issued	--	--	--	--	13,065
Transfers	--	--	--	--	--
Purchase of treasury stock	(67,721)	(847)	--	--	(847)
Deferred compensation arrangement	(24,807)	(322)	322	--	--
Balance at December 31, 1999	(92,528)	(1,169)	322	(3,198)	72,912
Comprehensive income (loss):					
Net loss	--	--	--	--	(16,497)
Change in unrealized loss on available-for-sale securities, net of reclassification amount of $19	--	--	--	2,716	2,716
Total comprehensive income (loss)					(13,781)
Stock issued	--	--	--	--	27,073
Transfers	--	--	--	--	--
Purchase of treasury stock	(11,556)	(144)	--	--	(144)
Sale of treasury stock	11,000	137	--	--	137
Deferred compensation arrangement	(17,330)	(251)	251	--	--
Balance at December 31, 2000	(110,414)	(1,427)	573	(482)	86,197
Comprehensive income (loss):					
Net income	--	--	--	--	5,844
Change in unrealized loss on available-for-sale securities, net of reclassification amount of $1,902	--	--	--	(25)	(25)

Total comprehensive income					5,819
Sale of convertible preferred stock	--	--	--	--	13,183
Sale of common stock	--	--	--	--	159
Preferred dividends payable	--	--	--	--	(26)
Transfers	--	--	--	--	--
Purchase of treasury stock	(35,335)	(452)	--	--	(452)
Sale of treasury stock	101,991	1,285	--	--	1,479
Balance at December 31, 2001	(43,758)	$ (594)	$ 573	$ (507)	$ 106,359

See accompanying notes.

Texas Capital Bancshares, Inc.
Consolidated Statements of Cash Flows
(In Thousands)

	Year ended December 31 2001	2000	1999
OPERATING ACTIVITIES			
Net income (loss)	$ 5,844	$ (16,497)	$ (9,298)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for loan losses	5,762	6,135	2,687
Depreciation and amortization	1,922	1,599	715
Amortization and accretion on securities	386	(418)	(72)
(Gain) loss on sale of securities	(1,902)	(19)	1
(Gain) loss on sale of assets	12	--	--
Changes in operating assets and liabilities:			
Accrued interest receivable and other assets	459	(5,465)	(4,291)
Accrued interest payable and other liabilities	(69)	6,456	2,225
Net cash provided by (used in) operating activities	12,414	(8,209)	(8,033)
INVESTING ACTIVITIES			
Purchases of available-for-sale securities	(259,571)	(146,124)	(192,732)
Proceeds from sales of available-for-sale securities	142,250	110,498	24,697
Maturities and calls of available-for-sale securities	68,195	--	--
Purchase of held-to-maturity securities	--	(28,226)	--
Principal payments received on securities	57,570	18,096	3,674
Net increase in loans	(274,482)	(398,291)	(216,490)
Purchase of premises and equipment, net	(648)	(3,175)	(4,624)
Net cash used in investing activities	(266,686)	(447,222)	(385,475)
FINANCING ACTIVITIES			
Net increase in checking, money market, and savings accounts	52,411	313,025	175,994
Net increase in certificates of deposit	38,809	194,764	95,056
Sale of common stock	159	27,073	13,065
Net other borrowings	79,838	(39,206)	46,267
Net federal funds purchased	65,174	11,525	--
Sale of preferred stock	13,183	--	--
Sale of treasury stock, net	1,027	(7)	(847)
Net cash provided by financing activities	250,601	507,174	329,535
Net increase (decrease) in cash and cash equivalents	(3,671)	51,743	(63,973)
Cash and cash equivalents, beginning of year	60,291	8,548	72,521
Cash and cash equivalents, end of year	$ 56,620	$ 60,291	$ 8,548
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	$ 36,344	$ 30,535	$ 4,956

See accompanying notes.

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 bank holding company, was incorporated 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 was formed on December 18, 1998 through the acquisition of Resource Bank, National Association (Resource Bank). All significant intercompany accounts and transactions have been eliminated upon consolidation.

All business is conducted through the Bank. BankDirect, a division of the Bank, provides online banking services through the Internet. The Bank currently provides commercial banking services to its customers in Texas. The Bank concentrates on middle market commercial and private client customers, while BankDirect provides basic consumer banking services to Internet users.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, the Company has not had any activity in its trading account.

Held−to−Maturity and Available−for−Sale

Debt securities are classified as held−to−maturity when the Company has 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. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage−backed securities, over the estimated life of the security. Such amortization and accretion is included in interest income from securities. Realized gains and losses and declines in value judged to be other−than−temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method.

LOANS

Loans (which include leases) are either secured or unsecured based on the type of loan and the financial condition of the borrower. Repayment is generally expected from cash flows of borrowers. The Company is exposed to risk of loss on loans which may arise from any number of factors including problems within the respective industry of the borrower or from local economic conditions. Access to collateral, in the event of borrower default, is reasonably assured through adherence to applicable lending laws and through sound lending standards and credit review procedures.

Loans are stated at the amount of unpaid principal reduced by deferred income (net of costs) and an allowance for loan losses. 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.

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. A loan is placed back on accrual status when both principal and interest are current.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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.

Loans held for sale are carried at cost which approximates market.

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.

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.

ADVERTISING, WEBSITE DEVELOPMENT COSTS, AND SOFTWARE

Advertising costs are expensed as incurred. Costs incurred in connection with the initial website development are capitalized and amortized over a period not to exceed three years. 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. Both website development and internal use software costs are included in other assets in the consolidated financial statements.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

The excess of cost over the fair value of net identifiable assets of businesses acquired (goodwill) is amortized on a straight−line basis over a period not in excess of 20 years. All intangible assets are evaluated periodically to determine recoverability of their carrying value when economic conditions indicate an impairment may exist. These conditions would include an ongoing negative performance history and a forecast of anticipated performance that is significantly below management's initial expectation for the acquired entity. Impairment would be determined based on the estimated discounted cash flows of the entity acquired over the remaining amortization period.

ACCUMULATED OTHER COMPREHENSIVE LOSS

Unrealized gains or losses on the Company's available−for−sale securities are included in accumulated other comprehensive loss.

INCOME TAXES

The Company and its subsidiary file a consolidated federal income tax return. The Company utilizes 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.

EFFECT OF PENDING STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, Statement 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized.

The Company will apply Statement 142 beginning in the first quarter of 2002. Application of the non−amortization provisions of Statement 142 is expected to result in an increase in net income of $125,000 in 2002. The Company will test goodwill for impairment using the two−step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment test of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

RECLASSIFICATION

Certain reclassifications have been made to the 2000 and 1999 financial statements to conform to the 2001 presentation.

2. SECURITIES

The following is a summary of securities:

(In Thousands)	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
U. S. Treasuries	$ 1,298	$ --	$ (1)	$ 1,297
Mortgage-backed securities	199,060	925	(1,414)	198,571
Equity securities	6,514	--	(17)	6,497
	$ 206,872	$ 925	$ (1,432)	$ 206,365

(In Thousands)	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
U. S. Government agency securities	$ 71,488	$ 3	$ (644)	$ 70,847
Mortgage-backed securities	76,957	286	(155)	77,088
Other debt securities	31,726	57	(28)	31,755
Equity securities	5,262	--	--	5,262
	$ 185,433	$ 346	$ (827)	$ 184,952

(In Thousands)	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-Maturity Securities:				
Other debt securities	$ 28,366	$ 173	$ --	$ 28,539
	$ 28,366	$ 173	$ --	$ 28,539

Held-to-maturity securities with an amortized cost of $28,366,000 were transferred to available-for-sale effective January 1, 2001 in accordance with the provisions of FAS 133 adoption. As of the date of the transfer, the securities had an unrealized gain of $173,000 and were recorded at an estimated fair value of $28,539,000.

2. SECURITIES (CONTINUED)

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

(In Thousands)	December 31, 2001			
Available-for-Sale	Less Than One Year	One to Five Years	Five to Ten Years	Total
U.S. Treasuries:				
Amortized cost	$ 1,298	$ --	$ --	$ 1,298
Estimated fair value	1,297	--	--	1,297
Weighted average yield	1.732%	--	--	1.732%
Mortgage-backed securities:				
Amortized cost				199,060
Estimated fair value				198,571
Weighted average yield				5.935%
Equity securities:				
Amortized cost				6,514
Estimated fair value				6,497
Total available-for-sale securities:				
Amortized cost				$206,872
Estimated fair value				$206,365

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

Securities with carrying values of approximately $182,503,000 were pledged to secure certain borrowings and deposits at December 31, 2001. See Note 7 for discussion of securities securing borrowings. Of the pledged securities, approximately $63,800,000 were pledged for certain deposits.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	December 31 2001	2000
Commercial	$ 402,302	$ 325,774
Construction	180,115	83,931
Real estate	218,192	164,873
Consumer	25,054	36,092
Leases receivable	34,552	17,093
Loans held for sale	43,764	1,346
	903,979	629,109
Deferred income (net of direct origination costs)	(5,710)	(3,248)
Allowance for loan losses	(12,598)	(8,910)
Loans, net	$ 885,671	$ 616,951

The majority of the commercial, consumer and real estate mortgage loan portfolios are loans to businesses and individuals in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. Within the loan portfolio, loans to the services industry were $364.5 million or 40.3% of total loans. Other notable segments include personal/household, $115.7

million and petrochemical and mining, $94.7 million. 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 December 31, 2001.

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

	Year ended December 31		
	2001	2000	1999
Balance, beginning of year	$ 8,910	$ 2,775	$ 100
Provision for loan losses	5,762	6,135	2,687
Loans charged off	(2,074)	--	(12)
Balance, end of year	$ 12,598	$ 8,910	$ 2,775

The Bank had impaired loans and leases in the amount of $6,032,000 with reserves of $1,213,000 as of December 31, 2001. Also, the Bank had one loan relationship in the amount of $5,013,000 that was restructured during 2001. The restructuring included a chargeoff and a principal reduction from the borrower. Interest income was recorded when it was received. Total interest collected was approximately $830,000. The Bank had an impaired lease in the amount of $572,000 with a specific reserve of $277,000 as of December 31, 2000.

During the normal course of business, the Company and subsidiary may enter into transactions with related parties, including their officers, employees, directors, significant shareholders 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 $14,955,000 and $7,545,000 at December 31, 2001 and 2000, respectively. During the years ended December 31, 2001 and 2000, total advances were approximately $26,527,000 and $18,743,000 and total paydowns were $19,117,000 and $15,056,000, respectively.

4. GOODWILL

Goodwill acquired in the acquisition of Resource Bank in December 1998 is being amortized over 15 years. Accumulated amortization related to intangibles totaled approximately $374,000 and $249,000 at December 31, 2001 and 2000, respectively.

5. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2001 and 2000 are summarized as follows:

	December 31	
	2001	2000
	(In Thousands)	
Premises	$ 2,880	$ 2,792
Furniture and equipment	6,032	5,386
	8,912	8,178
Accumulated depreciation	(3,962)	(2,067)
	$ 4,950	$ 6,111

Depreciation expense was approximately $1,797,000 and $1,474,000 at December 31, 2001 and 2000, respectively.

6. DEPOSITS

The scheduled maturities of interest bearing time deposits are as follows at December 31, 2001 (in thousands):

2002	$ 285,777
2003	44,399
2004	6,627
2005	1,245
2006 and after	232
	$ 338,280

At December 31, 2001 and 2000, the Bank had approximately $27,512,000 and $26,670,000, respectively, in deposits from related parties, including directors, shareholders, and their related affiliates.

At December 31, 2001 and 2000, interest bearing time deposits of $100,000 or more were approximately $226,095,000 and $116,337,000, respectively.

7. BORROWING ARRANGEMENTS

Borrowings at December 31, 2001 consist of $69.4 million of securities sold under repurchase agreements bearing interest of 3.71%, $7.6 million of customer repurchase agreements, and $9.1 million of Treasury, Tax and Loan notes. Securities sold under repurchase are comprised of two significant counterparties which are Salomon Smith Barney at $44.5 million and Morgan Stanley Dean Witter at $24.9 million. The weighted average maturities of the Salomon and Morgan repurchase agreements are 34 months and 32 months, respectively.

Other borrowings also consist of $774,000 FHLB term advances bearing interest at 5.28%. There were no FHLB overnight advances outstanding at December 31, 2001. In accordance with policies of the FHLB, the Bank can pledge securities and certain loans as collateral for FHLB overnight advances. There were no securities pledged for FHLB overnight advances at December 31, 2001. Based on the loans that could be pledged and securities that were not already pledged, the Bank had an additional $293.0 million of FHLB borrowings available at December 31, 2001. There were $81.9 million of securities pledged for customer repurchase agreements and securities sold under repurchase agreements and $24.9 million pledged for Treasury, Tax and Loan notes.

The Bank had $76.7 million of downstream federal funds purchased outstanding with a rate of 1.85% at December 31, 2001. The Bank had unused upstream federal fund lines available from commercial banks at December 31, 2001 of approximately $37.5 million. Generally, these federal fund borrowings are overnight, but not to exceed seven days.

8. INCOME TAXES

As a net operating loss was incurred during the year ended December 31, 2000 and a net operating loss carryfoward was utilized for the year ended December 31, 2001, there was no current or deferred provision for income taxes.

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:

8. INCOME TAXES (CONTINUED)

	December 31 2001	December 31 2000
	(In Thousands)	
Deferred tax assets:		
Net operating loss carryforward	$ 2,154	$ 4,519
Allowance for loan losses	4,283	3,029
Organizational costs	210	138
Depreciation	80	--
Loan origination fees	999	1,770
Unrealized loss on securities	172	164
Other	81	636
	7,979	10,256
Deferred tax liabilities:		
Loan origination costs	(691)	(665)
Depreciation	--	(84)
Cash to accrual	(309)	(432)
	(1,000)	(1,181)
Net deferred tax asset before valuation allowance	6,979	9,075
Valuation allowance	(6,979)	(9,075)
Net deferred tax asset (liability)	$ --	$ --

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

	Year ended December 31 2001	2000	1999
Tax at U.S. statutory rate	34%	34%	34%
Non-deductible items	2%	(1)%	(1)%
Changes in valuation allowance	(36)%	(33)%	(32)%
Other, net	--	--	(1)%
Total	0%	0%	0%

At December 31, 2001, the Company has federal net operating loss carryforwards of approximately $6,337,000 which will begin to expire in year 2015. A valuation allowance equal to the total estimated tax benefit of this net operating loss carryforward has been established at December 31, 2001. The change in the valuation allowance for the current year is $2,096,000.

9. CONVERTIBLE PREFERRED STOCK

In December 2001 and January 2002, the Company issued 753,301 and 303,841 shares, respectively, of Series A Convertible Preferred Stock at $17.50 per share. Dividends are at an annual rate of 6.0% and are payable quarterly. Each share is convertible into one share of common stock.

Automatic conversion occurs in the event of (a) a change of control or a material event; or (b) immediately prior to the closing of an underwriter's public offering of shares of the common stock of the Company at a price of $17.50 per share or greater; or (c) if Texas Capital's common stock is listed for trading on the New York Stock Exchange or the Nasdaq National Market and thereafter the average closing price of such common stock for any consecutive 30 day period is at or above $17.50 per share; or (d) if there is a change in the Federal Reserve capital adequacy guidelines that results in the preferred stock not qualifying as Tier I capital. Mandatory conversion is upon the fifth anniversary date of the issuance date.

The voting rights are identical to the common stock with each share of preferred stock having one vote.

Additional paid−in capital at December 31, 2001 includes $26,000 of dividends payable attributable to the period between issuance and December 31. The amount will be paid with the first quarter 2002 dividend.

In the event of any liquidation of the Company, the preferred holders would receive out of the assets of the Company available for distribution an amount equal to $17.50 per share plus any accrued and unpaid dividends before any distribution made to the holders of any class of stock ranking junior to the preferred stock.

10. EMPLOYEE BENEFITS

The Company has 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 the employees of the Company to defer a portion of their compensation. Matching contributions may be made in amounts and at times determined by the Company. The Company made no such contributions for the years ended December 31, 2001 and 2000. Amounts contributed by the Company for a participant will vest over six years and will be held in trust until distributed pursuant to the terms of the 401(k) Plan. Employees of the Company 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, the Company 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. The Company has allocated 80,000 shares to the plan. As of December 31, 2001 and 2000, 23,062 and 10,357 shares, respectively, had been purchased on behalf of the employees.

The Company has a stock option plan. The number of options awarded and the employees to receive the options are determined by the Board of Directors, or its designated committee. Options awarded under this plan are subject to vesting requirements. Generally, one fifth of the options awarded vest annually and expire 10 years after date of grant. Total options available under the plan at December 31, 2001 and December 31, 2000, were 956,923 and 948,965, respectively. During 2001, 97,300 options were awarded at an exercise price of $14.50.

The Company follows SFAS No. 123, Accounting for Stock Based Compensation. The statement allows the continued use of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations. Under APB 25, no compensation expense is recognized at the date of grant for the options where the exercise price of the stock options equals the market price of the underlying stock on the date of grant. Compensation expense of $24,000 was recorded in 2001, 2000 and 1999 for the options that were granted at $11.09 with a three−year vesting period. The Company's election to continue the use of APB 25 requires pro forma disclosures of net income as if the fair value based method of accounting had been applied.

The fair value of these options was estimated at the date of grant using a Black−Scholes value option pricing model with the following weighted average assumptions used for 2001, 2000 and 1999, respectively: a risk free interest rate of 4.85 %, 6.50% and 5.06%, a dividend yield of 0%, a volatility factor of .001, .055 and .001, and an estimated life of five years.

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 the Company's 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 a reliable single measure of the fair value of its employee stock options.

Had compensation costs for all grants of stock options during 2001, 2000 and 1999 been determined based upon the fair value of vested options at the date of grant, reported net income (loss) for 2001, 2000 and 1999 would have been adjusted to the pro forma amount shown below. As presented below, the pro forma impact on future periods can be expected to be greater, as each successive grant is valued and amortized:

(In Thousands except Share Data)	Year ended December 31 2001	2000	1999
Net income (loss):			
As reported	$ 5,844	$ (16,497)	$ (9,298)
Pro forma	5,196	(16,930)	(9,641)
Basic income (loss) per share:			
As reported	$ .61	$ (1.89)	$ (1.23)
Pro forma	.55	(1.94)	(1.27)
Diluted income (loss) per share:			
As reported	$ .61	$ (1.89)	$ (1.23)
Pro forma	.54	(1.94)	(1.27)

A summary of the Company's stock option activity and related information for 2001 and 2000 is as follows:

	December 31, 2001		December 31, 2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	683,680	$ 12.66	572,320	$ 12.38
Options granted	97,300	14.50	141,010	13.76
Options exercised	--	--	(3,000)	12.50
Options forfeited	(29,656)	12.80	(26,650)	12.50
Options outstanding at year-end	751,324	$ 12.89	683,680	$ 12.66
Options vested at year-end	349,442	$ 12.58	180,804	$ 12.24
Weighted average fair value of options granted during 2001 and 2000 in which the option exercise price ($14.50 and $12.50) equaled the market price:	$ 3.06		$ 3.71	
Weighted average remaining contractual life of options currently outstanding in years:	7.53		8.31	

In 1999, the Company entered into a deferred compensation agreement with one of its 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

10. EMPLOYEE BENEFITS (CONTINUED)

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.

11. 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.

	December 31	
	2001	2000
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$319,072	$331,920
Standby letters of credit	25,476	22,637

12. 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, 2001, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

12. REGULATORY RESTRICTIONS (CONTINUED)

As of June 30, 2001, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. 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 and adequately capitalized as of December 31, 2001 and 2000, respectively. There have been no conditions or events since the notification that management believes have changed the Bank's category.

(In Thousands except Percentage Data)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2001:						
Total capital (to risk-weighted assets):						
COMPANY	$ 117,921	11.7%	$ 80,431	8.0%	N/A	N/A
Bank	114,551	11.4%	80,430	8.0%	$ 100,538	10.0%
Tier 1 capital (to risk-weighted assets):						
COMPANY	$ 105,353	10.5%	$ 40,216	4.0%	N/A	N/A
Bank	101,983	10.1%	40,215	4.0%	$ 60,323	6.0%
Tier 1 capital (to average assets):						
COMPANY	$ 105,353	9.5%	$ 44,545	4.0%	N/A	N/A
Bank	101,983	9.2%	44,544	4.0%	$ 55,681	5.0%

(In Thousands except Percentage Data)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2000:						
Total capital (to risk-weighted assets):						
COMPANY	$ 93,968	11.0%	$ 68,448	8.0%	N/A	N/A
Bank	82,925	9.7%	68,446	8.0%	$ 85,558	10.0%
Tier 1 capital (to risk-weighted assets):						
COMPANY	$ 85,058	9.9%	$ 34,224	4.0%	N/A	N/A
Bank	74,015	8.7%	34,223	4.0%	$ 51,335	6.0%
Tier 1 capital (to average assets):						
COMPANY	$ 85,058	9.6%	$ 35,367	4.0%	N/A	N/A
Bank	74,015	8.4%	35,366	4.0%	$ 44,208	5.0%

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 during 2001 or 2000.

The required balance at the Federal Reserve at December 31, 2001 was approximately $11,323,000.

13. EARNINGS PER SHARE

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

	Year ended December 31 2001	2000	1999
Numerator:			
Net income (loss)	$ 5,844	$ (16,497)	$ (9,298)
Preferred stock dividends	(26)	--	--
Numerator for basic earnings (loss) per share-income (loss) available to common shareholders	5,818	(16,497)	(9,298)
Effect of dilutive securities:			
Preferred stock dividends	26	--	--
Numerator for dilutive earnings (loss) per share-income (loss) available to common shareholders after assumed conversion	$ 5,844	$ (16,497)	$ (9,298)
Denominator:			
Denominator for basic earnings per share-weighted average shares	9,478,826	8,718,314	7,566,248
Effect of dilutive securities:			
Employee stock options(1)	85,010	--	--
Convertible preferred stock	24,766	--	--
Dilutive potential common shares	109,776	--	--
Denominator for dilutive earnings per share-adjusted weighted average shares and assumed conversions	9,588,602	8,718,314	7,566,248
Basic earnings (loss) per share	$ .61	$ (1.89)	$ (1.23)
Diluted earnings (loss) per share	$ .61	$ (1.89)	$ (1.23)

(1) Excludes employee stock options with exercise price greater than current market price.

14. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

	December 31, 2001		December 31, 2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$ 56,620	$ 56,620	$ 60,291	$ 60,291
Securities, available-for-sale	206,365	206,365	184,952	184,952
Securities, held-to-maturity	--	--	28,366	28,539
Loans, net	885,671	891,775	616,951	619,128
Deposits	886,077	887,436	794,857	795,314
Federal funds purchased	76,699	76,699	11,525	11,525
Borrowings	86,899	86,906	7,061	7,048

14. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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 short−term investments 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

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

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 and other borrowings

The carrying value reported in the consolidated balance sheet for federal funds purchased and other borrowings approximates their fair value. The fair value of term borrowings 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 the Company's 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.

15. COMMITMENTS AND CONTINGENCIES

The Company leases various premises under operating leases with various expiration dates. Rent expense incurred under operating leases amounted to approximately $2,443,000 and $2,064,000 for the years ended December 31, 2001 and 2000, respectively.

Minimum future lease payments under operating leases are as follows:

Year ending December 31,	Minimum Payments
	(In Thousands)
2002	$ 2,560
2003	2,224
2004	1,990
2005	1,950
2006 and thereafter	7,871
	$ 16,595

16. CONTINGENT LIABILITIES

In March 2000, the Company entered into an agreement to provide merchant card processing for a customer. In December 2000, the customer ceased operations and filed for bankruptcy protection. At the time the customer filed for bankruptcy protection, there were approximately $2.0 million in advanced credit card ticket sales. The Company was unable to determine its exact liability at December 31, 2000. However, at December 31, 2000, based upon all available information, the Company determined that $1.8 million was the most probable loss within the range and recognized a $1.8 million liability. The exact liability was not known until all of the chargebacks had been received and processed and all potential third party recoveries had been received by the Company which was completed during the fourth quarter of 2001. Total losses were $1.5 million. As a result of the losses being less than the original amount accrued, approximately $300,000 of the accrual was reversed during 2001.

17. PARENT COMPANY ONLY

Summarized financial information for Texas Capital Bancshares, Inc. - Parent Company Only follows:

BALANCE SHEETS

	December 31 2001	December 31 2000
	(In Thousands)	
ASSETS		
Cash and cash equivalents	$ 3,597	$ 11,259
Investment in subsidiary	102,989	75,154
Other assets	16	17
Total assets	$ 106,602	$ 86,430
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	$ 243	$ 233
Total liabilities	243	233
Preferred stock	8	--
Common stock	96	96
Additional paid-in capital	127,473	113,971
Accumulated deficit	(20,690)	(26,534)
Treasury stock	(21)	(854)
Accumulated other comprehensive loss	(507)	(482)
Total shareholders' equity	106,359	86,197
Total liabilities and shareholders' equity	$ 106,602	$ 86,430

STATEMENTS OF EARNINGS

	Year ended December 31 2001	2000	1999
	(In Thousands)		
Interest income	$ --	$ 78	$ 16
Total income	--	78	16
Salaries and employee benefits	512	699	764
Legal and professional	--	--	388
Non-interest expense	504	1,479	38
Total expense	1,016	2,178	1,190
Loss before income taxes and equity in undistributed income (loss) of subsidiary	(1,016)	(2,100)	(1,174)
Income tax expense (benefit)	--	--	--
Loss before equity in undistributed income (loss) of subsidiary	(1,016)	(2,100)	(1,174)
Equity in undistributed income (loss) of subsidiary	6,860	(14,397)	(8,124)
Net income (loss)	$ 5,844	$ (16,497)	$ (9,298)

17. PARENT COMPANY ONLY (CONTINUED)

STATEMENTS OF CASH FLOWS

	Year ended December 31 2001	2000	1999
		(In Thousands)	
OPERATING ACTIVITIES			
Net income (loss)	$ 5,844	$ (16,497)	$ (9,298)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in undistributed loss of subsidiary	(6,860)	14,397	8,124
Decrease in other assets	1	1	212
(Decrease) increase in other liabilities	(16)	90	123
Net cash used in operating activities	(1,031)	(2,009)	(839)
INVESTING ACTIVITY			
Investment in subsidiary	(21,000)	(15,000)	(11,000)
Net cash used in investing activity	(21,000)	(15,000)	(11,000)
FINANCING ACTIVITIES			
Sale of preferred stock	13,183	--	--
Sale of common stock	159	27,073	13,065
Purchase treasury stock, net	1,027	(7)	(847)
Net cash provided by financing activities	14,369	27,066	12,218
Net (decrease) increase in cash and cash equivalents	(7,662)	10,057	379
Cash and cash equivalents at beginning of year	11,259	1,202	823
Cash and cash equivalents at end of year	$ 3,597	$ 11,259	$ 1,202

18. REPORTABLE SEGMENTS

The Company operates two principal lines of business under Texas Capital Bank: the traditional bank and BankDirect, an Internet only bank. BankDirect has been a net provider of funds and the traditional bank has been a net user of funds. In order to provide a consistent measure of the net interest margin for BankDirect, the Company uses a multiple pool funds transfer rate to calculate credit for funds provided. This method takes into consideration the current market conditions during the reporting period.

TRADITIONAL BANKING (In thousands)	Year ended December 31 2001	2000	1999
Net interest income	$ 34,344	$ 20,860	$ 8,132
Provision for loan losses	5,762	6,135	2,687
Non-interest income	5,671	1,927	356
Non-interest expense	25,431	24,288	12,149
Net income (loss)	$ 8,822	$ (7,636)	$ (6,348)

BANKDIRECT (In thousands)	Year ended December 31 2001	2000	1999
Net interest income	$ 711	$ 1,901	$ 100
Non-interest income	312	30	2
Non-interest expense	2,985	8,692	1,878
Net loss	$ (1,962)	$ (6,761)	$ (1,776)

18. REPORTABLE SEGMENTS (CONTINUED)

Reportable segments reconciliation to the consolidated financial statements for the years ended December 31, 2001, 2000 and 1999 are as follows (in thousands):

	December 31, 2001			
	Net Interest Income	Provision for Loan Losses	Non-interest Income	Non-interest Expense
Total reportable lines of business	$ 35,055	$ 5,762	$ 5,983	$ 28,416
Unallocated items:				
Holding company	--	--	--	1,016
Texas Capital Bancshares (consolidated)	$ 35,055	$ 5,762	$ 5,983	$ 29,432

	December 31, 2000			
	Net Interest Income	Provision for Loan Losses	Non-interest Income	Non-interest Expense
Total reportable lines of business	$ 22,761	$ 6,135	$ 1,957	$ 32,980
Unallocated items:				
Holding company	78	--	--	2,178
Texas Capital Bancshares (consolidated)	$ 22,839	$ 6,135	$ 1,957	$ 35,158

	December 31, 1999			
	Net Interest Income	Provision for Loan Losses	Non-interest Income	Non-interest Expense
Total reportable lines of business	$ 8,232	$ 2,687	$ 358	$ 14,027
Unallocated items:				
Holding company	16	--	--	1,190
Texas Capital Bancshares (consolidated)	$ 8,248	$ 2,687	$ 358	$ 15,217

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 21, 2002, which proxy materials will be filed with the United States Securities and Exchange Commission no later than April 30, 2002.

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 21, 2002, which proxy materials will be filed with the United States Securities and Exchange Commission no later than April 30, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 21, 2002, which proxy materials will be filed with the United States Securities and Exchange Commission no later than April 30, 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is set forth in our definitive proxy materials regarding our annual meeting of stockholders to be held May 21, 2002, which proxy materials will be filed with the United States Securities and Exchange Commission no later than April 30, 2002.

ITEM 14. EXHIBITS

We have included or incorporated by reference the following exhibits to this report.

Exhibit Number	Description
2.1	Agreement and Plan to Consolidate Texas Capital Bank with and into Resource Bank, National Association under the Charter of 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, 2000
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, 2000
3.1	Certificate of Incorporation, which is incorporated by reference to Exhibit 3.1 to our registration statement on Form 10 dated August 24, 2000
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, 2000
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, 2000
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, 2000
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, 2000
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, 2000
4.2	Texas Capital Bancshares, Inc. 2000 Employee Stock Purchase Plan, which is incorporated by reference to Exhibit 4.2 to our registration statement on Form 10 dated August 24, 2000
4.3	Certificate of Designation in connection with Texas Capital Bancshares, Inc. 2001 6.0% Convertible Preferred Stock Offering
10.2	Deferred Compensation Agreement, which is incorporated by reference to Exhibit 10.2 to our registration statement on Form 10 dated August 24, 2000
10.3	Deferred Compensation Agreement Trust, which is incorporated by reference to Exhibit 10.3 to our registration statement on Form 10 dated August 24, 2000
21	Subsidiaries of the Registrant

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 26, 2002	TEXAS CAPITAL BANCSHARES, INC.
	By: /s/ JOSEPH M. GRANT Joseph M. Grant Chairman of the Board of Directors and Chief Executive Officer
Date: March 26, 2002	/s/ JOSEPH M. GRANT Joseph M. Grant Chairman of the Board of Directors and Chief Executive Officer (principal executive officer)
Date: March 26, 2002	/s/ GREGORY HULTGREN Gregory Hultgren Chief Financial Officer (principal financial and accounting officer)
Date: March 26, 2002	/s/ LEO CORRIGAN III Leo Corrigan III Director
Date: March 26, 2002	/s/ JAMES R. ERWIN James R. Erwin Director
Date: March 26, 2002	/s/ FREDERICK B. HEGI, JR. Frederick B. Hegi, Jr. Director
Date: March 26, 2002	/s/ JAMES R. HOLLAND, JR. James R. Holland, Jr. Director
Date: March 26, 2002	/s/ RALEIGH HORTENSTINE III Raleigh Hortenstine III Director
Date: March 26, 2002	/s/ GEORGE F. JONES, JR. George F. Jones, Jr. Director
Date: March 26, 2002	/s/ DAVID LAWSON David Lawson Director

Date: March 26, 2002	/s/ LARRY A. MAKEL Larry A. Makel Director
Date: March 26, 2002	/s/ WALTER W. MCALLISTER III Walter W. McAllister III Director
Date: March 26, 2002	/s/ LEE ROY MITCHELL Lee Roy Mitchell Director
Date: March 26, 2002	/s/ MARSHALL B. PAYNE Marshall B. Payne Director
Date: March 26, 2002	/s/ STEVE ROSENBERG Steve Rosenberg Director
Date: March 26, 2002	/s/ JOHN C. SNYDER John C. Snyder Director
Date: March 26, 2002	/s/ ROBERT W. STALLINGS Robert W. Stallings Director
Date: March 26, 2002	/s/ THEODORE H. STRAUSS Theodore H. Strauss Director
Date: March 26, 2002	/s/ JAMES CLEO THOMPSON, JR. James Cleo Thompson, Jr. Director
Date: March 26, 2002	/s/ IAN J. TURPIN Ian J. Turpin Director
Date: March 26, 2002	/s/ CHARLES DAVID WOOD Charles David Wood Director

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan to Consolidate Texas Capital Bank with and into Resource Bank, National Association under the Charter of 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, 2000
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, 2000
3.1	Certificate of Incorporation, which is incorporated by reference to Exhibit 3.1 to our registration statement on Form 10 dated August 24, 2000
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, 2000
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, 2000
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, 2000
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, 2000
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, 2000
4.2	Texas Capital Bancshares, Inc. 2000 Employee Stock Purchase Plan, which is incorporated by reference to Exhibit 4.2 to our registration statement on Form 10 dated August 24, 2000
4.3	Certificate of Designation in connection with Texas Capital Bancshares, Inc. 2001 6.0% Convertible Preferred Stock Offering
10.2	Deferred Compensation Agreement, which is incorporated by reference to Exhibit 10.2 to our registration statement on Form 10 dated August 24, 2000
10.3	Deferred Compensation Agreement Trust, which is incorporated by reference to Exhibit 10.3 to our registration statement on Form 10 dated August 24, 2000
21	Subsidiaries of the Registrant

</TEXT>
</DOCUMENT>

EXHIBIT 4.3

TEXAS CAPITAL BANCSHARES, INC.

CERTIFICATE OF DESIGNATION
OF
6.0% SERIES A CONVERTIBLE PREFERRED STOCK

The undersigned certifies, on behalf of the Corporation, that on December 18, 2001, pursuant to the authority contained in its Certificate of Incorporation (the "Certificate of Incorporation"), the Board of Directors of the Corporation hereby approves, consents to and adopts the following resolution, and the actions therein authorized as the act of the Board of Directors by written consent:

RESOLVED, that pursuant to the authority expressly granted to the Corporation's Board of Directors by the Certificate of Incorporation of the Corporation, the directors hereby establish a series of the Corporation's preferred stock, $0.01 par value per share, and hereby fix the designation, the number of shares and the relative rights, preferences and limitations thereof as follows:

1. Designation. The designation of the series of preferred stock created by this resolution shall be 6.0% Series A Convertible Preferred Stock, $0.01 par value per share (hereinafter referred to as the "Series A Preferred Stock"), and the initial number of shares constituting such series shall be up to a maximum of 1,100,000. Such number may be increased or decreased (but not below the number of shares then outstanding) from time to time by the Board of Directors. The Series A Preferred Stock shall rank senior to the common stock of the Corporation, $0.01 par value (the "Common Stock"), with respect to the payment of dividends and the distribution of assets.

2. Dividend Rights.

(a) The holders of shares of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefor, compounding cumulative cash dividends, accruing from the date of issuance, at an annual rate of 6.0% per share (expressed as a percentage of the $17.50 per share liquidation preference set forth in Section 3 hereof plus, as described below, the amount of arrearages in the payment of dividends), and no more, payable in arrears in quarterly installments mailed: (i) no later than forty-five (45) days after the end of the first fiscal quarter of each fiscal year of the Corporation; and (ii) no later than fifteen (15) days after the end of the second, third and fourth fiscal quarters of each fiscal year of the Corporation; provided, however, that the first date upon which holders of shares of Series A Preferred Stock shall be entitled to receive dividends shall be a date no later than forty-five (45) days after March 31, 2002. Dividends on the Series A Preferred Stock shall be compounding cumulative so that if, for any dividend accrual period, cash dividends at the rate specified herein are not declared and paid or set aside for payment, the amount of accrued but unpaid dividends shall accumulate and shall be added to the dividends payable for subsequent dividend accrual periods, and the amount of such arrearages shall, for purposes of calculating the amount of dividends accruing after such arrearage occurs, be added to the amount upon which dividends accrue. The rate at which dividends are paid shall be adjusted for any combinations or divisions or similar recapitalizations affecting the shares of Series A Preferred Stock. So long as any shares of Series A Preferred Stock are outstanding, (i) the amount of all dividends paid with respect to the shares of Series A Preferred Stock pursuant to this subparagraph shall be paid pro rata to the holders entitled thereto; and (ii) holders of shares of Series A Preferred Stock shall be entitled to receive the dividends provided for in this subparagraph in preference to and in priority over any dividends upon any Common Stock.

(b) Dividends on shares of Series A Preferred Stock shall be cumulative from the date of issuance whether or not there shall be funds available for the payment thereof under Delaware law or under the provisions hereof. Accumulations of dividends on the Series A Preferred Stock shall not bear interest. The Corporation shall not (i) declare, pay or set apart for payment any dividends or distributions on any stock ranking as to dividends junior to the Series A Preferred Stock (other than dividends paid in shares of such junior stock) or (ii) make any purchase or redemption of, or any sinking fund payment for the purchase or redemption of, any stock ranking as to dividends junior to the Series A Preferred Stock (other than a purchase or redemption made by issue or delivery of such junior stock) unless all dividends payable on all outstanding shares of Series A Preferred Stock for all past dividend periods shall have been paid in full or declared and a sufficient sum set apart for payment thereof.

3. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the holders of Series A Preferred Stock at that time shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders an amount equal to $17.50 per share plus an amount equal to accrued and unpaid dividends thereon through and including the date of such distribution, and no more, before any distribution shall be made to the holders of any class of stock of the Corporation ranking junior to the Series A Preferred Stock as to the distribution of assets.

(b) If the assets of the Corporation available for distribution to shareholders upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, are insufficient to pay in full the amounts payable with respect to the Series A Preferred Stock, the holders of Series A Preferred Stock at that time shall share ratably in any distribution of assets of the Corporation in proportion to the full respective preferential amounts to which they are entitled.

(c) The merger or consolidation of the Corporation into or with any other corporation, the merger or consolidation of any other corporation into or with the Corporation or the sale of the assets of the Corporation substantially as an entirety shall not be deemed a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of this paragraph.

4. Conversion Rights. The shares of Series A Preferred Stock shall be convertible into shares of Common Stock on the following terms and conditions:

(a) The Series A Preferred Stock will automatically convert into one (1) share of authorized but unissued Common Stock (the "Conversion Rate") upon the occurrence of any of the following: (i) any transaction, whether by merger, consolidation, asset sale, tender offer, reverse stock split, or otherwise, which results in the acquisition of beneficial ownership (as such term is defined under the rules and regulations promulgated under the Securities Exchange Act of 1934, as amended) by any person or entity, or any group of persons or entities acting in concert, of 50% or more of the outstanding shares of Common Stock of the Corporation; (ii) the sale of all or substantially all of the assets of the Corporation; (iii) the Common Stock is authorized for trading on the New York Stock Exchange or the National Market tier of the Nasdaq Stock Market, Inc. and the market value per share of the Common Stock is $17.50 per share or greater as of the market close for thirty consecutive trading days; (iv) the Corporation consummates an underwritten public offering of any shares of Common Stock at a price of $17.50 per share or higher; or (v) the capital adequacy guidelines published by the Board of Governors of the United States Federal Reserve System are changed in any manner which results in the Series A Preferred Stock no longer qualifying as Tier I Capital under such guidelines.

(b) Each share of Series A Preferred Stock may be converted into shares of authorized but unissued Common Stock at the Conversion Rate at any time, at the option of the holder.

(c) Promptly upon the occurrence of any of the events set forth in Sections 4(a) or 4(b) above and the surrender of the certificate or certificates representing the share or shares of Series A Preferred Stock to be converted, the Corporation shall cause to be issued and delivered to said holder, registered in such name or names as such holder may direct, a certificate or certificates for the number of shares of Common Stock issuable upon the conversion of such share or shares. To the extent permitted by law, such conversion shall be deemed to have been effected as of the close of business on the date of conversion, at which time the rights of the holder of such share or shares as such holder shall cease, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares of Common Stock represented thereby.

(d) No fractional shares of Common Stock shall be issued upon conversion of any shares of Series A Preferred Stock. The Corporation shall pay cash for any fractional shares which the Corporation otherwise would have been required to issue upon any conversion of such shares. The amount of such cash shall be determined in accordance with the market value of the Common Stock on the date of such conversion.

(e) The market value of the Common Stock shall be determined as follows:

(i) If the Common Stock is listed on a national securities exchange or admitted to unlisted trading privileges on such exchange, or traded or listed for trading on the Nasdaq Stock Market, Inc. or other nationally recognized market, the market value shall be the last reported sale price of the Common Stock on such exchange, system or market on any applicable date (which, in the case of determining the market value of fractional shares issuable upon conversion, shall be the last business day prior to the date of conversion). If no such sale is made on such day, the market value shall be the average closing bid and asked prices for such day on such exchange, system or market.

(ii) If the Common Stock is not so listed, traded or admitted to unlisted trading privileges, the market value shall be the average closing bid and asked prices reported by the OTC Bulletin Board System of the Nasdaq Stock Market, Inc. or the National Quotation Bureau, Inc. on any applicable date (which, in the case of determining the market value of fractional shares issuable upon conversion, shall be the last business day prior to the date of conversion). If bid and asked prices are not so reported, the market value shall be an amount determined by the Corporation's independent certified public accountants or other nationally recognized independent certified public accountants or professional appraisal firm specified by the Corporation.

(f) The Conversion Rate in effect at any time shall be subject to adjustment as follows:

(i) The Conversion Rate shall be adjusted if the Corporation (A) declares or makes a distribution or dividend on its Common Stock in shares of its capital stock, (B) subdivides its outstanding shares of Common Stock into a greater number of shares, (C) combines its outstanding shares of Common Stock into a smaller number of shares or (D) issues by reclassification of its shares of Common Stock (including any reclassification in connection with a consolidation or merger in which the Corporation is the continuing corporation) any shares of Common Stock. The Conversion Rate in effect at the time of the record date for such dividend or distribution, or the effective date of any subdivision, combination or reclassification, shall be adjusted so that the holder of any shares of Series A Preferred Stock after such time shall be entitled to receive the number and kind of shares which it would have owned or have been entitled to receive if such shares had been converted immediately prior to such time. Similar adjustments shall be made successively whenever any event listed above shall occur.

(ii) In the event of any consolidation of the Corporation with, or merger of the Corporation into, any other corporation (other than a consolidation or merger in which the Corporation is the continuing corporation), the holders of the Series A Preferred Stock shall have the right thereafter to convert such shares into the kind and amount of shares of stock or other securities of property, including cash, or any combination thereof, receivable upon such consolidation or merger by a holder of the number of shares of Common Stock of the Corporation into which such shares might have been converted immediately prior to such consolidation or merger. The provisions of this subparagraph shall similarly apply to successive consolidations and mergers.

(g) The Corporation shall at all times reserve and keep available out of its authorized Common Stock, free from preemptive rights, such shares of Common Stock as shall be issuable upon conversion of the Series A Preferred Stock. All shares of Common Stock which shall be so issuable shall, when issued, be duly and validly issued shares of the Corporation's authorized Common Stock and shall be fully paid and nonassessable, free of all liens and charges and not subject to preemptive rights.

5. Voting Rights.

(a) With respect to all matters submitted for a vote of the holders of Common Stock, shares of Series A Preferred Stock shall be entitled to vote with the outstanding shares of Common Stock as a single class. When voting as a class with the Common Stock, each share of Series A Preferred Stock shall be entitled to cast a number of votes equal to the number of shares of Common Stock into which a share of Series A Preferred Stock is then convertible under Section 4.

(b) The Corporation shall not, without the consent of the holders of at least a majority of the shares of the outstanding Series A Preferred Stock, adopt any amendment to the Certificate of Incorporation which would alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely, provided, that no such consent shall be required with respect to: (i) any amendment that increases or decreases the number of shares of Series A Preferred Stock which the Corporation is authorized to issue so long as no such amendment shall reduce the number of authorized shares to below the number of shares of Series A Preferred Stock then outstanding, or (ii) the establishment or issuance of any other series of preferred stock or any other class of stock of the Corporation that has any powers, preferences, rights, qualifications, limitations and restrictions that are in any way different from, greater than, superior to or in preference to those of the Series A Preferred Stock.

(c) Except as provided in this Section 5 or otherwise required by law, the holders of Series A Preferred Stock shall have no right or power to vote with respect to any matter.

6. Reacquired Shares. Shares of Series A Preferred Stock converted, redeemed, or otherwise purchased or acquired by the Corporation shall be restored to the status of authorized but unissued shares of the Corporation's preferred stock without designation as to series.

7. No Sinking Fund. Shares of Series A Preferred Stock are not subject to the operation of a sinking fund.

8. Tier 1 Capital. The Series A Preferred Stock shall at all times constitute Tier 1 Capital of the Corporation within the meaning of all regulations now in effect applicable to bank holding companies promulgated by the Board of Governors of the Federal Reserve System and any other applicable regulatory agency or authority. Accordingly, if any provision hereof would result in the failure of the Series A Preferred Stock to constitute Tier 1 Capital within the meaning of any such regulations, such provision shall be void and of no further force or effect.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Designation as of December 19, 2001.

/s/ LARRY A. MAKEL

Larry A. Makel, Secretary

</TEXT>
</DOCUMENT>

EXHIBIT 21

Subsidiaries of the Registrant

Texas Capital Bank, National Association

</TEXT>
</DOCUMENT>