



CONSOLIDATED FINANCIAL STATEMENTS

Atlantic Capital Bancshares, Inc.  
As of December 31, 2010 and 2009 and for the Years Ended  
December 31, 2010, 2009 and 2008  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Atlantic Capital Bancshares, Inc. and Subsidiary

Consolidated Financial Statements

As of December 31, 2010 and 2009 and for the Years Ended December 31, 2010, 2009 and 2008

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## Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Atlantic Capital Bancshares, Inc. and its subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atlantic Capital Bancshares, Inc. and its subsidiary at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

March 29, 2011

# Atlantic Capital Bancshares, Inc. and Subsidiary

## Consolidated Balance Sheets (In Thousands, except share data)

	December 31	
	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 20,547	\$ 5,078
Interest-bearing deposits in other banks	63,199	4,890
Federal funds sold	3,995	–
Investment securities available-for-sale	91,241	90,244
Stock in Federal Home Loan Bank, at cost	3,285	3,526
Loans receivable, net of allowance for loan losses of \$11,929 and \$10,528, respectively	640,648	573,601
Premises and equipment, net	2,966	3,574
Other real estate owned	1,775	1,779
Other assets	15,423	5,609
<b>Total assets</b>	<b>\$ 843,079</b>	<b>\$ 688,301</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Noninterest-bearing demand deposits	\$ 132,896	\$ 61,294
Interest-bearing checking	34,250	18,483
Savings	98	82
Money market	387,469	264,173
Time	34,919	55,554
Brokered deposits	101,229	92,260
<b>Total deposits</b>	<b>690,861</b>	<b>491,846</b>
Advances from Federal Home Loan Bank	27,470	57,711
Federal funds purchased and securities sold under agreements to repurchase	–	5
Other borrowings	–	30,000
Accrued expenses and other liabilities	5,524	3,466
<b>Total liabilities</b>	<b>723,855</b>	<b>583,028</b>
Stockholders' equity:		
Common stock, \$1 par value; 100,000,000 shares authorized, 13,261,038 shares issued and outstanding	13,261	13,261
Additional paid-in capital	120,019	119,435
Retained deficit	(15,113)	(27,860)
Accumulated other comprehensive income	1,127	558
Unamortized restricted stock	(69)	(120)
Treasury stock, 100 shares at cost	(1)	(1)
<b>Total stockholders' equity</b>	<b>119,224</b>	<b>105,273</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 843,079</b>	<b>\$ 688,301</b>

See accompanying notes.

# Atlantic Capital Bancshares, Inc. and Subsidiary

## Consolidated Statements of Operations

*(In Thousands, except share data)*

	<b>Year Ended December 31</b>		
	<b>2010</b>	2009	2008
Interest income:			
Interest on loans	\$ 24,776	\$ 19,283	\$ 12,538
Interest on investment securities available-for-sale	3,060	3,736	2,040
Interest and dividends on other interest-earning assets	377	273	591
Total interest income	<u>28,213</u>	<u>23,292</u>	<u>15,169</u>
Interest expense:			
Interest on deposits	4,564	4,157	4,066
Interest on Federal Home Loan Bank advances	1,420	1,582	818
Interest on federal funds sold and securities sold under agreements to repurchase	3	12	97
Interest on other borrowings	5	17	16
Total interest expense	<u>5,992</u>	<u>5,768</u>	<u>4,997</u>
Net interest income before provision for loan losses	22,221	17,524	10,172
Provision for loan losses	2,813	10,087	4,146
Net interest income after provision for loan losses	<u>19,408</u>	<u>7,437</u>	<u>6,026</u>
Noninterest income:			
Service charges	394	228	104
Gains on investment securities available-for-sale	214	-	-
Other noninterest income	971	249	106
Total noninterest income	<u>1,579</u>	<u>477</u>	<u>210</u>
Noninterest expense:			
Salaries and employee benefits	11,687	11,387	10,619
Occupancy	1,552	1,493	1,500
Equipment and software	455	512	470
Professional services	594	908	450
Postage, printing and supplies	80	90	81
Communications and data processing	747	678	425
FDIC premiums	1,153	1,056	70
Other noninterest expense	1,288	1,251	669
Total noninterest expense	<u>17,556</u>	<u>17,375</u>	<u>14,284</u>
Income (loss) before provision (benefit) for income taxes	3,431	(9,461)	(8,048)
Provision (benefit) for income taxes	(9,316)	-	-
Net income (loss)	<u>\$ 12,747</u>	<u>\$ (9,461)</u>	<u>\$ (8,048)</u>
Income (loss) per common share-basic and diluted	<u>\$ 0.96</u>	<u>\$ (0.74)</u>	<u>\$ (0.64)</u>

*See accompanying notes.*

Atlantic Capital Bancshares, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

(In Thousands, except share data)

	Common stock		Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Unamortized Restricted Stock	Treasury Stock	Total
	Shares	Amount						
Balance at January 1, 2008	12,533,471	\$ 12,533	\$ 110,705	\$ (10,351)	\$ 87	\$ –	\$ (1)	\$ 112,973
Comprehensive loss:								
Net loss	–	–	–	(8,048)	–	–	–	(8,048)
Change in unrealized gains (losses) on investment securities available-for-sale, net	–	–	–	–	(506)	–	–	(506)
Total comprehensive loss								(8,554)
Stock-based compensation	–	–	1,547	–	–	–	–	1,547
Balance at December 31, 2008	12,533,471	12,533	112,252	(18,399)	(419)	–	(1)	105,966
Comprehensive loss:								
Net loss	–	–	–	(9,461)	–	–	–	(9,461)
Change in unrealized gains (losses) on investment securities available-for-sale, net	–	–	–	–	977	–	–	977
Total comprehensive loss								(8,484)
Issuance of common stock, net of costs	713,167	713	5,486	–	–	–	–	6,199
Issuance of restricted stock	14,500	15	137	–	–	(152)	–	–
Amortization of restricted stock	–	–	–	–	–	32	–	32
Stock-based compensation	–	–	1,560	–	–	–	–	1,560
Balance at December 31, 2009	13,261,138	\$ 13,261	\$ 119,435	\$ (27,860)	\$ 558	\$ (120)	\$ (1)	\$ 105,273
<b>Comprehensive income:</b>								
<b>Net income</b>	–	–	–	<b>12,747</b>	–	–	–	<b>12,747</b>
<b>Change in unrealized gains (losses) on investment securities available-for-sale, net</b>	–	–	–	–	<b>569</b>	–	–	<b>569</b>
<b>Total comprehensive income</b>								<b>13,316</b>
<b>Amortization of restricted stock</b>	–	–	–	–	–	<b>51</b>	–	<b>51</b>
<b>Stock-based compensation</b>	–	–	<b>584</b>	–	–	–	–	<b>584</b>
<b>Balance at December 31, 2010</b>	<b>13,261,138</b>	<b>\$ 13,261</b>	<b>\$ 120,019</b>	<b>\$ (15,113)</b>	<b>\$ 1,127</b>	<b>\$ (69)</b>	<b>\$ (1)</b>	<b>\$ 119,224</b>

See accompanying notes.

# Atlantic Capital Bancshares, Inc. and Subsidiary

## Consolidated Statements of Cash Flows

*(In Thousands)*

	Year Ended December 31		
	2010	2009	2008
<b>Cash Flows from Operating Activities</b>			
Net income (loss)	\$ 12,747	\$ (9,461)	\$ (8,048)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation, amortization, and accretion	1,416	2,461	1,459
Provision for loan losses	2,813	10,087	4,146
Amortization of restricted stock compensation	51	32	–
Stock option compensation	584	1,560	1,547
Net increase in deferred income taxes	–	–	214
Decrease in deferred income tax valuation allowance	(9,289)	–	–
Gain on sale of investment securities available-for-sale	(214)	–	–
Loss on disposals of premises and equipment	9	1	10
Changes in assets and liabilities:			
Net increase in other assets	(525)	(3,819)	(1,100)
Net increase (decrease) in accrued expenses and other liabilities	1,696	(134)	45
Net cash provided by (used in) operating activities	<u>9,288</u>	<u>727</u>	<u>(1,727)</u>
<b>Cash Flows from Investing Activities</b>			
Purchases of investment securities available-for-sale	(31,079)	(57,208)	(59,663)
Proceeds from sales of investment securities available-for-sale	3,234	–	–
Proceeds from repayments of investment securities available-for-sale	20,731	17,536	4,020
Proceeds from calls and maturities of investment securities available-for-sale	6,581	22,575	2,000
Loan originations, net of repayments	(69,856)	(192,045)	(309,842)
Purchases of Federal Home Loan Bank stock, net	241	(1,291)	(2,021)
Purchases of premises and equipment, net	(136)	(110)	(308)
Net cash used in investing activities	<u>(70,284)</u>	<u>(210,543)</u>	<u>(365,814)</u>
<b>Cash Flows from Financing Activities</b>			
Net increase in deposits	199,015	146,064	292,857
Proceeds from Federal Home Loan Bank advances	28,500	37,000	43,025
Repayments of Federal Home Loan Bank advances	(58,741)	(22,225)	(89)
Net change in federal funds purchased and repurchase agreements	(5)	(15,004)	15,009
Net change in other borrowings	(30,000)	29,963	37
Net proceeds from issuance of common stock	–	6,199	–
Net cash provided by financing activities	<u>138,769</u>	<u>181,997</u>	<u>350,839</u>
Net increase (decrease) in cash and cash equivalents	77,773	(27,819)	(16,702)
Cash and cash equivalents at beginning of year	9,968	37,787	54,489
Cash and cash equivalents at end of year	<u>\$ 87,741</u>	<u>\$ 9,968</u>	<u>\$ 37,787</u>
<b>Supplemental disclosure of cash paid during year for</b>			
Interest	<u>\$ 6,049</u>	<u>\$ 5,875</u>	<u>\$ 4,731</u>
<b>Supplemental disclosure of noncash cash flow information</b>			
Acquisition of real estate in settlement of loans	<u>\$ –</u>	<u>\$ 1,779</u>	<u>\$ –</u>

See accompanying notes.

# Atlantic Capital Bancshares, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2010

### **1. Summary of Significant Accounting Policies**

#### **Business and Principles of Consolidation**

Atlantic Capital Bancshares, Inc. (Atlantic Capital or the Company), is a bank holding company headquartered in Atlanta, Georgia. The consolidated financial statements include the accounts of Atlantic Capital and its wholly-owned subsidiary Atlantic Capital Bank, a Georgia bank (the Bank). The Bank commenced operations in May 2007. The Bank provides commercial bank services, focusing primarily on emerging growth and middle market corporations, commercial real estate developers and investors, and the principals of these companies, as well as other private clients.

All significant intercompany balances and transactions have been eliminated in consolidation.

#### **Basis of Financial Statement Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks and federal funds sold. Generally, cash and cash equivalents have maturities of three months or less and, accordingly, the carrying amount of these instruments is deemed to be a reasonable estimate of fair value.

#### **Investment Securities Available-For-Sale**

Investment securities designated as available-for-sale are stated at fair value. Investment securities available-for-sale include securities that may be sold in response to changes in interest rates, changes in prepayment risk, liquidity needs, or for other purposes. Interest income and dividends on securities are recognized in interest income on an accrual basis. Premiums and discounts on debt securities are amortized or accreted over the life of the related security as an adjustment of the yield. Realized gains and losses are included in earnings and the cost of securities sold is derived using the specific identification method. Unrealized gains and losses,

# Atlantic Capital Bancshares, Inc. and Subsidiary

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

net of the related tax effect, are excluded from earnings and are reported as a separate component of stockholders' equity.

Available-for-sale securities are reviewed for impairment based on the updated guidance on determining other-than-temporary impairment (OTTI). A security is considered to be impaired if the fair value is less than its amortized cash basis at the measurement date and the decline in fair value is determined to be other-than temporary. Based on the updated guidance, the Company determines whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, the Company must recognize the full impairment and write the debt security down to fair value. For debt securities which the Company does not expect to recover the entire amortized cost basis of the security and which do not meet either condition, an OTTI loss is considered to have occurred. The credit loss portion of impairment is recorded as a realized loss in the Consolidated Statements of Operations and the temporary impairment related to all other factors is recorded in accumulated other comprehensive income, a component of stockholders' equity.

### Loans

Loans are stated at the amount of unpaid principal, net of the allowance for loan losses, deferred income (net of deferred costs) and other unearned income. Interest income on loans is recognized using the effective yield method on the daily balances of the principal amount outstanding. Loan origination fees, net of direct loan origination costs, and commitment fees are deferred and amortized as an adjustment to yield over the life of the loan, or over the commitment period, as applicable.

A loan is considered to be impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. 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 observable market price, or the fair value of the underlying collateral of the loan if the loan is collateral dependent. Interest accruals on loans are 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 if payments become 90 days past due. When a loan is placed on nonaccrual status, interest accrued and not paid in the current accounting period is reversed against current period income. Interest accrued and not paid in prior periods, if significant, is reversed against the allowance for loan losses.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

Income on such loans is subsequently recognized on a cash basis as long as the future collection of principal is deemed probable or after all principal payments are received. A loan is placed back on accrual status when both principal and interest are current and it is probable that all amounts due, both principal and interest, are fully collectible according to the terms of the loan agreement.

The Company evaluates loans in accordance with the provisions within the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 310-40, *Troubled Debt Restructurings by Creditors*. Troubled debt restructurings are loans in which the Company has modified the terms and granted an economic concession to the borrower. These modifications may include interest rate reductions, term extensions and other concessions intended to minimize losses. At December 31, 2010, the Company has not identified any troubled debt restructurings as defined by the guidance.

#### **Allowance for Loan Losses**

The allowance for loan losses is established through the provision for loan losses charged against earnings and is maintained at a level that management considers adequate to absorb losses inherent in the portfolio. The allowance for loan losses framework has two basic elements: specific allowances for loans individually evaluated for impairment and a general allowance for pools of loans with similar characteristics not individually evaluated. This analysis includes the evaluation of impaired loans as prescribed under the Receivables Topic of the FASB ASC, as well as pooled loans as prescribed under the Contingencies Topic of the FASB ASC. Management's evaluation of the allowance considers changes in the nature and volume of the portfolio, historic charge-offs, adequacy of collateral, delinquency trends, loan concentrations, economic conditions and other factors considered necessary to maintain the allowance at an adequate level. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely and subsequent recoveries, if any, are credited to the allowance in the period received.

Management believes that the allowance for loan losses is adequate. While management uses available information to estimate the inherent losses at each balance sheet date, future changes to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses on loans. Such agencies may require the Bank to adjust the allowance based on their judgment about information available to them at the time of their examination.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Premises and Equipment, net**

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 respective assets. Major additions and improvements are charged to the asset accounts while maintenance and repairs that do not improve or extend the useful lives of the assets are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in the results of operations for the period.

##### **Other Real Estate Owned**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the loan balance or fair value at the date of foreclosure, less estimated costs to sell. Any difference between the initial cost basis and the carrying value of the loan is charged to the allowance for loan losses at the date of the transfer to other real estate owned. Subsequent to foreclosure, any further declines in value of the assets are recorded as adjustments to the asset's carrying amount and reported in noninterest expense, along with costs related to holding the properties, in the Consolidated Statements of Operations.

##### **Segment Reporting**

Atlantic Capital considers its operations to be a single business segment as defined in ASC 280, *Segment Reporting*. The Company has determined that its lending divisions meet the aggregation criteria of ASC 280 as the products and services, nature of the production processes, types of customers, methods used to distribute products and services and the regulatory environment are sufficiently similar to aggregate their results.

##### **Income Taxes**

The provision (benefit) for income taxes is based on income and expense reported for financial statement purposes after adjustments for permanent differences. Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

A valuation allowance is provided when it is deemed more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the four possible sources of taxable income including future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback years and tax-planning strategies that would be implemented to utilize the loss carryforwards prior to expiration.

The Company adopted guidance under ASC 740-10-65, *Accounting for Uncertainties in Income Taxes*, with respect to accounting for uncertainty in income taxes as of January 1, 2009. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination.

Atlantic Capital files its income tax returns on a consolidated basis. For additional information, see Note 7, *Income Taxes*.

#### **Stock-Based Compensation**

Atlantic Capital sponsors a stock-based compensation plan, which is described more fully in Note 9, *Employee and Director Benefit Plans*. Compensation cost is recognized for stock options, warrants and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options and warrants, while the price of the Company’s common stock at the date of grant is used for restricted stock awards. The total cost of the Company’s stock-based awards is recognized as expense on a straight-line basis over the vesting periods of the awards.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Earnings per Share**

Basic earnings per share are computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted-average number of common shares outstanding during each period, plus common share equivalents calculated for stock options and warrants outstanding using the treasury stock method. When a net loss is recognized for the period, diluted earnings per share is calculated in the same manner as basic earnings per share.

##### **Off-Balance Sheet Financial Instruments**

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

##### **Fair Value**

Certain assets and liabilities are measured at fair value on a recurring basis. Examples of these include available-for-sale securities and derivative instruments. Fair value is used on a non-recurring basis when assets are evaluated for impairment, the basis for accounting is lower of cost or market or for disclosure purposes fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

For additional information, see Note 13, *Fair Value*.

##### **Derivative Financial Instruments**

The Company follows the guidance under ASC 815, *Derivatives and Hedging*, and records all derivatives on the Consolidated Balance Sheets at fair value. Currently, none of the Company's derivatives are designated in qualifying hedging relationships; therefore changes in market value are recognized directly into earnings.

For additional information, see Note 16, *Derivative Financial Instruments*.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements*. This ASU requires additional disclosures related to fair value measurements, including the amounts and reasons for transfers in and out of Level 1 and Level 2, the reasons for transfers in and out of Level 3 and gross presentation of activity for Level 3. In addition, this ASU clarifies existing disclosure requirements on fair value measurements for each class of assets and liabilities disclosed and requires enhanced disclosures on valuation techniques and inputs for Level 2 instruments. The Company adopted the disclosure requirements for Level 1 and Level 2 transfers and the expanded fair value measurement and valuation disclosures effective January 1, 2010. The adoption did not have an impact on the Company's financial position or results of operations. The disclosure requirements for the gross presentation of activities in Level 3 will be required for the Company beginning January 1, 2011. The adoption of Level 3 disclosure requirements will not have an impact on the Company's financial position or results of operations.

In June 2009, the FASB issued ASU 2009-16, an update to ASC 860-10, *Transfers and Servicing*, to, among other things, remove the qualifying special purpose entity; introduce restrictive criteria for when transfers of a portion of a financial asset may be eligible for sale accounting; clarify certain key principles of the sale accounting criteria; and revise how interests retained by the transferor in a sale of financial assets are measured initially. This standard also requires additional disclosures related to a transferor's continuing involvement in transferred financial assets. This standard became effective January 1, 2010, and applies to transfers of financial assets occurring after that date. The adoption of this standard did not have an impact on the Company's financial condition or results of operations.

In June 2009, the FASB issued ASU 2009-17, an update to ASC 810-10, *Consolidation*. This standard amends the consolidation guidance for variable interest entities (VIEs) to, among other things, remove the consolidation exception for qualifying special purpose entities; revise certain guidance for determining whether an entity is a VIE; introduce a new consolidation approach that considers qualitative factors for determining who should consolidate a VIE; and change when it is necessary to reconsider both an entity's status as a VIE and who should consolidate a VIE. This standard also introduces additional disclosure and presentation requirements related to an entity's involvement in VIEs. This standard became effective January 1, 2010. The adoption of FASB ASC 810-10 did not have an impact on the Company's financial condition or results of operations.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

In April 2010, the FASB issued ASU 2010-18, an update to ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. This update clarifies that modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring (TDR). Loans accounted for individually under ASC Subtopic 310-30 continue to be subject to the TDR accounting provisions within ASC 310-40, *Receivables—Troubled Debt Restructurings by Creditors*. This standard became effective for the Company for annual periods ending after July 15, 2010. The adoption of this standard did not have an impact on the Company's financial condition or results of operations.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU requires extensive disclosures about the credit quality of financing receivables, credit risk exposures and the allowance for credit losses. The required disclosures include, among other things, a rollforward of the allowance for credit losses, information about modified, impaired, nonaccrual and past due loans and credit quality information. ASU 2010-20 is effective for annual reporting periods after December 15, 2011 for nonpublic companies. This standard will result in expanded disclosures in subsequent periods upon adoption.

#### **Subsequent Events**

The Company evaluated subsequent events through March 29, 2011, the date the consolidated financial statements were available to be issued.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**2. Investment Securities Available-for-Sale**

Investment securities available-for-sale at December 31, 2010 and 2009 were as follows (in thousands):

	<b>2010</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Government agencies	\$ 19,045	\$ 425	\$ –	\$ 19,470
U.S. states and political divisions	1,091	3	–	1,094
Trust preferred securities	4,580	–	(627)	3,953
Corporate debt securities	489	34	–	523
Residential mortgage-backed securities-agency	64,192	2,150	(141)	66,201
<b>Total</b>	<b>\$ 89,397</b>	<b>\$ 2,612</b>	<b>\$ (768)</b>	<b>\$ 91,241</b>

  

	<b>2009</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Government agencies	\$ 18,825	\$ –	\$ (238)	\$ 18,587
Trust preferred securities	4,557	–	(1,000)	3,557
Corporate debt securities	4,009	104	–	4,113
Residential mortgage-backed securities-agency	61,940	2,096	(49)	63,987
<b>Total</b>	<b>\$ 89,331</b>	<b>\$ 2,200</b>	<b>\$ (1,287)</b>	<b>\$ 90,244</b>

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**2. Investment Securities Available-for-Sale (continued)**

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2010 and 2009 are summarized as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010						
Trust preferred securities	\$ -	\$ -	\$ 3,953	\$ (627)	\$ 3,953	\$ (627)
Residential mortgage-backed securities-agency	17,170	(141)	-	-	17,170	(141)
Total	\$ 17,170	\$ (141)	\$ 3,953	\$ (627)	\$ 21,123	\$ (768)
December 31, 2009						
U.S. Government agencies	\$ 18,587	\$ (238)	\$ -	\$ -	\$ 18,587	\$ (238)
Trust preferred securities	-	-	3,557	(1,000)	3,557	(1,000)
Residential mortgage-backed securities-agency	7,332	(49)	-	-	7,332	(49)
Total	\$ 25,919	\$ (287)	\$ 3,557	\$ (1,000)	\$ 29,476	\$ (1,287)

The Company reviews available-for-sale investment securities for impairment on a quarterly basis. An investment security is considered to be impaired if the fair value is less than its amortized cost basis at the measurement date. The Company determines whether a decline in fair value below the amortized cost basis is other-than-temporary. In 2009, the Company adopted the updated guidance in ASC 320-10, *Investments-Debt and Equity Securities*, on determining OTTI on debt securities. Prior to this guidance, debt securities that the Company had the intent and ability to hold to recovery and for which it was probable that the Company would receive all cash flows were considered not to be other-than-temporarily impaired. Based on the updated guidance, the Company determines whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either of these conditions is met, the Company must recognize an other-than-temporary impairment and write the debt security down to fair value. For debt securities which the Company does not expect to recover the entire amortized cost basis of the security and which do not meet either condition, an OTTI loss is considered to have occurred. The credit loss portion of impairment is recorded as a realized loss in the Consolidated Statements of Operations

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **2. Investment Securities Available-for-Sale (continued)**

and the temporary impairment related to all other factors is recorded in accumulated other comprehensive income, a component of stockholders' equity.

At December 31, 2010, the Bank held a trust preferred security having a continuous unrealized loss position for approximately 35 months and 8 individual agency residential mortgage-backed securities having an unrealized loss position less than 12 months. For these securities, the unrealized loss resulted from market interest rate changes and liquidity discounts, as opposed to, credit losses. The Bank does not intend on selling these securities and it is not more likely than not that the Bank will be required to sell these securities until their value recovers. The Company expects to recover the entire amortized cost basis of the securities. Having reviewed these securities for OTTI, the Bank does not consider them to be other-than-temporarily impaired and no impairment loss has been recognized in the Consolidated Statements of Operations.

The Company holds stock in the Federal Home Loan Bank of Atlanta (FHLB) totaling \$3.3 million and \$3.5 million as of December 31, 2010 and 2009, respectively. The Company accounts for the stock based on the industry guidance in ASC 325-942, *Investments-Other*, which requires the investment be carried at cost and be evaluated for impairment based on the ultimate recoverability of the par value. The Company evaluated its holdings in FHLB stock at December 31, 2010, and believes its holdings in the stock are ultimately recoverable at par. In addition, the Company does not have operational or liquidity needs that would require a redemption of the stock in the foreseeable future and therefore determined that the stock was not other-than-temporarily impaired.

The amortized cost and estimated fair value of investment securities available-for-sale at December 31, 2010, by contractual maturity, are shown below (in thousands). Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**2. Investment Securities Available-for-Sale (continued)**

	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ —	\$ —
Due after one year through five years	3,147	3,219
Due after five years through ten years	2,000	2,005
After ten years	20,058	19,816
Residential mortgage-backed securities-agency	64,192	66,201
Total	<u>\$ 89,397</u>	<u>\$ 91,241</u>

During the year ended December 31, 2010, proceeds from sales of investment securities available-for-sale were \$3.2 million, resulting in \$158,000 in realized gains. During the years ended December 31, 2009 and 2008, there were no sales of investment securities available-for-sale. During the years ended December 31, 2010 and 2009, proceeds from calls and maturities of investment securities available-for-sale were \$6.6 million and \$7.0 million, respectively, resulting in \$56,000 in realized gains in 2010 and no realized gains or losses in 2009.

An investment security with a carrying value of approximately \$2.3 million and \$3.6 million was pledged to secure public deposits at December 31, 2010 and 2009, respectively.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**3. Loans**

The composition of the loan portfolio at December 31, 2010 and 2009 was as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Commercial and industrial loans	\$ 219,807	\$ 185,015
Real estate:		
Construction and land	23,418	65,527
Commercial – owner occupied	115,849	90,708
Commercial – investor occupied	164,256	133,084
Multifamily	75,858	59,518
1-4 family residential	2,889	–
Home equity	39,104	39,951
Total real estate loans	<u>421,374</u>	<u>388,788</u>
Consumer and other	<u>13,473</u>	<u>12,978</u>
	<b>654,654</b>	<b>586,781</b>
Less net deferred fees and other unearned income	<b>(2,077)</b>	<b>(2,652)</b>
Less allowance for loan losses	<b>(11,929)</b>	<b>(10,528)</b>
Loans, net	<u><b>\$ 640,648</b></u>	<u><b>\$ 573,601</b></u>

The majority of Atlantic Capital's real estate loans are secured by real property located in metropolitan Atlanta, Georgia. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. In the determination of the adequacy of the allowance for loan losses, management has considered the risks related to this geographic concentration.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 3. Loans (continued)

A summary of activity in the allowance for loan losses for the years ended December 31, 2010, 2009 and 2008 is as follows (in thousands):

	<b>2010</b>	2009	2008
Balance at beginning of year	\$ <b>10,528</b>	\$ 5,605	\$ 1,459
Provision for loan losses	<b>2,813</b>	10,087	4,146
Loans charged-off	<b>(1,412)</b>	(5,164)	–
Recoveries on loans previously charged-off	–	–	–
Balance at end of year	<b>\$ 11,929</b>	\$ 10,528	\$ 5,605

All nonaccrual loans at December 31, 2010 and 2009 were considered impaired. Total nonaccrual loans at December 31, 2010 and 2009 were \$86,000 and \$2.5 million, respectively. The gross amounts of interest income that would have been recorded in 2010 and 2009 on nonaccrual loans at December 31, 2010 and 2009, if all such loans had been accruing interest at their contractual rates, was \$11,000 and \$238,000. At December 31, 2010 and 2009, there were no accruing loans past due 90 days or more.

Loans individually evaluated for impairment as prescribed under the Receivables Topic of the FASB ASC at December 31, 2010 and 2009 were \$86,000 and \$2.5 million, respectively. There was no related allowance for loan losses on these loans. The average recorded investment in impaired loans for the years ended December 31, 2010 and 2009 was \$311,000 and \$3.1 million, respectively. For the years ended December 31, 2010 and 2009, interest income recognized on impaired loans totaled \$0 and \$80,000, respectively.

In the normal course of business, the Bank conducts transactions with its directors and executive officers, including companies in which such officers or directors have a beneficial interest. It is the policy of Atlantic Capital that all such transactions are on substantially the same terms as those prevailing at the time for comparable transactions with third parties. The following is a summary of activity with respect to related party loans in 2010 and 2009 (in thousands):

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**3. Loans (continued)**

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 2,675	\$ 2,139
Additions	2,963	1,946
Repayments	(2,976)	(1,410)
Balance at end of year	<u>\$ 2,662</u>	<u>\$ 2,675</u>

**4. Premises and Equipment**

A summary of premises and equipment and their useful lives as of December 31, 2010 and 2009 is as follows (in thousands):

	<u>Useful Life</u>	<u>2010</u>	<u>2009</u>
Leasehold improvements	10-11 years	\$ 2,681	\$ 2,681
Equipment and furniture	1-10 years	3,116	3,022
Projects in process		19	-
		<u>5,816</u>	<u>5,703</u>
Less accumulated depreciation		(2,850)	(2,129)
		<u>\$ 2,966</u>	<u>\$ 3,574</u>

Depreciation expense was \$584,000, \$659,000 and \$638,000 in 2010, 2009 and 2008, respectively.

**5. Deposits**

At December 31, 2010 and 2009, contractual maturities of time deposits are summarized as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Maturity one year or less	\$ 32,252	\$ 52,405
Maturity greater than one year through two years	1,982	2,763
Maturity greater than two years through three years	557	200
Maturity greater than three years	128	384
Total time deposits	<u>\$ 34,919</u>	<u>\$ 55,752</u>

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 5. Deposits (continued)

At December 31, 2010 and 2009, the table above includes certificates from banking clients totaling \$34.9 million and \$55.6 million, respectively, and brokered certificates of deposit totaling \$0 and \$198,000, respectively.

Time deposits of \$100,000 or more totaled \$31.7 million and \$24.7 million at December 31, 2010 and 2009, respectively. Time deposits of \$100,000 or more with maturities greater than one year were \$1.6 million and \$2.7 million at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, the Bank held total brokered deposits of \$101.2 million and \$92.3 million, respectively. The Bank held brokered money market accounts and brokered interest-bearing checking accounts totaling \$100.3 million and \$90.2 million, respectively, and \$906,000 and \$1.9 million, respectively, at December 31, 2010 and 2009. At December 31, 2010, the Bank held no brokered certificates. Included in brokered deposits at December 31, 2009, were \$198,000 in certificates of deposit. At December 31, 2009, the weighted average cost of brokered certificates of deposit was 1.92%. Brokered certificates of deposit are included in maturities of one year or less in the table above.

Interest expense on deposits for the years ended December 31, 2010, 2009 and 2008 consisted of the following (in thousands):

	2010	2009	2008
Interest-bearing checking	\$ 107	\$ 61	\$ 81
Money market	2,820	2,525	2,513
Time deposits	854	839	655
Brokered deposits	783	732	817
Total interest on deposits	\$ 4,564	\$ 4,157	\$ 4,066

At December 31, 2010 and 2009, deposits from directors, executive officers and their related interests aggregated approximately \$5.7 million and \$4.3 million, respectively. These deposits were taken in the normal course of business at market interest rates and terms.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 6. Borrowed Funds

##### FHLB Advances

The Bank is a shareholder in the FHLB of Atlanta. Advances from the FHLB are collateralized by FHLB stock and certain 1-4 residential, multifamily, home equity lines of credit and commercial real estate loans to secure a total commitment amount of \$68.4 million and \$62.9 million as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, respectively, advances from the FHLB totaled \$27.5 million and \$57.7 million with a weighted average interest rate of 3.66% and 2.82%. At December 31, 2010, interest was payable at fixed rates ranging from 3.21% to 4.30%, and the advances matured at various dates from March 4, 2013 through July 22, 2015. At December 31, 2009, advances consisted of a daily variable rate credit of 0.37% and fixed rate advances ranging from 3.21% to 4.30% with maturities at various dates from September 27, 2010 through July 22, 2015. Management anticipates continued utilization of this short and long-term source of funds to minimize interest rate risk and to fund growth in interest-earning assets when favorable to do so.

Contractual maturities of FHLB advances at December 31, 2010 were as follows (dollars in thousands):

	<b>Amount</b>	<b>Rate Range</b>
2011	\$ —	—
2012	—	—
2013	18,800	3.21% – 3.56%
2014	—	—
2015	8,670	4.30%
Thereafter	—	—
Total FHLB advances	\$ 27,470	

##### Short-term Debt

As of December 31, 2010, there were no federal funds purchased. As of December 31, 2009, federal funds purchased totaled \$5,000 with an interest rate of 1.00%. The Bank has entered into line of credit agreements with various financial institutions to purchase federal funds with an aggregate commitment amount of \$85.0 million and \$53.0 million as of December 31, 2010 and 2009, respectively.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 6. Borrowed Funds (continued)

The Bank has also entered into a line of credit agreement with the Federal Reserve Bank of Atlanta through which it has pledged a portion of its unencumbered loan portfolio to secure a total commitment amount of \$134.9 million and \$103.5 million as of December 31, 2010 and 2009. The commitment level varies proportionally to the collateral balances. There was no outstanding balance related to this agreement as of December 31, 2010 and 2009.

#### 7. Income Taxes

The components of income tax expense included in the Consolidated Statement of Operations for the year ended were as follows:

	<u>2010</u>
Current income tax expense	
Federal	\$ —
State	—
Total	<u>\$ —</u>
Deferred income tax expense	
Federal	\$ (8,246)
State	(1,070)
Total	<u>(9,316)</u>
Total income tax	<u>\$ (9,316)</u>

The Company experienced operating losses in 2009 and 2008 and there was no current or deferred provision for income taxes, as the future tax benefit associated with these losses was fully offset by a valuation allowance.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**7. Income Taxes (continued)**

The income tax benefit differs from the statutory rate of 34% in 2010 and 35% in 2009 and 2008, as indicated in the following analysis (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Tax expense (benefit) based on federal statutory rate	\$ 1,167	\$ (3,311)	\$ (2,817)
State expense (benefit) taxes, net of federal benefit	138	(367)	(312)
Income tax credits	(124)	—	—
Rate adjustment	260	—	—
Other	19	20	16
Valuation allowance	(10,776)	3,658	3,113
	<u>\$ (9,316)</u>	<u>\$ —</u>	<u>\$ —</u>

The following summarizes the net deferred tax asset. The net deferred tax asset is included as a component of other assets at December 31, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Net operating loss carryforward	\$ 1,492	\$ 3,609
State credits	124	—
Organizational costs	570	636
Allowance for loan losses	4,528	4,095
Stock-based compensation	1,799	1,603
Deferred loan fees and costs, net	933	949
Other	—	7
Total gross deferred tax assets	<u>9,446</u>	<u>10,899</u>
Net unrealized gains on investment securities available-for-sale	718	355
Depreciation	92	123
Other	5	—
Total gross deferred tax liabilities	<u>815</u>	<u>478</u>
Net deferred tax assets	<u>\$ 8,631</u>	<u>\$ 10,421</u>

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **7. Income Taxes (continued)**

The Company adopted the provisions of ASC 740-10-65 effective January 1, 2009. This provision prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with ASC 740-10-65, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Company.

With the adoption of ASC 740-10-65, the Company elected to recognize accrued interest and penalties related to any future unrecognized tax benefits in current income tax expense. Since the Company has no uncertain tax positions, no interest or penalties have been accrued as of December 31, 2010.

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. A valuation allowance is provided when it is deemed more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the four possible sources of taxable income including future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback years and tax-planning strategies that would, if necessary, be implemented.

As of December 31, 2009 the Company's valuation allowance totaled \$10.8 million. The valuation allowance offset the net deferred tax asset at December 31, 2009, with the exception of the tax effect of the unrealized gains and losses on securities available-for-sale, which were recorded in accumulated other comprehensive income. In 2010, after assessing the ability to realize the deferred tax assets, management believes it is more likely than not that the deferred tax assets will be realized. Accordingly, the Company reversed the valuation allowance in 2010.

The deferred tax assets include federal and state net operating loss carryforwards of \$1.3 million and \$214,000, respectively, as of December 31, 2010. The net operating losses expire, if not utilized, in varying amounts from 2027 to 2029.

The Company's income tax returns remain subject to examination by both U. S. federal and state jurisdictions for tax years 2007 forward.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **8. Stockholders' Equity**

During 2009, in a private placement of common stock, Atlantic Capital issued 713,167 shares of common stock at a price of \$10.50 per share, representing the fair market value of the stock. The proceeds were used to fund the Bank, pay selling and other expenses related to the offering and for general corporate purposes.

#### **9. Employee and Director Benefit Plans**

##### ***Defined Contribution Plan***

Atlantic Capital sponsors a 401(k) qualified retirement plan that is qualified pursuant to Section 401 of the Internal Revenue Code. The plan is referred to as a "safe harbor 401(k) plan". The plan allows eligible employees to defer a portion of their income by making contributions into the plan on a pretax basis. The plan provides for a safe harbor contribution by Atlantic Capital. If the Company elects to make the safe harbor contribution, it will be at least 3% of eligible employees' compensation that is subject to income tax and paid during the plan year. Eligible employees are not required to participate in the plan in order to receive the safe harbor contribution. The plan also provides that the Board of Directors may authorize matching contributions based on a percentage of the amount contributed by the employee and discretionary profit sharing contributions. Employees of the Company must meet certain requirements concerning minimum age and credited period of service to participate in the plan. During the years ended December 31, 2010, 2009 and 2008, the Company contributed approximately \$245,000, \$261,000 and \$229,000, respectively, to this plan under its safe harbor provision.

##### ***Stock Option Plan and Warrants***

Atlantic Capital sponsors a stock incentive plan for the benefit of directors and employees. Under the Company's 2006 Stock Incentive Plan (the Plan), there are 2,000,000 shares reserved for issuance in order for directors and employees to purchase Atlantic Capital common stock. The Compensation Committee has the authority to grant an incentive or nonqualified option; a restricted stock award (including a restricted stock award or a restricted unit award); a performance award (including a performance share award or a performance unit award); a phantom stock award; a dividend equivalent award; or any other award granted under the plan. Shares delivered under the Plan shall be authorized but unissued shares, treasury shares or shares purchased on the open market or by private purchase. As of December 31, 2010, 821,500 stock options are outstanding to directors and employees. As of December 31, 2009 and 2008, 815,000 and 798,500 stock options were outstanding to directors and employees. Stock options are

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 9. Employee and Director Benefit Plans (continued)

granted at a price which is no less than the fair market value of a share of Atlantic Capital common stock on the grant date. Stock options generally vest over three years and expire after ten years.

As of December 31, 2010, warrants for 593,000 shares were outstanding for the purchase of common stock at a price of \$10.00 per warrant. As of December 31, 2009 and 2008, warrants for 594,000 shares were outstanding for the purchase of common stock at a price of \$10.00 per warrant. The warrants were issued as of May 14, 2007, the date of issuance of common stock sold in the initial private placement, and are exercisable for a period of ten years following the issuance.

The Company accounts for stock options and warrants in accordance with FASB ASC 718, *Stock Compensation*, which requires the Company to recognize the costs of its employee stock option awards and warrants in its income statement. According to ASC 718, the total cost of the Company's share-based awards is equal to their grant date fair value and is recognized as expense on a straight-line basis over the vesting period of the awards. Total stock-based compensation expense recognized by the Company during 2010, 2009 and 2008 for stock option grants and warrants was \$584,000, \$1.6 million and \$1.5 million, respectively. Unrecognized stock-based compensation expense related to stock option grants and warrants at December 31, 2010, 2009 and 2008 was \$75,000, \$561,000, and \$2.1 million, respectively. At December 31, 2010, 2009 and 2008, the weighted average period over which this unrecognized expense is expected to be recognized was 1.3 years, 0.4 years and 1.4 years, respectively. The weighted-average remaining contractual life of options and warrants outstanding at December 31, 2010 was 7.1 years.

The Company estimates the fair value of its options and warrants awards using the Black-Scholes option pricing model. The Company used industry data obtained from bank holding companies with similar attributes to estimate option and warrant exercise and termination patterns within the Black-Scholes model. The risk-free rate for periods within the contractual life of the option and warrant is based on the U.S. Treasury yield curve in effect at the time of grant. During 2010 and 2009, respectively, there were 37,000 and 45,000 options granted at an exercise price of \$10.00 and \$10.50 each. The weighted-average grant-date fair value of stock options granted to Atlantic Capital directors and employees during 2010 and 2009 was \$2.79 and \$3.06, respectively. There were no options or warrants granted during 2008.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**9. Employee and Director Benefit Plans (continued)**

Assumptions used in calculating the fair value of options and warrants granted during 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Dividend yield	0.00%	0.00%	N/A
Risk-free interest rate (range)	2.74%	1.17%-1.48%	N/A
Expected volatility	27.5%	27.4%	N/A
Expected life	6 yrs	6 yrs	N/A

A summary of the status of outstanding stock options under the Company's stock incentive plan and warrants at December 31, 2010, 2009 and 2008, and the changes during the years then ended is presented in the table below:

	2010		2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,409,000	\$ 10.02	1,392,500	\$ 10.00	1,392,500	\$ 10.00
Granted	37,000	10.00	45,000	10.50	—	—
Forfeited	(31,500)	10.00	(28,500)	10.00	—	—
Outstanding, end of year	1,414,500	\$ 10.02	1,409,000	\$ 10.02	1,392,500	\$ 10.00
Exercisable, end of year	1,347,499		912,563		464,113	
Weighted average fair value of options and warrants granted	\$ 3.31		\$ 3.32		\$ 3.33	

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**9. Employee and Director Benefit Plans (continued)**

Options and Warrants Exercisable as of December 31,	Shares	Weighted Average Exercise Price	Weighted Average Years Remaining
<b>2010</b>	<b>1,347,499</b>	<b>\$ 10.01</b>	<b>6.5</b>
2009	912,563	10.00	7.4
2008	464,113	10.00	8.4

The total fair value of shares vested during each of the years ended December 31, 2010, 2009 and 2008 was \$1.5 million.

During the year ended December 31, 2009, the Company awarded two officers of the Bank a total of 14,500 nontransferable restricted shares of the Company's common stock. The market value at the dates of award of \$152,000 is being amortized by charges to compensation expense over the three-year vesting period. Compensation expense related to these awards for the year ended December 31, 2010 and 2009 was \$51,000 and \$32,000, respectively. Unrecognized compensation expense associated with restricted stock was \$69,000 and \$120,000 as of December 31, 2010 and 2009, respectively, and is expected to be recognized over a weighted average period of 1.6 years and 2.4 years, respectively. The unamortized balance of the awards is included as a deduction from stockholders' equity in the 2010 and 2009 Consolidated Balance Sheets. During the years ended December 31, 2010 and 2009, there were no forfeitures of restricted stock awards.

**10. Earnings (Loss) Per Share**

Basic earnings (loss) per share amounts are computed by dividing net income by the weighted average number of shares of common stock outstanding.

Diluted earnings per share amounts are computed by dividing net income by the weighted average number of shares of common stock outstanding and the dilutive effects of the shares awarded under the stock option plan, based on the treasury stock method using an average fair market value of the stock during the respective periods.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 10. Earnings (Loss) Per Share (continued)

The Company had no dilutive options or warrants included in the calculations of diluted earnings (loss) per share for the years ended December 31, 2010, 2009 and 2008. The impact of dilutive options and warrants are excluded from the diluted share count when there is a net loss available to common shareholders as the impact would be anti-dilutive. The following table represents the earnings (loss) per share calculations for the years ended December 31, 2010, 2009 and 2008 (in thousands, except share data):

	Net Income/(Loss)	Shares	Per Share Amount
<b>2010:</b>			
<b>Basic and diluted loss per share<sup>(1)</sup>:</b>			
Income available to common shareholders	\$ 12,747	13,261,038	\$ 0.96
2009:			
Basic and diluted loss per share <sup>(1)</sup> :			
Loss available to common shareholders	\$ (9,461)	12,815,517	\$ (0.74)
2008:			
Basic and diluted loss per share:			
Loss available to common shareholders	\$ (8,048)	12,533,371	\$ (0.64)

<sup>(1)</sup>Unvested restricted shares are participating securities and included in basic share calculations.

There were no dilutive shares for the periods ended December 31, 2010 and 2008. For earnings per share calculation purposes, the impact of dilutive shares excluded from the diluted share count for the period ended December 31, 2009 totaled 48,703.

The authorized capital stock of the Company consists of 100,000,000 shares of common stock, \$1 par value. At December 31, 2010 and 2009, 13,261,038 shares of common stock were issued and outstanding. At December 31, 2008, 12,533,371 shares of common stock were issued and outstanding.

The primary source of funds available to Atlantic Capital is payments of dividends from the Bank. The Bank has not paid any dividends to Atlantic Capital in 2010, 2009 or 2008. Banking laws and other regulations limit the amount of dividends a bank subsidiary may pay without prior regulatory approval. Until May 2014, the Bank is prohibited from paying any dividends to the Company without prior approval from the Georgia Banking Department. Additionally, the Company's ability to pay dividends to its shareholders will depend on the ability of the Bank to pay dividends to the Company. The Bank is subject to significant regulatory restrictions on the payment of cash dividends, which generally may be paid only from current earnings.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **11. Regulatory Matters**

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classifications 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 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, 2010 and 2009, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2010 and 2009, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. Management believes there are no conditions or events since the previous notification that have changed the institution's categorizations.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**11. Regulatory Matters (continued)**

The Company's and the Bank's actual capital amounts and ratios are presented in the table below (dollar amounts in thousands):

As of December 31, 2010						
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Consolidated	\$127,650	16.77%	\$60,898	8.0%	\$ N/A	N/A
Bank	124,350	16.34	60,896	8.0	76,119	10.0%
Tier I capital (to risk weighted assets)						
Consolidated	118,096	15.51	30,449	4.0	N/A	N/A
Bank	114,805	15.08	30,448	4.0	45,672	6.0
Tier I capital (to average assets)						
Consolidated	118,096	14.76	32,010	4.0	N/A	N/A
Bank	114,805	14.35	32,010	4.0	40,012	5.0
As of December 31, 2009						
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Consolidated	\$113,287	16.57%	\$54,706	8.0%	\$ N/A	N/A
Bank	104,995	15.35	54,706	8.0	68,383	10.0%
Tier I capital (to risk weighted assets)						
Consolidated	104,715	15.31	27,353	4.0	N/A	N/A
Bank	96,423	14.10	27,353	4.0	41,030	6.0
Tier I capital (to average assets)						
Consolidated	104,715	14.88	28,157	4.0	N/A	N/A
Bank	96,423	13.70	28,161	4.0	35,202	5.0

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **11. Regulatory Matters (continued)**

In addition to the capital requirements above, the Georgia Banking Department requires each state bank to maintain a Tier 1 capital ratio, as defined by the Georgia Banking Department's Statement of Policies, of not less than 8.0% during its first seven years of operations. As of December 31, 2010, 2009 and 2008, the Bank was in compliance with this requirement.

#### **12. Commitments and Contingencies**

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 letters of credit, most of which are standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the Consolidated Balance Sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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 are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The majority of loans are secured by certain assets of the borrower; however, the Bank periodically makes unsecured loans to our most creditworthy clients on a limited basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. The Bank's loans are primarily collateralized by residential and commercial real properties, accounts receivable, inventory and equipment.

Standby letters of credit are written 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. Most letters of credit expire in less than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Bank's exposure to credit loss in the event of nonperformance 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 those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 12. Commitments and Contingencies (continued)

Financial instruments whose contract amounts represent credit risk (in thousands):

	<b>2010</b>
Commitments to extend credit	\$ 223,579
Standby and commercial letters of credit	11,408
	\$ 234,987

The Company leases three offices in Atlanta, Georgia. At December 31, 2010, minimum operating lease commitments are summarized as follows (in thousands):

2011	\$ 925
2012	949
2013	975
2014	1,001
2015	1,027
Thereafter	1,984
Total minimum lease payments	\$ 6,861

Rent expense for the years ended December 31, 2010, 2009, and 2008 was approximately \$1.2 million, \$1.1 million, and \$1.1 million, respectively.

In the ordinary course of business, the Company is involved in routine litigation and various legal proceedings related to the Company's operations. Currently, there is no pending litigation or proceedings that management believes will have a material adverse effect, either individually or in the aggregate, on the Company's business, financial condition and results of operations.

#### 13. Fair Value

The Company follows the updated guidance pursuant to FASB ASC 820-10, *Fair Value Measurements and Disclosures*. This guidance defines fair value, established a framework for measuring fair value and expanded disclosures about fair value measurements. This issuance applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. The Company measures its investment securities and

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **13. Fair Value (continued)**

interest rate derivative assets and liabilities at fair value on a recurring basis. Fair value is used on a non-recurring basis either when assets are evaluated for impairment or for disclosure purposes. The Company measures its impaired loans and other real estate owned at fair value on a non-recurring basis. The basis for accounting for other real estate owned is the lower of cost or fair value, less selling costs.

The guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement and defines fair value as the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, this guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The Company applied the following fair value hierarchy:

Level 1 – Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or futures contracts.

Level 2 – Assets or liabilities valued based on observable market data for similar instruments.

Level 3 – Assets or liabilities for which significant valuation assumptions are not readily observable in the market, instruments valued based on the best available data, some of which is internally-developed, and risk premiums that a market participant would require.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement.

The Company records investment securities available-for-sale at fair value on a recurring basis. Investment securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. In estimating the fair values for investment securities, the Company believes that

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **13. Fair Value (continued)**

independent third-party market prices are the best evidence of an exit price. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the Treasury Department yield curve, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things.

Derivative instruments are primarily transacted as over-the-counter trades and priced with observable market assumptions. Ongoing measurements include observable market assumptions with appropriate valuation adjustments for liquidity and for credit risk of counterparties and the Company's own credit. For these instruments, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider factors such as the likelihood of default by the Company and its counterparties, total exposure and remaining maturities in determining the appropriate fair value adjustments to record. Generally, the expected loss of each client counterparty is estimated using the Company's proprietary internal risk rating system. For financial institution counterparties that are rated by national rating agencies, those ratings are used in determining the credit risk. This approach used to estimate exposures to counterparties is also used by the Company to estimate its own credit risk on derivative liability positions.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**13. Fair Value (continued)**

The following table presents the assets that were measured at fair value on a recurring basis by level within the fair value hierarchy as reported in the Consolidated Balance Sheets at December 31, 2010 and 2009 (in thousands):

	<b>Fair Value Measurements Using</b>				<b>Totals</b>	
	<b>Quoted Prices in Active Markets for Identical Securities (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>			
<b>December 31, 2010</b>						
U.S. Government agencies	\$	–	\$ 19,470	\$	–	\$ 19,470
U.S. states and political subdivisions		–	1,094		–	1,094
Trust preferred securities		–	3,953		–	3,953
Corporate debt securities		–	523		–	523
Residential mortgage-backed securities-agency		–	66,201		–	66,201
Interest rate derivative assets		–	285		–	285
Interest rate derivative liabilities		–	300		–	300
<b>Total</b>	<b>\$</b>	<b>–</b>	<b>\$ 91,826</b>	<b>\$</b>	<b>–</b>	<b>\$ 91,826</b>
<b>December 31, 2009</b>						
U.S. Government agencies	\$	–	\$ 18,587	\$	–	\$ 18,587
Trust preferred securities		–	3,557		–	3,557
Corporate debt securities		–	4,113		–	4,113
Residential mortgage-backed securities-agency		–	63,987		–	63,987
<b>Total</b>	<b>\$</b>	<b>–</b>	<b>\$ 90,244</b>	<b>\$</b>	<b>–</b>	<b>\$ 90,244</b>

There were no assets measured at fair value on a non-recurring basis at December 31, 2010 and 2009.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 13. Fair Value (continued)

##### Fair Value of Financial Instruments

FASB ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. 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.

The following disclosure should not be considered a surrogate of the liquidation value of Atlantic Capital or the Bank, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by Atlantic Capital since purchase, origination or issuance.

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

*Cash and Cash Equivalents.* For cash, due from banks, interest-bearing deposits in other banks and federal funds sold the carrying amount is a reasonable estimate of fair value.

*Investment Securities Available-for-Sale.* Fair values for investment securities available-for-sale are based on quoted market prices.

*Federal Home Loan Bank Stock.* The Federal Home Loan Bank has historically repurchased their stock at cost. Therefore, the carrying amount is considered a reasonable estimate of its fair value.

*Loans, Net.* The fair value of fixed rate loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and adjusted for a market liquidity discount. For variable rate loans the carrying amount is a reasonable estimate of fair value, adjusted for a market liquidity discount. Estimating the fair value of the loan portfolio when loan sales and trading markets are illiquid requires significant judgment. Therefore, the estimated fair value can vary significantly depending on a market participant's ultimate considerations and assumptions. The Company uses assumptions that are expected to approximate those that a market participant purchasing the loans would use to value the loans in an illiquid market. The final value yields a market participant's expected return on investment that is indicative of the current distressed market conditions, but it does not take into consideration the Company's estimated value from continuing to hold these loans or its lack of willingness to transact at these estimated values.

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 13. Fair Value (continued)

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

*Deposits.* The fair value of demand deposits, savings accounts, NOW accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposits is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

*Advances from the Federal Home Loan Bank.* The fair value of the FHLB fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements. For variable rate FHLB borrowings the carrying amount is a reasonable estimate of fair value.

*Federal Funds Purchased, Repurchase Agreements and Other Borrowings.* For federal funds purchased, repurchase agreements and other borrowings, the carrying amount is a reasonable estimate of fair value.

*Off-Balance Sheet Financial Instruments.* Because commitments to extend credit and letters of credit are generally short-term and at variable rates, the contract value and estimated fair value associated with these instruments are immaterial.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time Atlantic Capital's entire holdings of a particular financial instrument.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**13. Fair Value (continued)**

The carrying amounts and estimated fair values of Atlantic Capital's financial instruments at December 31, 2010 and 2009 are summarized below (in thousands):

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 20,547	\$ 20,547	\$ 5,078	\$ 5,078
Interest-bearing deposits in other banks	63,199	63,199	4,890	4,890
Federal funds sold	3,995	3,995	—	—
Investment securities available-for-sale	91,241	91,241	90,244	90,244
FHLB stock	3,285	3,285	3,526	3,526
Loans, net	640,648	634,367	573,601	564,829
Derivative assets	285	285	—	—
Financial liabilities:				
Deposits	690,861	688,864	491,846	500,136
Federal Home Loan Bank advances	27,470	30,421	57,711	60,180
Federal funds purchased and securities under agreements to repurchase	—	—	5	5
Other borrowings	—	—	30,000	30,000
Derivative liabilities	300	300	—	—

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 14. Comprehensive Income (Loss)

FASB ASC 220, *Comprehensive Income*, establishes standards for reporting comprehensive income. Comprehensive income includes net income and other comprehensive income, which is defined as non-owner related transactions in equity. Atlantic Capital's only other comprehensive income item is unrealized gains (losses), net of tax, on investment securities available-for-sale. If applicable, in the calculation of comprehensive income, certain reclassification adjustments are made for any gains (losses) included in net earnings. The following table reflects the components of other comprehensive income for the years ended December 31, 2010 and 2009 (in thousands):

	2010	2009
Net income (loss)	\$ 12,747	\$ (9,461)
Other comprehensive income (loss), net of tax:		
Unrealized gains on investment securities available-for-sale:		
Unrealized gains arising during the period, net of tax expense of \$363 and \$622, respectively	569	977
Other comprehensive income	569	977
Comprehensive income (loss)	\$ 13,316	\$ (8,484)

#### 15. Other Noninterest Expense

Other noninterest expense for the years ended December 31, 2010, 2009 and 2008 in the Consolidated Statements of Operations includes (in thousands):

	2010	2009	2008
Insurance	\$ 114	\$ 125	\$ 113
Meals and entertainment	105	109	94
Marketing	179	148	38
Travel	36	36	36
Subscriptions, dues and memberships	101	61	63
Other outside services	251	317	148
Other expense	502	455	177
Total other noninterest expense	\$ 1,288	\$ 1,251	\$ 669

## Atlantic Capital Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 16. Derivative Financial Instruments

##### Risk Management

In 2010, the Company began entering into derivative contracts, which consist of interest rate swaps, to facilitate the needs of clients desiring to manage interest rate risk. In order to economically hedge the interest rate risk associated with offering this product, the Company simultaneously enters into derivative contracts with third parties to offset the customer contracts, such that the Company minimizes its net risk exposure resulting from such transactions. The derivative contracts are structured such that the notional amounts reduce over time to generally match the expected amortization of the underlying loans.

Currently, none of the Company's interest rate swaps are designated as hedges under accounting guidance ASC Topic 815, *Derivatives and Hedging*. The Company's derivatives are not speculative and arise from a service provided to clients. The Company's derivative instruments are recorded at fair value in other assets and accrued interest receivable and other liabilities and accrued interest payable in the Consolidated Balance Sheets, the changes in the fair value of the derivative instruments are recognized in other noninterest income in the Consolidated Statements of Operations and the net change in each of these financial statement line items in the Consolidated Statements of Cash Flows. At December 31, 2010, the Company had interest rate swaps related to this program with an aggregate notional amount of \$44.6 million.

##### Counterparty Credit Risk

As a result of its derivative contracts, the Company is exposed to credit risk. Specifically approved counterparties and exposure limits are defined. On a quarterly basis, the derivative contracts and related counterparties are evaluated for credit risk and an adjustment is made to the contract's fair value. This adjustment is recognized in the Consolidated Statements of Operations.

Derivative contracts with clients are secured by collateral. Additionally, in accordance with the interest rate agreements with third party counterparties, the Company may be required to post margin to these counterparties. At December 31, 2010, the Company had minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$880,000 against its obligations under these agreements. Margin related to derivative contracts is recorded in other assets in the Consolidated Balance Sheets.

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**16. Derivative Financial Instruments (continued)**

Derivative contracts executed with the same counterparty are not subject to master netting agreements. Additionally, the fair value amounts recognized for derivatives and fair value amounts recognized for the right to reclaim cash collateral are not offset for financial reporting purposes.

The following table reflects the estimated fair value positions of derivative contracts as of December 31, 2010 (in thousands):

	<b>Notional Balance</b>	<b>Maturity Date</b>	<b>Balance Sheet Classification</b>	<b>Fair Value</b>		<b>Notional Balance</b>	<b>Maturity Date</b>	<b>Balance Sheet Classification</b>	<b>Fair Value</b>
<b>Derivatives not designated as hedges</b>									
Interest rate swaps	\$ 22,316	October 2013 - January 2018	Other assets	\$ 285		\$ 22,316	October 2013 - January 2018	Other liabilities	\$ 300
<b>Total derivatives not designated as hedges</b>				<u>\$ 285</u>					<u>\$ 300</u>

The following table reflects the impact to the Consolidated Statement of Operations related to derivative contracts for the year ended December 31, 2010 (in thousands):

	<b>Fee income recognized in Other Noninterest Income</b>	<b>Fair value adjustment including, credit valuation adjustment recognized in Other Noninterest Income</b>
<b>Derivatives not designated as hedges</b>		
Interest rate swaps	\$ 514	\$ (15)
<b>Total derivatives not designated as hedges</b>	<u>\$ 514</u>	<u>\$ (15)</u>

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**17. Atlantic Capital Bancshares, Inc. (Parent Company Only) Financial Information**

**Balance Sheets**

*(In Thousands)*

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Cash	\$ 3,264	\$ 8,292
Investment in subsidiary	115,933	96,981
Other assets	27	—
Total assets	<u>\$ 119,224</u>	<u>\$ 105,273</u>
<b>Liabilities and Stockholders' Equity</b>		
Other liabilities	\$ —	\$ —
Total liabilities	<u>—</u>	<u>—</u>
Stockholders' equity:		
Common stock	13,261	13,261
Additional paid-in-capital	120,019	119,435
Retained deficit	(15,113)	(27,860)
Accumulated other comprehensive income	1,127	558
Unamortized restricted stock	(69)	(120)
Treasury stock	(1)	(1)
Total stockholder's equity	<u>119,224</u>	<u>105,273</u>
Total liabilities and stockholders' equity	<u>\$ 119,224</u>	<u>\$ 105,273</u>

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**17. Atlantic Capital Bancshares, Inc. (Parent Company Only) Financial Information  
(continued)**

**Statements of Income (Loss)**

*(In Thousands)*

	<b>Year Ended December 31</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Income:			
Interest income	\$ 27	\$ 33	\$ 53
Other income	3	2	–
Total income	<u>30</u>	<u>35</u>	<u>53</u>
Expense:			
Professional fees	37	27	60
Other expense	21	14	27
Total expense	<u>58</u>	<u>41</u>	<u>87</u>
Loss before income tax expense and equity in undistributed earnings (losses) from subsidiary	(28)	(6)	(34)
Income tax benefit	(27)	–	–
Loss before equity in undistributed earnings (losses) of subsidiary	(1)	(6)	(34)
Equity in undistributed earnings (losses) of subsidiary	12,748	(9,455)	(8,014)
Net income (loss)	<u>\$ 12,747</u>	<u>\$ (9,461)</u>	<u>\$ (8,048)</u>

Atlantic Capital Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (continued)

**17. Atlantic Capital Bancshares, Inc. (Parent Company Only) Financial Information  
(continued)**

**Statements of Cash Flows**

*(In Thousands)*

	<b>Year Ended December 31</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:			
Net income (loss)	\$ 12,747	\$ (9,461)	\$ (8,048)
Adjustments to reconcile net income (loss) to net cash used in by operating activities:			
Equity in undistributed earnings (losses) of subsidiary	(12,748)	9,455	8,014
Increase in other assets	(27)	—	—
Decrease in other liabilities	—	—	(224)
Net cash used in operating activities	<u>(28)</u>	<u>(6)</u>	<u>(258)</u>
Cash flows from investing activities:			
Capital contribution to subsidiary	(5,000)	—	—
Net cash used in investing activities	<u>(5,000)</u>	<u>—</u>	<u>—</u>
Cash flows from financing activities:			
Net proceeds from issuance of common stock	—	6,199	—
Net cash provided by financing activities	<u>—</u>	<u>6,199</u>	<u>—</u>
Net (decrease) increase in cash and cash equivalents	(5,028)	6,193	(258)
Cash equivalents, beginning of year	8,292	2,099	2,357
Cash equivalents, end of year	<u>\$ 3,264</u>	<u>\$ 8,292</u>	<u>\$ 2,099</u>

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