

CHARMAN JOHN
Form 4
February 05, 2008

FORM 4 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
CHARMAN JOHN

2. Issuer Name and Ticker or Trading Symbol
AXIS CAPITAL HOLDINGS LTD
[AXS]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

AXIS CAPITAL HOLDINGS
LIMITED, 92 PITTS BAY ROAD

3. Date of Earliest Transaction
(Month/Day/Year)
02/04/2008

Director 10% Owner
 Officer (give title below) Other (specify below)
CEO, President and Deputy Chair

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

PEMBROKE, D0 HM 08

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Shares	02/04/2008		A		180,000	A	11 632,064
Common Shares						I	497,704 (2)
Common Shares						I	1,804,908 (3)

By JR Charman Children's Settlement
By Dragon Holdings Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned (Instr. 6)
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Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CHARMAN JOHN AXIS CAPITAL HOLDINGS LIMITED 92 PITTS BAY ROAD PEMBROKE, D0 HM 08	X		CEO, President and Deputy Chair	

Signatures

Richard T. Gieryn, Jr.,
Attorney-in-Fact

02/05/2008

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

- (1) Grant of Restricted Stock.
- (2) Mr. Charman disclaims beneficial ownership of the shares held by the JR Charman Children's Settlement.
- (3) Mr. Charman disclaims beneficial ownership of the shares held by the Dragon Holdings Trust.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. s New Roman">

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If the transaction is approved by our shareholders, the Reclassification will become effective on the date and at the time specified in the Amendment filed with the Texas Secretary of State. It is currently anticipated that the effective time of the Reclassification will be 11:59 p.m. Austin, Texas time on the day of the Meeting. In the event that the Board of Directors changes the effective date, it will notify shareholders via a press release.

Dissenters Rights

Shareholders who receive shares of Series A preferred stock in the Reclassification will not be entitled to dissenters' rights under Texas law.

Anticipated Accounting Treatment

The accounting treatment will be in accordance with U.S. generally accepted accounting principles. Shares of common stock reclassified to Series A preferred stock will result in such common shares being included in our authorized but unissued shares of common stock and available for issuance in the future. Any shares of Series A preferred stock which are cashed out at the Put Price will result in a reduction of our shareholders' equity.

Fees and Expenses

It is uncertain how many shareholders receiving Series A preferred stock will elect to sell their newly issued shares of Series A preferred stock at the \$11.00 per share Put Price. If all shareholders receiving Series A preferred stock elect to receive a cash payment rather than the preferred shares, we estimate that the total number of shares that would be purchased by us would be approximately 297,791, resulting in a total cost to us of approximately \$3,275,700. This amount does not include our expenses associated with the Reclassification, which we estimate to be approximately \$161,700, as discussed below. We anticipate that we will pay for all Series A preferred stock sold to us after the Reclassification, as well as of the costs and expenses of this transaction, with cash on hand and, if necessary, through dividends from the Bank, although we do anticipate obtaining a back-up credit facility to ensure that our liquidity position remains healthy. We are currently in negotiations with a lender to enter into a promissory note to borrow up to \$1.5 million for purposes of having a back-up credit facility. If we have to pay more than \$1.8 million to Series A preferred shareholders who have exercised their put right, we intend to borrow funds under this facility to pay such excess amount. We expect this promissory note to contain covenants and default provisions customary for similar credit facilities. We anticipate repaying any amounts borrowed under this promissory note from cash generated by our operations.

We will pay all fees and expenses associated with the Reclassification. We estimate that Reclassification related fees and expenses will be \$161,700, consisting of the following:

Financial Advisor fees and expenses (including Fairness Opinion)	\$	41,000
Legal fees and expenses	\$	90,000
Real estate appraiser fees	\$	5,200
Accounting fees and expenses	\$	2,500
Printing, solicitation and mailing costs	\$	15,000
SEC filing and Edgar fees	\$	6,000
Miscellaneous expenses	\$	2,000
Total estimated expenses	\$	161,700

Although we do not currently expect to do so, we may engage one or more proxy solicitation firms to assist in the delivery of proxy materials and solicitation of completed proxies and compensate those firms for doing so.

In the event a shareholder has lost his or her stock certificate(s) and is required to surrender those certificate(s) to receive the Series A preferred stock or cash payment in exchange for such preferred stock, we will also pay the fee charged by our transfer agent for lost certificates, provided that the shareholder promptly executes the requisite affidavit and indemnity instruments.

Source and Amount of Funds

Even if all shareholders who receive Series A preferred stock elect to sell their shares to us at the Put Price, we expect to pay only approximately \$3,275,400 in the aggregate to such stockholders. We will also have transaction expenses of approximately \$161,700 relating to the Reclassification. We do not believe the completion of the Reclassification will have any material affect on our financial condition or results of operations. Purchases of stock will initially be funded with our cash and other liquid assets, although we do anticipate obtaining a back-up credit facility to ensure that our liquidity position remains healthy. We are currently in negotiations with a lender to enter into a promissory note to borrow up to \$1.5 million for purposes of having a back-up credit facility. If we have to pay more than \$1.8 million to Series A preferred shareholders who have exercised their put right, we intend to borrow funds under this facility to pay such excess amount. We expect this promissory note to contain covenants and default provisions customary for similar credit facilities. We anticipate repaying any amounts borrowed under this promissory note from cash generated by our operations.

Reservation of Rights

Our Board of Directors reserves the right to abandon the Reclassification without further action by our shareholders at any time before the filing of the Amendment with the Texas Secretary of State, even if the Reclassification has been approved by our shareholders at the Meeting. By voting in favor of the Reclassification you also are expressly authorizing our Board of Directors to determine not to proceed with the Reclassification if it should decide on that course of action.

Recommendation of the Board of Directors

The Amendment and Reclassification have been unanimously approved by our Board of Directors (except for Mr. Bendele, who abstained from voting on the matter because he was appointed to the Board on the same day the Board approved the transaction). **Our Board of Directors recommends a vote FOR adoption of the proposed Amendment to the Articles of Incorporation which will authorize the Reclassification.**

PROPOSAL NO. 2: ELECTION OF DIRECTORS

Board of Directors

Our Board of Directors is divided into three classes. The members of each class serve for a staggered three-year term. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of shareholders in the year in which their term expires. The classes are composed as follows:

Class I Directors. Charles T. Meeks, Marvin L. Schrage and Marvin J. Bendele are *Class I Directors* whose terms will expire at the 2008 annual meeting of shareholders.

Class II Directors. Jeffrey L. Nash, Hayden D. Watson and Elias F. Lee Urbina are *Class II Directors* whose terms will expire at the 2009 annual meeting of shareholders.

Class III Directors. Carl J. Stolle and Bill F. Schneider are *Class III Directors* whose term will expire at the 2010 annual meeting of shareholders.

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William J. McClellan, a Class III Director, resigned on July 1, 2007. William T. Willis, a Class I Director and member of our Audit Committee, passed away on September 29, 2007. Arthur Coleman, a Class I Director, resigned on February 13, 2007. On November 13, 2007, Marvin J. Bendele was elected by the Board of Directors to serve as a Class I Director and a member of the Audit Committee.

Our Board of Directors met a total of five times during the 2007 fiscal year. During that year, Mr. Urbina attended fewer than 75% of the aggregate of (a) the total number of our Board meetings (held during the period for which he has been a director) and (b) the total number of meetings held by all committees of the Board on which he served (during the periods that he served). During the 2007 fiscal year each other incumbent director attended at least 75% of the aggregate of (a) the total number of our Board meetings (held during the period for which he has been a director) and (b) the total number of meetings held by all committees of the Board on which he served (during the periods that he served).

In regard to directors' attendance at annual shareholders meetings, although we do not have a formal policy regarding such attendance, our Board of Directors encourages all Board members to attend such meetings, but such attendance is not mandatory. All of our Board members serving as directors at the time attended the 2007 annual shareholders meeting. In addition, our Board of Directors holds its regular annual meeting immediately following the annual shareholders meeting.

Nominees for Class I Directors

The nominees for directors to be elected as Class I directors at the 2008 annual meeting of shareholders are: Charles T. Meeks, Marvin L. Schragar and Marvin J. Bendele. The nominees' biographical information is set forth below.

Unless you specify otherwise on your proxy, the persons named in such proxy intend to vote for the election of the nominees listed above to serve as directors. Directors will serve for a term of three (3) years, or until their replacements are duly elected and meet all requirements. All nominees are presently serving as directors.

Each of the nominees has consented to being named in this Proxy Statement and to serve if elected. If any nominee becomes unavailable to serve, however, the persons named in the enclosed form of proxy intend to vote the shares represented by the proxy for the election of such other person or persons as may be nominated or designated by management, unless they are directed by the proxy to do otherwise.

The Board of Directors recommends a vote FOR the election of Mr. Meeks, Mr. Schragar and Mr. Bendele as Class I directors of Treaty Oak.

Directors and Executive Officers

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Set forth below is biographical information concerning our directors and executive officers. We consider certain of the Bank s and our officers listed below to be our executive officers.

Name	Age	Position(s) Held with Treaty Oak Bancorp	Position(s) Held with Treaty Oak Bank
Charles T. Meeks	71	Chairman of the Board, Director (1)(2)(4)	Chairman of the Board, Director
Jeffrey L. Nash	51	President, Chief Executive Officer and Director (1)	President, Chief Executive Officer and Director
Marvin J. Bendele	60	Director (3)	
Marvin L. Schrage	67	Director (2)(4)*	
Bill F. Schneider	57	Director (2)(4)	
Carl J. Stolle	47	Director (2)(3)(4)*	Director

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Elias F. Lee Urbina	48	Director (3)	
Hayden D. Watson	58	Director (1)(2)(3)*	Director
Coralie S. Pledger	50	Chief Financial Officer, Secretary, Treasurer	Chief Financial Officer
Tony White	49		President Texline Branch, Director
M. Randall Meeks	47		Executive Vice President Chief Lending Officer
Sheila A. Bostick	42		Senior Vice President
Thomas G. Clark	55		Senior Vice President Senior Credit Officer, Compliance Officer

-
- (1) Executive Committee Member
 - (2) Compensation Committee Member
 - (3) Audit Committee Member
 - (4) Governance Committee Member

* Denotes Treaty Oak Bancorp Committee Chair

Background of Directors and Executive Officers

The following is a background summary of each of our directors and executive officers.

Mr. Charles Meeks has served as a member of our Board of Directors since May 2004 and has served as our Chairman of the Board since February 28, 2006. He is also the Chairman of the Board of the Bank, a position he has held since 1996. Since 1994, Mr. Meeks has served as the senior principal of the Charles T. Meeks Company, a consulting company for U.S. and offshore banks. From 1989 to 1994, he was a senior vice president with Alex Sheshunoff Management Services. Mr. Meeks has over 40 years of banking experience and served as the chief executive officer of a major affiliate Bank of Allied Bancshares, Houston, Texas, a \$10 billion bank holding company. He holds a BBA degree from the University of Texas at Austin.

Mr. Nash co-founded us and has served as our President and CEO and a member of our Board of Directors since February 2006. Prior to that time, he served as our Executive Vice President and Chief Financial Officer, as well as a director since our inception. Additionally, Mr. Nash is the president and chief executive officer of the Bank, and is a director of the Bank. He has also been president and was a director of Treaty Oak Holdings Inc., which was merged into us in November 2006, since April 2006 and its chief financial officer since December 2004. Mr. Nash has more than 25 years of financial, operational, and leadership experience. From 1999 to January 2003, he served as President and led the turn-around of Addressing Your Needs, Inc. He was also an independent corporate consultant from June 2002 to January 2003. From 1996 to 1999 he was the chief operating officer of CSE Child Support Enforcement, now Supportkids, Inc. From 1991 to 1994 he was Chief Financial Officer and Chief Operating Officer of Select Marketing, Inc., which was acquired by Harte-Hanks Response Management in 1994, at which time he became Executive Vice President and General Manager, a position he held until 1996. He served as Executive Vice President, Chief Operating Officer, and President of Allied Bank North Austin (later First Interstate Bank of North Austin) from 1986 to 1991 and as Vice President and Section Manager at Texas Commerce Bank-Austin, N.A., from 1983 to 1986. Mr. Nash holds BBA and MBA degrees from the University of Texas at Austin and is active in many Austin civic activities.

Mr. Bendele was appointed as a member of our Board of Directors in November 2007. Mr. Bendele has been self-employed in the mortgage-lending business since 1991. Prior to that time, Mr. Bendele practiced public accounting for his own business and, prior to that, for Haskins & Sells in Houston, Texas. Mr. Bendele is a certified public accountant. Mr. Bendele serves on the Boards of Home Trust Company and Loop 360 Water Company and is a former member of the Eames Independent School District Board of Trustees. Mr. Bendele holds a B.B.A. degree in accounting from the University of Texas at Austin.

Mr. Schrager has served as a member of our Board of Directors since May 2004. He was a member of the Board of Directors of Treaty Oak Holdings, Inc. since November 2003. He has extensive experience in complex business matters in the financial industries and real estate, both as an independent business investor and as a practicing attorney. He has been in the private practice of law in Texas since 1988 and in Illinois from 1963 to 1988. Mr. Schrager holds a Bachelors degree in accounting from Ohio State University and an LLM from the University of Michigan Law School.

Mr. Schneider has served as a member of our Board of Directors since February 2007. He has been in the medical industry since 1974, and has served primarily in executive positions since 1983. He co-founded, expanded, and sold three medical companies, two of which were national concerns. Mr. Schneider serves on the Master M.U.D. Board serving the Barton Creek Country Club development area, and is a Board member for the San Saba Wildlife Management Association, where he was the founder and past president. Mr. Schneider received a BBA in marketing from the University of Texas at Austin.

Mr. Stolle has served as a member of our Board of Directors since May 2004 was a member of the Board of Directors of Treaty Oak Holdings, Inc. since June 2003. Mr. Stolle was employed with Dell, Inc. from 1996 until his retirement in May, 2005. He served as Vice President of Advanced Systems Group for the Small and Medium Business Division. Prior to that, he served in the capacities of Vice President of the Emerging Business Division and Vice President for Dell's OptiPlex and Dimension lines of business. Before joining Dell, Mr. Stolle spent nine years at Sun Microsystems, where he managed the marketing, planning, and sales development for the Sun server business. His previous experience also includes positions in marketing and finance with the Hewlett Packard Company. Mr. Stolle holds a B.A. degree in biochemistry from the University of California, San Diego, and an M.B.A. from the University of Chicago.

Mr. Urbina has served as a member of our Board of Directors since February 2006. He is president of Urbina & Co. Certified Public Accountants of Central Texas. As a CPA for 17 years, Mr. Urbina provides advisory business solutions and accounting services to primarily high net worth business owners, technology executives, and real estate operators. As an owner of business interests ranging from heavy truck dealerships to real estate shopping centers, technology companies and restaurants, Urbina offers extensive knowledge both from a CPA perspective and as a business owner. Mr. Urbina is also experienced in advising and acting as a limited member of a multi-state national venture capital firm and also serves as an advisor to the Board for a publicly traded technology company. Mr. Urbina also serves on the Bank's audit committee.

Mr. Watson has served as a member of our Board of Directors since May 2004 and is a director of the Bank. He is president of the Mariner Group, Inc., a bank investment and management consulting company he founded in 1999. From 1996 to 1999, Mr. Watson served as managing director of bank operations for Fleet Financial Group, where he was responsible for the bank's consolidated operating units including deposits, commercial and consumer loans, investments (trust and mutual fund), and capital markets. In 1995, Mr. Watson assumed responsibility for the Payment System Services Group at Wells Fargo Bank, following its acquisition of First Interstate Bancorp, where he held several executive management positions with affiliates from 1988 to 1995. Mr. Watson has over 28 years experience in banking and holds a BBA degree in finance from the University of Texas. He is currently a member of the Board of

Directors of US Dataworks, Inc. a Nevada public reporting company.

Ms. Pledger was appointed as our Secretary/Treasurer and Chief Financial Officer and as chief financial officer of the Bank in February 2007. Ms. Pledger has over 27 years experience as a Certified Public Accountant, executive, and consultant in the financial services industry. From September 2006 to February 2007, Ms. Pledger served as an independent financial consultant of ours. From May 2002 until February 2007, Ms. Pledger assisted various entities and law firms as an independent financial consultant. From January 1992 to May 2002, Ms. Pledger was a Principal in the financial industry division of Navigant Consulting, an independent consulting firm. Prior to her employment by Navigant Consulting, Ms. Pledger worked for an international public accounting firm performing audits of banks, thrifts, broker-dealers and real estate companies in the financial services division. She also served as the Chief Financial Officer of a mortgage company and was responsible for all accounting and treasury functions of the organization. Ms. Pledger holds a BBA degree in accounting from the University of Texas at Austin.

Mr. White is president of the Texline branch of the Bank and is a director of the Bank and has more than 20 years experience in the banking industry, specializing in agricultural lending. He previously served as president and chief executive officer of the Texline State Bank from July 2001 to March 2004 prior to our acquisition of it. Prior to that time, he was Senior Vice President and Senior Lender at Southwest State Bank in Sentinel, Oklahoma, from 1995 to 2001. He has also served in the capacity of vice president at First National Bank of Hooker, Oklahoma, Citizens State Bank of Liberal, Kansas, and Dumas Banking Center of Dumas, Texas. He attended Oklahoma State University, Northwestern State University, and Panhandle State University, with a major in agri-business. He also attended the Kansas School of Agriculture Banking and has participated in numerous banking seminars during his career. Mr. White is an active civic leader in the Texline community.

Mr. Randall Meeks has served as the Bank's executive vice president and chief loan officer since April 2004. Before joining the Bank, Mr. Meeks was Partner/General Manager of Art Office Signs, a regional manufacturing/service business from March 1995 to March 2004. From February 1989 to March 1995, he served as Senior Vice President and Manager of the Commercial Lending Division in the Austin branch Boatmen's National Bank, which was acquired by Bank of America. Mr. Meeks received a BBA in Finance degree from the University of Texas at Austin in August 1982 and is an August 1993 graduate of the Graduate School of Banking at Colorado. M. Randall Meeks is the son of Charles T. Meeks, our chairman and a member of our Board of Directors.

Mr. Clark has served as the Bank's chief credit officer since March 2004. Before joining the Bank, Mr. Clark served as Manager, Trust Real Estate Group for the Austin region, and trust administrator, for JPMorgan Private Bank from March 1995 to March 2004. Mr. Clark has over 29 years of experience in the commercial credit industry and received his BBA in Accounting from the University of Texas at Austin in May 1974.

Ms. Bostick joined us in March, 2004, and has served as the Bank's senior vice president and director of service and customer satisfaction, as well as assuming the role of marketing director. From 1998 to March 2004, Ms. Bostick was Vice President of Sales and Client Development for Supportkids, the largest privately owned child support enforcement agency in the world. From December 1991 to February 1998, Ms. Bostick served in several sales and management positions for Harte-Hanks Response Management, an outsource provider for high tech Fortune 500 companies. Ms. Bostick also has five years of banking experience in the commercial lending support area at First Interstate Bank from 1986 to 1991.

None of our directors or executive officers has been convicted in a criminal proceeding during the past five (5) years (excluding traffic violations or similar misdemeanors) or has been a party to any judicial or administrative proceeding during the past five (5) years (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the individual from future violations of, or prohibiting activities subject to, federal or state securities laws, or finding of any violation of federal or state securities laws. Each of our directors and executive officers is a citizen of the United States.

Director Independence

Our Board reviews the relationships that each director has with us. Only those directors whom our Board affirmatively determines have no relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and who do not have any of the categorical relationships that prevent independence under NASDAQ listing standards, are considered to be independent directors. Even though our common stock is not listed on the NASDAQ market, our Board determined that the NASDAQ independence standards are appropriate standards for our directors in accordance with applicable securities law requirements.

The NASDAQ independence rules include a series of objective tests, such that the director is not an employee of ours or an affiliate of ours and has not engaged in various types of business dealings with us or an affiliate of ours. In addition, as further required by the NASDAQ rules, our Board has made a subjective determination as to each independent director that no relationships exist that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, the directors reviewed and discussed information provided by the directors and us with regard to each director's business and personal activities as they may relate to us and our management.

In accordance with the applicable NASDAQ rules, our Board has determined that the following directors qualify as independent directors: Marvin J. Bendele, Bill F. Schneider, Marvin L. Schrage, Carl J. Stolle, Lee Urbina and Hayden D. Watson. William J. McClellan, who resigned from our Board on July 1, 2007, and Arthur C. Coleman, who resigned from the Board on February 13, 2007, were each an independent director under such rules during fiscal 2007. William T. Willis, who passed away on September 29, 2007, was an independent director under such rules during fiscal 2007.

Committees of the Board of Directors

Our Board of Directors has established Compensation, Audit, Governance and Executive Committees composed of members of the Board of Directors. These committees are described below.

Audit Committee

We have a separately-designated Audit Committee, which met 12 times during the 2007 fiscal year. Its members currently include Hayden D. Watson, Marvin J. Bendele, Carl J. Stolle and Elias F. Lee Urbina. William T. Willis previously served on the Audit Committee prior to his passing on September 29, 2007. Mr. Watson serves as chairman. Even though our common stock is not listed, we have determined that the NASDAQ independence standards are appropriate standards for our directors in accordance with applicable securities law requirements. Each of the members of the Audit Committee is independent under these standards. The Audit Committee has a written charter, a copy of which is attached to this Proxy Statement as [Appendix C](#). In addition, the members of our Board's Audit Committee also each qualify as independent under special standards established by the Securities and Exchange Commission (SEC) for members of audit committees.

In addition, as a result of the Sarbanes-Oxley Act, we are required to disclose (1) whether we have at least one audit committee financial expert serving on our audit committee and the name of that expert, (2) whether the audit committee financial expert is independent, and (3) if we have no audit committee financial expert serving on our audit committee, we must state that fact and explain why. Our Board has determined that Elias F. Lee Urbina is an audit committee financial expert.

The Audit Committee recommends the appointment of an independent auditor on an annual basis, approves any special assignments to the independent auditor, reviews the planned scope of the annual audit, reviews the independent auditor's report and management's response, reviews any changes in accounting principles and the effectiveness and efficiency of the internal audit function, reviews all reports from regulatory authorities and management's responses, and reports to the full Board of Directors on the foregoing matters. The Audit Committee also has the authority to engage independent counsel and other advisors, as it determines necessary to carry out its duties.

Governance Committee

We have a separately designated standing Governance Committee, which met two times during the 2007 fiscal year. Its members currently include Carl J. Stolle, Chairman, Bill F. Schneider, Charles T. Meeks and Marvin L. Schrager. We have determined that the NASDAQ independence standards are appropriate standards for our directors in accordance with applicable securities law requirements. Messrs. Stolle, Schneider and Schrager are independent under these standards. The Governance Committee has a written charter, a copy of which is attached to this Proxy Statement as Appendix D. The Governance Committee Charter charges the committee with responsibility for assisting the Board in determining the desired experience, mix of skills and other qualities to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Company and the Board; (b) identifying highly qualified individuals meeting those criteria to serve on the Board; (c) proposing to the Board a slate of nominees for election by the shareholders at the annual meeting of shareholders and prospective director candidates in the event of the resignation, death, removal or retirement of directors or a change in Board composition requirements; (d) reviewing candidates nominated by shareholders for election to the Board; (e) developing plans regarding the size and composition of the Board and its committees; and (f) developing and recommending to the Board a set of corporate governance principles applicable to the Company and reviewing such principles at least annually and monitoring and making recommendations to the Board with respect to the corporate governance principles applicable to the Company.

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The Governance Committee identifies nominees by first evaluating the current members of the Board who are willing to continue in service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service or if the Governance Committee decides not to recommend a member for re-election, the Governance Committee may identify the desired skills and experience of a new

nominee in light of the criteria below. Research may be performed to identify qualified individuals. The Governance Committee has not engaged third parties to identify or evaluate or assist in identifying potential nominees, although it may do so in the future if it considers doing so necessary or desirable.

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The consideration of any candidate for service on our Board is based on the Governance Committee's assessment of the candidate's professional and personal experiences and expertise relevant to our operations and goals. The Committee evaluates each candidate on his or her ability to devote sufficient time to Board activities to effectively carry out the work of the Board. The ability to contribute positively to the existing collaborative culture among Board members and willingness to represent the best interests of our shareholders and objectively appraise management's performance are also considered by the Committee. In addition, the Committee considers the candidate's involvement in activities or interests that might conflict with a director's responsibilities to us and our shareholders; the composition of the Board as a whole; the status of the nominee as independent under the NASDAQ listing standards and the rules and regulations of the SEC; and the nominee's experience with accounting rules and practices. Other than the foregoing, there are no stated minimum criteria for director nominees, although the Governance Committee may also consider such other factors as it may deem are in our and our shareholders' best interests.

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After completing its evaluation, the Governance Committee makes a recommendation to the full Board of Directors as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Governance Committee.

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The Governance Committee will consider director candidates recommended by our shareholders. The Governance Committee does not have a formal policy on shareholder nominees, but intends to assess them in the same manner as other nominees, as described above. To recommend a prospective nominee for the Governance Committee's consideration, shareholders should submit in writing the candidate's name and qualifications, and otherwise comply with our bylaws' requirements for shareholder nominations, which are described below, to:

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Attention: Corporate Secretary

Compensation Committee

The Compensation Committee recommends to the Board of Directors the salaries of executive personnel and directors and the policies, terms, and conditions of employment of all our employees and the Bank, as the case may be. The members of the Compensation Committee are Marvin L. Schrager, Chairman, Bill F. Schneider, Charles T. Meeks and Carl J. Stolle. We have determined that the NASDAQ independence standards are appropriate standards for our directors in accordance with applicable securities law requirements. Messrs. Schneider, Schrager and Stolle are independent under these standards. The Compensation Committee does not have a written charter. The Compensation Committee has the following responsibilities: (a) administration of the Company's 2004 Stock Incentive Plan; (b) recommendation to the Board of Directors regarding director compensation for Board, committee and committee chair service; (c) recommendation to the Board of Directors of the gross annual percentage increase in staff compensation; and (d) recommendation of non-cash incentives and benefits for the senior staff of Treaty Oak Bank. The Committee held four meetings during fiscal 2007.

Our chief executive officer, other members of our management and outside advisors may be invited to attend all or a portion of a Compensation Committee meeting depending on the nature of the agenda items. Neither our chief executive officer nor any other member of management votes on items before the Compensation Committee; however, the Compensation Committee and Board of Directors solicit the views of the chief executive officer on compensation matters, including as they relate to the compensation of the other named executive officers and members of senior management reporting to the chief executive officer. The Compensation Committee also works with our senior management to determine the agenda for each meeting.

Executive Committee

The Executive Committee meets as needed and, with certain exceptions, has the same powers as the Board of Directors in the management of our business affairs and the Bank's business affairs between meetings of their respective Boards. The Executive Committee makes recommendations to the Board of Directors regarding matters important to our overall management and strategic operation and that of the Bank. The members of the Executive Committee are Jeffrey L. Nash, Chairman, Charles T. Meeks, Carl J. Stolle, Hayden D. Watson and Marvin L. Schrage. The Charter of our Executive Committee establishes its responsibilities as (a) review and provide counsel regarding material issues prior to Board submission; (b) provide oversight of management succession plan for key executive positions; and (c) transact routine, administrative Board matters between Board meetings. The Committee held one meeting during fiscal 2007.

Director Nominee Procedures for Security Holders

Under our bylaws, shareholders may nominate persons for election to our Board of Directors upon delivery of timely written notice to our corporate secretary. To be considered timely, the notice must be delivered or mailed and received at our principal offices not less than 60 days nor more than 180 days prior to the first anniversary of the preceding year's annual meeting (in the case of an annual meeting) unless the date of such annual meeting is changed by more than 30 days from the anniversary date. In the latter case (and in the case of a special meeting), the notice must be received not later than the close of business on the 10th day following the earlier of the date on which a written statement setting forth the date of the meeting was mailed to shareholders or the date on which it is first disclosed to the public.

In addition, shareholders must be entitled to vote at the applicable meeting and be a shareholder of record at the time of providing notice in order for such nominations to be accepted.

Communication with the Board of Directors

Shareholders are permitted to communicate with our Board of Directors by forwarding written communications to our corporate offices at 101 Westlake Drive, Austin, Texas 78746, Attention: Chairman of the Board. We will present all communications, as received and without screening, to the Board of Directors at its next regularly scheduled meeting. If you wish to communicate with a specific director, you may do so by forwarding written communications to the above address to the attention of such director.

Section 16(a) Beneficial Ownership Reporting Compliance

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Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission, or the SEC. Such persons are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Such persons were not obligated to file such reports prior to November 15, 2007, which is the date we registered our common stock under Section 12(g) of the Securities Exchange Act of 1934.

Based solely on our review of the copies of such forms received by us with respect to the period from November 15, 2007 to the date of this proxy statement, or written representations from certain reporting persons, we believe that all filing requirements applicable to our directors, executive officers and persons who own more than 10% of a registered class of our equity securities have been complied with, except that each of Jeff Nash, Coralie Pledger, Marvin Schragger and Sheila Bostick filed a late Form 3 during that period.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics, which, together with the policies referred to therein, is applicable to all our directors, officers and employees. The Code of Business Conduct and Ethics covers all areas of professional conduct, including conflicts of interest, disclosure obligations, insider trading and confidential information, as well as compliance with all laws, rules and regulations applicable to our business. We encourage all employees, officers and directors to promptly report any violations of any of our policies. Copies of our Code of Business Conduct and Ethics may be obtained by any person, without charge, upon written request to our corporate secretary at our principal executive offices.

Summary Compensation Table

The following table sets forth certain summary information concerning the cash and non-cash compensation awarded to, earned by, or paid to our chief executive officer and each of our two other most highly compensated executive officers whose salary and bonus for the fiscal year ended September 30, 2007 was in excess of \$100,000 for services rendered in all capacities to us and our subsidiaries. In addition, we have included compensation information for our remaining executive officers who we paid in fiscal 2007. No executive officers who would have otherwise been included in such table on the basis of salary and bonus earned for the 2007 fiscal year have been excluded by reason of his or her termination of employment or change in executive status during that year. The listed individuals shall be hereinafter referred to as the Named Executive Officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Fiscal Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards \$(1) (e)	Option Awards \$(1) (f)	Non-Equity Incentive Plan Compensation (\$) (g)	Nonqualified Deferred Compensation Earnings (\$) (h)	All Other Compensation (\$) (i)	Total (\$) (j)
Jeffrey L. Nash, President, Chief Executive Officer, Bank President and Director (2)	2007	205,208	33,750	21,508	23,275			11,750(3)	295,491
Coralie S. Pledger, Secretary/Treasurer and Chief Financial Officer (4)	2007	86,250	15,525	9,000	327			2,588(5)	113,690
M. Randall Meeks, Treaty Oak Bank Chief Lending Officer	2007	110,416	17,562	9,788	6,843			3,512(5)	148,121
Sheila A. Bostick, Treaty Oak Bank Senior Vice President	2007	108,217	17,033	11,350	6,909			4,307(5)	147,816
Thomas Clark, Treaty Oak Bank Senior Credit Officer and Compliance Officer	2007	105,627	16,644	9,412	6,692			3,329(5)	141,704

(1) The amounts in columns (e) and (f) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended September 30, 2007 in accordance with FAS 123(R) of restricted stock awards and stock options, respectively, granted pursuant to our 2004 Stock Incentive Plan and thus include amounts from restricted stock awards and options granted in and prior to fiscal year 2007. Assumptions used in the calculation of the amount for fiscal years ended September 30, 2005, 2006 and 2007 are included in footnote to our audited financial statements for the year ended September 30, 2007 included in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on December , 2007.

(2) Mr. Nash did not receive any compensation for his service as a director.

- (3) All other compensation represents automobile allowances of \$5,400 and our contributions to Mr. Nash's SIMPLE IRA plan.
- (4) Coralie S. Pledger joined us effective February 16, 2007.
- (5) All other compensation represents our contributions to the Named Executive Officer's SIMPLE IRA plan.

Fiscal 2007 Equity Grants

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During the fiscal year ended September 30, 2007, we granted stock options to acquire 34,500 shares of our common stock and restricted stock grants totaling 43,235 shares to the Named Executive Officers. The following table provides information related to stock option and restricted stock awards granted to or earned by our Named Executive Officers during the year ended September 30, 2007.

Name	Grant Date	Restricted Stock Awards: Number of Shares of Stock (#)	Stock Option Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards (\$/Sh)	Vesting Terms
Jeffrey L. Nash	10/25/06		15,000	\$ 8.00	(1)
	11/15/06		20,303	\$ 6.16	(3)
	11/20/06	12,905			(2)
Coralie S. Pledger	7/15/07		10,000	\$ 10.95	(1)
	2/17/07	12,000			(2)
	6/30/07		2,000	\$ 10.95	(1)
M. Randall Meeks	9/30/07		1,500	\$ 10.50	(1)
	11/20/06	5,873			(2)
Sheila A. Bostick	9/30/07		2,000	\$ 10.50	(1)
	11/20/06	6,810			(2)
Thomas G. Clark	9/30/07		2,000	\$ 10.50	(1)
	11/20/06	5,647			(2)
	9/30/07		2,000	\$ 10.50	(1)

(1) This stock option vests one-third on each of the first three anniversaries of the date of grant.

(2) This restricted stock award vests one-fourth on each of the first four anniversaries of the date of grant.

(3) Mr. Nash received these stock options on April 30, 2003 in connection with his service for Treaty Oak Holdings, Inc. (TOHI). The options were assumed by the Company in connection with the merger of the Company and TOHI on November 15, 2006.

Employment Agreements

On September 27, 2006, we entered into an Employment Agreement with Jeffrey L. Nash whereby he agreed to continue to serve as our President and Chief Executive Officer. The Employment Agreement has a two year term ending on September 27, 2008, with automatic one year renewal terms unless terminated earlier by either party. Under the terms of the Employment Agreement, Mr. Nash receives an annual base salary of \$200,000 and other usual and customary benefits. The Employment Agreement also provides that we will pay for Mr. Nash's cell phone usage and club membership dues and fees as the Compensation Committee determines them to be to our benefit. We granted Mr. Nash options to purchase 15,000 shares of our common stock under our 2004 Stock Incentive Plan (the "Plan") at an exercise price per share of the fair market value of our common stock as of the date of the grant, with one-third of the underlying shares to vest on the grant date of October 25, 2006 and the remaining two-thirds to vest equally on the first and second anniversaries of the grant date. These stock options would automatically fully vest upon a "change in control" as defined in the Plan. Mr. Nash is eligible to receive an annual bonus equal to 50% of his base annual salary plus any additional bonus amounts based on his performance,

as determined in the sole discretion of our Board of Directors. Pursuant to the terms of the Employment Agreement, if we terminate Mr. Nash other than for cause, or his employment with us is terminated by reason of death or disability or if Mr. Nash resigns following a material diminution in his title, responsibilities or direct-report staff or within six months following a change of control (as such terms are defined or used in the Employment Agreement), Mr. Nash will be entitled to a lump sum payment of one times his current base salary in cash and any remaining unvested options shall vest at that time. The Employment Agreement also provides that if there is a change of control as defined under Section 280G of the Internal Revenue Code and Mr. Nash would be required to pay an excise tax under Section 4999 of the Internal Revenue Code based on the payments and benefits he receives as a result of the change of control, then we will pay Mr. Nash an additional amount (not to exceed Mr. Nash's then current base salary) equal to 50% of the excise tax plus other taxes incurred by Mr. Nash as a result of receiving the additional amount.

All of our other executive officers are employees-at-will serving at the pleasure of our Board of Directors and do not have employment agreements with us.

2004 Stock Incentive Plan

Introduction

Our 2004 Stock Incentive Plan is intended to promote our interests by providing our employees, directors, and key advisors or consultants an opportunity to acquire or otherwise increase a proprietary interest in us as an incentive to remain in our service. The 2004 Stock Incentive Plan is designed to provide us with flexibility in offering incentive programs that will afford us the opportunity to attract and retain key employees and advisors. Below is a description of the material features of the 2004 Stock Incentive Plan.

Share reserve

We have reserved 500,000 shares of our common stock for issuance under the 2004 Stock Incentive Plan. The share reserve under our plan will increase automatically on the first business day in January of each calendar year, beginning with calendar year 2005, by an amount equal to two percent (2%) of the total number of shares of our common stock outstanding on the last business day of December in the prior calendar year, but in no event will this annual increase exceed 100,000 shares. In addition, no participant in the plan may be granted stock options or direct stock issuances for more than 100,000 shares of common stock in total in any calendar year. As of September 30, 2007, we had 176,569 shares of our common stock available for issuance under the plan.

Programs

Our 2004 Stock Incentive Plan has three separate programs:

the discretionary option grant program, under which eligible individuals may be granted options to purchase shares of our common stock at an exercise price less than, equal to, or greater than the fair market value of those shares on the grant date;

the stock issuance program, under which eligible individuals may be issued shares of common stock directly, upon the attainment of performance milestones, the completion of a specified period of service, or as a bonus for past services; and

the automatic option grant program, under which option grants will automatically be made at periodic intervals to eligible non-employee Board members to purchase shares of common stock at an exercise price equal to the fair market value of those shares on the grant date.

Eligibility

The individuals eligible to participate in our plan include our officers and other employees (including those of the Bank (our subsidiary)), our non-employee Board members, and any consultants or other independent advisors we hire.

Administration

The discretionary option grant and stock issuance programs is administered by our Compensation Committee. This Committee determines which eligible individuals are to receive option grants or stock issuances under those programs, the time or times when the grants or issuances are to be made, the number of shares subject to each grant or issuance, the status of any granted option as either an incentive stock option or a non-statutory stock option under the federal tax laws, the vesting schedule to be in effect for the option grant or stock issuance, and the maximum term for which any granted option is to remain outstanding.

Plan features

Our 2004 Stock Incentive Plan includes the following features:

The exercise price for any options granted under the plan may be paid in cash or in shares of our common stock valued at the fair market value on the exercise date. Subject to applicable federal securities law requirements, the option may also be exercised through a same-day sale program through an independent brokerage firm without any cash outlay by the optionee.

The Compensation Committee has the authority to cancel outstanding options under the discretionary option grant program in return for the grant of new options for the same or different number of option shares with an exercise price per share based upon the fair market value of our common stock on the new grant date.

Automatic option grant program

On the date of each annual shareholders meeting, each non-employee Board member who is to continue to serve as a non-employee Board member, including each of our current non-employee Board members, will be granted automatically an option to purchase 3,000 shares of common stock, provided he or she has served on the Board for at least six months.

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Each automatic grant will have an exercise price per share equal to the fair market value per share of our common stock on the grant date and will have a term of 10 years, subject to earlier termination following the optionee's cessation of Board service. The shares subject to each annual 3,000-share automatic grant will vest upon the optionee's completion of one year of service measured from the grant date. However, the shares will immediately vest in full upon certain changes in control or ownership or upon the optionee's death or disability while then serving as a Board member.

Change in control

Our 2004 Stock Incentive Plan includes the following change in control provisions that may result in the accelerated vesting of outstanding option grants and stock issuances:

If we are acquired by merger or asset sale or Board-approved sale by the shareholders of more than 50% of our outstanding voting stock, each outstanding option under the discretionary option grant program that is not to be assumed by the successor corporation or otherwise continued in effect will become exercisable immediately for all the option shares, and all outstanding unvested shares will vest immediately, except to the extent our repurchase rights with respect to those shares are to be assigned to the successor corporation or otherwise continued in effect.

The Compensation Committee will have complete discretion to grant one or more options which will become exercisable for all the option shares in the event those options are assumed in the

acquisition but the optionee's service with us or the acquiring entity is subsequently involuntarily terminated.

The Compensation Committee may grant options and structure repurchase rights so that the shares subject to those options or repurchase rights will vest immediately in connection with a hostile takeover effected through a successful tender offer for more than 50% of our outstanding voting stock or a change in the majority of our Board through one or more contested elections. Accelerated vesting may occur either at the time of the transaction or upon the subsequent termination of the optionee's services.

Amendment/Termination

The Board may amend or modify our 2004 Stock Incentive Plan at any time, subject to any required shareholder approval. Our 2004 Stock Incentive Plan will terminate no later than January 18, 2014.

Outstanding Equity Awards at Fiscal Year-end

The following table provides information, with respect to the Named Executive Officers, concerning their outstanding equity awards at the fiscal year-end on September 30, 2007.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

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Name (a)	Option Awards					Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares of Units of Stock That Have Not Vested (\$) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (i)
Jeffrey L. Nash	15,000			\$ 8.33	5/19/14	12,905(4)	135,503(2)	
	3,333	6,667(5)		\$ 8.50	10/24/15			
	1,667	3,333(6)		\$ 8.50	7/24/16			
		15,000(3)		\$ 8.00	10/24/16			
		10,000(3)		\$ 10.95	7/15/17			
	20,303(1)			\$ 6.16(1)				
Coralie S. Pledger		2,000(3)		\$ 10.95	6/30/17	12,000(4)	126,000(2)	
		1,500(3)		\$ 10.50	9/30/17			
M. Randall Meeks	2,500			\$ 8.33	5/19/14	5,873(4)	61,667(2)	
	1,333	2,667(5)		\$ 8.50	10/24/15			
	1,667	3,333(6)		\$ 8.75	9/25/16			
		2,000(3)		\$ 10.50	9/30/17			
Sheila A. Bostick	3,500			\$ 8.33	5/19/14	6,810(4)	71,505(2)	
	1,333	2,667(5)		\$ 8.50	10/25/14			
	333	667(5)		\$ 8.50	10/25/14			
	1,667	3,333(6)		\$ 8.75	9/25/16			
		2,000(3)		\$ 10.50	9/30/17			
Thomas G. Clark	2,500			\$ 8.33	5/19/14	5,647(4)	59,294(2)	
	1,250	2,500(5)		\$ 8.50	10/24/15			
	1,667	3,333(6)		\$ 8.75	9/25/16			
		2,000(3)		\$ 10.50	9/30/17			

(1) Mr. Nash received these stock options on April 30, 2003 in connection with his service for Treaty Oak Holdings, Inc. (TOHI). The options were assumed by the Company in connection with the merger of the Company and TOHI on November 15, 2006..

(2) Such amount is calculated by multiplying the number of shares set forth in column (g) by \$10.50, which was the last price at which our common stock was traded during the year ended September 30, 2007, which trade occurred on August 30, 2007.

(3) See footnote (1) to the table under Equity Grants for the vesting terms.

(4) See footnote (2) to the table under Equity Grants for the vesting terms.

(5) This stock option vests one-third on each of the first three anniversaries of the date of grant, which was October 25, 2005.

(6) This stock option vests one-third on each of the first three anniversaries of the date of grant, which was September 29, 2006.

Severance and Change of Control Benefits

For a description of Mr. Nash's severance and change of control benefits, see Employment Agreements. None of our other Named Executive Officers has an employment agreement with us and therefore is not entitled to any severance or change of control benefits and payments. Our Board of Directors may in its discretion provide severance or change of control benefits to our Named Executive Officers if our Board believes in its business judgment that such benefits are appropriate or desirable.

Director Compensation

We currently pay our outside directors for their services as directors and committee members for attending and participating in Board and committee meetings. In fiscal 2007, we paid our Board members fees of \$150-\$250 per meeting (\$225 for our Board and Bank board meetings, \$250 for Executive Committee meetings, \$200 for Audit Committee, Compensation Committee, and Governance Committee meetings, and \$150 for Bank loan committee and asset liability committee meetings) for attending and participating in meetings and we pay our committee chairs annual retainers of \$2,000-\$4,000 for their service (\$4,000 for Audit Committee and \$2,000 for Compensation Committee and Governance Committee). For fiscal 2008, we will pay our Board members fees of \$200-\$400 per meeting (\$400 for our Board meetings, \$300 for Bank board meetings, \$300 for Executive Committee, Audit Committee, Compensation Committee, and Governance Committee meetings, and \$200 for Bank loan committee and asset liability committee meetings) for attendance and participating in meetings and we pay our committee chairs annual retainers of \$3,000-\$5,000 for their service (\$5,000 for Audit Committee and \$3,000 for Compensation Committee and Governance Committee). In the future, we expect to continue to pay retainer and committee fees at the rate customary in the banking and financial services industries.

Our directors and Bank directors who are not employees are eligible to receive stock option grants at periodic intervals under the automatic option grant program of our 2004 Stock Incentive Plan. Under the automatic option grant program, on January 1 of each year, each non-employee Board member who continues to serve as a non-employee Board member will automatically be granted an option to purchase 3,000 shares of our common stock, provided he or she has served on the Board for at least six months and has not received an automatic grant on the date of either of the last two preceding annual shareholder meetings. On November 13, 2007, our Board amended this director equity compensation component to provide that non-employee Board members who meet the requirements set forth in the previous sentence would receive a restricted stock award, rather than stock options, of a number of shares equal to the value of stock options to purchase 3,000 shares (as determined under the Black-Scholes method of calculating option values), divided by the fair market value per share of our common stock on January 1 of the date of the restricted stock grant. In addition, all non-employee directors are eligible to receive option grants under the discretionary option grant program of the plan. When a director is elected to our Board for the first time, such director is granted a stock option to acquire 10,000 shares of our common stock, at an exercise price equal to the fair market value per share on the date of grant, which such option is fully vested on the date of grant.

The following table provides information concerning the compensation of our directors for the fiscal year ended September 30, 2007. Mr. Bendele joined our Board of Directors on November 13, 2007 and therefore is not included in the table below.

DIRECTOR COMPENSATION

Name (a)	Fees Earned or Paid in Cash (\$) (b)	Stock Awards (\$) (c)	Option Awards(4) (\$) (d)	Non-Equity Incentive Plan Compensation (\$) (e)	Nonqualified Deferred Compensation Earnings (\$) (f)	All Other Compensation (\$) (g)	Total (\$) (h)
Charles T. Meeks	13,675		13,567			24,000(5)	51,242
Arthur H. Coleman(1)	3,150		11,647				14,797
William J. McClellan(2)			5,900				5,900
Marvin L. Schrager	4,400		12,543				16,943
Bill F. Schneider	1,525		5,070				6,595
Carl J. Stolle	4,850		11,027				15,877
Elias F. Lee Urbina	1,425		5,070				6,495
Hayden D. Watson	20,250		14,883				35,133
William T. Willis(3)	6,225		7,637				13,862

(1) Mr. Coleman resigned from the Board of Directors on February 13, 2007.

(2) Mr. McClellan resigned from the Board of Directors on July 1, 2007.

(3) Mr. Willis passed away on September 29, 2007.

(4) The directors held stock options covering the following amounts of shares, all of which options are fully vested: Mr. Meeks 32,030; Mr. Schrager 26,500; Mr. Schneider 16,000; Mr. Stolle 32,121; Mr. Urbina 16,000 and Mr. Watson 32,500.

(5) All other compensation represents Mr. Meeks salary received for his service as Chairman of the Board.

Security Ownership of Certain Beneficial Owners and Management

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This following table sets forth information regarding the beneficial ownership of our common stock as of September 30, 2007, for:

each person known by us to own beneficially more than 5% of our common stock;

each executive officer named in the summary compensation table;

each of our directors and director nominees; and

all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to the securities. Except as indicated in the notes following the table, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them. The applicable percentage of ownership for each shareholder is based on 2,958,602 shares of our common

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stock outstanding as of September 30, 2007, together with the shares of common stock underlying options or warrants held by such persons that are exercisable on or before November 30, 2007. Shares of common stock issuable upon exercise of options and other rights beneficially owned that are exercisable on or before November 30, 2007 are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and other rights but are not deemed outstanding for computing the percentage ownership of any other person.

Name and Address	Number of Shares of Common Stock Beneficially Owned	Percentage
Named Executive Officers, Directors, and Director Nominees		
Jeffrey L. Nash (1)(2)	134,197	4.44%
Coralie S. Pledger (1)(3)	12,100	*
Sheila A. Bostick (1)(4)	18,675	*
Thomas G. Clark (1)(5)	15,914	*
M. Randall Meeks (1)(6)	16,308	*
Carl J. Stolle (7) 5108 Cuesta Verde Austin, Texas 78746	167,965	5.62%
Marvin L. Schrage (8) 220 N. Zapata Highway #11 Laredo, Texas 78043	43,812	1.47%
Charles T. Meeks (9) 2308 Quail Run Cove Lago Vista, Texas 78645	60,489	2.02%
Hayden D. Watson (10) 7901 Bee Cave Road #18 Austin, Texas 78746	83,860	2.80%
Elias F. Lee Urbina (11) 500 N. Capital of Texas Highway, #3-100 Austin, Texas 78746	20,010	*
Bill F. Schneider (12) 905 Crystal Mountain Drive Austin, Texas 78733	142,875	4.80%
Marvin J. Bendele 5201 Cuesta Verde Austin, Texas 78746		
5% Shareholders		
Terry W. Hamann (13) 5300 Bee Cave Road Building III, Suite 200 Austin, Texas 78746	236,125	7.44%
All directors and executive officers as a group (12 persons) (14)	716,205	22.19%

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- * Represents beneficial ownership of less than 1% of the outstanding shares of our common stock.
- (1) Address is 101 Westlake Drive, Austin, Texas 78746.
 - (2) Includes 48,636 shares issuable upon exercise of options and 12,905 restricted shares issued but not fully vested. Also includes 2,000 shares and warrants to purchase 200 shares held for the benefit of Mr. Nash's children, which beneficial ownership of such shares is disclaimed.
 - (3) Includes 12,000 restricted shares issued but not fully vested.
 - (4) Includes 8,500 shares issuable upon exercise of options and 6,810 restricted shares issued but not fully vested.
 - (5) Includes 6,667 shares issuable upon exercise of options and 5,647 restricted shares issued but not fully vested.
 - (6) Includes 6,833 shares issuable upon exercise of options and 5,873 restricted shares issued but not fully vested.
 - (7) Includes 32,121 shares issuable upon exercise of options.
 - (8) Includes 26,500 shares issuable upon exercise of options.
 - (9) Includes 32,030 shares issuable upon exercise of options. Also includes 7,200 shares held jointly with Mr. Meeks' spouse.
 - (10) Includes 12,454 held in the name of Mr. Watson's limited partnership, H&B Watson Interests, Inc. Also includes 32,500 shares issuable upon exercise of options.
 - (11) Includes 4,010 shares held in the name of Mr. Urbina's limited partnership, La Patrona, Ltd. Also includes 16,000 shares issuable upon exercise of options.
 - (12) Includes 126,694 shares held in the name of Mr. Schneider's family limited partnership, The B.F. Schneider Family, Ltd. Also includes 16,000 shares issuable upon exercise of options.
 - (13) Includes 20,000 shares issuable upon exercise of options. Also includes 196,125 shares issuable upon exercise of warrants for which Mr. Hamann has agreed to grant a proxy to us for all of such underlying shares of common stock upon the exercise thereof. 1,152 shares are held in the name of Hamann Investments.
 - (14) Includes 225,787 shares issuable upon exercise of options and 43,235 restricted shares issued but not fully vested.

INFORMATION ABOUT THE COMPANY

Certain Relationships and Related Transactions

General

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We expect to enter into banking and other business transactions in the ordinary course of business with our directors and officers, including members of their families and corporations, partnerships, or other organizations in which they have a controlling interest. Each of these transactions will be on the following terms:

In the case of banking transactions, each transaction will be on substantially the same terms, including price or interest rate and collateral, as those prevailing at the time for comparable transactions with unrelated parties, and any banking transactions will not be expected to involve more than the normal risk of collectibility or present other unfavorable features to the Bank;

In the case of business transactions, each transaction will be on terms no less favorable than could be obtained from an unrelated third party;

In the case of all related party transactions, each transaction will be approved by a majority of the independent and disinterested directors; and

In the case of loans to related parties or loan guarantees by related parties:

the loans will be evidenced by promissory notes naming Treaty Oak Bank as payee;

the terms of the loans will be comparable to those normally assessed by other lenders for similar loans made in the Texline and Austin areas;

the loans will be repaid pursuant to appropriate amortization schedules and contain default provisions comparable to those normally used by other commercial lenders for similar loans;

the loans will be made only if credit reports and financial statements show the loans to be collectible and the borrowers are satisfactory credit risks, in light of the nature and terms of the loans and other circumstances;

the loans meet the loan policies normally used by other commercial lenders for similar loans;

the purpose of the loans and the disbursements of proceeds will be reviewed and monitored in a manner comparable to that normally used by commercial lenders for similar loans; and

the loans will not violate the requirements of any banking or other financial institution's regulatory authority.

Acquisition of Treaty Oak Holdings, Inc.

On November 15, 2006, we completed the acquisition of Treaty Oak Holdings, Inc. (TOHI) pursuant to the Agreement and Plan of Merger, dated October 3, 2006. TOHI was one of our five organizing shareholders and operated as a bank holding company and significant shareholder, but otherwise had no active operations. The merger was approved by our Board of Directors and also by our shareholders at a special meeting of Shareholders held on October 24, 2006. Prior to the consummation of the merger, TOHI held approximately 38% of the issued and outstanding shares of our common stock.

The primary purpose of this merger was to achieve certain operational efficiencies for us and our affiliates. The following factors were important to both our Board and TOHI's Board decisions to approve the merger and recommend approval to our and TOHI's shareholders:

- (i) The merger would simplify the bookkeeping, financial reporting, and corporate record keeping for our affiliated entities;

- (ii) The merger would reduce the accounting and other costs for the various Treaty Oak entities, including the costs associated with the filing of multiple tax returns and regulatory reports;
- (iii) The merger would eliminate the need to treat TOHI as a separate bank holding company and make the various banking regulatory filings;
- (iv) Our and TOHI's Boards of Directors believed that it was beneficial for our and TOHI's shareholders to have all of the shareholders associated with the Treaty Oak affiliated entities invested in one organization (*i.e.*, us) rather than multiple organizations;
- (v) As part of the exchange, we would receive net assets from TOHI, including cash and limited partnership interests in PGI Equity Partners, LP, the entity that owns Treaty Oak Bank's headquarters at 101 Westlake Drive, Austin, Texas, which would increase our liquidity and financial strength;
- (vi) The merger was anticipated to be accretive to our tangible book value per share outstanding;
- (vii) Net operating losses incurred by TOHI may be available to offset future earnings of ours; and

(viii) The TOHI Board believed that the exchange of the TOHI shares for our shares in connection with the merger would improve the liquidity of such shares because we are a public reporting company.

We and TOHI were deemed to be under common control. A majority of our directors also served on TOHI's Board of Directors and were shareholders of both entities. TOHI also owned 1,000,000 shares of our common stock, representing approximately 38% of our shares then outstanding. Because we and TOHI were deemed to be under common control, purchase accounting was not applied to the merger. Instead the net assets contributed by TOHI were recorded at their predecessor cost. The 1,000,000 shares of our common stock owned by TOHI were cancelled by us and recorded as a reduction of our common stock accounts (par value and paid in capital) at their fair market value, as determined by an independent appraisal, of \$8.31 per share, or \$8,310,000 in the aggregate. The 1,094,163 new shares of our stock issued to the TOHI shareholders were also recorded at the fair market value price of \$8.31 per share, or \$9,093,000 in the aggregate. The common stock purchase warrants issued by us in exchange for the TOHI warrants and the TOHI options assumed by us were valued and recorded at their fair value using a Black-Scholes pricing model. The net effect of the contribution of assets and the capital stock transactions was a \$1,715,000 increase to our equity and a 94,163 net increase in the number of shares of our common stock issued. Although the net assets contributed by TOHI to us were not adjusted to their fair value, the assets were evaluated for collectibility and/or impairment according to generally accepted accounting principles prior to the merger and adjusted accordingly by TOHI prior to the merger.

PGI Equity Partners, L.P.

Office Lease

Our offices are located in a renovated building at 101 Westlake Drive, Austin, Texas. The Bank occupies approximately 7,900 square feet for its offices and our corporate offices occupy an additional 1,000 square feet. The office space is leased from PGI Equity Partners, L.P., a Texas limited partnership and a wholly-owned subsidiary of ours. We engaged the services of a third party consultant in determining the fair market rental value of this office space to be leased to us and the Bank. Upon completion of our merger with TOHI on November 15, 2006, we obtained 100% ownership and control of the real estate through ownership of the limited partner interests of PGI Equity Partners, L.P. and its general partner, PGI Capital, Inc.

Investment in PGI Equity Partners, L.P.

We acquired a 47.5% interest in PGI Equity Partners, LP (the Partnership) on December 31, 2004. The Partnership owns and operates the building in which our principal executive offices are located. On February 23, 2006, we acquired additional 2.5% Class A and 1.25% Class B interests in the Partnership from the sole remaining minority shareholder, bringing our total ownership interest in the Partnership to 51.25% at September 30, 2006. TOHI owned 43.25% of the limited partnership interests, while PGI Capital, Inc., which was a wholly-owned subsidiary of TOHI, owned the remaining 5.5% limited partnership interest. Thus, following our merger with TOHI on November 15, 2006, we now own 100.0% of the limited partner interests in the Partnership as well as the 5.0% general partner interest held by PGI Capital, Inc., the Partnership's general partner.

Loans to Treaty Oak Holdings, Inc.

On October 24, 2006, our shareholders approved the acquisition of TOHI our largest shareholder, which then held approximately 39% of our issued and outstanding common stock. On August 24, 2006, we had loaned TOHI \$2,425,000 for the redemption of its shares held by certain principals of our previously affiliated entities. The loan was at the prime rate of interest with interest only payable monthly.

On October 11, 2005, we made a \$355,000 loan to TOHI, with interest at the prime rate per annum with monthly interest payments due on the first of each month beginning November 1, 2005. The purpose of the loan was to enable TOHI to pay off certain obligations, and to provide sufficient liquidity to TOHI until the proposed merger with us has been completed. On April 26, 2006, the obligation was renewed and increased to \$373,000 at the then current prime rate. The loan was renewed and increased to \$400,000 on September 1, 2006. The principal balance, along with accrued interest, was due and payable in full on November 1, 2006.

In November 2006, TOHI completed a private placement of shares of common stock that raised approximately \$3,500,000 and TOHI was able to repay the \$2,425,000 and the \$400,000 loans in full on November 15, 2006, upon the consummation of our merger with TOHI.

PGI Capital, Inc.

On March 14, 2005, in conjunction with the refinancing of the PGI Equity Partner, LP real estate, the Bank loaned PGI Capital, Inc., a controlled subsidiary of TOHI, \$200,000 which was in part loaned and in part contributed to the capital of PGI Equity Partners. The loan was made on commercially reasonable terms and is secured by a certificate of deposit in the amount of \$200,000 provided by us.

Treaty Oak Mortgage, LLC

On June 27, 2005, we acquired a 50% membership interest in Treaty Oak Mortgage, LLC, a mortgage broker focusing on residential real estate lending, from Treaty Oak Financial Holdings, Inc., an affiliated company and wholly-owned subsidiary of TOHI. We acquired the interest in Treaty Oak Mortgage for a purchase price of \$1,000.

Promotional Shares Lock-In Agreement

In connection with our public offering, which was completed in October, 2004, TOHI and certain of our officers and directors were required by the Texas State Securities Board to escrow their shares of common stock issued to them upon our formation pursuant to a Promotional Shares Lock-In Agreement. Pursuant to the terms of the Lock-In Agreement, beginning two years from the date of completion of the offering, 2.5% of the promotional shares may be released each quarter on a pro rata basis among the depositors, and all remaining promotional shares will be released from escrow on the fourth anniversary from the date of completion of the offering. The promotional shares may not be transferred by the holders thereof, except in certain limited instances such as by will, the laws of descent and distribution, by order of any court of competent jurisdiction or by gift to family members.

Past Contacts, Transactions, Negotiations and Agreements

Generally. During the past two years, neither the Company nor the Bank has engaged in significant transactions with any of their affiliates, executive officers or directors, nor have we engaged in negotiations regarding such types of transactions, other than the acquisition of TOHI in 2006, as discussed above. The concept of significant transactions includes any transaction or series of similar transactions with an aggregate value in excess of \$60,000.

There are no agreements between us, the Bank or our executive officers and directors and any other person with respect to any shares of our common stock, except as related to awards granted under our 2004 Stock Incentive Plan.

Our directors and officers and their associates are customers of and have had transactions with the Bank in the ordinary course of business. All loans and commitments included in such transactions have been made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

We are not aware of any arrangements that may result in a change in control of us. Presently, neither we nor the Bank has any plans, proposals or negotiations that relate to or would result in: (i) any purchase, sale or transfer of a material amount of our assets or any of our subsidiaries; (ii) any material change in our present dividend rate or policy, or indebtedness or capitalization; (iii) any change in our present Board of Directors or management, including any plans or proposals to change the number or term of directors or to fill any existing vacancies on the Board or to change any material term of the employment contract of any executive officer; or (iv) any other material change in our corporate structure or business.

2004 Stock Incentive Plan. On January 19, 2004, the 2004 Stock Incentive Plan was adopted by our Board of Directors for the purpose of providing eligible persons in our service with the opportunity to acquire or increase their proprietary interest in us as an incentive for them to remain in such service. The Plan initially set aside 500,000 shares of our common stock. The number of shares of our common stock available for issuance under the Plan automatically increases on the first business day of January each calendar year during the term of the Plan by an amount equal to two percent (2%) of the total number of shares of common stock outstanding on the last business day in December of the immediately preceding calendar year, but in no event shall any such annual increase exceed 100,000 shares. At September 30, 2007 there were a total of 433,300 options outstanding and 49,507 shares of restricted stock issued, 659,376 total shares allocated to the Plan and 176,569 shares available for issuance. As of September 30, 2007, no options had been exercised.

Registration Rights Agreements. On November 15, 2006, Treaty Oak completed its merger with TOHI as described above under *Certain Relationships and Related Transactions Acquisition of Treaty Oak Holdings, Inc.* In connection with the merger transaction, Treaty Oak granted the TOHI shareholders certain limited registration rights pursuant to a Registration Rights Agreement executed at the closing of the merger. Pursuant to the Registration Rights Agreement these former TOHI shareholders can request that Treaty Oak register their shares of our common stock on a Registration Statement on Form S-3 if such form is available for use by us, but only once during any 12-month period. The former TOHI warrant holders were also granted similar S-3 registration rights in a separate Registration Rights Agreement. After the Reclassification, because we would no longer be a SEC public reporting company, the Registration Statement on Form S-3 would not be available for use by us.

Warrants. Also in connection with the TOHI merger transaction, we granted holders of warrants to purchase TOHI common stock new warrants to purchase shares of our common stock. The exercise price for the shares of common stock issuable pursuant to the warrants is the greater of \$6.67 per share and the book value per share of common stock, subject to certain adjustments. The warrants are exercisable, in whole or in part, through November 15, 2011. The warrants shall automatically be deemed to be exercised in full immediately prior to the closing of certain change of control transactions. The Reclassification would not qualify as one of these change of control transactions. Prior to exercise of warrants, holders thereof are not entitled to any rights of a shareholder with respect to the shares of our common stock, including (without limitation) the right to vote such shares, receive dividends or other distributions thereon, exercise preemptive rights or be notified of stockholder meetings. In order to exercise these warrants, the warrant holders must execute and deliver to us an irrevocable proxy of all voting rights with respect to the shares acquired in favor of us.

Common Stock of the Company

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Comparative Market Price Data. Our common stock is currently traded on the Over-the-Counter Bulletin Board under the symbol TOAK . The following table lists the high and low sales information for our common stock for the periods indicated. The last sale price for our common stock reported on the Over-the-Counter Bulletin Board was on August 30, 2007 and was \$10.00.

	Stock Price	
	High	Low
2007:		
First Quarter	\$ 9.00	\$ 8.00
Second Quarter	\$ 12.00	\$ 8.50
Third Quarter	\$ 11.50	\$ 10.00
Fourth Quarter	\$ 10.50	\$ 10.00
2006:		
First Quarter	\$ 8.50	\$ 8.50
Second Quarter	\$ 8.50	\$ 8.35
Third Quarter	\$ 8.70	\$ 8.35
Fourth Quarter	\$ 9.00	\$ 8.50

After the Reclassification, we intend to deregister our common stock so that we are no longer an Exchange Act reporting company. As a result, our common stock would no longer be traded on the Over-the-Counter Bulletin Board. We anticipate that our common stock and our Series A preferred stock will be traded on the Pink sheets.

As of the record date for the Meeting, we had reserved 659,376 shares of our common stock for issuance upon the exercise of options and the issuance of stock that have been granted under our 2004 Stock Incentive Plan. Options to purchase 433,300 shares of common stock have been granted at a weighted average exercise price of \$8.74 per share and 49,507 shares of stock have been granted. We have no compensation plans other than our 2004 Stock Incentive Plan authorized to issue equity securities. We have also issued warrants to acquire in the aggregate up to 450,000 shares of our common stock, at an exercise price equal to the greater of \$6.67 per share and the book value per share of common stock.

We have not made an underwritten public offering of our common stock for cash during the past three years that was registered under the Securities Act of 1933 or exempt from registration under Regulation A (Securities Act Rule 251 through 263).

Dividends. We have never declared or paid any dividends on our capital stock and we do not anticipate doing so in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon regulatory requirements, and our results of operations, financial condition, and capital requirements, among other factors. Although our payment of dividends are subject to certain requirements and limitations under Texas corporate law, except as set forth in this discussion, restrictions associated with our payment of dividends as imposed on us by the FDIC and the Texas banking Department have lapsed. Accordingly, neither the Texas Banking Department nor the Federal Reserve or FDIC presently limit our right to pay dividends. However, our ability to pay dividends (or to repurchase shares) may be dependent upon our receipt of dividends from the Bank, our wholly-owned subsidiary.

A Texas-chartered bank may not declare or pay a cash dividend on, or repurchase any of, its capital stock if the effect of that transaction would be to reduce the net worth of the institution to an amount which is less than the minimum amount required by applicable federal and state regulations. Also, an insured depository institution, such as the Bank, is prohibited from making capital distributions, including the payment of dividends, if after making such distributions the institution would become under capitalized (as that term is defined in applicable laws and regulations).

We must also obtain Federal Reserve approval in order to use more than 10% of our net worth to make stock repurchases during any 12 month period unless we (i) both before and after the redemption satisfy capital requirements for well capitalized state member banks; (ii) receive a one or two rating in our last examination; and (iii) are not the subject of any unresolved supervisory issues.

Recent Transactions. We have not repurchased or redeemed any shares of our common stock during the past two years. Except as otherwise set forth herein, neither we, nor any of our executive officers, directors, affiliates or subsidiaries, nor any of our or any of our subsidiaries pension, profit sharing, or similar plan, has engaged in any transaction in our common stock during the past sixty (60) days.

Description of Common Stock. We are authorized to issue 20,000,000 shares of common stock, \$0.01 par value per share. As of the record date for the Meeting, there were _____ shares of our common stock outstanding. Each share of our common stock has equal voting rights, preferences and privileges.

Description of preferred stock. Under the terms of our Articles of Incorporation prior to the adoption of the Amendment, we are authorized to issue 10,000,000 shares of preferred stock, of which no shares are issued or outstanding. Our Board of Directors has the authority to prescribe the relative preferences, rights and limitations of the shares of preferred stock, subject to limitations prescribed by law and our Articles of Incorporation, as amended. The number of these preferred shares which will be authorized after the Amendment will be reduced to 7,500,000. The remaining 2,500,000 will comprise the Series A preferred stock, as more particularly described in the Proxy Statement and the Amendment, attached hereto as Appendix A.

Number of Record Shareholders. As of September 30, 2007, we had approximately 593 record shareholders.

Voting Rights of Common Stock. Each share of our common stock has the same voting rights and is identical in all respects to every other share of common stock. The holders of our common stock possess all voting rights with respect to us. Each holder of our common stock is entitled to one vote for each share held of record on all matters submitted to a vote of holders of our common stock. Holders of our Series A preferred stock will not be entitled to vote on any matter other than (i) as otherwise required by law or (ii) upon the merger, acquisition or sale of our stock or assets, which requires the approval of the common shareholders.

Anti-Takeover Effects of Texas Law and Certain Charter and Bylaw Provisions

Business Combinations

Treaty Oak has expressly elected not to be governed under the Texas Business Combination Law, which prohibits a publicly held Texas corporation from engaging in a business combination with an affiliated shareholder for a period of three years after the date of the transaction in which the person became an affiliated shareholder unless the business combination is approved in a prescribed manner.

Protective Provisions

Certain provisions of Treaty Oak's Amended and Restated Articles of Incorporation and Bylaws may be deemed to have anti-takeover effects and may delay, prevent, or make more difficult unsolicited tender offers or takeover attempts that a shareholder may consider to be in his or her best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders. These provisions may also have the effect of making it more difficult for third parties to cause the replacement of current management. These provisions include:

Classified Board of Directors. Treaty Oak's Amended and Restated Articles of Incorporation and Bylaws provide that directors elected by the holders of common stock are divided into three classes as nearly equal in number as possible, serving staggered three-year terms. This provision, coupled with the provisions authorizing the Treaty Oak Board of Directors to increase the size of the Board and fill vacancies, may deter a shareholder from removing incumbent directors and simultaneously gaining control of the Board of Directors.

Special Meetings of Shareholders. Treaty Oak's Bylaws provide that special meetings of shareholders may be called only by the chairman of the Board of Directors, or the president or by a majority of our Board of Directors. This provision may make it more difficult for shareholders to bring matters before a meeting of shareholders.

Advance Notice Requirements for Shareholder Proposals and Director Nominations. Treaty Oak's Bylaws provide that shareholders seeking to bring business before an annual meeting of shareholders or to nominate candidates for election as directors at an annual or special meeting of shareholders must provide Treaty Oak with timely written notice of their proposals and nominations. To be timely, a shareholder's notice must be delivered to or mailed and received at Treaty Oak's principal executive offices not less than 60 nor more than 180 days before the first anniversary date of the immediately preceding annual meeting. If, however, the date of the annual meeting has been changed by more than 30 days from the anniversary date, notice by the shareholder must be received not later than the close of business on the tenth day following the earlier of the date on which a written statement setting for the date of the meeting was mailed to shareholders or the date on which it is first disclosed to the public. With respect to nominations of candidates for the election of directors at a special meeting of shareholders, notice by the shareholders must be received not later than the close of business on the tenth day following the earlier of the date on which a written statement setting for the date of the meeting was mailed to shareholders or the date on which it is first disclosed to the public. Treaty Oak's Bylaws also specify certain requirements as to the form and content of a shareholder's notice. These provisions may make it more difficult for shareholders to bring matters before an annual meeting of shareholders or to make nominations for directors at an annual meeting of shareholders.

Authorized but Unissued Shares. Treaty Oak's authorized but unissued shares of common and preferred stock are available for the Board of Directors to issue without shareholder approval. Treaty Oak may use these additional shares for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. In addition, the Board of Directors has the authority, without shareholder approval, to issue preferred stock with conversion, voting, and other rights which may be greater than the rights of the holders of common stock. The existence of authorized but unissued shares of common and preferred stock could render it more difficult or discourage an attempt to obtain control of Treaty Oak by means of a proxy contest, tender offer, merger, or other transaction.

Shareholder action upon written consent. Treaty Oak's Amended and Restated Articles of Incorporation and Bylaws provide that any action required or permitted to be taken at an annual or special meeting of shareholders must be taken at a meeting of shareholders, duly called, with proper notice, and duly held, and may not be taken by any written consent of shareholders. These provisions may have the effect of delaying consideration of a shareholder proposal until the next annual meeting unless a special meeting is called by the persons described above under Special Meetings of Shareholders. The provisions of the Company's Amended and Restated Articles of Incorporation and Bylaws prohibiting shareholder action by written consent could prevent the holders of a majority of the voting power of Treaty Oak from using the written consent procedure to take shareholder action and taking action by consent without giving all the shareholders of Treaty Oak entitled to vote on a proposed action the opportunity to participate in determining such proposed action. In addition, limiting the ability for shareholders to act without a meeting could render it more difficult or discourage an attempt to obtain control of Treaty Oak by means of a proxy contest, tender offer, merger, or other transaction.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

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The Audit Committee of the Board of Directors is comprised of Hayden D. Watson, Elias F. Lee Urbina, Carl J. Stolle and Marvin J. Bendele, all of whom are independent directors as defined in the NASDAQ listing standards and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934. In addition, Mr. Urbina is an audit committee financial expert as such term is defined in Item 407(d)(5) of Regulation S-B promulgated by the SEC.

It is the responsibility of our management to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and of our independent auditors to audit those financial statements.

In this context, the Committee has reviewed and held discussions with management and the independent auditors regarding the Company's fiscal 2007 financial statements. Management represented to the Committee that our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees).

In addition, the Committee has discussed with the independent auditors the auditor's independence from the Company and management and has received the written disclosure and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees). Further, the Committee has considered whether the provision of non-audit services by the independent auditors is compatible with maintaining the auditor's independence.

The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

Based on the reviews and discussions referred to above, the Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2007, for filing with the Securities and Exchange Commission. The Committee believes that the provision of services by the independent auditors for matters other than the annual audit and quarterly reviews is compatible with maintaining the auditor's independence.

Audit Committee: _____, Chairman

PRINCIPAL ACCOUNTANT FEES AND SERVICES

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Our Audit Committee designated McGladrey & Pullen, LLP (McGladrey) as our Independent Registered Public Accounting Firm for the fiscal year ended September 30, 2007. McGladrey has advised us that, in accordance with professional standards, they will not perform any non-audit service that would impair their independence for purposes of expressing an opinion on our financial statements. A representative of McGladrey will attend the Meeting with the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions. No accountants have been selected for the fiscal year ending September 30, 2008.

The following is a summary of the fees billed to us by McGladrey and RSM McGladrey, Inc., for professional services rendered for the fiscal years ended September 30, 2007, and 2006.

Fee Category	Years Ended	
	September 30, 2007	September 30, 2006
Audit Fees (1)	\$ 78,701	\$ 73,268
Audit-Related Fees (2)		
Tax Fees (3)	14,121	17,675
All Other Fees (4)		
Total Fees	\$ 92,822	\$ 90,943

(1) Audit fees consist of aggregate fees billed for professional services rendered for the audit of our annual financial statements and review of the interim financial statements included in the quarterly reports or services that are normally provided by the independent auditor in connection with the statutory and regulatory filings or engagements for the fiscal years ended September 30, 2007 and 2006.

(2) Audit related fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. These fees include review of registration statements and participation at meetings of the Board of Directors and audit committees.

(3) Tax fees consist of aggregate fees billed for professional services for tax compliance, advice and planning.

(4) All other fees consist of aggregate fees billed for products and services other than those disclosed above and may include accounting research or assistance with regulatory matters.

Our Audit Committee has not established pre-approval procedures and instead specifically approves each service prior to the engagement of the auditor for all audit and non-audit services.

FINANCIAL INFORMATION OF THE COMPANY

Selected Consolidated Financial Data

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The following tables set forth certain of our audited consolidated selected financial data for the fiscal years ended September 30, 2006 and 2005 and certain of our unaudited consolidated selected financial data for the nine month periods ended June 30, 2007 and 2006. This consolidated selected financial data has been derived from, and should be read in conjunction with, our audited consolidated financial statements as of, and for, the fiscal years ended September 30, 2006 and 2005 as well as accompanying notes, which are incorporated herein by reference to our annual report on Form 10-KSB for the year ended September 30, 2006, and our unaudited consolidated financial information as of, and for the nine months ended, June 30, 2007 and 2006 as well as accompanying notes, which are incorporated herein by reference to our quarterly report on Form 10-QSB for the nine months ended June 30, 2007.

	Nine Months Ended June 30,		Year Ended September 30,	
	2007	2006	2006	2005
(Dollars in thousands, except per share amounts)				
Financial Condition Data:				
Total assets	\$ 113,178	\$ 74,111	\$ 99,091	\$ 60,749
Investment securities (1)	23,231	9,853	26,123	7,851
Loans receivable, net (2)	78,001	52,843	59,620	35,683
Deposits	94,792	58,721	81,018	45,546
Borrowings(3)	2,619	2,744	5,150	2,801
Shareholders' equity	15,118	11,131	11,272	11,033
Book value per common share	\$ 5.21	\$ 4.22	\$ 4.20	\$ 4.28
Operating Data:				
Interest income	\$ 5,375	\$ 3,235	\$ 4,710	\$ 2,061
Interest expense	1,902	767	1,202	628
Net interest income	3,473	2,468	3,508	1,433
Provision for loan losses	220	180	295	130
Noninterest income	309	385	517	327
Noninterest expense	3,381	2,589	3,535	3,367
Income before income taxes	181	84	195	(1,737)
Income tax expense				
Net income	\$ 181	\$ 84	\$ 195	\$ (1,737)
Selected Other Data:				
Basic net earnings per common share (4)	\$.07	\$.03	\$.07	\$ (.66)
Diluted net earnings per common share	\$.06	\$.03	\$.07	\$ (.66)
Dividends per common share				
Dividend payout ratio				
Return on average assets	.25%	.15%	.28%	(4.09)%
Return on average equity	1.81%	1.10%	1.76%	(15.04)%
Average equity to average assets	13.97%	13.73%	15.68%	27.17%

- (1) Includes federal funds sold, investment securities, Federal Home Loan Bank stock, Independent Banker's Financial Corporation stock, and certificates of deposit.
- (2) Loans receivable, net, represents gross loans less net deferred loan fees and allowance for loan losses.
- (3) Includes mortgage payable on our property located at 101 Westlake Drive in the amount of \$2,619, \$2,682, \$2,667, and \$2,727 as of June 30, 2007, June 30, 2006, September 30, 2006, and September 30, 2005, respectively.
- (4) Basic net earnings per common share represents total income after taxes divided by the weighted average common shares outstanding.

Selected Consolidated Pro Forma Financial Information (Unaudited)

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The following pro forma financial information is condensed and unaudited and should be read in conjunction with and is qualified in its entirety by our historical consolidated financial statements and accompanying notes, which are incorporated by reference into this Proxy Statement. The pro forma financial information is based on the assumptions stated in the notes to the pro forma financial statements, which should be carefully considered. The following unaudited pro forma consolidated financial information as of June 30, 2007 and for the nine months ended June 30, 2007 and for the year ended September 30, 2006 gives effect to the following assumptions:

We have assumed that the Rule 13e-3 transaction occurred as of June 30, 2007 for purposes of the consolidated balance sheet, and as of October 1, 2006 and 2005 for purposes of the consolidated income statements.

We have assumed that a total of 297,791 shares of common stock will be exchanged for the same number of shares of Series A preferred stock. Additionally, we have prepared three pro formas, one assuming 25%

of Series A preferred shares will exercise their right to sell their shares back to us at the \$11.00 per share put price within 30 days following the Reclassification, another assuming that 50% of Series A preferred shareholders sell their shares back to us at the \$11.00 per share put price within 30 days following the Reclassification, and the final one assuming 100% of Series A preferred shareholders sell their shares back to us at the \$11.00 per share put price within 30 days following the Reclassification.

We have assumed that we will incur approximately \$161,700 in costs and expenses relating to the Rule 13e-3 transaction and that we will realize direct out-of-pocket costs currently incurred, estimated to be approximately \$88,500 per year as a result of the Rule 13e-3 transaction. These costs savings do not include the current estimated cost of time spent by management for SEC public reporting.

As the Company currently has net operating losses available to carryforward against its net income, we have not provided for any federal income taxes for the changes in the pro formas.

The unaudited pro forma consolidated financial information is intended for information purposes and is not necessarily indicative of (1) what our actual financial position would have been if the Reclassification was completed as of the dates indicated or (2) the results that may be reported by us in the future. Further, the majority of costs savings expected to be realized by the Company from the Rule 13e-3 transaction will occur after fiscal year 2007, and therefore, are not reflected in this historical pro forma.

Treaty Oak Bancorp, Inc.

Unaudited Pro Forma Condensed Consolidated Statement of Condition

as of June 30, 2007

(dollars in thousands, except per share data)

	Historical September 30, 2005	Historical September 30, 2006	Historical Nine Months Ended June 30, 2007 (Unaudited)	Change (Unaudited)	Pro Forma Nine Months Ended June 30, 2007 (Unaudited)	25% opting to sell at \$ 11.00 Put Price Pro Change (Unaudited)	50% opting to sell at \$ 11.00 Put Price Pro Change (Unaudited)	100% opting to sell at \$ 11.00 Put Price Pro Change (Unaudited)
ASSETS								
Cash	\$ 230	\$ 267	\$ 332	\$ (162)	\$ 170	\$ 170	\$ 170	\$ 170
Due from banks	9,271	2,312	2,962		2,962	(819)	(1,638)	(1,800)
Federal funds sold	3,606	23,775	21,443		21,443	21,443	21,443	21,443
Securities available for sale	427	16	11		11	11	11	11
Securities held to maturity	3,501	2,006	1,451		1,451	1,451	1,451	1,451
Loans receivable, net	35,683	59,620	78,001		78,001	78,001	78,001	78,001
Premises and equipment, net	5,819	5,593	5,627		5,627	5,627	5,627	5,627
Other assets	2,212	5,502	3,351		3,351	3,351	3,351	3,351

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TOTAL ASSETS	\$ 60,749	\$ 99,091	\$ 113,178	\$ (162)	\$ 113,016	\$ (819)	\$ 112,197	\$ (1,638)	\$ 111,378	\$ (1,800)	\$ 111,216
LIABILITIES AND STOCKHOLDERS EQUITY											
Deposits	\$ 45,546	\$ 81,018	\$ 94,792		\$ 94,792		\$ 94,792		\$ 94,792		\$ 94,792
Property mortgage	2,727	2,667	2,619		2,619		2,619		2,619		2,619
Other liabilities	1,443	4,134	649		649		649		649	1,476	2,125
TOTAL LIABILITIES	\$ 49,716	\$ 87,819	\$ 98,060		\$ 98,060		\$ 98,060		\$ 98,060	1,476	\$ 99,536
STOCKHOLDERS EQUITY											
Preferred stock											
Series A preferred stock											
Common stock	26	26	29	3(2)	3	(1)(3)	(1)	(1)(4)	2	(3)(5)	0
Additional paid-in capital	14,949	14,989	18,651		18,651	(818)(3)	17,833	(1,637)(4)	17,014	(3,273)(5)	15,378
Accumulated deficit	(3,888)	(3,693)	(3,512)	(162)(1)	(3,674)		(3,674)		(3,674)		(3,674)
Accumulated other comprehensive loss	(4)										
Treasury Stock	(50)	(50)	(50)		(50)		(50)		(50)		(50)
TOTAL STOCKHOLDERS EQUITY	11,033	11,272	15,118	(162)	14,956	(819)	14,137	(1,638)	13,318	(3,276)	11,680
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY											
	\$ 60,749	\$ 99,091	\$ 113,178	\$ (162)	\$ 113,016	\$ (819)	\$ 112,197	\$ (1,638)	\$ 111,378	\$ (1,800)	\$ 111,216
Book value per share	\$ 4.20	\$ 4.28	\$ 5.21		\$ 5.15		\$ 5.00		\$ 4.84		\$ 4.48
Shares outstanding at end of period	2,629,743	2,634,223	2,902,393		2,902,393		2,827,945		2,753,498		2,604,602

(1) This adjustment represents the payment of expenses estimated to be incurred in connection with the transaction in the amount of \$161,700.

(2) This adjustment represents the reclassification of Common Stock and Series A Preferred stock. The par value of \$.01 was transferred from Common Stock to Series A Preferred Stock.

(3) This adjustment represents the payment of \$818,925, the put price of \$11.00 per share on 25% of the shares electing to sale within 30 days following the Reclassification.

(4) This adjustment represents the payment of \$1,637,850, the put price of \$11.00 per share on 50% of the shares electing to sale within 30 days following the Reclassification.

(5) This adjustment represents the payment of \$3,275,700, the put price of \$11.00 per share on 50% of the shares electing to sale within 30 days following the Reclassification. To purchase the shares, the Company will use \$1.8 million from its cash reserves and the remainder of \$1,475,700 will be borrowed from Amegy Bank.

Unaudited Pro Forma Condensed Consolidated Statement of Income

For the Nine Months ended June 30, 2007

(dollars in thousands, except per share data)

	Historical Nine Months Ended June 30, 2007	Change	Pro Forma Nine Months Ended June 30, 2007	25% opting to sell at \$ 11.00 Put Price	Change	Pro Forma	50% opting to sell at \$ 11.00 Put Price	Change	Pro Forma	100% opting to sell at \$ 11.00 Put Price	Change	Pro Forma
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	\$ 5,375		\$ 5,375	\$ (25)(2)		\$ 5,350	\$ (49)(3)		\$ 5,326	\$ (54)(4)		\$ 5,321
Interest expense	(1,902)		(1,902)			(1,902)			(1,902)	(91)		(1,993)
Net interest income	3,473		3,473	(25)		3,448	(49)		3,424	(145)		3,328
Provision for loan losses	220		220			220			220			220
Net interest income after provision	3,253		3,253	(25)		3,228	(49)		3,204	(145)		3,108
Non-interest income	309		309			309			309			309
Non-interest expense	(3,381)	(95)	(3,476)			(3,476)			(3,476)			(3,476)
Income before income taxes	181	(95)	86	(25)		61	(49)		37	(145)		(59)
Provision for income taxes												
Net income	\$ 181	\$ (95)	\$ 86	\$ (25)		\$ 61	\$ (49)		\$ 37	\$ (145)		\$ (59)
Basic earnings (loss) per share	\$ 0.07		\$ 0.03			\$ 0.02			\$ 0.01			\$ (0.02)
Diluted earnings (loss) per share	\$ 0.06		\$ 0.03			\$ 0.02			\$ 0.01			\$ (0.02)
Weighted average shares outstanding:												
Basic	2,726,174		2,726,174			2,651,726			2,577,279			2,428,383
Diluted	2,927,716		2,927,716			2,853,268			2,778,821			2,629,925

(1) This adjustment represents the estimated expenses estimated in connection with the transaction of \$161,700 less the out-of-pocket cost savings of approximately \$66,375 over a nine month period that we expect to realize as a result of the Rule 13e-3 transaction.

(2) This adjustment represents the loss of earnings on \$818,925 used to purchase 25% of preferred shares that are put back to the Company, calculated at 4.00%.

(3) This adjustment represents the loss of earnings on \$1,637,850 used to purchase 50% of preferred shares that are put back to the Company, calculated at 4.00%.

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(4) This adjustment represents the loss of earnings on \$1,800,000 used to purchase 100% of preferred shares that are put back to the Company, calculated at 4.00% and increased interest expense at the prime rate of 8.25% for the additional borrowing from Amegy Bank of \$1,475,700.

Unaudited Pro Forma Condensed Consolidated Statement of Income

for the Year Ended September 30, 2006

(Dollars in thousands, except for per share data)

	Historical		Pro Forma		25% opting to sell at \$11.00 put price		50% opting to sell at \$11.00 put price		100% opting to sell at \$11.00 put price		
	Year Ended	Change	Year Ended	Change	Pro Forma	Change	Pro Forma	Change	Pro Forma	Change	
September 30, 2006	(Unaudited)	September 30, 2006	(Unaudited)	September 30, 2006	(Unaudited)	September 30, 2006	(Unaudited)	September 30, 2006	(Unaudited)	September 30, 2006	(Unaudited)
Interest income	\$ 4,710		\$ 4,710	\$ (25)	\$ 4,685	\$ (49)	\$ 4,661	\$ (54)	\$ 4,656		
Interest expense	(1,202)		(1,202)		(1,202)		(1,202)	\$ (91)	(1,293)		
Net interest income	3,508		3,508	(25)	3,483	(49)	3,459	(145)	3,363		
Provision for loan losses	295		295		295		295		295		
Net interest income after provision	3,213		3,213	(25)	3,188	(49)	3,164	(145)	3,068		
Non-interest income	517		517		517		517		517		
Non-interest expense	(3,535)	(73)	(3,608)		(3,608)		(3,608)		(3,608)		
Income before income taxes	195	(73)	122	(25)	97	(49)	73	(145)	(23)		
Provision for income taxes											
Net income	\$ 195	\$ (73)	\$ 122	\$ (25)	\$ 97	\$ (49)	\$ 73	\$ (145)	\$ (23)		
Basic earnings per share	\$ 0.07		\$ 0.05		\$ 0.04		\$ 0.03		\$ (0.01)		
Diluted earnings per share	\$ 0.07		\$ 0.05		\$ 0.04		\$ 0.03		\$ (0.01)		
Weighted average shares outstanding:											
Basic	2,630,720		2,630,720		2,556,272		2,481,825		2,332,929		
Diluted	2,633,953		2,633,953		2,559,505		2,485,058		2,336,162		

(1) This adjustment represents the estimated expenses estimated in connection with the transaction of \$161,700 less the out-of-pocket cost savings of approximately \$88,500 annually.

(2) This adjustment represents the loss of earnings on \$818,925 used to purchase 25% of preferred shares that are put back to the Company, calculated at 4.00%.

(3) This adjustment represents the loss of earnings on \$1,637,850 used to purchase 50% of preferred shares that are put back to the Company, calculated at 4.00%.

(4) This adjustment represents the loss of earnings on \$1,800,000 used to purchase 100% of preferred shares that are put back to the Company, calculated at 4.00% and increased interest expense at the prime rate of 8.25% for the additional borrowing from Amegy Bank of \$1,500,000.

Computation of Ratio of Earnings to Fixed Charges

(Dollars in thousands, except ratio)

(unaudited)

	For the Nine Months Ended June 30, 2007	Pro Forma For the Nine Months Ended June 30, 2007	For the Year Ended September 30, 2006	Pro Forma For the Year Ended September 30, 2006
Income before income taxes	\$ 181	\$ 86	\$ 195	\$ 122
Add: Interest expense	1,902	1,902	1,202	1,202
Portion of rents representative of interest factor	15	15	20	20
Earnings as adjusted	\$ 2,098	\$ 2,003	\$ 1,417	\$ 1,344
Fixed charges:				
Interest expense	\$ 1,902	\$ 1,902	\$ 1,202	\$ 1,202
Portion of rents representative of interest factor	15	15	20	20
Total fixed charges	\$ 1,917	\$ 1,917	\$ 1,222	\$ 1,222
Ratio of earnings to fixed charges (a)	1.09	1.04	1.16	1.10

(a) The ratio of earnings to fixed charges has been computed based upon earnings before provision for income taxes and fixed charges. Fixed charges consist of interest expense and proportional rental expense for the relevant time period.

SHAREHOLDER PROPOSALS FOR 2009 ANNUAL MEETING

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Shareholders may submit proposals for consideration at our 2009 annual meeting of shareholders. In order for shareholder proposals for the 2009 annual meeting to be eligible for inclusion in our proxy statement, they must be must have been received by our Secretary at our principal executive office not later than _____, 2008 and meet all other applicable requirements for inclusion therein.

In the alternative, a shareholder may commence his own proxy solicitation subject to the SEC's rules on proxy solicitation and may present a proposal from the floor at our 2009 annual meeting of shareholders. In order to do so, the shareholder must notify the Secretary of the Company in writing, at our principal executive office no later than _____, 2008, of the proposal. If the shareholder wants to stop us from voting proxies (under the discretionary authority granted by the form of proxy to be solicited by us for use at the 2009 annual meeting) on the proposal, the notice must also state the shareholder's intent to solicit the required number of votes for passage of the proposal and the shareholder must provide evidence to us that the solicitation has occurred.

Our bylaws provide that, in order to be eligible for consideration at the annual meeting of shareholders, all nominations of directors, other than those made by our Board of Directors, must be made in writing and must be delivered to our Secretary not less than 60 days nor more than 180 days prior to the first anniversary of our 2008 annual meeting; provided, however, if directors are to be elected at a special meeting, such nominations must be delivered to our Secretary not later than the close of business on the tenth day following the earlier of the day on which the notice of meeting was mailed or the date on which it is first disclosed to the public.

ADDITIONAL INFORMATION

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Accompanying this proxy statement is a copy of our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2007. This Annual Report does not form any part of the materials for the solicitation of proxies. Upon written request of any shareholder, we will furnish a copy of the Form 10-KSB, as filed with the SEC, including the financial statements and schedules thereto. The written request should be sent to our Secretary at our principal executive office. The written request must state that as of the close of business on January , 2008, the person making the request was a record owner or beneficial owner of our capital stock.

We file reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may read and copy, at the prescribed rates, this information at the SEC's public reference room, 100 F Street, N.E., Washington, D.C. 20549.

The SEC also maintains an internet website that contains reports, proxy statements and other information about issuers, including us, who file electronically with the SEC. The address of that website is <http://www.sec.gov>.

We have filed a transaction statement on Schedule 13E-3 with the SEC in connection with the transaction described in this proxy statement. As permitted by the SEC, this proxy statement omits certain information contained in the Schedule 13E-3. The Schedule 13E-3, including any amendments and exhibits filed or incorporated by reference as a part thereof, is available for inspection or copying as set forth above or is available electronically at the SEC's website.

SPECIAL CAUTIONARY NOTICE REGARDING

FORWARD-LOOKING STATEMENTS

This Proxy Statement and the documents that have been incorporated herein by reference contain certain forward-looking statements and information with respect to our financial condition, results of operations, and business. These forward looking statements are not guarantees of future performance and involve risks and uncertainties and are based on the beliefs and assumptions of our management and on information available to our management at the time that these disclosures were prepared. These statements might be identified by the use of words like expect, anticipate, estimate, and believe, variances of these words and other similar expressions. You should not place undue reliance on forward-looking statements, which reflect management's view only as of the date of this Proxy Statement. A number of important factors could cause actual results to differ materially from those in the forward-looking statements.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

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The SEC allows us to incorporate by reference information into this document. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this document.

Pursuant to the Exchange Act, we currently file annual and quarterly reports with the SEC. Our annual report on Form 10-KSB for the fiscal year ended September 30, 2006, filed pursuant to Section 13 of the Exchange Act, includes financial statements and schedules and is incorporated herein by reference. Our most recent quarterly

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report on Form 10-QSB for the nine month period ended June 30, 2007, filed pursuant to Section 13 of the Exchange Act, also includes financial statements and schedules and is incorporated herein by reference. Our 10-KSB was filed with the SEC on December 29, 2006 and our latest 10-QSB was filed with the SEC on August 13, 2007. We undertake to deliver promptly, without charge, upon the written or oral request of any shareholder, a separate copy of our annual report on Form 10-KSB or our quarterly report on Form 10-QSB. Requests should be submitted to Coralie S. Pledger, Secretary/Treasurer, Treaty Oak Bancorp, Inc., 101 Westlake Drive, Austin, Texas 78746.

This document incorporates by reference the documents listed below that we have filed previously with the SEC. We are delivering copies of these documents that are incorporated by reference to shareholders in connection with this Proxy Statement. They contain important information about us and our financial condition.

Our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2006; and

Our Quarterly Report on Form 10-QSB for the quarter ended June 30, 2007.

We have not authorized anyone to give any information or make any representation about the transaction or us that differs from, or adds to, the information in this proxy statement or in our documents that are publicly filed with the SEC. If anyone does give you different or additional information, you should not rely on it.

By Order of the Board of Directors,

Secretary

Austin, Texas
January , 2008

ARTICLES OF AMENDMENT
OF
ARTICLES OF INCORPORATION
OF
TREATY OAK BANCORP, INC.

Pursuant to the provisions of Article 4.04 of the Texas Business Corporation Act (the **TBCA**), Treaty Oak Bancorp, Inc., a Texas corporation (the **Corporation**), adopts the following amendments to the Articles of Incorporation of the Corporation:

FIRST

The name of the Corporation is Treaty Oak Bancorp, Inc. The filing number issued to the Corporation by the Secretary of State of Texas is: 800269891.

SECOND

The amendment below to the Articles of Incorporation was adopted by the requisite vote of the shareholders of the Corporation at the annual meeting of shareholders on February , 2008 pursuant to Article 4.02 of the TBCA, and any written notice of such meeting required by Article 4.02 of the TBCA has been given.

THIRD

The amendment below to the Articles of Incorporation has been approved in the manner required by the TBCA and the constituent documents of the Corporation.

FOURTH

The Articles of Incorporation of the Corporation are hereby amended as follows:

ARTICLE IV of the Articles of Incorporation of the Corporation is amended in its entirety to read as follows:

ARTICLE FOUR: CAPITAL STOCK

Article 4.1. Total Authorized Shares. The aggregate number of shares that the Corporation shall have the authority to issue is 30,000,000 shares, consisting of (i) 20,000,000 shares of common stock, \$0.01 par value per share, with identical rights and privileges in every respect, (ii) 2,500,000 shares of Series A preferred stock, \$1.00 par value per share, and (iii) 7,500,000 shares authorized as additional preferred stock, \$1.00 par value per share, which shares may be designated in one or more series by the Corporation's Board of Directors with relative rights and preferences as authorized under the TBCA (or any successor statute).

Article 4.2. Common Stock. The shares of common stock shall be of one and the same class. Subject to the rights of holders of the Series A preferred stock, as determined in Article 4.3, and the rights of holders of any additional preferred stock, as determined by the Corporation's Board of Directors pursuant to Article 4.4 hereof, and the TBCA (or any successor statute), as now

A-1

constituted or hereafter amended, the holders of shares of common stock shall have one vote per share on all matters properly submitted to the shareholders of the Corporation for their vote, consent, waiver, release or other action. Holders of shares of common stock shall be entitled to participate, after any preferential rights of holders of Series A preferred stock and holders of any additional issued and outstanding preferred stock, pro rata (along with the holders of Series A preferred stock and any additional issued and outstanding preferred stock, if the terms of such Series A preferred stock and additional preferred stock provide for such participation) in the distribution of the net assets of the Corporation upon liquidation, dissolution or winding up of the Corporation. Holders of common stock shall be entitled to receive dividends, when and if declared and paid by the Corporation, subject to any preference in distribution of dividends of the Series A preferred stock and any additional issued and outstanding preferred stock.

Article 4.3. Series A Preferred Stock. Each share of Series A preferred stock shall be identical in all respects with the other shares of Series A preferred stock.

Rank. The Series A preferred stock, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, ranks senior to the common stock in the manner specifically set forth in this Article 4.3. The relative rights and preferences of the Series A preferred stock may be subordinated to the relative rights and preferences of holders of subsequent issues of other series of preferred stock and other series or classes of equity securities designated by the Board of Directors. The Series A preferred stock is junior to indebtedness issued from time to time by the Corporation, including notes and debentures.

Voting Rights. Holders of Series A preferred stock are entitled to vote only (i) as required by law and (ii) upon any merger, acquisition of all or substantially all of the capital stock or assets of the Corporation, or other business combination involving the Corporation, in which the holders of common stock are entitled to vote. On those matters on which the holders of the Series A preferred stock are entitled to vote, each share of Series A preferred stock shall entitle the holder thereof to cast the number of votes equal to the number of votes that could be cast in respect of such matter by a holder of the shares of common stock of the Corporation into which such share of Series A preferred stock would be converted (assuming a Change of Control (as defined below) occurred) on the record date for the subject vote (or, if there is no such record date, then on the date any written consent of shareholders is solicited), and the votes shall be counted cumulatively with those votes cast by holders of the common stock, except to the extent approval is required by a separate class under applicable law.

Dividend Rights. Holders of Series A preferred stock are entitled to a preference in the distribution of dividends, so that holders of Series A preferred stock shall receive dividends, when and if declared and paid by the Corporation, prior to the receipt of dividends by the holders of common stock and in an amount not less than the dividend amount to be paid to the holders of common stock.

Redemption Rights. Upon the Share Reclassification (as defined in Article 4.5), each holder of record of shares of Series A preferred stock may, for a period of thirty (30) calendar days following the Reclassification Effective Time (as defined in Article 4.5), exercise an option to sell to the Corporation all or any of such holder's shares of Series A preferred stock at the price

of \$11.00 per share (the Put Option). To exercise the Put Option, a holder of Series A preferred stock must deliver written notice of such exercise to the Secretary of the Corporation at the Corporation's principal executive offices within such thirty-day period. If a holder of shares of Series A preferred stock exercises the Put Option with respect to such shares within such thirty-day period, the Corporation shall be required to buy such shares at the aforesaid price. If a holder of shares of Series A preferred stock fails to exercise the Put Option by the thirtieth (30th) calendar day following the Conversion Effective Time, the Put Option for such shares will expire. The closing of each Put Option exercise shall occur within twenty (20) business days following the Corporation's timely receipt of a holder's written exercise of the Put Option.

Liquidation Rights. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, no distribution shall be made to the holders of shares of common stock unless, prior thereto, the holders of shares of Series A preferred stock shall have received, for each share of Series A preferred stock then held, an amount equal to the greater of (1) the net book value per share of the Series A preferred stock (as determined under U.S. generally accepted accounting principles) and (2) the amount to be paid to the holder of each share of common stock. If, upon liquidation, dissolution or winding up, the amounts so payable are not paid in full to the holders of all outstanding shares of Series A preferred stock and all other shares of any parity stock, then the holders of Series A preferred stock and all other shares of parity stock shall share ratably in any distribution of assets in proportion to the full amounts to which they would otherwise be respectively entitled. Holders of common stock shall not receive a liquidation distribution or dividend with a value greater than the liquidation dividend or distribution received by the holders of Series A preferred stock upon the liquidation, dissolution or winding up of the Corporation within the meaning hereof. A Change of Control (as defined under Convertibility in this Article 4.3) shall not be deemed a liquidation, dissolution or winding up of the Corporation for purposes of this subsection.

Preemptive Rights. Holders of Series A preferred stock do not have any preemptive rights to purchase any additional shares of Series A preferred stock or shares of any other series or class of capital stock of the Corporation that may be issued in the future.

Convertibility. The Series A preferred stock shall automatically convert into shares of common stock, on the basis of one share of common stock for each share of Series A preferred stock, subject to adjustment as provided in the Anti-Dilution Adjustment subsection below, immediately prior to the closing of a Change of Control. A Change of Control is any merger, acquisition of the capital stock of, or other business combination involving, the Corporation (other than with an entity 50% or more of which is controlled by, or is under common control with, the Corporation), (i) which involves any sale of all or substantially all of the assets of the Corporation, (ii) in which the Corporation's shareholders immediately prior to the transaction will hold less than 50% of the equity ownership or voting power of the acquiring or surviving entity after the transaction or (iii) the result of which transaction is that a person or entity becomes the beneficial owner (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Securities Exchange Act of 1934, except that a person or entity shall be deemed to have beneficial ownership of all securities that such person or entity has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a

subsequent condition), directly or indirectly, of more than 50% of the equity ownership or voting power of the Corporation.

Anti-Dilution Adjustments. If the common stock of the Corporation is at any time increased, decreased or changed into or exchanged for a different number or kind of shares or other securities of the Corporation or any other company, by reason of any merger, consolidation, liquidation, reclassification, recapitalization, stock split, reverse stock split, combination of shares or stock dividend, the Board of Directors of the Corporation shall make an appropriate adjustment, as determined by the Board of Directors in its sole discretion, in the number and/or relative terms of the Series A preferred stock.

Limitation of Rights. Holders of shares of Series A preferred stock shall not have any designations, preferences, limitations or relative rights other than as set forth herein.

Article 4.4. Additional Preferred Stock. Additional preferred stock may be issued from time to time by the Corporation, with such designations, preferences, limitations and relative rights as the Board of Directors may and hereby is authorized to determine.

Article 4.5. Reclassification. On February , 2008 at 11:59 p.m. Austin, Texas time (the Reclassification Effective Time), each outstanding share of common stock held immediately prior to the Reclassification Effective Time by a record holder of fewer than two thousand five hundred (2,500) outstanding shares of the Corporation s common stock shall automatically, without further action on the part of the Corporation or any holder of such common stock, be reclassified as Series A preferred stock (the Share Reclassification), on the basis of one share of Series A preferred stock for each share of common stock so reclassified, which shares of Series A preferred stock shall thereupon be duly issued and outstanding, fully paid and nonassessable. Each outstanding share of common stock held immediately prior to the Reclassification Effective Time by a record holder of two thousand five hundred (2,500) or more shares of common stock shall not be reclassified and shall continue in existence as a share of common stock.

IN WITNESS WHEREOF, Treaty Oak Bancorp, Inc. has caused these Articles of Amendment to be executed by its duly authorized officer as of February , 2008.

TREATY OAK BANCORP, INC.

By:
Name: Jeffrey L. Nash
Title: President and Chief Executive Officer

A-4

November 13, 2007

Board of Directors

Treaty Oak Bancorp, Inc.

101 Westlake Drive

Austin, TX 78746

Members of the Board:

You have requested that Financial Valuation Services, LC d/b/a Fowler Valuation Services (FVS) render its opinion as to the fairness, from a financial point of view, to the shareholders of Treaty Oak Bancorp, Inc. (TOBI, the Company), of the put price for the Series A Preferred Stock to be issued to certain holders of the Company s common stock as part of the proposed reclassification of certain shares of TOBI common shares into to be issued TOBI Series A Preferred Stock (the Reclassification). Under the terms of the Reclassification, shareholders of the Company owning fewer than 2,500 shares of common stock will have their shares cancelled and will receive one share of newly issued TOBI Series A Preferred Stock for each share of common stock held immediately prior to the conversion of common shares for such preferred shares. The shareholders who receive the Company s Series A Preferred Stock in the Reclassification will be entitled to sell these shares back to the Company for a period of 30 days following the effective date of the Reclassification at a price equal to \$11.00 per preferred share (the Put Price). Shareholders of 2,500 or more shares of TOBI common stock at the effective time of the Reclassification will continue to hold the same number of the common shares as owned prior to the Reclassification.

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Tel: 512.476.8866

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B-1

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FVS has been retained by the Company's Board of Directors as an independent advisor to the Company in connection with the Reclassification. FVS has provided services to the Company in the past. In particular, FVS provided valuation services in connection with the Company's 2006 acquisition of Treaty Oak Holdings, Inc. For FVS rendering its services in connection with the Reclassification, including the valuation noted below, the Company has agreed to pay FVS a fee and has indemnified FVS against certain liabilities arising out of the engagements. FVS may provide valuation and financial advisory services to the Company in the future.

In the course of our engagement, we have among other things:

1. Reviewed documents relating to the Reclassification, including a draft Proxy Statement provided;
2. Reviewed the Company's audited financial statements for the fiscal years ended September 30, 2004 and September 30, 2005;
3. Reviewed the Company's SEC Form 10Q for the period ended June 30, 2007;
4. Reviewed the Company's audited balance sheet as of September 30, 2006;
5. Reviewed the Company's unaudited income statement for the year ended September 30, 2006;
6. Reviewed the Company's unaudited financial statements for the year ended September 30, 2007;
7. Reviewed the Company's capitalization table dated September 30, 2007;
8. Reviewed an appraisal of PGI Equity Partners, LP's real property holdings located at 101 Westlake Drive prepared by American Realty Corporation;
9. Reviewed Highline Financial, LLC's The Bank Report in regard to Treaty Oak Bank (the Bank), dated June 30, 2007;
10. Reviewed the Company's projections of the Bank's financial performance for the fiscal years 2008 through 2010;
11. Reviewed the Company's and the Bank's Board of Directors meeting minutes for 2007;
12. Prepared a valuation in regard to the fair value of the Company's common stock as of October 18, 2007;
13. Reviewed information in regard to transactions whereby banking companies completed similar transactions;

14. Reviewed and analyzed certain information made available in regard to the cost savings anticipated to be realized as a result of the proposed Reclassification; and
15. Reviewed information in regard to TOBI's historical stock price and trading volume.

In connection with the valuation noted above, FVS considered: the history and nature of the Company, the economy, the Company's book value and financial condition, its earning capacity, its dividend paying capacity, the value of intangible assets such as goodwill, prior sales of the Company's stock, the market value of other firms which are traded actively in a free and open market, and information in regard to sales of banks in Texas and surrounding states. In performing the valuation assignment, FVS valued the Company as a going concern. FVS, its owners and its professional staff, are not experts in the evaluation of allowances for loan losses nor have they examined any individual credit files. In performing the valuation and preparing this opinion, FVS has relied on and assumed that the aggregate allowances for loan losses set forth on the Bank's and the Company's balance sheets are adequate to cover losses and fully comply with sound banking practices.

For purposes of this opinion, FVS has assumed and relied on, without independent verification, the accuracy and completeness of the financial, accounting, business, legal, tax, and other information discussed with or furnished to FVS by TOBI, published sources, and materials otherwise made available. In regard to financial information, including financial projections prepared by TOBI's management and other strategic, financial and operational benefits anticipated by TOBI's management in connection with the Reclassification, FVS has assumed that they were reasonably prepared and reflect the best and most currently available estimates and good faith judgment of TOBI's management. FVS expresses no opinion in regard to legal, regulatory, tax, or accounting issues related to the Reclassification. FVS has assumed there have been no material changes in the Company's financial condition or earning capacity since the date of the most recently financial information provided. FVS' opinion is necessarily based upon market, economic, and other conditions as of the date hereof.

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Based on its analysis and subject to the qualifications described herein, FVS believes that, as of the date of this letter opinion, the Put Price for the Series A Preferred Stock is fair, from a financial point of view, to those shareholders who are to receive TOBI Series A Preferred shares, as well as those shareholders who will continue to hold common stock.

Respectfully submitted,

/s/ Financial Valuation Services, LC
Financial Valuation Services, LC
d/b/a Fowler Valuation Services

B-4

TREATY OAK BANCORP, INC.

Audit Committee Charter

I. Purpose

A. The Audit Committee is a committee of the Board of Directors of Treaty Oak Bancorp, Inc. (the Corporation), appointed by the Board of Directors, and is established for the purpose of overseeing the accounting and financial reporting processes of the Corporation and the audits of the financial statements of the Corporation.

B. The Audit Committee shall assist the Board of Directors in fulfilling its oversight responsibilities for:

1. the integrity of the Corporation's financial statements;
2. the Corporation's compliance with legal and regulatory requirements;
3. the qualifications and independence of the Corporation's independent registered public accounting firm (the Auditor); and
4. the performance of the internal audit function and the Auditor.

C. The Audit Committee shall prepare a report of its activities for inclusion in the annual proxy statement of the Corporation as required by the rules of the Securities and Exchange Commission (the Commission).

D. The Audit Committee shall provide an open avenue of communication between financial management, internal auditors, external auditors and the Board of Directors of the Corporation.

II. Composition

Explanation of Responses:

- A. The Audit Committee shall be comprised of at least three directors, each of whom must:
1. be independent as defined under Nasdaq Marketplace Rule 4200(a)(15);
 2. meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 (subject to the exemptions provided in Rule 10A-3(c));
 3. not have participated in the preparation of the financial statements of the Corporation or any current subsidiary of the Corporation at any time during the past three years; and
 4. be able to read and understand fundamental financial statements, including the Corporation's balance sheet, income statement, and cash flow statement.

C-1

B. At least one member of the Audit Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities and shall meet any other applicable legislative or regulatory requirements with respect to financial expertise. The duties and responsibilities of a member of the Audit Committee are in addition to those duties set out for a member of the Board of Directors.

C. The Board shall appoint the members of the Audit Committee at the Corporation's annual organizational meeting. The members of the Audit Committee shall serve until their successors are appointed and duly qualified. Unless a chair is elected by the full Board, the members of the Audit Committee may designate a chair by majority vote of the full Audit Committee membership. The Board shall have the power at any time to change the membership of the Audit Committee and to fill vacancies in it, subject to such new member(s) satisfying the independence, experience and financial expertise requirements referred to above. The term of membership is one year, with reappointment staggered to provide continuity.

III. Meetings

A. The Audit Committee shall meet at least quarterly, and shall have the authority to convene additional meetings as circumstances dictate. A majority of the members of the Audit Committee shall be required to constitute a quorum. As part of its job to foster open communication, the Audit Committee shall meet periodically with management, internal auditors and the Auditor in separate executive sessions to discuss any matters that the Audit Committee or any of these groups believe should be discussed separately. The Audit Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.

B. The Audit Committee or at least the Chair of the Audit Committee should communicate with the Auditor and management quarterly to review the Corporation's financial statements. This review should be done prior to the filing of the Corporation's quarterly reports on Form 10-QSB and annual reports on Form 10-KSB. This review should include a discussion of any significant adjustments, management judgments and accounting estimates, significant new accounting policies, and disagreements with management. In addition, prior to the Corporation's public release of earnings, subsequent events, if any, discussed at management's Disclosure Certification Committee meeting will be brought to the attention of the Audit Committee Chair.

IV. Committee Authority and Responsibilities

In carrying out its oversight responsibilities, the Audit Committee shall undertake those tasks that, in its judgment, would most effectively contribute and implement the purposes of the Audit Committee. The Audit Committee is authorized to carry out responsibilities in the following areas:

A. *Corporate Governance and Internal Controls*

1. The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting or other consultants to advise the Audit Committee and carry out its duties, and to conduct or authorize investigations into any matters within its scope of responsibilities. The Corporation shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to any legal counsel, accountant or other adviser employed by the Audit Committee.

2. The Audit Committee shall have the sole authority for the appointment or replacement of any Auditor. The Audit Committee shall review and approve the annual audit scope and fees of the Auditor. The Audit Committee shall be directly responsible for the oversight of the work of the Auditor, including resolution of disagreements between management and the Auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or related work. The Auditor shall report directly to the Audit Committee.

3. The Audit Committee shall oversee the independence of the Auditor by limiting and controlling other proposed services. The Audit Committee shall pre-approve all auditing services and permissible non-audit services (including the fees and terms thereof), subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, to be performed for the Corporation by the Auditor. The Audit Committee may delegate to one or more of its members the authority to grant pre-approvals of non-audit services, provided that decisions of such delegates shall be presented to the full Audit Committee at its next scheduled meeting.

4. The Audit Committee shall make regular reports to the Board of Directors about Audit Committee activities and issues that arise with respect to the quality or integrity of the Corporation's financial statements, compliance with legal or regulatory requirements, the performance and independence of the Auditor, and the performance of the internal audit function.

5. The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors for approval.

6. The Audit Committee shall recommend to the Board policies for the Corporation's hiring of employees or former employees of the Auditors who were engaged in any capacity in the audit of the Corporation during the preceding one-year period.

7. The Audit Committee shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and (b) the confidential and anonymous submission by employees of the Corporation, of concerns regarding questionable accounting or auditing matters or management fraud.
8. The Audit Committee shall discuss with management and the Auditor, any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Corporation's financial statements or accounting policies.
9. The Audit Committee shall review with the Auditor, the Corporation's financial and accounting personnel the adequacy and effectiveness of the accounting and financial controls of the Corporation, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable or necessary.
10. The Audit Committee shall ensure that the Corporation maintains an internal audit function, as described in the Internal Audit section of this Charter.
11. The Audit Committee shall review the internal audit function of the Corporation, including the independence, competence, staffing adequacy and authority of the internal auditor, the reporting relationships among the internal auditor, management and the Audit Committee, the internal audit reporting obligations, the annual audit program and scope, and the coordination of the audit program with the Auditor.
12. The Audit Committee shall consider and review with management, the Auditor and its senior representative the effectiveness of the Corporation's internal controls over annual and interim financial reporting, including information technology security and control. These controls shall provide reasonable assurance of the integrity of the financial information and assurance that the Corporation's reported financial results are presented fairly in conformity with GAAP.
13. Approve all related party transactions as required by law or regulation.

B. *Financial Reporting*

1. The Audit Committee shall review with management and the Auditor, the annual audited financial statements,

including major issues regarding accounting and auditing principles and practices, and the adequacy of internal controls that could significantly affect the financial statements.

C-4

This review shall consider critical accounting policies, alternative accounting treatments discussed with management and the registered public accounting firm's preferred treatment, qualitative judgments about quality of accounting policies, disputes or disagreement with management and any major accounting policy changes. The Audit Committee shall review and discuss with management and the Auditor any accounting adjustments that were noted or proposed by the Auditor but were passed (as immaterial or otherwise). The Committee will have final authority to resolve disagreements between management and the Auditor.

2. The Audit Committee shall review with management and the Auditor, other written communication between the Auditor and management, including management representation letters, reports on observations and recommendations on internal controls, schedules of material adjustments and reclassifications proposed and an indication of those not recorded, engagement letters and independence letters.

3. The Audit Committee shall review with management and the Auditor, (a) the Corporation's quarterly press releases regarding results of operations prior to their release, and (b) the quarterly and annual financial statements prior to the filing of the Corporation's quarterly reports on Form 10-QSB and annual reports on Form 10-KSB, including the results of the Auditor's reviews of quarterly and annual financial statements.

4. The Audit Committee shall review disclosures made by the Corporation's Chief Executive Officer and Chief Financial Officer regarding compliance with their respective certification obligations under the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder, including the Corporation's disclosure controls and procedures and internal controls for financial reporting and evaluations thereof.

C. *External Audit*

The Corporation is to have an annual certified audit by a registered public accounting firm of certified Auditors.

1. The Audit Committee shall review the Auditor's proposed audit scope and approach, including coordination of the audit effort with the internal audit function.

2. The Audit Committee shall obtain and review a report from the Auditor at least annually regarding the Auditor's internal quality-control procedures, any material issues raised by the most recent quality-control review, or peer review, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or

more independent audits carried out by the Auditor, and any steps taken to deal with any such issues.

3. The Audit Committee shall obtain and review a report from the Auditor at least annually, delineating all relationships between the Auditor and the Corporation consistent with Independence Standards Board Standard No. 1. The Audit Committee shall engage in a dialogue with the Auditor with respect to any disclosed relationships or services that may have an impact the objectivity and independence of the Auditor and shall take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the Auditor.

4. The Audit Committee shall evaluate the qualifications, performance and independence of the Auditor, including a review and evaluation of the lead partner of the Auditor, taking into account the opinions of management and the Corporation's internal auditors and presenting its conclusions to the full Board of Directors.

5. The Audit Committee shall ensure that the lead audit partner of the Auditor and the audit partner responsible for reviewing the audit are rotated at least every five years as required by the Sarbanes-Oxley Act of 2002, and further consider rotation of the Auditor itself.

6. The Audit Committee shall meet, at least annually, with the Auditor to discuss such things as the audit role, audit functions, scope of audits, findings, recommendations, corrective actions, and other relevant matters.

7. The Audit Committee shall review any reports of the Auditor mandated by Section 10A of the Securities Exchange Act of 1934 and obtain from the Auditor any information with respect to illegal acts in accordance with Section 10A. If no reports are received, the Audit Committee shall obtain from the Auditor an assurance that Section 10A of the Act has not been implicated.

D. *Internal Audit*

The Internal Audit function is responsible for evaluating the adequacy, effectiveness and efficiency of the Corporation's systems of internal controls and the quality of ongoing operations.

1. The Audit Committee shall review with the Auditor and management, the internal audit department functions and organizational structure, annual budget, staffing, and any recommended changes in the planned scope of the internal audit plan.

2. The Audit Committee shall ensure there are no unjustified restrictions or limitations, which have an impact or impairment in the scope of the internal audit.

3. The Audit Committee shall review internal audit reports to management, which includes the audit scope, results and recommendations for each audit conducted. The review shall include the respective impact on internal controls, the control environment and the overall effectiveness and efficiency of the Corporation's operations.

E. *Qualification*

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty or responsibility of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. These are the responsibilities of the Corporation's management and the Auditor. Nor is it the duty or responsibility of the Audit Committee to conduct investigations or to assure compliance with laws and regulations.

C-7

**CHARTER OF THE GOVERNANCE COMMITTEE OF THE BOARD OF
DIRECTORS OF TREATY OAK BANCORP INC.**

This Charter identifies the purpose, composition, meeting requirements, committee responsibilities, annual evaluation procedures and investigations and studies of the Governance Committee (the **Committee**) of the Board of Directors (the **Board**) of Treaty Oak Bancorp, Inc. (the **Company**).

I. PURPOSE

The Committee is responsible for: (a) assisting the Board in determining the desired experience, mix of skills and other qualities to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Company and the Board; (b) identifying highly qualified individuals meeting those criteria to serve on the Board; (c) proposing to the Board a slate of nominees for election by the shareholders at the Annual Meeting of Shareholders and prospective director candidates in the event of the resignation, death, removal or retirement of directors or a change in Board composition requirements; (d) reviewing candidates nominated by shareholders for election to the Board; (e) developing plans regarding the size and composition of the Board and its committees; (f) developing and recommending to the Board a set of corporate governance principles applicable to the Company and reviewing such principles at least annually and monitoring and making recommendations to the Board with respect to the corporate governance principles applicable to the Company; and (g) such other functions as the Board may from time to time assign to the Committee. In performing its duties, the Committee shall seek to maintain an effective working relationship with the Board and the Company's management.

II. COMPOSITION

The Committee shall be composed of at least three, but not more than five, members (including a Chairperson), all of whom shall be independent directors, as such term is defined in the rules and regulations of the Nasdaq Stock Market. In addition, the Company President shall serve as an ex-officio non-voting member of the committee. The members of the Committee and the Chairperson shall be selected annually by the Board and serve at the pleasure of the Board. A Committee member (including the Chairperson) may be removed at any time, with or without cause, by the Board. No person may be made a member of the Committee if his or her service on the Committee would violate any restriction on service imposed by any rule or regulation of the United States Securities and Exchange Commission or any securities exchange or market on which shares of the common stock of the Company are traded.

III. MEETING REQUIREMENTS

The Committee shall meet as necessary, but at least twice each year, to enable it to fulfill its responsibilities. The Committee shall meet at the call of its Chairperson, preferably in conjunction with regular Board meetings. The Committee may meet by telephone conference call or by any other means permitted by law or the Company's Bylaws. Fifty percent of the members of the Committee shall constitute a quorum. The Committee shall act on the affirmative vote of a majority of members present at a meeting at which a quorum is present. Without a meeting, the Committee may act by unanimous written consent of all members. The Committee shall determine its own rules and procedures, including designation of a chairperson pro tempore, in the absence of the Chairperson, and designation of a secretary. The secretary need not be a member of the Committee and shall attend Committee meetings and prepare minutes. The Committee shall keep written minutes of its meetings, which shall be recorded or filed with the books and records of the Company. Any member of the Board shall be provided with copies of such Committee minutes if requested.

The Committee may ask members of management or others whose advice and counsel are relevant to the issues then being considered by the Committee, to attend any meetings and to provide such pertinent information as the Committee may request.

The Chairperson of the Committee shall be responsible for leadership of the Committee, including preparing the agenda, presiding over Committee meetings, making Committee assignments and reporting the Committee's actions to the Board from time to time (but at least once each year) as requested by the Board.

IV. COMMITTEE RESPONSIBILITIES

In carrying out its responsibilities, the Committee's policies and procedures should remain flexible to enable the Committee to react to changes in circumstances and conditions so as to ensure the Company remains in compliance with applicable legal and regulatory requirements. In addition to such other duties as the Board may from time to time assign, the Committee shall have the following responsibilities:

A. Board Candidates and Nominees

1. To propose to the Board a slate of nominees for election by the shareholders at the Annual Meeting of Shareholders and prospective director candidates in the event of the resignation, death, removal or retirement of directors or a change in Board composition requirements;

2. To develop criteria for the selection of new directors and nominees for vacancies on the Board, including procedures for reviewing potential nominees proposed by shareholders;

3. To review with the Board the desired experience, mix of skills and other qualities to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Company and the Board;

D-2

4. To conduct candidate searches, interview prospective candidates and conduct programs to introduce candidates to the Company, its management and operations, and confirm the appropriate level of interest of such candidates;
5. To recommend to the Board, with the input of the Chief Executive Officer, qualified candidates for the Board who bring the background, knowledge, experience, skill sets and expertise that would strengthen and increase the diversity of the Board;
6. To conduct appropriate inquiries into the background and qualifications of potential nominees;
7. To review the suitability for continued service as a director of each Board member when he or she has a significant change in status, such as an employment change, and recommending whether or not such director should be re-nominated; and
8. To work with senior management to provide an orientation and continuing education program for directors.

B. Board and Committees

1. To review periodically the size of the Board and recommend to the Board changes as appropriate;
2. To recommend to the Board policies pertaining to the roles, responsibilities, retirement age, tenure and removal of directors;
3. To assist the Board in determining and monitoring whether or not each director and prospective director is an independent director within the meaning of any rules and laws applicable to the Company;
4. To review and consider possible conflicts of interests that may arise between the Company and any director;
5. To review and monitor the size and composition of the Board to ensure that a majority of the directors are independent directors within the meaning of any rules and laws applicable to the Company;

6. To review periodically, with the participation of the Chief Executive Officer, all Board committees and recommend to the Board changes, as appropriate; and

7. To recommend that the Board establish such special committees as may be necessary or appropriate to address ethical, legal or other matters that may arise.

D-3

C. Evaluations and Management Development

1. To develop and review periodically a process for and to assist the Board with conducting, not less frequently than annually, an evaluation of the effectiveness of the Board as a whole and its members;
2. To develop and review periodically a process for and to assist the Board with conducting, not less frequently than annually, an evaluation of the Company's CEO; and
3. To review the Company's management succession plans to help assure proper management planning;

D. Corporate Governance

1. To review periodically and monitor the Company's corporate governance guidelines to assure that they reflect best practices and are appropriate for the Company and to assist the Board in achieving such best practices;
2. To review periodically and monitor, with the assistance of the Company's management and outside counsel, applicable regulatory requirements relevant to the Company's corporate governance guidelines to assure the Company's compliance therewith; and
3. To periodically review and recommend changes to the Company's Articles of Incorporation and Bylaws as they relate to corporate governance issues, including any modifications and enhancements to the Company's takeover and structural defenses.

V. INVESTIGATIONS AND STUDIES

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities as described herein, and may retain, at the expense of the Company, independent counsel or other consultants necessary to assist the Committee in any such investigations or studies, if authorized by the Board.

VI. MISCELLANEOUS

Explanation of Responses:

Nothing contained in this Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for the directors of the Company or members of the Committee. The purposes and responsibilities outlined in this Charter are meant to serve as guidelines rather than as inflexible rules and the Committee is encouraged to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.

Adopted by the Governance Committee and
approved by the Board of Directors on xx-xx-2007.

D-4

PRELIMINARY

Treaty Oak Bancorp, Inc.

**FOR THE 2008 ANNUAL MEETING OF SHAREHOLDERS, FEBRUARY , 2008
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints each of Jeffrey L. Nash and Coralie S. Pledger, as Proxies of the undersigned, with full power of substitution, to vote all shares of stock which the undersigned is entitled to vote, either on his or her own behalf or on the behalf of any entity or entities, at the 2008 Annual Meeting of Shareholders of Treaty Oak Bancorp, Inc., to be held on , February , 2008, or at any postponements or adjournments thereof, as specified below with the same force and effect as the undersigned might or could do if personally present thereat. The undersigned revokes all previous proxies and acknowledges receipt of the Notice of the 2008 Annual Meeting of Shareholders to be held on February , 2008 and the proxy statement.

THIS PROXY CONFERS ON THE PROXYHOLDER DISCRETIONARY AUTHORITY TO VOTE ON ANY MATTER AS TO WHICH A CHOICE IS NOT SPECIFIED BY THE UNDERSIGNED. IF NO SPECIFICATION IS MADE, THIS PROXY WILL BE VOTED IN FAVOR OF THE AMENDMENT, THE ELECTION OF THE NOMINATED DIRECTORS, AND IN FAVOR OF ANY OTHER PROPOSALS.

Annual Meeting Proxy

A Approval of Amendment

1. **To approve the Amendment to the Amended and Restated Articles of Incorporation to effect a reclassification of all shares of common stock held by record shareholders owning less than 2,500 shares of common stock into shares of a new series of preferred stock titled Series A preferred stock on a one share of common stock for one share of Series A preferred stock basis.**

For	Against	Abstain
o	o	o

B Election of Directors

Explanation of Responses:

2. **To elect three directors for three-year terms ending at the 2011 Annual Meeting of Shareholders or until their successors are duly elected and qualified.**

Class I Directors

		For	Withhold
01-	Charles T. Meeks	<input type="radio"/>	<input type="radio"/>
02-	Marvin L. Schragar	<input type="radio"/>	<input type="radio"/>
03-	Marvin Bendele	<input type="radio"/>	<input type="radio"/>

C Authorized Signatures Sign here This section must be completed for your instructions to be executed.

In their discretion, to act upon any matters incidental to the foregoing and such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title.

Signature 1 Please keep signature within the box Signature 2 Please keep signature within the box Date

- - 2008