

Houston Texans: 2014 Financial Scouting Report

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Introduction

Welcome to one of the newest additions to the Over the Cap website: the offseason Financial Scouting Report, which should help serve as a guide to a teams' offseason planning for the 2014 season. This report focuses on the Houston Texans and time permitting I will try to have a report for every team between now and the start of free agency in March. If you would like copies of other reports that are available please either e-mail me or visit the site overthecap.com

The Report Contains:

- Current Roster Overview
- 2013 Team Performances Compared to NFL Averages
- Roster Breakdown Charts
- Salary Cap Outlook
- Unrestricted and Restricted Free Agents
- Potential Salary Cap Cuts
- NFL Draft Selection Costs and Historical Positions Selected
- Salary Cap Space
- Extension Candidates
- Positions of Need and Possible Free Agent Targets

Any names listed as potential targets in free agency are my own opinions and do not reflect any "inside information" reflecting plans of various teams. It is simply opinion formed based on player availability and my perception of team needs. Player cost estimates are based on potential comparable players within the market.

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Thank you for the continued support.

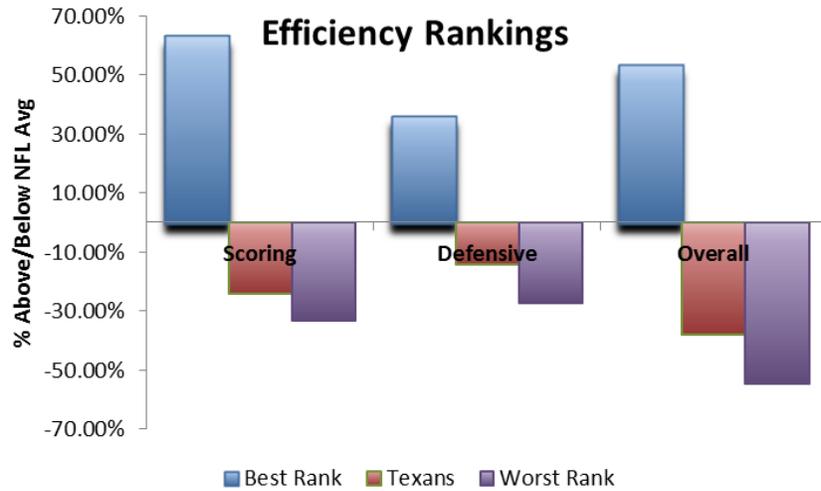
Sincerely,

Jason Fitzgerald

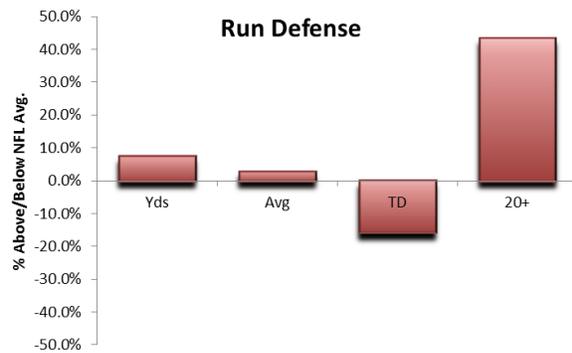
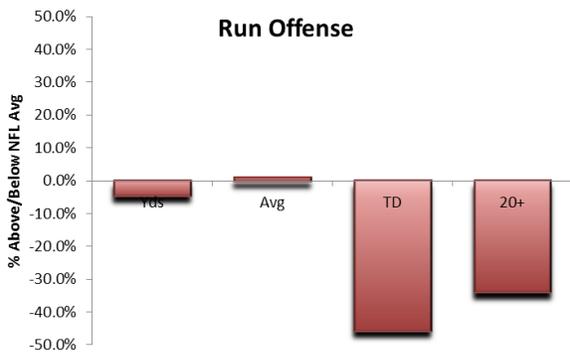
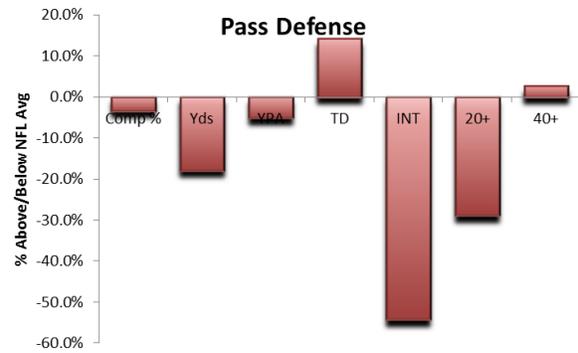
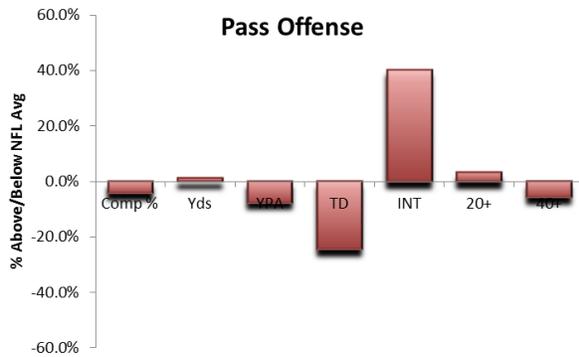
Current Roster: January 2, 2014

Player	Position	Age	Potential Starter	Remaining Contract	Cap Charge	Cash Salary	Cap Savings
Matt Schaub	QB	33	Y	3	\$14,500,000	\$11,000,000	\$4,000,000
Andre Johnson	WR	33	Y	3	\$12,144,583	\$7,500,000	\$180,417
Johnathan Joseph	CB	30	Y	2	\$11,250,000	\$7,500,000	\$3,750,000
Arian Foster	RB	28	Y	3	\$8,500,000	\$6,250,000	\$1,000,000
Duane Brown	LT	29	Y	5	\$8,500,000	\$6,000,000	(\$5,000,000)
Chris Myers	C	33	Y	1	\$7,000,000	\$5,000,000	\$3,000,000
Owen Daniels	TE	32	Y	1	\$6,250,000	\$4,500,000	\$4,500,000
Danieal Manning	S	32	Y	1	\$6,000,000	\$4,500,000	\$4,500,000
Brian Cushing	ILB	27	Y	6	\$5,546,875	\$9,250,000	(\$13,653,125)
JJ Watt	34DE	25	Y	1	\$3,575,567	\$1,907,385	\$0
Kareem Jackson	CB	26	Y	1	\$2,910,000	\$1,665,000	\$1,665,000
Shane Lechler	P	38	Y	2	\$2,083,333	\$1,750,000	\$1,416,666
Whitney Mercilus	34OLB	24	Y	2	\$2,082,026	\$1,084,008	(\$998,018)
Brice McCain	CB	28	Y	2	\$1,750,000	\$1,300,000	\$850,000
DeAndre Hopkins	WR	22	Y	3	\$1,733,341	\$751,668	(\$3,061,682)
Brooks Reed	34OLB	27	Y	1	\$1,496,015	\$1,016,148	\$1,016,148
Brandon Harris	CB	24	Y	1	\$1,049,785	\$824,907	\$824,907
Tim Jamison	34DE	28	N	1	\$840,000	\$730,000	\$730,000
DeVier Posey	WR	23	N	2	\$801,023	\$630,000	\$458,977
Jon Weeks	LS	28	Y	2	\$793,750	\$730,000	\$666,250
DJ Swearinger	S	23	Y	3	\$793,477	\$563,695	(\$292,369)
Brandon Brooks	G	25	Y	2	\$744,359	\$590,000	\$435,641
TJ Yates	QB	27	N	1	\$691,250	\$645,000	\$645,000
Ben Jones	C	25	N	2	\$690,362	\$570,000	\$449,638
Keshawn Martin	WR	24	N	2	\$673,140	\$570,000	\$466,860
Jared Crick	34DE	25	N	2	\$667,875	\$570,000	\$472,125
Derek Newton	RT	27	Y	1	\$660,064	\$645,000	\$645,000
Jeff Tarpinian	ILB	27	N	1	\$645,000	\$645,000	\$645,000
Shiloh Keo	S	27	Y	1	\$645,000	\$645,000	\$645,000
Brennan Williams	RT	23	N	3	\$641,725	\$506,000	\$234,550
Randy Bullock	K	25	Y	2	\$614,527	\$570,000	\$525,473
Trevardo Williams	34DE	24	N	3	\$596,903	\$495,000	\$291,194
Brad Smelley	FB	24	N	2	\$570,000	\$570,000	\$570,000
Cody White	G	26	N	1	\$570,000	\$570,000	\$570,000
Josh Victorian	CB	26	N	2	\$570,000	\$570,000	\$570,000
Mike Mohamed	ILB	26	N	2	\$570,000	\$570,000	\$570,000
David Quessenberry	LT	24	N	3	\$523,363	\$495,000	\$438,274
Alan Bonner	WR	24	N	3	\$519,250	\$495,000	\$446,500
Ryan Griffin	TE	24	N	3	\$514,670	\$495,000	\$455,660
A.J. Bouye	CB	23	N	2	\$496,666	\$495,000	\$493,332
Justin Tuggle	ILB	24	N	2	\$495,833	\$495,000	\$494,166
Alex Kupper	G	24	N	2	\$495,000	\$495,000	\$495,000
Case Keenum	QB	26	N	2	\$495,000	\$495,000	\$495,000
Dennis Johnson	RB	24	N	2	\$495,000	\$495,000	\$495,000
Eddie Pleasant	S	26	N	1	\$495,000	\$495,000	\$495,000
Jawanza Starling	S	23	N	2	\$495,000	\$495,000	\$495,000
Jonathan Grimes	RB	25	N	2	\$495,000	\$495,000	\$495,000
Alec Lemon	WR	23	N	2	\$421,000	\$420,000	\$419,000
Evan Frieron	ILB	24	N	2	\$420,833	\$420,000	\$419,166

2013 Performance Charts

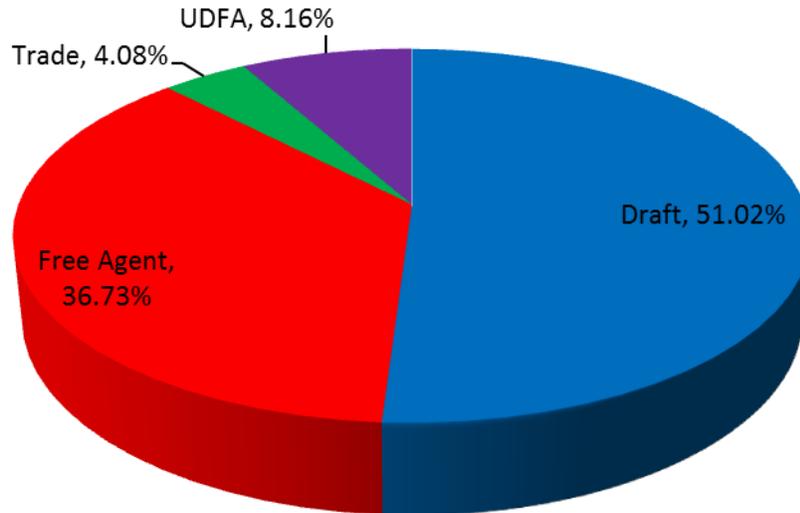


* Efficiency rankings calculate points scored and allowed compared to their 2013 schedule. A negative ranking means they scored less or allowed more points than their opponents' average. A positive ranking means they scored more or allowed less than the opponents' average.

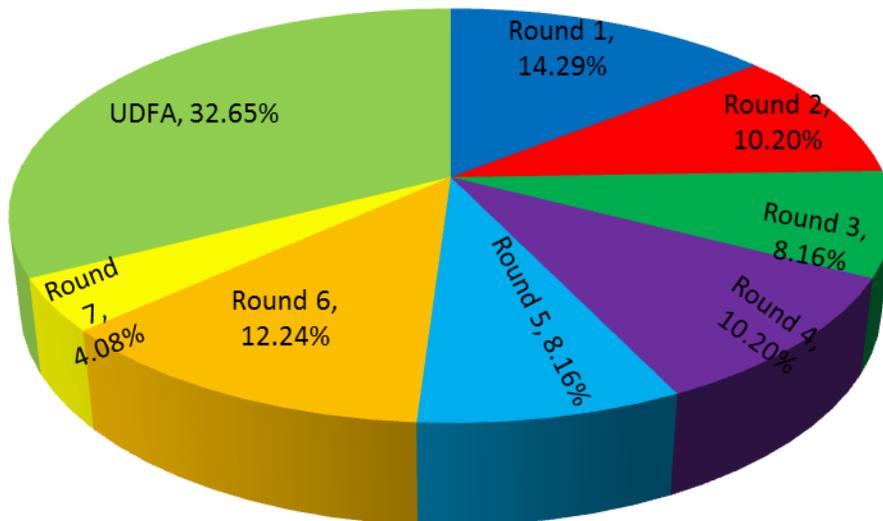


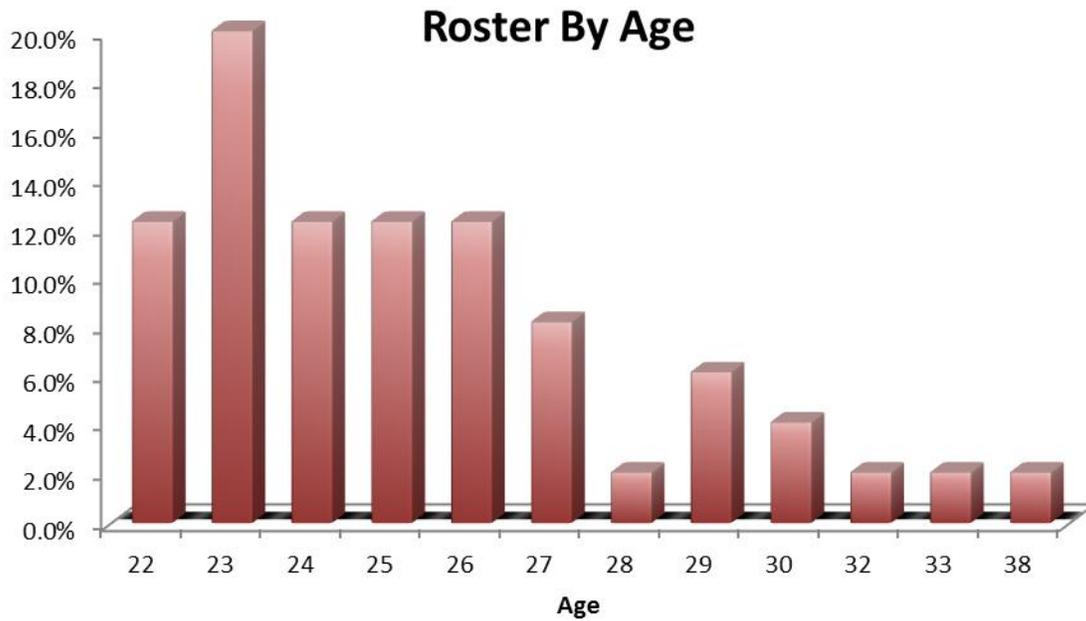
Roster Overview

Acquisition Strategy

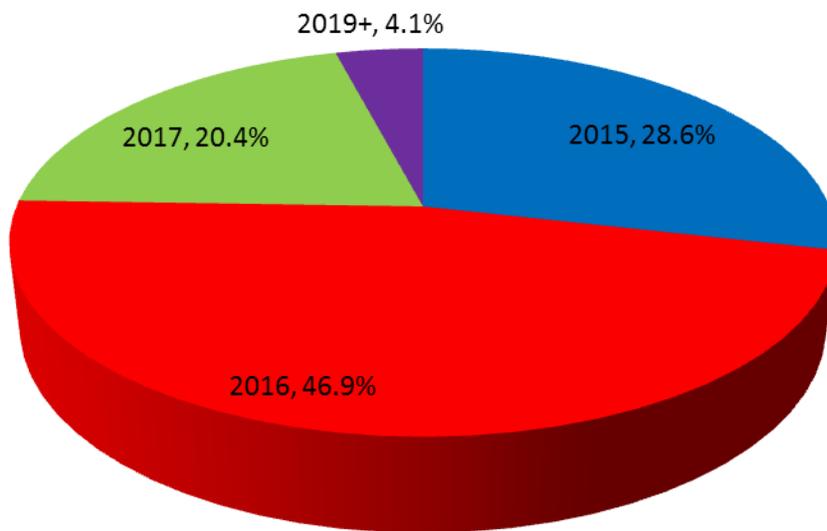


Roster By Draft Round





Turnover: Free Agents By Year

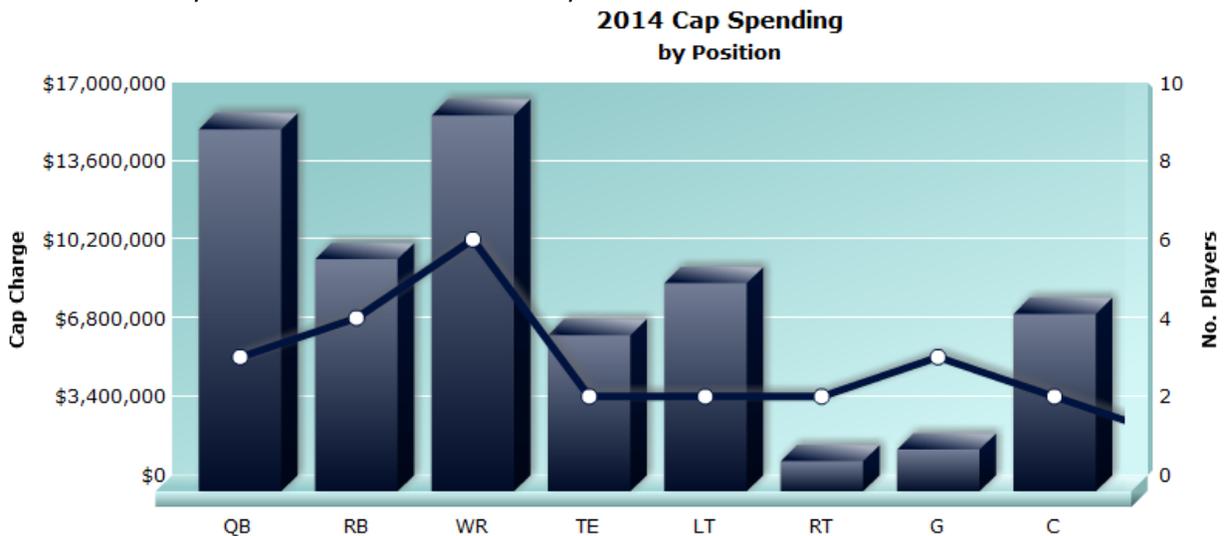


Salary Cap Overview



The Houston Texans have about \$115.5 million in active salary committed to 49 players who were under contract at the end of the 2013 regular season. In addition the team has over \$3 million in dead money accrued towards the 2014 salary cap, \$2.67 million of which is attributed to Safety Ed Reed who was released after appearing in just seven games despite signing a three year contract in 2013.

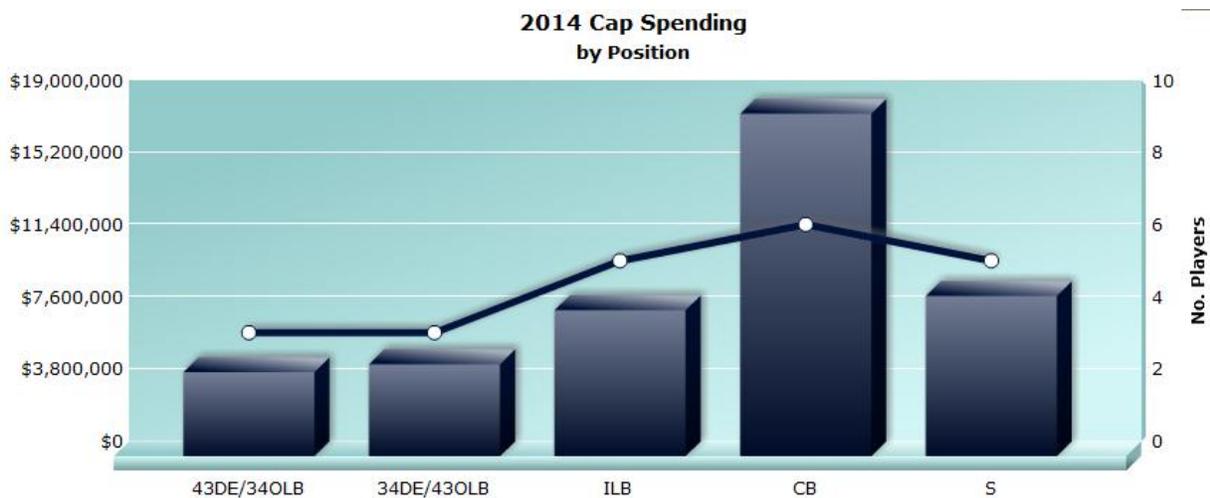
The team is well above the current average being spent on offense around the NFL, with heavy investments at the skill positions and two spots along the offensive line. This is primarily due to the reliance on veteran players who are well beyond rookie contracts. 82.9% of their offensive cap is tied up in six big ticket players- QB Matt Schaub, WR Andre Johnson, RB Arian Foster, LT Duane Brown, C Chris Myers, and TE Owen Daniels. All except Daniels rank in the top 10 of their position in terms of contract value and Daniels is in the top 15. Six of the top seven cap charges belong to the offense and those six account for nearly 50% of the teams' active salary.



Prior to 2013 the investments had reasonable returns with an 11th and 8th place finish in scoring. However in 2013 the team plummeted to 29th in points scored. Much was made of the performance of Schaub, which eventually saw him benched, but the failure was a combination of an ineffective running game and Schaub's penchant for turning the ball over. The Texans still ranked 10th in yards per game, but was well below average in interceptions, throwing 40% more than the NFL average. In all other categories the passing game was around average except touchdowns thrown. The running game which was supposed to be powered by Foster and backup Ben Tate was simply not explosive. They had six less 20+ yard runs than the NFL average and the expectation was to be a top 10 team in that regard.

Currently they sit in the top 8 in offensive spending for next year which likely means changes will be made. Last year was the first season since 2008 where they drafted offense with a first round draft pick. In fact, since 2009 the team has drafted just two offensive players in the first two rounds of the draft while taking seven defensive players. That trend needs to reverse itself for the Texans to return to relevancy in the coming years.

In contrast the defense employs just two highly paid players, CB Jonathan Joseph and LB Brian Cushing, both of whom finished the year on injured reserve. The Texans should begin to be concerned with Cushing who has played just 12 games in the past two years due to injuries. He is guaranteed \$21 million and his cap charges make him more or less untouchable until 2016 at the earliest. Right now his situation could be shaping up to be similar to that of Jon Beason in Carolina when Beason could no longer see the field following his lucrative extension in 2011. Beason was traded in 2013 to the Giants.



Defensive spending is just 22nd in the NFL for 2014 due to all of those draft picks making up the bulk of the team. The star of the defense is DE JJ Watt who is the best pass rusher and most disruptive player in the NFL. Watt counts just \$3.57 million against the cap in 2014 making him one of the best bargains in the league. Despite the heavy workload, the defense did play well in terms of yards allowed specifically in the passing game. Some of that should be attributed to the pass rush generated by Watt. Where the Texans suffered was in terms of poor turnover creation specifically interceptions where they had just 7 interceptions, ranking dead last in the NFL. With the monetary investment in the corner position that is an unacceptable number.

Free Agents

The Texans have 11 unrestricted free agents from their 2013 roster:

Name	Position	2014 age	Cost Grade (10 scale)
Antonio Smith	DE	33	★★★★★★★
Ben Tate	RB	26	★★★★★
Greg Jones	FB	33	★★★★
Wade Smith	G	33	★★★
Joe Mays	ILB	29	★★★
Ryan Harris	LT	29	★★★
Darryl Sharpton	ILB	26	★★★
Earl Mitchell	DT	27	★★★
Garrett Graham	TE	28	★★
Elbert Mack	CB	28	★
Andrew Gardner	RT	28	★

Many of these names will present interesting decisions for the Texans, perhaps the most intriguing will be what to do with the 33 year old Antonio Smith. Smith was the starting Defensive End for the Texans and still a top notch player. However, with the team potentially entering a rebuilding phase they may not see the need to keep a player that old and instead focusing on receiving future draft compensation for him.

The 49ers' two year, \$4.55 million per year extension signed by Justin Smith would seem to have set the market for A. Smith, but since the two sides were unable to come to an agreement during 2013 that might seem to indicate a disconnect in contract valuation. The J. Smith deal is a fair contract and if one side disagrees with that assessment than a deal could be difficult to reach.

Ben Tate is the next big decision. Tate was somewhat lost in the shuffle when the Texans chose to extend Arian Foster at a top of the market contract, but Tate is slightly younger than Foster and not coming off as serious of an injury as Foster. That being said, Tate already has stated his time in Houston is done and he may have indications that another team is prepared to offer him starter money, despite playing most of his career as a backup. I would doubt that Houston would be willing to go anything much more than the \$16 million, 4 year deal the Lions gave to Reggie Bush and even that would be pushing it if Foster was to remain on the roster.

Greg Jones is an effective fullback, but he was only in on about 30% of the plays last year and with a new coaching staff his impact could diminish even further. He only cost \$1 million last season, which is a fair figure, but his future depends on coaching decisions.

Wade Smith and Garrett Graham both are starters though neither is an above average player. Smith will need to accept a major pay reduction to remain in Houston, or perhaps in the NFL. I can't imagine teams will be interested in him beyond the \$1.5 million level and Houston may be better off moving on and

getting younger. Graham serves a role on a team that can use a fill in receiving Tight End. There could be value in retaining him especially if Daniels is released. I would think Houston will push hard to get him back on a low cost two or three year deal.

Joe Mays started at ILB last season and Daryl Sharpton also saw significant starts after Cushing went down to injury. Sharpton probably has a bit more upside and is younger but Mays is the more consistent player. Mays was a late signing after release from the Broncos who did not want to pay a high salary for Mays. Mays will look for more than the \$1.1 million he received last year but should not cost significantly more. If he is willing to play on a one or two year contract it may be worth trying to maintain both to keep defensive continuity especially with Cushing's injury problems, unless they plan on moving Brooks Reed inside or switch defenses.

Earl Mitchell finally became a starter last season and probably should be retained simply because the team has no other options. Even if they draft a player often it's a position that takes some time to develop. He would likely be looking at something like a \$1.5 to \$2 million contract and could opt for a one year deal to hopefully land a better contract a year down the line like Sen'Derrick Marks did with the Jaguars.

In addition to the above the Texans have five restricted free agents:

Name	Position	2014 age	Proj. Tender
Terrell McClain	DT	26	None
Bryan Braman	OLB	27	None
Ricky Sapp	OLB	28	None
Lestar Jean	WR	26	None
Deji Karim	RB	28	None

None of these players should be expected to receive a tender offer from the Texans.

Potential Salary Cap Cuts

Schaub fell out of favor with the fanbase following the 2012 playoffs and the organization when he crumbled with weekly "pick six" interceptions. With his biggest champion, head coach Gary Kubiak, no longer with the organization he will likely be released with the team admitting the mistake it made in extending him in 2012. The real decision with Schaub is whether or not the team designates him a June 1 cut. The Texans would save \$11 million against the cap by designating him a June 1 cut but just \$4 million as a regular cut.

However, the Texans likely do not have the luxury of being able to carry his full cap charge on the books until June and with a significant portion of the roster turning over in 2015 its is probably best to keep the 2015 books as clear as possible. The \$4 million in savings will help the Texans be cap compliant in 2014 and permit at least some activity in free agency.

Two tougher decisions will have to come in regards to TE Owen Daniels and S Danieal Manning. Both players will be 32 and are entering the final year of their contracts. Neither was healthy in 2013 and both save the team \$4.5 million in cash and salary cap charges. The Texans have more people in place to replace Manning, but if the team is going younger both might not have a place. Houston should see if there is any interest around the NFL in trading for either player and if not, perhaps approaching both about contract restructures. Since neither played significant time it would be simple to gain cap relief through incentives in their contracts. It would surprise me if both were on the team next season.

Though Arian Foster has been a player often discussed about a release, releasing Foster only saves the Texans \$1 million in cap space. Considering a cost of a replacement is at least \$420,000 in salary it would not seem wise to release him especially since his cash salary maxes out at just \$6.25 million. If he was to be released he would only be released as a June 1 cut. As a June 1 cut the Texans would save \$6 million in cap room. That room would be used in the summer to sign all rookies and the remainder for in-season operational costs.

Johnathan Joseph would only be in danger if the team is going into full rebuilding mode and they decide to part ways with Wade Phillips as Defensive Coordinator. Joseph would save the team \$3.75 million in cap if released, but they would not find an equivalent player at that salary. A more likely scenario would be to ask him to take a small paycut if they do not think he can earn \$7.25 million on the open market.

2014 NFL Draft

The Texans will have the first selection in every round of the 2014 NFL Draft. They should not lose or gain any additional picks via past trades.

Round	Pick	Salary Cap
1	1	\$4,049,636
2	1	\$1,009,382
3	1	\$595,826
4	1	\$544,257
5	1	\$473,878
6	1	\$452,205
7	1	\$437,281

The 2014 salary cap cost of the Texans rookie class should be \$7,562,465. However, each draft pick will be replacing a player already factoring in to the top 51 equation, so the net cost of the whole class will be, at the most, \$4,622,465. That is the minimum amount of cap space that the Texans will need on hand to sign their rookie class in the summer.

Compensatory selections are received following the completion of the 3rd, 4th, 5th, 6th, and 7th rounds of the draft. The round received is dependent upon the quality of free agent lost in 2013 versus the quality of free agent gained in 2014. The Texans lost nine players last season and only replaced three so there

should be a gain in draft choices. Three of those players earned more than \$3 million per year contracts but one (James Casey) rarely played in 2013, which may make him not qualify. Both Connor Barwin and Glover Quin earned higher contracts and should result in upper round compensatory picks. When not enough formula compensatory picks are awarded the NFL simply awards them based on draft order following completion of the 7th round, so by picking first in each round it is almost a guarantee they will receive a compensatory pick in the 7th round.

The following table lists the cost for each 2014 compensatory draft pick.

Round	Salary Cap
3	\$546,504
4	\$495,146
5	\$456,140
6	\$439,670
7	\$431,474

While every draft is unique there are certain patterns that usually emerge over time. The Texans will expect to find starters with their first two picks in the draft. Over the last ten years the predominant position available around the 1st pick in the first round (number 1 through 3) is the Quarterback position which accounts for 33.3% of all selections. 20% of picks have been left tackles and 16.7% have been pass rushers. All things considered it would seem to be a certainty that the Texans will draft a QB. Considering the need for offense if for some reason a QB is not available they should look to trade down to maximize their draft picks.

With the 31st through 35th picks in the draft the most popular picks are Wide Receiver (14%), Safety (14%), DE/OLB (12%), and Linebacker (12%). All of those positions likely be a position of need so this is a good spot for the Texans to draft BAP where it will actually fill an immediate void.

Salary Cap Space

Assuming a salary cap limit of \$126.3 million for the 2014 League Year and carryover of just \$1.1 million from 2013 the Texans will go into the 2014 NFL season with about \$4.6 million in cap space. Clearly that is not enough room to improve the team which is why some of the releases discussed above will be necessary. If we assume the release of Schaub and either Daniels or Manning the teams cap space will climb to between \$11.5 and \$12 million once those moves are made.

The highest they can push the cap room would be about \$19 million if they cut Joseph and both Daniels and Manning. I would think that is unlikely. Taking rookies into account and the need for some emergency reserves during the year the Texans will only have an effective spending budget of \$4 million on the low end and \$12 million if they released everyone possible.

The only other real option for salary cap relief is to again restructure the contract of various players. One player they should avoid restructuring is WR Andre Johnson. They have restructured his contract so many times that his \$16.1 and \$14.7 million cap charges in 2015 and 2016 are completely unreasonable for a player who will be 34 years old in 2015. For as good as Johnson is he is nearing the age where receivers begin to break down and they need to have the leverage to bring his costs down in those years not bring it up which another restructure would do. The going price for players his age is around \$5 million a season. He will count for about \$15 million a season in cap at those ages right now.

The most logical candidate is LT Duane Brown who has two empty proration years in his contract. Any restructure would more or less ensure his position on the team in 2016, but there should be no problems with that as he is an effective player. If the Texans have a long term plan in place to release Schaub and Foster as well as bringing the cost down on Johnson, the high cap charges associated with Brown in 2015 and 2016 would not skew the teams' offensive spending numbers during those years.

The only other possibility is C Chris Myers, where a restructure would simply be moving cap charges from 2014 to 2015, the final year of his contract. This move would only seem to make sense if the Texans failed to release anyone besides Schaub and just needed a few extra dollars to function during the season.

Extension Candidates

JJ Watt is a dominant player and eligible for an extension starting now. Because his base salary is just \$1.9 million in 2014 there is essentially no cap room that can be created by extending him this season. Watt's negotiating leverage is hurt a little by being the 11th pick in the draft which drops his 2015 option price from the transition tag to the average of the 3rd through 25th highest paid players at the position.

Watt will likely be searching for a contract worth more than Haloti Ngata's \$12.1 million per season and initially will try to push beyond the \$16 million per year deals given to Mario Williams and Darrelle Revis. While \$16 million may be a stretch considering he plays a 34DE position, he should earn more than Ngata. Given the Texans cap situation it would seem unlikely to happen unless no new money is paid until 2015.

CB Kareem Jackson is entering the final year of his contract and may earn an escalator that increases his salary by a few million. If the escalator is earned the Texans will need to make a decision on extending him or releasing him as he can't carry a \$4 million or greater salary cap charge with the current state of the roster. He is a lower graded cornerback and would not cost much to extend if they chose to go that route.

Free Agent Positions of Interest

It is worth noting that the Texans should have very limited action in free agency. This was a process that began last season when the Texans were barely active, mainly signing low cost players or non-prime position players while losing their better and more expensive players. With a new head coach coming in

and owning the first pick in the NFL draft, grabbing a high cost piece or two in free agency with the cap situation they have is not likely.

The team has to consider a pending contract for JJ Watt and re-signing Antonio Smith and one of their Inside Linebackers. Just those moves alone will eat up much of their cap room this season and also maximize their need to carry over cap room into the future when the team should be more competitive. So here we will just look at positions that may be financially feasible for the team to make a run at.

Right Tackle

Derek Newton has failed to impress as the starting Right Tackle, and last season allowed 50 pressures according to Pro Football Focus, making him one of the least effective pass blockers in the NFL. He is also considered a below average run blocker. The RT market is not as pricey as the Left Tackle market so its possible they could find a young player in here that can fit within their cap situation or sign a veteran player on a one year deal.

Austin Howard of the Jets will be the best available young player at the position with Michael Oher being the biggest name. The Jets will likely retain Howard, but if not I would target him in the \$3.75 million range somewhere between the Seahawks Breno Giacomini and Patriots Sebastian Vollmer. Oher is not as good but could cost a bit more simply due to his former draft status.

The veteran name would be Tyson Clabo. Clabo did not play well for Miami this year but would be an upgrade over Newton. He would not cost as much as he did last season (\$3.5 million) and could be in Houston for just one season. The reason to consider a player like Clabo is to at least have a more consistent option to keep a young QB from getting rattled by constant pressure.

Defensive Tackle

As things stand the team is empty at the position and there should always be some cheap veteran options in free agency to fill a need. Aubrayo Franklin cost the Colts just over \$1 million in 2013 and that should be about the ceiling for his price in 2014 as well. Leger Douzable played a small role with the Jets in 2013 and showed promise at the position. He should also not be a very high cost player and reasonable to pair with Mitchell if necessary. Douzable could receive a two year contract. The Patriots and Saints could also be releasing some veteran players who may be of interest.

Running Back

Between Foster's injuries and losing Tate to free agency the Texans could make a play at one of the lower cost veteran running backs that will be available to take some of the workload off Foster. There is not too much in terms of pure free agent that would make too much sense, but I could see players being released like a Michael Bush potentially having a home here. Other names available that will come in well under a \$1.5 million price tag would be Ahmad Bradshaw, Ronnie Brown, Peyton Hillis, and Kahlil Bell. Ryan Williams should also be released by the Cardinals and could be worth a look in camp.

Safety

Assuming the team releases Manning they might look for a cheap veteran player as an insurance policy. Jeremiah Bell is basically playing on yearly contracts for the minimum salary benefit at this stage of his career. James Ihedigbo is a low cost option that can certainly play, though he will likely remain in Baltimore rather than test free agency. Will Allen and Jim Leonhard are other low cost veteran bodies that would sign one year minimum deals to play a reserve role for a team.