# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
**For the quarterly period ended September 30, 2012**

¨ **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
**For the transition period from ______ to ______**

**Commission file number 001-34657**

# TEXAS CAPITAL BANCSHARES, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

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

**214/932-6600**

**(Registrant s telephone number, including area code)**

**N/A**

**(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)**

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

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

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

| | |
|---|---|
| Large Accelerated Filer x | Accelerated Filer ¨ |
| Non-Accelerated Filer ¨ (Do not check if a smaller reporting company) | Small Reporting Company ¨ |

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

On October 23, 2012, the number of shares set forth below was outstanding with respect to each of the issuer s classes of common stock:

| | |
|---|---|
| Common Stock, par value $0.01 per share | 40,587,532 |

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Texas Capital Bancshares, Inc.

Form 10-Q

Quarter Ended September 30, 2012

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**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**TEXAS CAPITAL BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME UNAUDITED**

(In thousands except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Interest income** | | | | |
| Loans | $ 100,830 | $ 81,692 | $ 286,895 | $ 223,241 |
| Securities | 1,125 | 1,524 | 3,635 | 5,050 |
| Federal funds sold | 2 | 3 | 7 | 36 |
| Deposits in other banks | 54 | 44 | 151 | 306 |
| Total interest income | 102,011 | 83,263 | 290,688 | 228,633 |
| **Interest expense** | | | | |
| Deposits | 3,378 | 3,191 | 10,332 | 11,479 |
| Federal funds purchased | 268 | 128 | 789 | 329 |
| Repurchase agreements | 3 | 2 | 10 | 6 |
| Other borrowings | 607 | 110 | 1,534 | 124 |
| Subordinated notes | 208 | | 208 | |
| Trust preferred subordinated debentures | 692 | 634 | 2,091 | 1,905 |
| Total interest expense | 5,156 | 4,065 | 14,964 | 13,843 |
| **Net interest income** | 96,855 | 79,198 | 275,724 | 214,790 |
| **Provision for credit losses** | 3,000 | 7,000 | 7,000 | 22,500 |
| **Net interest income after provision for credit losses** | 93,855 | 72,198 | 268,724 | 192,290 |
| **Non-interest income** | | | | |
| Service charges on deposit accounts | 1,684 | 1,585 | 4,912 | 4,976 |
| Trust fee income | 1,216 | 1,091 | 3,562 | 3,111 |
| Bank owned life insurance (BOLI) income | 549 | 533 | 1,658 | 1,595 |
| Brokered loan fees | 4,839 | 2,849 | 12,618 | 7,927 |
| Other | 2,264 | 1,545 | 7,454 | 5,629 |
| Total non-interest income | 10,552 | 7,603 | 30,204 | 23,238 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | 31,009 | 25,596 | 90,258 | 73,877 |
| Net occupancy expense | 3,653 | 3,367 | 10,936 | 10,120 |
| Marketing | 3,472 | 2,455 | 9,469 | 7,311 |
| Legal and professional | 4,916 | 3,647 | 12,237 | 10,634 |
| Communications and technology | 2,885 | 2,210 | 8,088 | 7,141 |
| FDIC insurance assessment | 1,332 | 1,465 | 4,497 | 5,948 |
| Allowance and other carrying costs for OREO | 552 | 2,150 | 7,706 | 7,203 |
| Other | 5,702 | 5,296 | 16,579 | 15,614 |
| Total non-interest expense | 53,521 | 46,186 | 159,770 | 137,848 |

| | | | | |
|---|---|---|---|---|
| **Income from continuing operations before income taxes** | 50,886 | 33,615 | 139,158 | 77,680 |
| Income tax expense | 18,316 | 11,905 | 49,884 | 27,323 |
| **Income from continuing operations** | 32,570 | 21,710 | 89,274 | 50,357 |
| **Loss from discontinued operations (after-tax)** | (34) | (7) | (31) | (121) |
| **Net income** | $ 32,536 | $ 21,703 | $ 89,243 | $ 50,236 |
| **Basic earnings per common share** | | | | |
| Income from continuing operations | $ 0.82 | $ 0.58 | $ 2.32 | $ 1.35 |
| Net income | $ 0.82 | $ 0.58 | $ 2.32 | $ 1.35 |
| **Diluted earnings per common share** | | | | |
| Income from continuing operations | $ 0.80 | $ 0.56 | $ 2.25 | $ 1.31 |
| Net income | $ 0.80 | $ 0.56 | $ 2.25 | $ 1.31 |
| **Other comprehensive income** | | | | |
| Unrealized (loss) on available-for-sale securities arising during period, before tax | $ (386) | $ (142) | $ (1,298) | $ (346) |
| Income tax benefit (expense) related to unrealized gain (loss) on available-for-sale securities | (135) | (50) | (454) | (121) |
| Other comprehensive loss net of tax | (251) | (92) | (844) | (225) |
| **Comprehensive income** | $ 32,285 | $ 21,611 | $ 88,399 | $ 50,011 |

See accompanying notes to consolidated financial statements.

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**TEXAS CAPITAL BANCSHARES, INC.**

**CONSOLIDATED BALANCE SHEETS**

(In thousands except per share data)

| | September 30, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 88,220 | $ 79,248 |
| Interest-bearing deposits | 60,971 | 31,310 |
| Securities, available-for-sale | 107,288 | 143,710 |
| Loans held for sale | 2,818,622 | 2,080,081 |
| Loans held for sale from discontinued operations | 304 | 393 |
| Loans held for investment (net of unearned income) | 6,549,089 | 5,572,371 |
| Less: Allowance for loan losses | 73,722 | 70,295 |
| Loans held for investment, net | 6,475,367 | 5,502,076 |
| Premises and equipment, net | 11,280 | 11,457 |
| Accrued interest receivable and other assets | 299,582 | 268,863 |
| Goodwill and intangible assets, net | 20,032 | 20,480 |
| Total assets | $ 9,881,666 | $ 8,137,618 |
| **Liabilities and Stockholders Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | $ 2,114,279 | $ 1,751,944 |
| Interest bearing | 4,171,405 | 3,324,040 |
| Interest bearing in foreign branches | 431,895 | 480,273 |
| Total deposits | 6,717,579 | 5,556,257 |
| Accrued interest payable | 1,039 | 599 |
| Other liabilities | 90,067 | 82,909 |
| Federal funds purchased | 473,330 | 412,249 |
| Repurchase agreements | 22,788 | 23,801 |
| Other borrowings | 1,550,051 | 1,332,066 |
| Subordinated notes | 111,000 | |
| Trust preferred subordinated debentures | 113,406 | 113,406 |
| Total liabilities | 9,079,260 | 7,521,287 |
| Stockholders equity: | | |
| Preferred stock, $.01 par value, $1,000 liquidation value: | | |
| Authorized shares 10,000,000 | | |
| Common stock, $.01 par value: | | |
| Authorized shares 100,000,000 | | |
| Issued shares 40,580,700 and 37,666,708 at September 30, 2012 and December 31, 2011 | 406 | 376 |
| Additional paid-in capital | 447,104 | 349,458 |
| Retained earnings | 351,026 | 261,783 |
| Treasury stock (shares at cost: 417 at September 30, 2012 and December 31, 2011) | (8) | (8) |
| Accumulated other comprehensive income, net of taxes | 3,878 | 4,722 |

| | | |
|---|---|---|
| Total stockholders equity | 802,406 | 616,331 |
| Total liabilities and stockholders equity | $ 9,881,666 | $ 8,137,618 |

See accompanying notes to consolidated financial statements.

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**TEXAS CAPITAL BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands except share data)

| | Preferred Stock | | Common Stock | | | | Treasury Stock | | Accumulated Other Comprehensive Income, Net of Taxes | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Shares | Amount | | Total |
| Balance at December 31, 2010 | | $ | 36,957,104 | $ 369 | $ 336,796 | $ 185,807 | (417) | $ (8) | $ 5,355 | $ 528,319 |
| Comprehensive income: | | | | | | | | | | |
| Net income (unaudited) | | | | | | 50,236 | | | | 50,236 |
| Change in unrealized gain on available-for-sale securities, net of taxes of $121 (unaudited) | | | | | | | | | (225) | (225) |
| Total comprehensive income (unaudited) | | | | | | | | | | 50,011 |
| Tax expense related to exercise of stock-based awards (unaudited) | | | | | 2,196 | | | | | 2,196 |
| Stock-based compensation expense recognized in earnings (unaudited) | | | | | 5,802 | | | | | 5,802 |
| Issuance of stock related to stock-based awards (unaudited) | | | 501,075 | 5 | 1,611 | | | | | 1,616 |
| Balance at September 30, 2011 (unaudited) | | $ | 37,458,179 | $ 374 | $ 346,405 | $ 236,043 | (417) | $ (8) | $ 5,130 | $ 587,944 |
| Balance at December 31, 2011 | | $ | 37,666,708 | $ 376 | $ 349,458 | $ 261,783 | (417) | $ (8) | $ 4,722 | $ 616,331 |
| Comprehensive income: | | | | | | | | | | |
| Net income (unaudited) | | | | | | 89,243 | | | | 89,243 |
| Change in unrealized gain on available-for-sale securities, net of taxes of $454 (unaudited) | | | | | | | | | (844) | (844) |
| Total comprehensive income (unaudited) | | | | | | | | | | 88,399 |
| Tax expense related to exercise of stock-based awards (unaudited) | | | | | 5,773 | | | | | 5,773 |
| Stock-based compensation expense recognized in earnings (unaudited) | | | | | 4,648 | | | | | 4,648 |
| Issuance of stock related to stock-based awards (unaudited) | | | 613,992 | 7 | 261 | | | | | 268 |
| Issuance of stock (unaudited) | | | 2,300,000 | 23 | 86,964 | | | | | 86,987 |
| | | $ | 40,580,700 | $ 406 | $ 447,104 | $ 351,026 | (417) | $ (8) | $ 3,878 | $ 802,406 |

| | |
|---|---|
| Balance at September 30, 2012<br>(unaudited) | |

See accompanying notes to consolidated financial statements

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**TEXAS CAPITAL BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED**

(In thousands)

| | Nine months ended September 30, 2012 | 2011 |
|---|---|---|
| **Operating activities** | | |
| Net income from continuing operations | $ 89,274 | $ 50,357 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provision for credit losses | 7,000 | 22,500 |
| Depreciation and amortization | 3,569 | 4,114 |
| Amortization and accretion on securities | 31 | 63 |
| Bank owned life insurance (BOLI) income | (1,658) | (1,595) |
| Stock-based compensation expense | 9,886 | 5,802 |
| Tax benefit from stock option exercises | 5,773 | 2,196 |
| Excess tax benefits from stock-based compensation arrangements | (16,493) | (6,274) |
| Originations of loans held for sale | (36,239,859) | (17,790,459) |
| Proceeds from sales of loans held for sale | 35,501,320 | 17,075,496 |
| Gain on sale of assets | (357) | (145) |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable and other assets | (41,625) | (59,388) |
| Accrued interest payable and other liabilities | 2,814 | 15,026 |
| Net cash used in operating activities of continuing operations | (680,325) | (682,307) |
| Net cash provided by (used in) operating activities of discontinued operations | 57 | (26) |
| Net cash used in operating activities | (680,268) | (682,333) |
| **Investing activities** | | |
| Purchases of available-for-sale securities | (6) | |
| Maturities and calls of available-for-sale securities | 14,260 | 7,575 |
| Principal payments received on available-for-sale securities | 20,839 | 34,544 |
| Net increase in loans held for investment | (980,292) | (617,762) |
| Purchase of premises and equipment, net | (2,505) | (2,539) |
| Proceeds from sale of foreclosed assets | 12,482 | 19,741 |
| Cash paid for acquisition | | (11,482) |
| Net cash used in investing activities of continuing operations | (935,222) | (569,923) |
| **Financing activities** | | |
| Net increase in deposits | 1,161,322 | 31,062 |
| Proceeds from issuance of stock related to stock-based awards | 268 | 1,616 |
| Proceeds from issuance of stock | 86,987 | |
| Net increase in other borrowings | 216,972 | 1,115,858 |
| Excess tax benefits from stock-based compensation arrangements | 16,493 | 6,274 |
| Net increase in federal funds purchased | 61,081 | 38,149 |
| Issuance of subordinated notes | 111,000 | |
| Net cash provided by financing activities of continuing operations | 1,654,123 | 1,192,959 |
| Net increase (decrease) in cash and cash equivalents | 38,633 | (59,297) |
| Cash and cash equivalents at beginning of period | 110,558 | 179,866 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $ 149,191 | 120,569 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for interest | $ 14,524 | $ 15,210 |
| Cash paid during the period for income taxes | 56,552 | 19,516 |
| Non-cash transactions: | | |
| Transfers from loans/leases to OREO and other repossessed assets | 3,410 | 19,254 |

See accompanying notes to consolidated financial statements.

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**TEXAS CAPITAL BANCSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED**

**(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Business**

Texas Capital Bancshares, Inc. ( the Company ), a Delaware financial holding company, was incorporated in November 1996 and commenced doing business in March 1998, but did not commence banking operations until December 1998. The consolidated financial statements of the Company include the accounts of Texas Capital Bancshares, Inc. and its wholly owned subsidiary, Texas Capital Bank, National Association ( the Bank ). The Bank currently provides commercial banking services to its customers largely in Texas and concentrates on middle market commercial businesses and successful professionals and entrepreneurs.

**Basis of Presentation**

The accounting and reporting policies of Texas Capital Bancshares, Inc. conform to accounting principles generally accepted in the United States and to generally accepted practices within the banking industry. Our consolidated financial statements include the accounts of Texas Capital Bancshares, Inc. and its subsidiary, the Bank. Certain prior period balances have been reclassified to conform to the current period presentation.

The consolidated interim financial statements have been prepared without audit. Certain information and footnote disclosures presented in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make interim financial information not misleading. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ( SEC ). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2011, included in our Annual Report on Form 10-K filed with the SEC on February 23, 2012 (the 2011 Form 10-K ). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly susceptible to significant change in the near term.

**Cash and Cash Equivalents**

Cash equivalents include amounts due from banks and federal funds sold.

**Securities**

Securities are classified as trading, available-for-sale or held-to-maturity. Management classifies securities at the time of purchase and re-assesses such designation at each balance sheet date; however, transfers between categories from this re-assessment are rare.

*Trading Account*

Securities acquired for resale in anticipation of short-term market movements are classified as trading, with realized and unrealized gains and losses recognized in income. To date, we have not had any activity in our trading account.

*Held-to-Maturity and Available-for-Sale*

Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity or trading and marketable equity securities not classified as trading are classified as available-for-sale.

Available-for-sale securities are stated at fair value, with the unrealized gains and losses reported in a separate component of accumulated other comprehensive income, net of tax. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and accretion is included in interest income from securities. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method.

All securities are available-for-sale as of September 30, 2012 and December 31, 2011.

**Loans**

*Loans Held for Investment*

Loans held for investment (which include equipment leases accounted for as financing leases) are stated at the amount of unpaid principal reduced by deferred income (net of costs). Interest on loans is recognized using the simple-interest method on the daily balances of the principal amounts outstanding. Loan origination fees, net of direct loan origination costs, and commitment fees, are deferred and amortized as an adjustment to yield over the life of the loan, or over the commitment period, as applicable.

A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. Reserves on impaired loans are measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or the fair value of the underlying collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

*Loans Held for Sale*

We purchase participations in mortgage loans primarily for sale in the secondary market through our mortgage warehouse lending division. These are participations purchased from non-bank mortgage originators who are seeking additional funding through participation interests to facilitate their ability to originate loans in their own name. The mortgage originator has no obligation to offer and we have no obligation to purchase these participation interests. The originator closes mortgage loans consistent with underwriting standards established by approved investors and once the loan closes, the originator delivers the loan to a third party investor. We typically purchase up to a 99% participation interest with the originator financing the remaining percentage. The loan participations are highly liquid and held by us for a short period, usually less than 30 days and more typically 10-20 days. Accordingly, these loans are classified as held for sale and are carried at the lower of cost or fair value, determined on an aggregate basis.

If loan participations are not sold in accordance with the terms of the agreements, loans could be transferred to our loans held for investment portfolio at the lower of cost or market. Mortgage warehouse lending loans transferred to our loans held for investment portfolio could require future allocations of the allowance for loan losses or be subject to charge off in the event the loans become impaired.

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**Allowance for Loan Losses**

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance for loan losses includes specific reserves for impaired loans and a general reserve for estimated losses inherent in the loan portfolio at the balance sheet date, but not yet identified with specific loans. Loans deemed to be uncollectible are charged against the allowance when management believes that the collectability of the principal is unlikely and subsequent recoveries, if any, are credited to the allowance. Management s periodic evaluation of the adequacy of the allowance is based on an assessment of the current loan portfolio, including known inherent risks, adverse situations that may affect the borrowers ability to repay, the estimated value of any underlying collateral and current economic conditions.

**Repossessed Assets**

Repossessed assets, which are included in other assets on the balance sheet, consist of collateral that has been repossessed. Collateral that has been repossessed is recorded at fair value less selling costs through a charge to the allowance for loan losses, if necessary. Write-downs are provided for subsequent declines in value and are recorded in allowance and other carrying costs expense included in allowance and other carrying costs for OREO in non-interest expense.

**Other Real Estate Owned**

Other Real Estate Owned ( OREO ), which is included in other assets on the balance sheet, consists of real estate that has been foreclosed. Real estate that has been foreclosed is recorded at the fair value of the real estate, less selling costs, through a charge to the allowance for loan losses, if necessary. Subsequent write-downs required for declines in value are recorded through a valuation allowance, or taken directly to the asset, and charged to other non-interest expense.

**Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Gains or losses on disposals of premises and equipment are included in results of operations.

**Marketing and Software**

Marketing costs are expensed as incurred. Ongoing maintenance and enhancements of websites are expensed as incurred. Costs incurred in connection with development or purchase of internal use software are capitalized and amortized over a period not to exceed five years. Capitalized internal use software costs are included in other assets in the consolidated financial statements.

**Goodwill and Other Intangible Assets**

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Our intangible assets relate primarily to loan customer relationships. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets are tested for impairment annually or whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

**Segment Reporting**

We have determined that all of our lending divisions and subsidiaries meet the aggregation criteria of ASC 280, *Segment Reporting*, since all offer similar products and services, operate with similar processes, and have similar customers.

**Stock-based Compensation**

We account for all stock-based compensation transactions in accordance with ASC 718, *Compensation Stock Compensation* ( ASC 718 ), which requires that stock compensation transactions be recognized as compensation expense in the statement of operations based on their fair values on the measurement date, which is the date of the grant.

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**Accumulated Other Comprehensive Income**

Unrealized gains or losses on our available-for-sale securities (after applicable income tax expense or benefit) are included in accumulated other comprehensive income, net. Accumulated comprehensive income, net for the nine months ended September 30, 2012 and 2011 is reported in the accompanying consolidated statements of changes in stockholders equity and consolidated statements of income and comprehensive income.

**Income Taxes**

The Company and its subsidiary file a consolidated federal income tax return. We utilize the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based upon the difference between the values of the assets and liabilities as reflected in the financial statements and their related tax basis using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. As changes in tax law or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation reserve is provided against deferred tax assets unless it is more likely than not that such deferred tax assets will be realized.

**Basic and Diluted Earnings Per Common Share**

Basic earnings per common share is based on net income available to common stockholders divided by the weighted-average number of common shares outstanding during the period excluding non-vested stock. Diluted earnings per common share include the dilutive effect of stock options and non-vested stock awards granted using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 2 Earnings Per Common Share.

**Fair Values of Financial Instruments**

ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ), defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

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**(2) EARNINGS PER COMMON SHARE**

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income from continuing operations | $ 32,570 | $ 21,710 | $ 89,274 | $ 50,357 |
| Loss from discontinued operations | (34) | (7) | (31) | (121) |
| Net income | $ 32,536 | $ 21,703 | $ 89,243 | $ 50,236 |
| Denominator: | | | | |
| Denominator for basic earnings per share - weighted average shares | 39,618,007 | 37,411,851 | 38,513,515 | 37,262,658 |
| Effect of employee stock-based awards(1) | 632,790 | 714,192 | 677,782 | 888,027 |
| Effect of warrants to purchase common stock | 504,936 | 309,343 | 459,898 | 304,199 |
| Denominator for dilutive earnings per share - adjusted weighted average shares and assumed conversions | 40,755,733 | 38,435,386 | 39,651,195 | 38,454,884 |
| Basic earnings per common share from continuing operations | $ 0.82 | $ 0.58 | $ 2.32 | $ 1.35 |
| Basic earnings per common share | $ 0.82 | $ 0.58 | $ 2.32 | $ 1.35 |
| Diluted earnings per share from continuing operations | $ 0.80 | $ 0.56 | $ 2.25 | $ 1.31 |
| Diluted earnings per common share | $ 0.80 | $ 0.56 | $ 2.25 | $ 1.31 |

(1) Stock options, SARs and RSUs outstanding of 47,000 at September 30, 2012 and 93,400 at September 30, 2011 have not been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

**(3) SECURITIES**

Securities are identified as either held-to-maturity or available-for-sale based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. Held-to-maturity securities are carried at cost, adjusted for amortization of premiums or accretion of discounts. Available-for-sale securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income in stockholders equity, net of taxes. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method.

At September 30, 2012, our net unrealized gain on the available-for-sale securities portfolio value was $6.0 million, which represented 5.89% of the amortized cost. At December 31, 2011, the unrealized gain was $7.3 million, or 5.32% of the amortized cost. As indicated by the difference in the gain as a percent of the amortized cost, the reduction in the total unrealized gain was due almost entirely to the reduction in the balances of the securities held.

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The following is a summary of securities (in thousands):

| | September 30, 2012 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-Sale Securities: | | | | |
| Residential mortgage-backed securities | $ 63,507 | $ 4,847 | $ | $ 68,354 |
| Corporate securities | 5,000 | 150 | | 5,150 |
| Municipals | 25,302 | 761 | | 26,063 |
| Equity securities[1] | 7,513 | 208 | | 7,721 |
| | $ 101,322 | $ 5,966 | $ | $ 107,288 |

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Available-for-Sale Securities: | | | | |
| Residential mortgage-backed securities | $ 84,363 | $ 5,720 | $ | $ 90,083 |
| Corporate securities | 5,000 | 225 | | 5,225 |
| Municipals | 29,577 | 1,165 | | 30,742 |
| Equity securities[1] | 7,506 | 154 | | 7,660 |
| Other | 10,000 | | | 10,000 |
| | $ 136,446 | $ 7,264 | $ | $ 143,710 |

(1) Equity securities consist of Community Reinvestment Act funds.

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The amortized cost and estimated fair value of securities are presented below by contractual maturity (in thousands, except percentage data):

| | September 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Less Than One Year | After One Through Five Years | After Five Through Ten Years | After Ten Years | Total |
| Available-for-sale: | | | | | |
| Residential mortgage-backed securities:[1] | | | | | |
| Amortized cost | $ 1,059 | $ 6,657 | $ 23,037 | $ 32,754 | $ 63,507 |
| Estimated fair value | 1,113 | 7,164 | 25,000 | 35,077 | 68,354 |
| Weighted average yield[3] | 4.19% | 5.26% | 4.74% | 3.63% | 4.21% |
| Corporate securities: | | | | | |
| Amortized cost | | 5,000 | | | 5,000 |
| Estimated fair value | | 5,150 | | | 5,150 |
| Weighted average yield[3] | | 7.38% | | | 7.38% |
| Municipals:[2] | | | | | |
| Amortized cost | 5,493 | 16,872 | 2,937 | | 25,302 |
| Estimated fair value | 5,583 | 17,429 | 3,051 | | 26,063 |
| Weighted average yield[3] | 5.75% | 5.59% | 5.92% | | 5.66% |
| Equity securities: | | | | | |
| Amortized cost | 7,513 | | | | 7,513 |
| Estimated fair value | 7,721 | | | | |