TEXAS CAPITAL BANCSHARES INC/TX
Form 10-Q
November 12, 2013
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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, 2013

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

(Do not check if a smaller 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 November 7, 2013, 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	40,982,263

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Texas Capital Bancshares, Inc.

Form 10-Q

Quarter Ended September 30, 2013

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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,	
	2013	2012	2013	2012
Interest income				
Loans	$ 114,453	$ 100,830	$ 324,053	$ 286,895
Securities	682	1,125	2,394	3,635
Federal funds sold	22	2	41	7
Deposits in other banks	60	54	172	151
Total interest income	115,217	102,011	326,660	290,688
Interest expense				
Deposits	3,699	3,378	10,172	10,332
Federal funds purchased	152	268	570	789
Repurchase agreements	4	3	13	10
Other borrowings	119	607	475	1,534
Subordinated notes	1,829	208	5,487	208
Trust preferred subordinated debentures	638	692	1,905	2,091
Total interest expense	6,441	5,156	18,622	14,964
Net interest income	108,776	96,855	308,038	275,724
Provision for credit losses	5,000	3,000	14,000	7,000
Net interest income after provision for credit losses	103,776	93,855	294,038	268,724
Non-interest income				
Service charges on deposit accounts	1,659	1,684	5,109	4,912
Trust fee income	1,263	1,216	3,773	3,562
Bank owned life insurance (BOLI) income	423	549	1,384	1,658
Brokered loan fees	4,078	4,839	13,600	12,618
Swap fees	983	1,397	3,616	2,815
Other	2,025	867	5,358	4,639
Total non-interest income	10,431	10,552	32,840	30,204
Non-interest expense				

Salaries and employee benefits	36,012	31,009	114,744	90,258
Net occupancy expense	4,342	3,653	12,334	10,936
Marketing	3,974	3,472	12,020	9,469
Legal and professional	3,937	4,916	12,584	12,237
Communications and technology	3,696	2,885	10,165	8,088
Allowance and other carrying costs for OREO	267	552	1,179	7,706
FDIC insurance assessment	4,357	1,332	6,134	4,497
Other	5,424	5,702	17,283	16,579
Total non-interest expense	62,009	53,521	186,443	159,770
Income from continuing operations before income taxes	52,198	50,886	140,435	139,158
Income tax expense	18,724	18,316	49,745	49,884
Income from continuing operations	33,474	32,570	90,690	89,274
Income (loss) from discontinued operations (after-tax)	2	(34)	2	(31)
Net income	33,476	32,536	90,692	89,243
Preferred stock dividends	2,437	-	4,956	-
Net income available to common shareholders	$ 31,039	$ 32,536	$ 85,736	$ 89,243
Other comprehensive income				
Change in net unrealized gain on available-for-sale securities arising during period, before tax	$ (531)	$ (386)	$ (2,283)	$ (1,298)
Income tax benefit related to net unrealized gain on available-for-sale securities	(186)	(135)	(799)	(454)
Other comprehensive loss, net of tax	(345)	(251)	(1,484)	(844)
Comprehensive income	$ 33,131	$ 32,285	$ 89,208	$ 88,399
Basic earnings per common share				
Income from continuing operations	$ 0.76	$ 0.82	$ 2.10	$ 2.32
Net income	$ 0.76	$ 0.82	$ 2.10	$ 2.32
Diluted earnings per common share				
Income from continuing operations	$ 0.74	$ 0.80	$ 2.05	$ 2.25
Net income	$ 0.74	$ 0.80	$ 2.05	$ 2.25

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	September 30, 2013	December 31, 2012
	(Unaudited)	
Assets		
Cash and due from banks	$ 118,268	$ 111,938
Interest-bearing deposits	76,690	94,410
Federal funds sold and securities purchased under resale agreements	100	-
Securities, available-for-sale	67,815	100,195
Loans held for sale	2,262,085	3,175,272
Loans held for sale from discontinued operations	296	302
Loans held for investment (net of unearned income)	8,051,328	6,785,535
Less: Allowance for loan losses	84,006	74,337
Loans held for investment, net	7,967,322	6,711,198
Premises and equipment, net	12,653	11,445
Accrued interest receivable and other assets	271,052	316,201
Goodwill and intangible assets, net	21,463	19,883
Total assets	$ 10,797,744	$ 10,540,844
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 3,242,060	$ 2,535,375
Interest bearing	5,344,152	4,576,120
Interest bearing in foreign branches	370,869	329,309
Total deposits	8,957,081	7,440,804
Accrued interest payable	743	650
Other liabilities	99,161	91,581
Federal funds purchased	169,794	273,179
Repurchase agreements	29,899	23,936
Other borrowings	250,031	1,650,046
Subordinated notes	111,000	111,000
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	9,731,115	9,704,602

Stockholders equity:

Preferred stock		150,000		-
Common stock, $.01 par value:				
Authorized shares 100,000,000				
Issued shares 40,935,040 and 40,727,996 at September 30, 2013 and December 31, 2012, respectively		409		407
Additional paid-in capital		446,249		450,116
Retained earnings		468,191		382,455
Treasury stock (shares at cost: 417 at September 30, 2013 and December 31, 2012)		(8)		(8)
Accumulated other comprehensive income, net of taxes		1,788		3,272
Total stockholders equity		1,066,629		836,242
Total liabilities and stockholders equity	$	10,797,744	$	10,540,844

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
Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Other Comprehensiv Income, Net of Taxes
-	$ -	37,666,708	$ 376	$ 349,458	$ 261,783	(417)	$ (8)	$ 4,722
-	-	-	-	-	89,243	-	-	-
-	-	-	-	-	-	-	-	(844)
-	-	-	-	5,773	-	-	-	-
-	-	-	-	4,648	-	-	-	-
-	-	613,992	7	261	-	-	-	-

-	-	2,300,000	23	86,964	-	-	-	-
-	$ -	40,580,700	$ 406	$ 447,104	$ 351,026	(417)	$ (8)	$ 3,878
-	$ -	40,727,996	$ 407	$ 450,116	$ 382,455	(417)	$ (8)	$ 3,272
-	-	-	-	-	90,692	-	-	-
-	-	-	-	-	-	-	-	(1,484)
-	-	-	-	124	-	-	-	-
-	-	-	-	2,896	-	-	-	-
6,000,000	150,000	-	-	(5,013)	-	-	-	-
-	-	-	-	-	(4,956)	-	-	-
-	-	207,044	2	(1,874)	-	-	-	-

6,000,000	$	150,000	40,935,040	$	409	$	446,249	$	468,191	(417)	$	(8)	$	1,788

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,	
	2013	2012
Operating activities		
Net income from continuing operations	$ 90,690	$ 89,274
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	14,000	7,000
Depreciation and amortization	8,224	3,569
Amortization and accretion on securities	19	31
Bank owned life insurance (BOLI) income	(1,384)	(1,658)
Stock-based compensation expense	14,464	9,886
Tax expense from stock-based award exercises	124	5,773
Excess tax benefits (expense) from stock-based compensation arrangements	(355)	(16,493)
Originations of loans held for sale	(39,620,728)	(36,239,859)
Proceeds from sales of loans held for sale	40,533,915	35,501,320
Gain on sale of assets	(490)	(357)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	38,259	(41,625)
Accrued interest payable and other liabilities	(3,097)	2,814
Net cash provided by (used in) operating activities of continuing operations	1,073,641	(680,325)
Net cash provided by operating activities of discontinued operations	7	57
Net cash provided by (used in) operating activities	1,073,648	(680,268)
Investing activities		
Purchases of available-for-sale securities	-	(6)
Maturities and calls of available-for-sale securities	15,090	14,260
Principal payments received on available-for-sale securities	14,988	20,839
Net increase in loans held for investment	(1,270,123)	(980,292)
Purchase of premises and equipment, net	(3,828)	(2,505)
Proceeds from sale of foreclosed assets	4,026	12,482
Cash paid for acquisition	(2,445)	-
Net cash used in investing activities of continuing operations	(1,242,292)	(935,222)
Financing activities		
Net increase in deposits	1,516,277	1,161,322
Proceeds from issuance of stock related to stock-based awards	(1,872)	268
Proceeds from issuance of common stock	-	86,987

Proceeds from issuance of preferred stock		144,987		-
Preferred dividends paid		(4,956)		-
Net increase (decrease) in other borrowings		(1,394,052)		216,972
Excess tax benefits from stock-based compensation arrangements		355		16,493
Net increase (decrease) in Federal funds purchased		(103,385)		61,081
Issuance of subordinated notes		-		111,000
Net cash provided by financing activities of continuing operations		157,354		1,654,123
Net increase (decrease) in cash and cash equivalents		(11,290)		38,633
Cash and cash equivalents at beginning of period		206,348		110,558
Cash and cash equivalents at end of period	$	195,058	$	149,191
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	18,529	$	14,524
Cash paid during the period for income taxes		55,246		56,552
Non-cash transactions:				
Transfers from loans/leases to OREO and other repossessed assets		980		3,410

See accompanying notes to consolidated financial statements.

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, 2012, included in our Annual Report on Form 10-K filed with the SEC on February 21, 2013 (the 2012 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, Federal funds sold and securities purchased under resale agreements.

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, 2013 and December 31, 2012.

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 legal ownership interests in mortgage loans for sale in the secondary market through our mortgage finance division. The ownership interests are purchased from unaffiliated mortgage originators who are seeking additional funding through sale of the undivided ownership interests to facilitate their ability to originate loans. The mortgage originator has no obligation to offer and we have no obligation to purchase these interests. The originator closes mortgage loans consistent with underwriting standards established by approved investors, and, at the time of the sale to the investor, our ownership interest is delivered by us to the investor selected by the originator and approved by us. We typically purchase up to a 99% ownership interest. These loans are held by us for an interim period, usually less than 30 days and more typically 10-20 days. Because of conditions in agreements with originators designed to reduce transaction risks, under the form-based rules of Accounting Standards Codification 860, *Transfers and Servicing of Financial Assets* (ASC 860), the ownership interests do not qualify as participating interests. Under ASC 860, the ownership interests are deemed to be loans to the originator, although we have an actual, legal ownership interest in the underlying residential mortgage loans to individual borrowers. Accordingly, because we intend to sell and do sell directly to third party investors our legal ownership interest in the mortgage loans, which give rise to the loan to the originator, the loans to the originators are classified as held for sale and are carried at the lower of cost or fair value, determined on an individual loan basis.

Due to market conditions or events of default by the investor or the originator, we could be required to purchase the remaining interests in the underlying mortgage loans and transfer them to our loans held for investment portfolio at fair value. Mortgage 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.

We sell participations in our ownership interests to other financial institutions. These qualify as participating interests under ASC 860 and such sales reduce our loans held for sale balance on the balance sheet.

Supplemental Call Report instructions issued in October 2013 resulted in Texas Capital Bank reporting mortgage loan interests as held for investment rather than held for sale in its September 30, 2013 Call Report. See Note 7 Regulatory Matters for further discussion.

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 collectibility of the principal is unlikely and subsequent recoveries, if any, are credited to the allowance. Management s periodic evaluation of the adequacy of the allowance is based on an assessment of the current loan portfolio, including known inherent risks, adverse situations that may affect the borrowers ability to repay, the estimated value of any underlying collateral and current economic conditions.

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 permanent declines in value and are recorded in other 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, 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.

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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.

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, 2013 and 2012 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, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Numerator:				
Net income from continuing operations	$ 33,474	$ 32,570	$ 90,690	$ 89,274
Preferred stock dividends	2,437	-	4,956	-
Net income from continuing operations available to common shareholders	31,037	32,570	85,734	89,274
Income (loss) from discontinued operations	2	(34)	2	(31)
Net income	$ 31,039	$ 32,536	$ 85,736	$ 89,243
Denominator:				
Denominator for basic earnings per share - weighted average shares	40,901,867	39,618,007	40,824,223	38,513,515
Effect of employee stock-based awards(1)	375,773	632,790	415,867	677,782
Effect of warrants to purchase common stock	514,034	504,936	502,294	459,898
Denominator for dilutive earnings per share - adjusted weighted average shares and assumed conversions	41,791,674	40,755,733	41,742,384	39,651,195
Basic earnings per common share from continuing operations	$ 0.76	$ 0.82	$ 2.10	$ 2.32
Basic earnings per common share	$ 0.76	$ 0.82	$ 2.10	$ 2.32
Diluted earnings per share from continuing operations	$ 0.74	$ 0.80	$ 2.05	$ 2.25
Diluted earnings per common share	$ 0.74	$ 0.80	$ 2.05	$ 2.25

(1) Stock options, SARs and RSUs outstanding of 98,000 at September 30, 2013 and 47,000 at September 30, 2012 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, 2013, our net unrealized gain on the available-for-sale securities portfolio was $2.8 million compared to $5.0 million at December 31, 2012. 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. As a percent of outstanding balances, the unrealized gain was 4.23% and 5.02%, respectively, for the periods presented.

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

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
Residential mortgage-backed securities	$ 42,343	$ 2,735	$ -	$ 45,078
Municipals	15,202	207	-	15,409
Equity securities[1]	7,519	-	(191)	7,328
	$ 65,064	$ 2,942	$ (191)	$ 67,815

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
Residential mortgage-backed securities	$ 57,342	$ 4,239	$ -	$ 61,581
Corporate securities	5,000	80	-	5,080
Municipals	25,300	594	-	25,894
Equity securities[1]	7,519	121	-	7,640
	$ 95,161	$ 5,034	$ -	$ 100,195

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

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

	September 30, 2013				
	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	$ 445	$ 16,140	$ 8,712	$ 17,046	$ 42,343
Estimated fair value	473	17,126	9,464	18,015	45,078
Weighted average yield[3]	4.28%	4.78%	5.55%	2.55%	4.04%

Municipals:[2]						
Amortized cost	8,550	6,652	-	-		15,202
Estimated fair value	8,679	6,730	-	-		15,409
Weighted average yield[3]	5.75%	5.70%	-	-		5.73%
Equity securities:[4]						
Amortized cost	7,519	-	-	-		7,519
Estimated fair value	7,328	-	-	-		7,328
Total available-for-sale securities:						
Amortized cost					$	65,064
Estimated fair value					$	67,815

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	December 31, 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	$ 656	$ 5,698	$ 23,111	$ 27,877	$ 57,342
Estimated fair value	690	6,113	24,948	29,830	61,581
Weighted average yield(3)	4.20%	5.29%	4.86%	3.41%	4.19%
Corporate securities:					
Amortized cost	5,000	-	-	-	5,000
Estimated fair value	5,080	-	-	-	5,080
Weighted average yield(3)	7.38%	-	-	-	7.38%
Municipals:(2)					
Amortized cost	6,575	16,448	2,277	-	25,300
Estimated fair value	6,646	16,895	2,353	-	25,894
Weighted average yield(3)	5.75%	5.66%	6.01%	-	5.72%
Equity securities:(4)					
Amortized cost	7,519	-	-	-	7,519
Estimated fair value	7,640	-	-	-	7,640
Total available-for-sale securities:					
Amortized cost					$ 95,161
Estimated fair value					$ 100,195

(1) Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.
(2) Yields have been adjusted to a tax equivalent basis assuming a 35% federal tax rate.
(3) Yields are calculated based on amortized cost.
(4) These equity securities do not have a stated maturity.

Securities with carrying values of approximately $49.5 million were pledged to secure certain borrowings and deposits at September 30, 2013. Of the pledged securities at September 30, 2013, approximately $8.4 million were pledged for certain deposits, and approximately $41.1 million were pledged for repurchase agreements.

The following table discloses, as of September 30, 2013, our investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months (in thousands):

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

Equity securities	$	7,328	$	(191)	$	-	$	-	$	7,328	$	(191)

At September 30, 2013, there was one investment position in an unrealized loss position. This security is a publicly traded equity fund and is subject to market pricing volatility. We do not believe these unrealized losses are other than temporary. We have evaluated the near-term prospects of the investment in relation to the severity and duration of the impairment and based on that evaluation have the ability and intent to hold the investment until recovery of fair value. We have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

At December 31, 2012, we did not have any investment securities in an unrealized loss position.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

At September 30, 2013 and December 31, 2012, loans were as follows (in thousands):

	September 30, 2013	December 31, 2012
Commercial	$ 4,782,234	$ 4,106,419
Construction	1,125,908	737,637
Real estate	2,087,058	1,892,451
Consumer	19,619	19,493
Leases	85,936	69,470
Gross loans held for investment	8,100,755	6,825,470
Deferred income (net of direct origination costs)	(49,427)	(39,935)
Allowance for loan losses	(84,006)	(74,337)
Total loans held for investment, net	7,967,322	6,711,198
Loans held for sale	2,262,085	3,175,272
Total	$ 10,229,407	$ 9,886,470

Commercial Loans and Leases. Our commercial loan and lease portfolio is comprised of lines of credit for working capital and term loans and leases to finance equipment and other business assets. Our energy production loans are generally collateralized with proven reserves based on appropriate valuation standards. Our commercial loans and leases are underwritten after carefully evaluating and understanding the borrower s ability to operate profitably. Our underwriting standards are designed to promote relationship banking rather than making loans on a transactional basis. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit and term loans typically are reviewed annually and are supported by accounts receivable, inventory, equipment and other assets of our clients businesses.

Real Estate Loans. A portion of our real estate loan portfolio is comprised of loans secured by properties other than market risk or investment-type real estate. Market risk loans are real estate loans where the primary source of repayment is expected to come from the sale or lease of the real property collateral. We generally provide temporary financing for commercial and residential property. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Our real estate loans generally have maximum terms of five to seven years, and we provide loans with both floating and fixed rates. We generally avoid long-term loans for commercial real estate held for investment. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Appraised values may be highly variable due to market conditions and the impact of the inability of potential purchasers and lessees to obtain financing and lack of transactions at comparable values.

Construction Loans. Our construction loan portfolio consists primarily of single- and multi-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and contractors that have an established record of successful project completion and loan repayment and have a substantial equity investment in the borrowers. Construction loans are generally based upon estimates of costs and value associated with the completed project. Sources of repayment for these types of loans may be pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from us until permanent financing is obtained. The nature of these loans makes ultimate repayment extremely sensitive to overall economic conditions. Borrowers may not be able to correct conditions of default in loans, increasing risk of exposure to classification, non-performing status, reserve allocation and actual credit loss and foreclosure. These loans typically have floating rates and commitment fees.

Loans Held for Sale. Our loans held for sale consist of ownership interests purchased in single-family residential mortgages funded through our mortgage finance group. These loans are held by us for an interim period, usually less than 30 days and more typically 10-20 days. We have agreements with mortgage lenders and purchase legal interests in individual loans they originate. All loans are underwritten consistent with established programs for permanent financing with financially sound investors. Substantially all loans are conforming loans. Loans held for sale as of September 30, 2013 and December 31, 2012 are net of $133.9 million and $436.0 million, respectively, of participations sold.

As of September 30, 2013, a substantial majority of the principal amount of the loans held for investment in our portfolio was to businesses and individuals in Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. The risks created by this concentration have been considered by management in the determination of the appropriateness of the allowance for loan losses. Management believes the allowance for loan losses is appropriate to cover estimated losses on loans at each balance sheet date.

At September 30, 2013, certain real estate loans used as collateral for Federal Home Loan Bank (FHLB) borrowings were subject to a blanket floating lien.

The reserve for loan losses is comprised of specific reserves for impaired loans and an estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We regularly evaluate our reserve for loan losses to maintain an appropriate level to absorb estimated loan losses inherent in the loan portfolio. Factors contributing to the determination of reserves include the credit worthiness of the borrower, changes in the value of pledged collateral, and general economic conditions. All loan commitments rated substandard or worse and greater than $500,000 are specifically reviewed for loss potential. For loans deemed to be impaired, a specific allocation is assigned based on the losses expected to be realized from those loans. For purposes of determining the general reserve, the portfolio is segregated by product types to recognize differing risk profiles among categories, and then further segregated by credit grades. Credit grades are assigned to all loans. Each credit grade is assigned a risk factor, or reserve allocation percentage. These risk factors are multiplied by the outstanding principal balance and risk-weighted by product type to calculate the required reserve. A similar process is employed to calculate a reserve assigned to off-balance sheet commitments, specifically unfunded loan commitments and letters of credit, and any needed reserve is recorded in other liabilities. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management s judgment, should be charged off.

We have several pass credit grades that are assigned to loans based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of monitoring. Within our criticized/classified credit grades are special mention, substandard, and doubtful. Special mention loans are those that are currently protected by sound worth and paying capacity of the borrower, but that are potentially weak and constitute an additional credit risk. The loan has the potential to deteriorate to a substandard grade due to the existence of financial or administrative deficiencies. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Some substandard loans are inappropriately protected by sound worth and paying capacity of the borrower and of the collateral pledged and may be considered impaired. Substandard loans can be accruing or can be on non-accrual depending on the circumstances of the individual loans. Loans classified as doubtful have all the weaknesses inherent in substandard loans with the added characteristics that the weaknesses make collection or liquidation in full highly questionable and improbable. The possibility of loss is extremely high. All doubtful loans are on nonaccrual.

The reserve allocation percentages assigned to each credit grade have been developed based primarily on an analysis of our historical loss rates. The allocations are adjusted for certain qualitative factors for such things as general economic conditions, changes in credit policies and lending standards. Historical loss rates are adjusted to account for current environmental conditions which we believe are likely to cause loss rates to be higher or lower than past experience. Each quarter we produce an adjustment range for environmental factors unique to us and our market. Changes in the trend and severity of problem loans can cause the estimation of losses to differ from past experience. In addition, the reserve considers the results of reviews performed by independent third party reviewers as reflected in their confirmations of assigned credit grades within the portfolio. The portion of the allowance that is not derived by the allowance allocation percentages compensates for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. We evaluate many factors and conditions in determining the unallocated portion of the allowance, including the economic and business conditions affecting key lending areas, credit quality trends and general growth in the portfolio. The allowance is considered appropriate, given management s assessment of potential losses within the portfolio as of the evaluation date, the significant growth in the loan and lease portfolio, current economic conditions in the Company s market areas and other factors.

The methodology used in the periodic review of reserve adequacy, which is performed at least quarterly, is designed to be dynamic and responsive to changes in portfolio credit quality. The changes are reflected in the general reserve and in specific reserves as the collectability of larger classified loans is evaluated with new information. As our portfolio has matured, historical loss ratios have been closely monitored, and our reserve adequacy relies primarily on our loss history. Currently, the review of reserve adequacy is performed by executive management and presented to our board of directors for their review, consideration and ratification on a quarterly basis.

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The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades and non-accrual status as of September 30, 2013 and December 31, 2012 (in thousands):

September 30, 2013

	Commercial	Construction	Real Estate	Consumer	Leases	Total
Grade:						
Pass	$ 4,674,546	$ 1,122,191	$ 2,001,825	$ 19,549	$ 79,189	$ 7,897,300
Special mention	34,144	2,909	39,170	-	1,914	78,137
Substandard-accruing	52,550	808	31,447	-	4,776	89,581
Non-accrual	20,994	-	14,616	70	57	35,737
Total loans held for investment	$ 4,782,234	$ 1,125,908	$ 2,087,058	$ 19,619	$ 85,936	$ 8,100,755

December 31, 2012

	Commercial	Construction	Real Estate	Consumer	Leases	Total
Grade:						
Pass	$ 4,013,538	$ 703,673	$ 1,816,027	$ 19,436	$ 68,327	$ 6,621,001
Special mention	33,137	11,957	12,461	-	919	58,474
Substandard-accruing	44,371	4,790	40,897	-	104	90,162
Non-accrual	15,373	17,217	23,066	57	120	55,833
Total loans held for investment	$ 4,106,419	$ 737,637	$ 1,892,451	$ 19,493	$ 69,470	$ 6,825,470

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The following table details activity in the reserve for loan losses by portfolio segment for the nine months ended September 30, 2013 and September 30, 2012. Allocation of a portion of the reserve to one category of loans does not preclude its availability to absorb losses in other categories.

September 30, 2013 (in thousands)	Commercial	Construction	Real Estate	Consumer	Leases	Unallocated	Total
Beginning balance	$ 21,547	$ 12,097	$ 30,893	$ 226	$ 2,460	$ 7,114	$ 74,337
Provision for loan losses	15,707	1,866	(4,793)	25	(4)	498	13,299
Charge-offs	4,970	-	144	45	2	-	5,161
Recoveries	978	-	210	64	279	-	1,531
Net charge-offs (recoveries)	3,992	-	(66)	(19)	(277)	-	3,630
Ending balance	$ 33,262	$ 13,963	$ 26,166	$ 270	$ 2,733	$ 7,612	$ 84,006
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 3,199	$ -	$ 1,064	$ 11	$ 9	$ -	$ 4,283
Loans collectively evaluated for impairment	30,063	13,963	25,102	259	2,724	7,612	79,723
Ending balance	$ 33,262	$ 13,963	$ 26,166	$ 270	$ 2,733	$ 7,612	$ 84,006

September 30, 2012 (in thousands)	Commercial	Construction	Real Estate	Consumer	Leases	Unallocated	Total
Beginning balance	$ 17,337	$ 7,845	$ 33,721	$ 223	$ 2,356	$ 8,813	$ 70,295
Provision for loan losses	4,575	3,258	(2,840)	6	417	602	6,018

Charge-offs	2,664	-	899	49	170	-	3,782
Recoveries	482	10	586	26	87	-	1,191
Net charge-offs (recoveries)	2,182	(10)	313	23	83	-	2,591
Ending balance	$ 19,730	$ 11,113	$ 30,568	$ 206	$ 2,690	$ 9,415	$ 73,722
Period end amount allocated to:							
Loans individually evaluated for impairment	$ 5,149	$ -	$ 775	$ 18	$ 42	$ -	$ 5,984
Loans collectively evaluated for impairment	14,581	11,113	29,793	188	2,648	9,415	67,738
Ending balance	$ 19,730	$ 11,113	$ 30,568	$ 206	$ 2,690	$ 9,415	$ 73,722

Our recorded investment in loans as of September 30, 2013, December 31, 2012 and September 30, 2012 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of our impairment methodology was as follows (in thousands):

nber 30,

	Commercial	Construction	Real Estate	Consumer	Leases	Total
dually ted for rment	$ 23,422	$ -	$ 23,745	$ 70	$ 57	$ 47
tively ted for rment	4,758,812	1,125,908	2,063,313	19,549	85,879	8,053
	$ 4,782,234	$ 1,125,908	$ 2,087,058	$ 19,619	$ 85,936	$ 8,100

nber 31,

	Commercial	Construction	Real Estate	Consumer	Leases	Total

dually ated for rment	$	15,373	$	18,179	$	32,512	$	57	$	120	$	66
tively ated for rment		4,091,046		719,458		1,859,939		19,436		69,350		6,759
	$	4,106,419	$	737,637	$	1,892,451	$	19,493	$	69,470	$	6,825

mber 30,		Commercial		Construction		Real Estate		Consumer		Leases		Total
dually ated for rment	$	17,653	$	19,248	$	29,246	$	60	$	213	$	66
tively ated for rment		4,021,302		630,127		1,775,188		19,915		73,994		6,520
	$	4,038,955	$	649,375	$	1,804,434	$	19,975	$	74,207	$	6,586

We have traditionally maintained an unallocated reserve component to allow for uncertainty in economic and other conditions affecting the quality of the loan portfolio. Fraud losses that do not correlate to historical loss rates for specific product types or credit risk grades are but one factor that continues to justify an unallocated reserve. Other factors include rapid loan growth, larger hold limits and anticipated changes in taxing and spending policies contributing to unprecedented economic and political uncertainty. Our methodology used to calculate the allowance considers historical losses, however, the historical loss rates for specific product types or credit risk grades may not fully incorporate the effects of continued weakness in the economy.

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Generally we place loans on non-accrual 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 unpaid principal amount of the loan is deemed to be fully collectible. If collectability is questionable, then cash payments are applied to principal. The table below summarizes our non-accrual loans by type and purpose as of September 30, 2013 (in thousands):

	September 30, 2013	December 31, 2012
Commercial		
Business loans	$ 20,994	$ 15,373
Construction		
Market risk	-	17,217
Real estate		
Market risk	11,983	11,054
Commercial	529	8,617
Secured by 1-4 family	2,104	3,395
Consumer	70	57
Leases	57	120
Total non-accrual loans	$ 35,737	$ 55,833

As of September 30, 2013, non-accrual loans included in the table above included $24.2 million related to loans that met the criteria for restructured compared to $19.6 million at December 31, 2012.

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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. In accordance with *ASC 310 Receivables*, we have also included all restructured loans in our impaired loan totals. The following tables detail our impaired loans, by portfolio class as of September 30, 2013 and December 31, 2012 (in thousands):

September 30, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial					
Business loans	$ 7,196	$ 7,196	$ -	$ 3,864	$ -
Energy	1,668	3,498	-	741	-
Construction					
Market risk	-	-	-	4,069	114
Real estate					
Market risk	11,211	11,211	-	9,068	-
Commercial	529	529	-	7,103	-
Secured by 1-4 family	2,512	2,512	-	2,580	-
Consumer	-	-	-	-	-
Leases	-	-	-	-	-
Total impaired loans with no allowance recorded	$ 23,116	$ 24,946	$ -	$ 27,425	$ 114
With an allowance recorded:					
Commercial					
Business loans	$ 14,558	$ 14,558	$ 3,199	$ 14,523	$ -
Energy	-	-	-	1,166	-
Construction					
Market risk	-	-	-	214	-
Real estate					
Market risk	8,728	8,728	823	7,911	-
Commercial	-	-	-	636	-
Secured by 1-4 family	765	765	241	784	-
Consumer	70	70	11	36	-
Leases	57	57	9	78	-
Total impaired loans with an allowance recorded	$ 24,178	$ 24,178	$ 4,283	$ 25,348	$ -
Combined:					

Commercial										
Business loans	$	21,754	$	21,754	$	3,199	$	18,387	$	-
Energy		1,668		3,498		-		1,907		-
Construction										
Market risk		-		-		-		4,283		114
Real estate										
Market risk		19,939		19,939		823		16,979		-
Commercial		529		529		-		7,739		-
Secured by 1-4 family		3,277		3,277		241		3,364		-
Consumer		70		70		11		36		-
Leases		57		57		9		78		-
Total impaired loans	$	47,294	$	49,124	$	4,283	$	52,773	$	114

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December 31, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial					
Business loans	$ 2,938	$ 2,938	$ -	$ 1,409	$ -
Construction					
Market risk	17,217	17,217	-	18,571	677
Real estate					
Market risk	9,061	9,061	-	7,944	-
Commercial	6,604	6,604	-	6,451	-
Secured by 1-4 family	2,632	2,632	-	1,827	-
Consumer	-	-	-	-	-
Leases	-	-	-	-	-
Total impaired loans with no allowance recorded	$ 38,452	$ 38,452	$ -	$ 36,202	$ 677
With an allowance recorded:					
Commercial					
Business loans	$ 12,435	$ 18,391	$ 2,983	$ 15,484	$ -
Construction					
Market risk	962	962	14	321	-
Real estate					
Market risk	11,439	11,439	535	11,811	-
Commercial	2,013	2,013	89	671	-
Secured by 1-4 family	763	763	275	1,632	-
Consumer	57	57	16	59	-
Leases	120	120	18	182	-
Total impaired loans with an allowance recorded	$ 27,789	$ 33,745	$ 3,930	$ 30,160	$ -
Combined:					
Commercial					
Business loans	$ 15,373	$ 21,329	$ 2,983	$ 16,893	$ -
Construction					
Market risk	18,179	18,179	14	18,892	677
Real estate					
Market risk	20,500	20,500	535	19,755	-
Commercial	8,617	8,617	89	7,122	-
Secured by 1-4 family	3,395	3,395	275	3,459	-
Consumer	57	57	16	59	-
Leases	120	120	18	182	-

Total impaired loans	$ 66,241	$ 72,197	$ 3,930	$ 66,362	$ 677

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Average impaired loans outstanding during the nine months ended September 30, 2013 and 2012 totaled $52.8 million and $69.1 million, respectively.

The table below provides an age analysis of our past due loans that are still accruing as of September 30, 2013 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing(1)	Total Past Due	Current	Total
Commercial						
Business loans	$ 36,703	$ 3,727	$ 7,084	$ 47,514	$ 3,737,690	$ 3,785,204
Energy	-	626	-	626	975,410	976,036
Construction						
Market risk	278	705	-	983	1,112,011	1,112,994
Secured by 1-4 family	-	-	-	-	12,914	12,914
Real estate						
Market risk	4,803	790	426	6,019	1,569,299	1,575,318
Commercial	2,970	-	-	2,970	400,002	402,972
Secured by 1-4 family	480	-	-	480	93,672	94,152
Consumer	482	-	-	482	19,067	19,549
Leases	4,998	-	-	4,998	80,881	85,879
Total loans held for investment	$ 50,714	$ 5,848	$ 7,510	$ 64,072	$ 8,000,946	$ 8,065,018

(1) Loans past due 90 days and still accruing includes premium finance loans of $3.1 million. These loans are generally secured by obligations of insurance carriers to refund premiums on cancelled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

Restructured loans are loans on which, due to the borrower s financial difficulties, we have granted a concession that we would not otherwise consider for borrowers of similar credit quality. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modifications of terms that could potentially qualify as a restructuring include reduction of contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current rate for new debt with similar risk, or a reduction of the face amount of debt, or forgiveness of either principal or accrued interest. As of September 30, 2013 and December 31, 2012, we have $4.7 million and $10.4 million, respectively, in loans considered restructured that are not on non-accrual. As of September 30, 2013 these loans did not have an unfunded commitment total compared to $599,000 at December 31, 2012. Of the non-accrual loans at September 30, 2013 and December 31, 2012, $24.2 million and $19.6 million, respectively, met the criteria for restructured. These loans have no unfunded commitments at their respective balance sheet date. A loan continues to qualify as restructured until a consistent payment history or change in borrower s financial condition has been evidenced, generally no less than twelve months. Assuming that the restructuring agreement specifies an interest rate at the time of the restructuring that is greater than or equal to the rate that we are willing to accept for a new extension of credit with comparable risk, then the loan no longer has to be considered a restructuring if it is in compliance with modified terms in calendar years after the year of the restructure.

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The following tables summarize, for the nine months ended September 30, 2013 and 2012, loans that have been restructured during 2013 and 2012, respectively, (in thousands):

September 30, 2013	Number of Contracts	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment
Commercial business loans	3	$ 10,823	$ 10,734
Real estate market risk	1	892	892
Total new restructured loans in 2013	4	$ 11,715	$ 11,626

September 30, 2012	Number of Contracts	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment
Commercial business loans	1	$ 802	$ 777
Real estate market risk	2	1,726	1,162
Real estate - 1-4 family	1	1,424	1,424
Total new restructured loans in 2012	4	$ 3,952	$ 3,363

The restructured loans generally include terms to reduce the interest rate and extend payment terms. We have not forgiven any principal on the above loans. The restructuring of the loans did not have a significant impact on our allowance for loan losses at September 30, 2013.

The following table provides information on how loans were modified as a restructured loan during the nine months ended September 30, 2013 and 2012 (in thousands):

	September 30, 2013	September 30, 2012
Extended maturity	$ 892	$ 1,939
Adjusted payment schedule	-	1,424
Combination of maturity extension and payment schedule adjustment	10,734	-
Total	$ 11,626	$ 3,363

As of September 30, 2013, we did not have any loans that were restructured within the last 12 months that subsequently defaulted.

(5) OREO AND VALUATION ALLOWANCE FOR LOSSES ON OREO

The table below presents a summary of the activity related to OREO (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Beginning balance	$ 13,053	$ 27,882	$ 15,991	$ 34,077
Additions	68	-	980	3,397
Sales	(316)	(8,739)	(3,712)	(12,467)
Valuation allowance for OREO	-	-	(164)	(3,556)
Direct write-downs	-	(64)	(290)	(2,372)
Ending balance	$ 12,805	$ 19,079	$ 12,805	$ 19,079

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(6) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit which involve varying degrees of credit risk in excess of the amount recognized in the consolidated balance sheets. The Bank s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, is based on management s credit evaluation of the borrower.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer s credit-worthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The table below summarizes our off-balance sheet financial instruments whose contract amounts represented credit risk (in thousands):

	September 30, 2013	December 31, 2012
Commitments to extend credit	$ 3,545,057	$ 2,648,454
Standby letters of credit	124,259	83,429

(7) REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Company s and the Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company s and the Bank s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company s and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2013, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the tables below. As shown in the table below, the Company s capital ratios exceed the regulatory definition of adequately capitalized as of September 30, 2013 and 2012. Based upon the information in its most recently filed call report, the Bank meets the capital ratios necessary to be well capitalized. The regulatory authorities can apply changes in classification of assets and such change may retroactively subject the Company to change in capital ratios. Any such change could result in reducing one or more capital ratios below well-capitalized status. In addition, a change may result in imposition of additional assessments by the FDIC or could result in regulatory actions that could have a material effect on condition and results of operations.

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In response to supplemental FFIEC Call Report instructions issued in early April 2013, we began using a 100% risk weight for the mortgage assets with our March 31, 2013 Call Report and Form 10-Q. In previous filings, we applied a 50% risk weight (or 20% risk weight for government-guaranteed loans) to these assets for purposes of calculating the Bank s risk-based capital ratios. Having now determined that the 100% risk weight must be applied under our current program we were required to amend our year-end Call Reports for 2012 and 2011. This change required application of the 100% risk weight to our mortgage loan interests in these earlier periods, which is consistent with our March 2013 and June 2013 Call Reports. The amendment of Call Reports had no impact on our consolidation balance sheet or statements of operations, stockholders equity and cash flows.

This retroactive change in risk weighting of our mortgage loan interests required that we amend the previously reported values for our risk-weighted capital ratios for December 31, 2012 and 2011. See below for amended December 31, 2012 risk-weighted capital ratios. These amended ratios exceed levels required to be adequately capitalized on a consolidated basis and at the Bank. As amended, the Bank was well capitalized in the Tier 1 measure of capital adequacy, but the total risk-based capital ratio was below that required to be considered well capitalized . The adjustment had no impact on the ratio of tangible common equity to total assets. We believe that we had the financial and operational capacity to maintain well-capitalized status had we determined that the higher risk weighting was required to be applied to our ownership interests in mortgage loans at year-end 2012 and 2011.

Incidental to the amended Call Reports described above, we were assessed $3.0 million by the FDIC that was paid during the third quarter of 2013. We do not believe this is an assessment warranted under our circumstances, and we have disputed the charge. Any recovery of the $3.0 million expense would be credited to non-interest expense in a future quarter.

	September 30, 2013	December 31, 2012	September 30, 2012
Company			
Risk-based capital:			
Tier 1 capital	9.67%	8.27%	10.35%
Total capital	11.34%	9.97%	12.55%
Leverage	10.85%	9.41%	9.63%
Bank			
Risk-based capital:			
Tier 1 capital	7.91%	7.17%	8.93%
Total capital	10.42%	8.50%	10.41%
Leverage	8.88%	8.16%	8.30%

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the Basel III Capital Rules). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called Common Equity Tier 1, (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and Additional Tier 1 Capital instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules will be effective for us on January 1, 2015 with certain transition provisions fully phased in on January 1 2019. Based on our initial assessment of the Basel III Capital Rules, we do not believe they will have a material impact, and we believe we would meet the capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently in effect.

Federal Financial Institutions Examination Council Financial Institution Letter FIL-44-2013 issued October 7, 2013, included Supplemental Instructions for September 30, 2013 Call Reports (the Supplemental Instructions) requiring that reporting institutions consider whether loans originated by third parties and acquired by the institution should be accounted for as a purchase of loans held for sale or as a secured loan to the originator that is held for investment based upon factors identified in the Supplemental Instructions. For periods ending prior to September 30, 2013, we have reported interests in mortgage loans originated by our mortgage warehouse customers and acquired in our mortgage finance division as loans to the originator that are held for sale in our Call Reports and our financial statements.

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For Call Report purposes, we reported mortgage loan interests as held for investment commencing with the September 30, 2013 Call Report in accordance with the Supplemental Instructions. These financial assets continue to be classified as held for sale in our financial reporting.

The difference in reporting our mortgage loan interests for Call Report purposes does not impact our reported earnings as we do not believe any reserve for loan losses relating to the mortgage warehouse lending portfolio is necessary based upon the risk profile of the assets and the less than one basis point loss experience of the program over the past ten years.

The following table summarizes the differences between our financial reporting and Call Report resulting from the change described above (in thousands):

	Financial Reporting	Adjustment	Call Report
September 30, 2013			
Balance Sheet			
Loans held for sale	$ 2,262,085	$ (2,262,085)	$ -
Loans held for investment, net	7,967,322	2,262,085	10,229,407
Total loans, net	10,229,407	-	10,229,407

Had we classified our mortgage loan interests as held for investment for financial reporting or Call Report purposes as of December 31, 2012, total loans of $9.9 billion would have been unchanged.

Call Reports do not include a statement of cash flows. Had we classified our mortgage loan interests as held for investment for financial reporting purposes, the cash flows relating to these activities, which currently are reflected on a gross basis in operating cash flow activity, would be presented on a net basis in investing cash flow activity. The net origination and proceeds of loans held for sale of $913.2 million and $(738.5) million for the nine months ended September 30, 2013 and 2012, respectively, would have been presented in investing activities.

On August 1, 2012 we completed a sale of 2.3 million shares of our common stock in a public offering. Net proceeds from the sale totaled $87.0 million. The additional equity was used for general corporate purposes, including retirement of $15.0 million of debt and additional capital to support continued loan growth at our bank.

On September 21, 2012, we issued $111.0 million of subordinated notes. The notes mature in September 2042 and bear interest at a rate of 6.50% per annum, payable quarterly. The proceeds were used for general corporate purposes including funding regulatory capital infusions into the Bank. The indenture contains customary financial covenants and restrictions.

On March 28, 2013, we completed a sale of 6.0 million shares of 6.5% non-cumulative preferred stock in a public offering. Net proceeds from the sale totaled $145.0 million. The additional equity is being used for general corporate purposes, which may include funding regulatory capital infusions into the Bank.

(8) STOCK-BASED COMPENSATION

The fair value of our stock option and stock appreciation right (SAR) grants are estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide the best single measure of the fair value of its employee stock options.

Stock-based compensation consists of SARs and RSUs that were granted from 2007 through 2013.

(in thousands)	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Stock- based compensation expense recognized:				
SARs	$ 130	$ 179	$ 412	$ 554
RSUs	923	916	2,484	4,094
Total compensation expense recognized	$ 1,053	$ 1,095	$ 2,896	$ 4,648

(in thousands)	September 30, 2013 Options	September 30, 2013 SARs and RSUs
Unrecognized compensation expense related to unvested awards	$ -	$ 12,521
Weighted average period over which expense is expected to be recognized, in years	-	3.73

In connection with the 2010 Long-term Incentive Plan, the Company has issued cash-based performance units.

A summary of the compensation cost for these units is as follows (in thousands):

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Cash-based performance units	$ 2,161	$ 2,337	$ 11,568	$ 5,238

The compensation cost for the nine months ended September, 2013, includes approximately $4.1 million related to a charge taken to reflect the financial effect of the organizational changes announced during the second quarter of 2013 and includes assumptions about future payouts that may or may not happen. Additionally, there was another $2.2 million of charges related to the increased probability that certain performance targets for executive cash based incentives will be met, reflecting the increase in our stock price.

(9) DISCONTINUED OPERATIONS

Subsequent to the end of the first quarter of 2007, we and the purchaser of our residential mortgage loan division (RML) agreed to terminate and settle the contractual arrangements related to the sale of the division, which had been completed as of the end of the third quarter of 2006. Historical operating results of RML are reflected as discontinued operations in the financial statements.

During the three months ended September 30, 2013 and 2012, the income and loss from discontinued operations was $2,000 and $34,000, net of taxes, respectively. During the nine months ended September 30, 2013 and 2012, the income from discontinued operations was $2,000 and $31,000, net of taxes, respectively. We still have approximately $296,000 in loans held for sale from discontinued operations that are carried at the estimated market value at quarter-end, which is less than the original cost. We plan to sell these loans, but timing and price to be realized cannot be determined at this time due to market conditions. In addition, we continue to address requests from investors related to repurchasing loans previously sold. While the balances as of September 30, 2013 include a liability for exposure to additional contingencies, including risk of having to repurchase loans previously sold, we recognize that market conditions may result in additional exposure to loss and the extension of time necessary to complete the discontinued mortgage operation.

(10) FAIR VALUE DISCLOSURES

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. Fair value is defined under ASC 820 as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date.

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We determine the fair market values of our assets and liabilities measured at fair value on a recurring and nonrecurring basis using the fair value hierarchy as prescribed in ASC 820. The standard describes three levels of inputs that may be used to measure fair value as provided below.

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets include U.S. Treasuries that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include U.S. government and agency mortgage-backed debt securities, corporate securities, municipal bonds, and Community Reinvestment Act funds. This category includes derivative assets and liabilities where values are obtained from independent pricing services.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. This category also includes impaired loans and OREO where collateral values have been based on third party appraisals; however, due to current economic conditions, comparative sales data typically used in appraisals may be unavailable or more subjective due to lack of market activity.

Assets and liabilities measured at fair value at September 30, 2013 and December 31, 2012 are as follows (in thousands):

	Fair Value Measurements Using		
September 30, 2013	Level 1	Level 2	Level 3
Available for sale securities:[1]			
Residential mortgage-backed securities	$ -	$ 45,078	$ -
Municipals	-	15,409	-
Equity securities	-	7,328	-
Loans[2] [4]	-	-	12,658
OREO[3] [4]	-	-	12,805
Derivative asset[5]	-	13,886	-
Derivative liability[5]	-	(13,886)	-
December 31, 2012			
Available for sale securities:[1]			
Residential mortgage-backed securities	$ -	$ 61,581	$ -
Corporate securities	-	5,080	-

Municipals	-	25,894	-
Equity securities	-	7,640	-
Loans[(2) (4)]	-	-	11,639
OREO			