TEXAS CAPITAL BANCSHARES INC/TX
Form 10-Q
July 29, 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 June 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	**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 July 23, 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	40,867,316

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Texas Capital Bancshares, Inc.

Form 10-Q

Quarter Ended June 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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Interest income				
Loans	$ 106,418	$ 94,291	$ 209,600	$ 186,065
Securities	773	1,203	1,712	2,510
Federal funds sold	13	4	19	5
Deposits in other banks	60	48	112	97
Total interest income	107,264	95,546	211,443	188,677
Interest expense				
Deposits	3,228	3,482	6,473	6,954
Federal funds purchased	206	240	418	521
Repurchase agreements	5	4	9	7
Other borrowings	143	492	356	927
Subordinated notes	1,829		3,658	
Trust preferred subordinated debentures	633	688	1,267	1,399
Total interest expense	6,044	4,906	12,181	9,808
Net interest income	101,220	90,640	199,262	178,869
Provision for credit losses	7,000	1,000	9,000	4,000
Net interest income after provision for credit losses	94,220	89,640	190,262	174,869
Non-interest income				
Service charges on deposit accounts	1,749	1,624	3,450	3,228
Trust fee income	1,269	1,232	2,510	2,346
Bank owned life insurance (BOLI) income	463	588	961	1,109
Brokered loan fees	4,778	4,128	9,522	7,779
Swap fees	981	622	2,633	1,419
Other	1,888	2,268	3,333	3,771
Total non-interest income	11,128	10,462	22,409	19,652
Non-interest expense				
Salaries and employee benefits	45,191	30,230	78,732	59,249
Net occupancy expense	4,135	3,679	7,992	7,283
Marketing	4,074	3,174	8,046	5,997
Legal and professional	4,707	3,330	8,647	7,321
Communications and technology	3,347	2,720	6,469	5,203
Allowance and other carrying costs for OREO	482	3,812	912	7,154
Other	6,798	7,028	13,636	14,042
Total non-interest expense	68,734	53,973	124,434	106,249

Income from continuing operations before income taxes	36,614	46,129	88,237	88,272
Income tax expense	12,542	16,506	31,021	31,568
Income from continuing operations	24,072	29,623	57,216	56,704
Income (loss) from discontinued operations (after-tax)	1	(1)		3
Net income	24,073	29,622	57,216	56,707
Preferred stock dividends	2,438		2,519	
Net income available to common shareholders	$ 21,635	$ 29,622	$ 54,697	$ 56,707
Other comprehensive income				
Change in net unrealized gain on available-for-sale securities arising during period, before tax	$ (1,028)	$ (625)	$ (1,752)	$ (912)
Income tax benefit related to net unrealized gain on available-for-sale securities	(360)	(219)	(613)	(319)
Other comprehensive loss net of tax	(668)	(406)	(1,139)	(593)
Comprehensive income	$ 23,405	$ 29,216	$ 56,077	$ 56,114
Basic earnings per common share				
Income from continuing operations	$ 0.53	$ 0.78	$ 1.34	$ 1.50
Net income	$ 0.53	$ 0.78	$ 1.34	$ 1.50
Diluted earnings per common share				
Income from continuing operations	$ 0.52	$ 0.76	$ 1.31	$ 1.45
Net income	$ 0.52	$ 0.76	$ 1.31	$ 1.45

See accompanying notes to consolidated financial statements.

TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 90,992	$ 111,938
Interest-bearing deposits	142,928	94,410
Federal funds sold and securities purchased under resale agreements	85,120	
Securities, available-for-sale	75,861	100,195
Loans held for sale	2,838,234	3,175,272
Loans held for sale from discontinued operations	298	302
Loans held for investment (net of unearned income)	7,510,662	6,785,535
Less: Allowance for loan losses	79,428	74,337
Loans held for investment, net	7,431,234	6,711,198
Premises and equipment, net	11,915	11,445
Accrued interest receivable and other assets	280,067	316,201
Goodwill and intangible assets, net	21,639	19,883
Total assets	$ 10,978,288	$ 10,540,844
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 2,928,735	$ 2,535,375
Interest bearing	4,702,902	4,576,120
Interest bearing in foreign branches	348,961	329,309
Total deposits	7,980,598	7,440,804
Accrued interest payable	1,023	650
Other liabilities	102,676	91,581
Federal funds purchased	307,515	273,179
Repurchase agreements	27,079	23,936
Other borrowings	1,300,036	1,650,046
Subordinated notes	111,000	111,000
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	9,943,333	9,704,602
Stockholders equity:		
Preferred stock	150,000	
Common stock, $.01 par value:		
Authorized shares 100,000,000		
Issued shares 40,862,898 and 40,727,996 at June 30, 2013 and December 31, 2012, respectively	408	407
Additional paid-in capital	445,270	450,116
Retained earnings	437,152	382,455
Treasury stock (shares at cost: 417 at June 30, 2013 and December 31, 2012)	(8)	(8)
Accumulated other comprehensive income, net of taxes	2,133	3,272

Total stockholders equity	1,034,955	836,242
Total liabilities and stockholders equity	$ 10,978,288	$ 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 Other Comprehensive Income,	
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Net of Taxes	Total
Balance at December 31, 2011		$	37,666,708	$ 376	$ 349,458	$ 261,783	(417)	$ (8)	$ 4,722	$ 616,331
Comprehensive income:										
Net income (unaudited)						56,707				56,707
Change in unrealized gain on available-for-sale securities, net of taxes of $319 (unaudited)									(593)	(593)
Total comprehensive income (unaudited)										56,114
Tax benefit related to exercise of stock-based awards (unaudited)					3,261					3,261
Stock-based compensation expense recognized in earnings (unaudited)					3,553					3,553
Issuance of stock related to stock-based awards (unaudited)			447,721	5	1,441					1,446
Balance at June 30, 2012 (unaudited)		$	38,114,429	$ 381	$ 357,713	$ 318,490	(417)	$ (8)	$ 4,129	$ 680,705
Balance at December 31, 2012		$	40,727,996	$ 407	$ 450,116	$ 382,455	(417)	$ (8)	$ 3,272	$ 836,242
Comprehensive income:										
Net income (unaudited)						57,216				57,216
Change in unrealized gain on available-for-sale securities, net of taxes of $613 (unaudited)									(1,139)	(1,139)
										56,077

Total comprehensive income (unaudited)										
Tax expense related to exercise of stock-based awards (unaudited)					(659)					(659)
Stock-based compensation expense recognized in earnings (unaudited)					1,843					1,843
Issuance of preferred stock (unaudited)	6,000,000	150,000			(5,013)					144,987
Preferred stock dividend (unaudited)						(2,519)				(2,519)
Issuance of stock related to stock-based awards (unaudited)			134,902	1	(1,017)					(1,016)
Balance at June 30, 2013 (unaudited)	6,000,000	$ 150,000	40,862,898	$ 408	$ 445,270	$ 437,152	(417)	$ (8)	$ 2,133	$ 1,034,955

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

(In thousands)

	Six months ended June 30, 2013	2012
Operating activities		
Net income from continuing operations	$ 57,216	$ 56,704
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	9,000	4,000
Depreciation and amortization	2,494	2,378
Amortization and accretion on securities	14	24
Bank owned life insurance (BOLI) income	(961)	(1,109)
Stock-based compensation expense	11,250	3,553
Tax benefit (expense) from stock-based award exercises	(659)	3,261
Excess tax benefits (expense) from stock-based compensation arrangements	1,882	(4,971)
Originations of loans held for sale	(27,736,248)	(22,189,120)
Proceeds from sales of loans held for sale	28,073,286	21,861,172
Gain on sale of assets	(439)	(785)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	33,892	(17,904)
Accrued interest payable and other liabilities	2,237	(1,882)
Net cash provided by (used in) operating activities of continuing operations	452,964	(284,679)
Net cash provided by operating activities of discontinued operations	4	8
Net cash provided by (used in) operating activities	452,968	(284,671)
Investing activities		
Purchases of available-for-sale securities		(6)
Maturities and calls of available-for-sale securities	12,245	13,425
Principal payments received on available-for-sale securities	10,323	14,392
Net increase in loans held for investment	(729,034)	(664,215)
Purchase of premises and equipment, net	(2,292)	(2,377)
Proceeds from sale of foreclosed assets	3,660	4,172
Cash paid for acquisition	(2,445)	
Net cash used in investing activities of continuing operations	(707,543)	(634,609)
Financing activities		
Net increase in deposits	539,794	1,104,033
Proceeds from issuance of stock related to stock-based awards	(1,016)	1,446
Proceeds from issuance of preferred stock	144,987	
Preferred dividends paid	(2,085)	
Net decrease in other borrowings	(346,867)	(18,663)
Excess tax benefits (expense) from stock-based compensation arrangements	(1,882)	4,971
Net increase (decrease) in federal funds purchased	34,336	(140,414)
Net cash provided by financing activities of continuing operations	367,267	951,373
Net increase in cash and cash equivalents	112,692	32,093
Cash and cash equivalents at beginning of period	206,348	110,558

Cash and cash equivalents at end of period	$	319,040	$	142,651
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$	11,808	$	9,520
Cash paid during the period for income taxes		38,112		34,072
Non-cash transactions:				
Transfers from loans/leases to OREO and other repossessed assets		912		3,410

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, 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 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.

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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 June 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 and that of the originator are delivered by us to the investor selected by the originator and approved by us. We typically purchase up to a 99% ownership interest with the originator financing the remaining percentage. These loans are held by us for an interim period, usually less than 30 days and more typically 10-20 days. Accordingly, because we intend to sell the loans, they are classified as held for sale and are carried at the lower of cost or fair value, determined on an individual loan basis. 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.

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 are appropriately netted from our loans held for sale balance on the balance sheet.

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.

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.

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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 six months ended June 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 June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Numerator:				
Net income from continuing operations	$ 24,072	$ 29,623	$ 57,216	$ 56,704
Preferred stock dividends	2,438		2,519	
Net income from continuing operations available to common shareholders	21,634	29,623	54,697	56,704
Income (loss) from discontinued operations	1	(1)		3
Net income	$ 21,635	$ 29,622	$ 54,697	$ 56,707
Denominator:				
Denominator for basic earnings per share - weighted average shares	40,813,918	38,012,677	40,784,769	37,903,976
Effect of employee stock-based awards[1]	415,049	674,343	436,219	697,924
Effect of warrants to purchase common stock	494,558	454,524	496,464	437,132
Denominator for dilutive earnings per share - adjusted weighted average shares and assumed conversions	41,723,525	39,141,544	41,717,452	39,039,032
Basic earnings per common share from continuing operations	$ 0.53	$ 0.78	$ 1.34	$ 1.50
Basic earnings per common share	$ 0.53	$ 0.78	$ 1.34	$ 1.50
Diluted earnings per share from continuing operations	$ 0.52	$ 0.76	$ 1.31	$ 1.45
Diluted earnings per common share	$ 0.52	$ 0.76	$ 1.31	$ 1.45

(1) Stock options, SARs and RSUs outstanding of 99,500 at June 30, 2013 and 10,000 at June 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 June 30, 2013, our net unrealized gain on the available-for-sale securities portfolio value was $3.3 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 4.33% and 5.02%, respectively, for the periods presented.

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

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-Sale Securities:				
Residential mortgage-backed securities	$ 47,009	$ 3,128	$	$ 50,137
Municipals	18,051	320		18,371
Equity securities[(1)]	7,519		(166)	7,353
	$ 72,579	$ 3,448	$ (166)	$ 75,861

	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):

	June 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	$ 781	$ 10,418	$ 17,507	$ 18,303	$ 47,009
Estimated fair value	833	11,069	18,786	19,449	50,137
Weighted average yield[(3)]	4.25%	4.98%	5.09%	2.59%	4.08%
Municipals:[(2)]					
Amortized cost	7,880	10,171			18,051
Estimated fair value	8,002	10,369			18,371
Weighted average yield[(3)]	5.64%	5.72%			5.68%
Equity securities:[(4)]					
Amortized cost	7,519				7,519
Estimated fair value	7,353				7,353