

PINNACLE FINANCIAL PARTNERS INC

Form 10-Q

July 21, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-31225

, Inc.

(Exact name of registrant as specified in its charter)

Tennessee

62-1812853

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

150 Third Avenue, Suite 800, Nashville, Tennessee

37201

(Address of principal executive offices)

(Zip Code)

(615) 744-3700

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changes 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 Securities Exchange Act of 1934 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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer
(do not check if you are a

Smaller reporting
company

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

As of July 20, 2010 there were 33,431,881 shares of common stock, \$1.00 par value per share, issued and outstanding.

Pinnacle Financial Partners, Inc.
Report on Form 10-Q
June 30, 2010

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FORWARD-LOOKING STATEMENTS

Certain of the statements in this release may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words expect, anticipate, intend, plan, believe, should, seek, estimate and similar expressions are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking. All forward-looking statements are subject to risks, uncertainties and other factors that may cause the actual results, performance or achievements of Pinnacle Financial Partners, Inc. to differ materially from any results expressed or implied by such forward-looking statements. Such factors include, without limitation, (i) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (ii) continuation of the historically low short-term interest rate environment; (iii) the continued reduction of Pinnacle Financial's loan balances and, conversely, the inability of Pinnacle Financial to ultimately grow its loan portfolio in the Nashville-Davidson-Murfreesboro-Franklin MSA and the Knoxville MSA; (iv) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (v) increased competition with other financial institutions; (vi) greater than anticipated deterioration or lack of sustained growth in the national or local economies including the Nashville-Davidson-Murfreesboro-Franklin MSA and the Knoxville MSA, particularly in commercial and residential real estate markets; (vii) rapid fluctuations or unanticipated changes in interest rates; (viii) the results of regulatory examinations; (ix) the development of any new market other than Nashville or Knoxville; (x) a merger or acquisition; (xi) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets, such as goodwill; (xii) the impact of governmental restrictions on entities participating in the Capital Purchase Program of the U.S. Department of the Treasury (the Treasury); (xiii) further deterioration in the valuation of other real estate owned; (xiv) inability to comply with regulatory capital requirements or to secure any regulatory approvals for capital actions; (xv) changes in state and federal legislation, regulations or policies applicable to banks and other financial service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy; (xvi) Pinnacle Financial further increasing the valuation allowance related to its deferred tax asset and (xvii) impact of passage and implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. A more detailed description of these and other risks is contained in Pinnacle Financial's most recent annual report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2010. Many of such factors are beyond Pinnacle Financial's ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. Pinnacle disclaims any obligation to update or revise any forward-looking statements contained in this release, whether as a result of new information, future events or otherwise.

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Part I. Financial Information
PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
Cash and noninterest-bearing due from banks	\$ 58,740,749	\$ 55,651,737
Interest-bearing due from banks	154,124,605	19,338,499
Federal funds sold	5,839,609	41,611,838
Short-term discount notes	19,999,527	50,000,000
Cash and cash equivalents	238,704,490	166,602,074
Securities available-for-sale, at fair value	902,795,231	931,012,091
Securities held-to-maturity (fair value of \$4,634,598 and \$6,737,336 at June 30, 2010 and December 31, 2009, respectively)	4,500,354	6,542,496
Mortgage loans held-for-sale	21,816,946	12,440,984
Loans	3,333,899,762	3,563,381,741
Less allowance for loan losses	(87,106,983)	(91,958,789)
Loans, net	3,246,792,779	3,471,422,952
Premises and equipment, net	82,739,008	80,650,936
Other investments	41,199,644	40,138,660
Accrued interest receivable	17,390,199	19,083,468
Goodwill	244,096,729	244,107,086
Core deposits and other intangible assets	12,194,089	13,686,091
Other real estate owned	42,615,866	29,603,439
Other assets	103,632,928	113,520,727
Total assets	\$ 4,958,478,263	\$ 5,128,811,004
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 529,867,447	\$ 498,087,015
Interest-bearing	527,143,944	483,273,551
Savings and money market accounts	1,339,161,225	1,198,012,445
Time	1,457,227,769	1,644,226,290
Total deposits	3,853,400,385	3,823,599,301
Securities sold under agreements to repurchase	159,490,197	275,465,096
Federal Home Loan Bank advances	131,477,454	212,654,782
Subordinated debt	97,476,000	97,476,000

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Accrued interest payable	5,855,440	6,555,801
Other liabilities	28,863,650	12,039,843
Total liabilities	4,276,563,126	4,427,790,823
Stockholders equity:		
Preferred stock, no par value; 10,000,000 shares authorized; 95,000 shares issued and outstanding at June 30, 2010, and December 31, 2009	90,127,092	89,462,633
Common stock, par value \$1.00; 90,000,000 shares authorized; 33,421,741 issued and outstanding at June 30, 2010 and 33,029,719 issued and outstanding at December 31, 2009	33,421,741	33,029,719
Common stock warrants	3,348,402	3,348,402
Additional paid-in capital	527,003,530	524,366,603
Retained earnings	10,146,029	43,372,743
Accumulated other comprehensive income, net of taxes	17,868,343	7,440,081
Total stockholders equity	681,915,137	701,020,181
Total liabilities and stockholders equity	\$ 4,958,478,263	\$ 5,128,811,004

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest income:				
Loans, including fees	\$ 40,323,693	\$ 39,626,873	\$ 81,398,800	\$ 78,152,618
Securities:				
Taxable	8,058,265	8,393,225	17,145,853	17,480,912
Tax-exempt	1,985,946	1,573,470	4,036,199	3,048,124
Federal funds sold and other	560,611	434,684	1,037,753	864,924
Total interest income	50,928,515	50,028,252	103,618,605	99,546,578
Interest expense:				
Deposits	12,925,139	16,420,194	26,388,954	34,153,979
Securities sold under agreements to repurchase	364,648	423,274	916,961	784,061
Federal Home Loan Bank advances and other borrowings	1,941,437	2,672,595	4,055,492	5,396,097
Total interest expense	15,231,224	19,516,063	31,361,407	40,334,137
Net interest income	35,697,291	30,512,189	72,257,198	59,212,441
Provision for loan losses	30,508,685	65,320,390	43,734,605	78,929,925
Net interest income (loss) after provision for loan losses	5,188,606	(34,808,201)	28,522,593	(19,717,484)
Noninterest income:				
Service charges on deposit accounts	2,429,200	2,568,429	4,794,511	5,045,380
Investment services	1,315,263	1,078,282	2,551,646	1,932,385
Insurance sales commissions	904,359	919,342	2,003,378	2,224,551
Gain on loan sales and loan participations, net	918,703	1,633,342	1,481,301	2,921,114
Gain on investment sales, net	2,259,124	2,116,095	2,623,674	6,462,241
Trust fees	754,515	641,646	1,651,088	1,299,354
Other noninterest income	1,987,990	1,645,290	3,949,202	3,852,924
Total noninterest income	10,569,154	10,602,426	19,054,800	23,737,949
Noninterest expense:				
Salaries and employee benefits	15,847,121	12,676,044	32,851,647	27,427,093

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Equipment and occupancy	5,492,406	4,310,934	10,858,593	8,546,262
Other real estate owned	7,411,206	3,913,628	12,813,359	4,614,223
Marketing and other business development	793,696	466,201	1,547,614	905,717
Postage and supplies	700,505	829,548	1,434,044	1,659,686
Amortization of intangibles	746,001	1,164,534	1,492,002	1,923,067
Other noninterest expense	5,500,424	7,245,521	11,660,655	10,773,386
Total noninterest expense	36,491,359	30,606,410	72,657,914	55,849,434
Loss before income taxes	(20,733,599)	(54,812,185)	(25,080,521)	(51,828,969)
Income tax expense (benefit)	5,630,431	(23,036,434)	5,106,734	(22,143,426)
Net loss	(26,364,030)	(31,775,751)	(30,187,255)	(29,685,543)
Preferred stock dividends	1,200,694	1,200,694	2,388,194	2,388,195
Accretion on preferred stock discount	306,466	269,612	664,459	528,953
Net loss available to common stockholders	\$ (27,871,190)	\$ (33,246,057)	\$ (33,239,908)	\$ (32,602,691)
Per share information:				
Basic net loss per common share available to common stockholders	\$ (0.85)	\$ (1.33)	\$ (1.02)	\$ (1.34)
Diluted net loss per common share available to common stockholders	\$ (0.85)	\$ (1.33)	\$ (1.02)	\$ (1.34)
Weighted average shares outstanding:				
Basic	32,675,221	24,965,291	32,616,943	24,242,160
Diluted	32,675,221	24,965,291	32,616,943	24,242,160

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS STOCKHOLDERS EQUITY
AND COMPREHENSIVE LOSS
(Unaudited)

	Preferred Stock		Common Stock		Common Stock	Additional	Retained	Accumulated	Total
	Shares	Amount	Shares	Amount	Warrants	Paid-in		Other	
						Capital	Earnings	Comp.	Equity
es, ber 31,	95,000	\$ 88,348,647	23,762,124	\$ 23,762,124	\$ 6,696,804	\$ 417,040,974	\$ 84,380,447	\$ 7,069,400	\$ 627,29
ve of ree on stock , stock ation common arrants and tax s ve of ed common net of res ted shares ld for taxes ce of 00 shares mon stock, ffering f 215 lation of 5 warrants sly issued Treasury nsation e for ed shares nsation e for stock on on ed stock d			53,219	53,219		609,336			66
			261,948	261,948		(261,948)			
			(2,544)	(2,544)		(49,353)			(5
			8,855,000	8,855,000		100,172,785			109,02
					(3,348,402)	3,348,402			
						817,183			81
						889,916			88
		528,953					(528,953)		(2,01
							(2,018,750)		

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ehensive									
(loss):									
s								(29,685,543)	(29,685,543)
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le-for-sale,									
ferred tax									
of									
,225								(3,167,700)	(3,167,700)
ehensive									
									(32,851,243)
es,									
0, 2009	95,000	\$ 88,877,600	32,929,747	\$ 32,929,747	\$ 3,348,402	\$ 522,567,295	\$ 52,147,201	\$ 3,901,700	\$ 703,770,000
es,									
ber 31,	95,000	\$ 89,462,633	33,029,719	\$ 33,029,719	\$ 3,348,402	\$ 524,366,603	\$ 43,372,743	\$ 7,440,081	\$ 701,020,000
e of									
ree									
n stock									
, and									
tax									
s			135,664	135,664		974,901			1,110,565
e of									
ed common									
net of									
res			265,360	265,360		(265,360)			
ted shares									
ld for taxes			(9,002)	(9,002)		(121,305)			(130,307)
nsation									
e for									
ed shares						1,191,571			1,191,571
nsation									
e for stock									
						857,120			857,120
on on									
ed stock									
nt		664,459						(664,459)	
ed									
ds paid								(2,375,000)	(2,375,000)
ehensive									
(loss):									
s								(30,187,255)	(30,187,255)
								10,428,262	10,428,262

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0, 2010 95,000 \$ 90,127,092 33,421,741 \$ 33,421,741 \$ 3,348,402 \$ 527,003,530 \$ 10,146,029 \$ 17,868,343 \$ 681,91

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended	
	June 30,	
	2010	2009
Operating activities:		
Net loss	\$ (30,187,255)	\$ (29,685,543)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net amortization/accretion of premium/discount on securities	2,095,570	2,584,300
Depreciation and amortization	5,967,863	5,233,633
Provision for loan losses	43,734,605	78,929,925
Gain on loan sales and loan participations, net	(1,481,301)	(2,921,114)
Gain on investment sales, net	(2,623,674)	(6,462,241)
Net gains on sale of premises and equipment and software	(5,035)	(8,889)
Stock-based compensation expense	2,048,691	1,707,099
Deferred tax expense (benefit)	16,820,918	(22,539,597)
Losses on foreclosed real estate and other investments	11,672,034	3,726,480
Excess tax benefit from stock compensation	(10,358)	(44,364)
Mortgage loans held for sale:		
Loans originated	(172,250,210)	(409,089,622)
Loans sold	164,340,327	409,289,300
Decrease in other assets	723,307	8,961,281
Increase (decrease) in other liabilities	16,123,447	(7,549,790)
Net cash provided by operating activities	56,968,482	32,130,858
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(246,633,539)	(576,211,432)
Sales	147,036,923	346,895,583
Maturities, prepayments and calls	145,523,934	150,188,718
Activities in securities held-to-maturity:		
Sales	954,388	
Maturities, prepayments and calls	1,065,613	1,820,000
Decrease (increase) in loans, net	142,806,911	(249,598,544)
Purchases of premises and equipment and software	(6,151,116)	(3,893,617)
Proceeds from the sale of premises and equipment and software	5,035	8,889
Other investments	(953,676)	(3,700,059)
Net cash provided by (used in) investing activities	183,654,473	(334,490,462)
Financing activities:		
Net increase in deposits	29,949,521	228,464,906

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Net (decrease) increase in securities sold under agreements to repurchase	(115,974,899)	30,837,358
Net decrease in Federal funds purchased		(71,643,000)
Advances from Federal Home Loan Bank:		
Issuances	70,000,000	60,000,000
Payments	(151,110,778)	(15,570,903)
Net increase (decrease) in borrowings under lines of credit		(18,000,000)
Preferred dividends paid	(2,375,000)	(2,018,750)
Issuance of common stock, net of expenses		109,027,785
Exercise of common stock options and stock appreciation rights	980,259	610,658
Excess tax benefit from stock compensation	10,358	44,364
Net cash (used in) provided by financing activities	(168,520,539)	321,752,418
Net (decrease) increase in cash and cash equivalents	72,102,416	19,392,814
Cash and cash equivalents, beginning of period	166,602,074	90,252,755
Cash and cash equivalents, end of period	\$ 238,704,490	\$ 109,645,569

See accompanying notes to consolidated financial statements.

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Note 1. Summary of Significant Accounting Policies

Nature of Business Pinnacle Financial Partners, Inc. (Pinnacle Financial) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Pinnacle National Bank Pinnacle National. Pinnacle National is a commercial bank headquartered in Nashville, Tennessee. Pinnacle National provides a full range of banking services in its primary market areas of the Nashville-Davidson-Murfreesboro-Franklin, Tennessee and Knoxville, Tennessee Metropolitan Statistical Areas.

Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by the report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Pinnacle Financial consolidated financial statements and related notes appearing in the 2009 Annual Report previously filed on Form 10-K.

These consolidated financial statements include the accounts of Pinnacle Financial and its wholly-owned subsidiaries. PNFP Statutory Trust I, PNFP Statutory Trust II, PNFP Statutory Trust III, PNFP Statutory Trust IV and Collateral Plus, LLC, are affiliates of Pinnacle Financial and are included in these consolidated financial statements pursuant to the equity method of accounting. Significant intercompany transactions and accounts are eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, determination of any impairment of intangible assets, including goodwill, the val