

PINNACLE FINANCIAL PARTNERS INC

Form 10-Q

October 20, 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 September 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 South, Suite 900, 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 Smaller reporting company

(do not check if you are 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

As of October 19, 2010 there were 33,660,462 shares of common stock, \$1.00 par value per share, issued and outstanding.

Pinnacle Financial Partners, Inc.
Report on Form 10-Q
September 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, goal, objective, intend, plan, believe, should, seek, estimate and similar 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 to differ materially from any results expressed or implied by such forward-looking statements. Such factors include, without limitation, the following: (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; (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 and to secure any required regulatory approvals for capital actions; and (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, including implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act; and (xvi) Pinnacle Financial recording a further valuation allowance related to its deferred tax asset. 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 and most recent quarterly reports on Form 10-Q filed with the Securities and Exchange Commission on May 7, 2010 and July 21, 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 Financial 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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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and noninterest-bearing due from banks	\$ 59,038,190	\$ 55,651,737
Interest-bearing due from banks	142,990,988	19,338,499
Federal funds sold	3,549,454	41,611,838
Short-term discount notes	44,995,432	50,000,000
Cash and cash equivalents	250,574,064	166,602,074
Securities available-for-sale, at fair value	964,206,124	931,012,091
Securities held-to-maturity (fair value of \$4,456,899 and \$6,737,336 at September 30, 2010 and December 31, 2009, respectively)	4,325,401	6,542,496
Mortgage loans held-for-sale	21,804,306	12,440,984
Loans	3,251,923,355	3,563,381,741
Less allowance for loan losses	(84,550,007)	(91,958,789)
Loans, net	3,167,373,348	3,471,422,952
Premises and equipment, net	82,528,409	80,650,936
Other investments	42,466,941	40,138,660
Accrued interest receivable	16,921,996	19,083,468
Goodwill	244,096,729	244,107,086
Core deposits and other intangible assets	11,449,597	13,686,091
Other real estate owned	48,710,475	29,603,439
Other assets	107,145,887	113,520,727
Total assets	\$ 4,961,603,277	\$ 5,128,811,004
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	\$ 581,181,037	\$ 498,087,015
Interest-bearing	526,164,256	483,273,551
Savings and money market accounts	1,439,594,226	1,198,012,445
Time	1,278,694,666	1,644,226,290
Total deposits	3,825,634,185	3,823,599,301
Securities sold under agreements to repurchase	191,392,048	275,465,096
Federal Home Loan Bank advances	121,435,261	212,654,782
Subordinated debt	97,476,000	97,476,000
Accrued interest payable	5,766,337	6,555,801

Other liabilities	33,370,673	12,039,843
Total liabilities	4,275,074,504	4,427,790,823
Stockholders equity:		
Preferred stock, no par value; 10,000,000 shares authorized; 95,000 shares issued and outstanding at September 30, 2010, and December 31, 2009	90,455,129	89,462,633
Common stock, par value \$1.00; 90,000,000 shares authorized; 33,660,462 issued and outstanding at September 30, 2010 and 33,029,719 issued and outstanding at December 31, 2009	33,660,462	33,029,719
Common stock warrants	3,348,402	3,348,402
Additional paid-in capital	528,956,550	524,366,603
Retained earnings	10,721,466	43,372,743
Accumulated other comprehensive income, net of taxes	19,386,764	7,440,081
Total stockholders equity	686,528,773	701,020,181
Total liabilities and stockholders equity	\$ 4,961,603,277	\$ 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		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Interest income:				
Loans, including fees	\$ 41,105,351	\$ 41,665,915	\$ 122,504,151	\$ 119,818,533
Securities:				
Taxable	7,004,256	8,607,924	24,150,109	26,088,836
Tax-exempt	1,942,650	1,694,323	5,978,849	4,742,447
Federal funds sold and other	598,181	473,663	1,635,934	1,338,587
Total interest income	50,650,438	52,441,825	154,269,043	151,988,403
Interest expense:				
Deposits	12,306,145	15,099,627	38,695,099	49,253,606
Securities sold under agreements to repurchase	435,054	363,302	1,352,015	1,147,363
Federal Home Loan Bank advances and other borrowings	1,849,300	2,430,839	5,904,792	7,826,936
Total interest expense	14,590,499	17,893,768	45,951,906	58,227,905
Net interest income	36,059,939	34,548,057	108,317,137	93,760,498
Provision for loan losses	4,789,322	22,134,025	48,523,927	101,063,950
Net interest income after provision for loan losses	31,270,617	12,414,032	59,793,210	(7,303,452)
Noninterest income:				
Service charges on deposit accounts	2,444,077	2,559,394	7,238,588	7,604,774
Investment services	1,234,421	1,112,059	3,786,067	3,044,444
Insurance sales commissions	954,015	906,298	2,957,393	3,130,849
Gain on loan sales and loan participations, net	1,310,169	977,662	2,733,977	4,386,467
Gain on investment sales, net			2,623,674	6,462,241
Trust fees	726,094	585,737	2,377,182	1,885,091
Other noninterest income	1,925,459	1,595,942	5,932,154	4,961,175
Total noninterest income	8,594,235	7,737,092	27,649,035	31,475,041
Noninterest expense:				
Salaries and employee benefits	16,069,360	14,245,485	48,921,007	41,672,578
Equipment and occupancy	5,230,730	4,445,666	16,089,323	12,991,928
Other real estate owned	8,522,346	1,250,152	21,335,705	5,864,375
Marketing and other business development	748,206	512,063	2,295,820	1,417,780
Postage and supplies	636,492	515,110	2,070,536	2,174,796

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Amortization of intangibles	744,492	776,784	2,236,494	2,411,351
Other noninterest expense	5,822,252	5,535,079	17,482,907	16,596,965
Total noninterest expense	37,773,878	27,280,339	110,431,792	83,129,773
Income (loss) before income taxes	2,090,974	(7,129,215)	(22,989,547)	(58,958,184)
Income tax (benefit) expense		(3,782,045)	5,106,734	(25,925,471)
Net income (loss)	2,090,974	(3,347,170)	(28,096,281)	(33,032,713)
Preferred stock dividends	1,213,889	1,213,889	3,602,083	3,602,083
Accretion on preferred stock discount	328,037	290,105	992,496	819,059
Net income (loss) available to common stockholders	\$ 549,048	\$ (4,851,164)	\$ (32,690,860)	\$ (37,453,855)
Per share information:				
Basic net income (loss) per common share available to common stockholders	\$ 0.02	\$ (0.15)	\$ (1.00)	\$ (1.39)
Diluted net income (loss) per common share available to common stockholders	\$ 0.02	\$ (0.15)	\$ (1.00)	\$ (1.39)
Weighted average shares outstanding:				
Basic	32,857,428	32,460,614	32,697,985	27,011,749
Diluted	33,576,963	32,460,614	32,697,985	27,011,749

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 Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comp. Income, net	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
As of December 31,	95,000	\$ 88,348,647	23,762,124	\$ 23,762,124	\$ 6,696,804	\$ 417,040,974	\$ 84,380,447	\$ 7,069,400	\$ 627,290,000
Change of retained earnings on stock options, stock options conversion of common warrants and tax credits			59,319	59,319		641,191			700,000
Change of retained earnings net of taxes			283,488	283,488		(283,488)			(600,000)
Change of retained earnings net of taxes			(3,194)	(3,194)		(58,531)			(600,000)
Change of retained earnings net of taxes			8,855,000	8,855,000		100,172,785			109,020,000
Change of retained earnings net of taxes					(3,348,402)	3,348,402			
Change of retained earnings net of taxes						1,009,611			1,000,000
Change of retained earnings net of taxes						1,361,938			1,360,000
Change of retained earnings net of taxes		819,059					(819,059)		
Change of retained earnings net of taxes							(3,206,249)		(3,200,000)

Deferred tax
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Comprehensive

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95,000	\$ 90,455,129	33,660,462	\$ 33,660,462	\$ 3,348,402	\$ 528,956,550	\$ 10,721,466	\$ 19,386,764	\$ 686,52
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See accompanying notes to consolidated financial statements.

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

	Nine months ended	
	September 30,	
	2010	2009
Operating activities:		
Net loss	\$ (28,096,281)	\$ (33,032,713)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net amortization/accretion of premium/discount on securities	3,445,502	3,631,779
Depreciation and amortization	8,757,803	7,833,796
Provision for loan losses	48,523,927	101,063,950
Gain on loan sales and loan participations, net	(3,067,581)	(3,820,667)
Gain on investment sales, net	(2,623,674)	(6,462,241)
Net gains on sale of premises and equipment and software	(5,035)	(22,784)
Stock-based compensation expense	3,047,631	2,371,549
Deferred tax expense (benefit)	17,812,548	(25,140,069)
Losses on foreclosed real estate and other investments	19,334,546	4,517,522
Excess tax benefit from stock compensation	(10,358)	(44,364)
Mortgage loans held for sale:		
Loans originated		