

PINNACLE FINANCIAL PARTNERS INC  
Form 10-Q  
May 05, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2006

Commission File Number: 000-31225

, Inc.  
(Exact Name of Registrant as Specified in  
Its Charter)

Tennessee  
(State or other jurisdiction of  
incorporation or organization)

62-1812853  
(I.R.S. Employer  
Identification No.)

211 Commerce Street, Suite 300, Nashville,  
Tennessee  
(Address of principal executive offices)

37201  
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

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 April 28, 2006 there were 15,327,978 shares of common stock, \$1.00 par value per share, issued and outstanding.

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**Pinnacle Financial Partners, Inc.**  
**Report on Form 10-Q**  
**March 31, 2006**

**TABLE OF CONTENTS**

	<u>Page No.</u>
<b>PART I:</b>	
Item 1. Consolidated Financial Statements (Unaudited)	2
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures about Market Risk	41
Item 4. Controls and Procedures	41
 <b>PART II:</b>	
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3. Defaults Upon Senior Securities	42
Item 4. Submission of Matters to a Vote of Security Holders	42
Item 5. Other Information	42
Item 6. Exhibits	42
<b>Signatures</b>	43

**FORWARD-LOOKING STATEMENTS**

Pinnacle Financial Partners, Inc. ("Pinnacle Financial") may from time to time make written or oral statements, including statements contained in this report which may constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). The words "expect", "anticipate", "intend", "consider", "plan", "believe", "seek", "should", "estimate", and similar expressions are intended to identify such forward-looking statements, but other statements may constitute forward-looking statements. These statements should be considered subject to various risks and uncertainties. Such forward-looking statements are made based upon management's belief as well as assumptions made by, and information currently available to, management pursuant to "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Pinnacle Financial's actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors. Such factors are described below and in Pinnacle Financial's Form 10-K and include, without limitation, (i) unanticipated deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses, (ii) increased competition with other financial institutions, (iii) lack of sustained growth in the economy in the Nashville, Tennessee area, (iv) rapid fluctuations or unanticipated changes in interest rates, (v) the inability of our bank subsidiary, Pinnacle National Bank to satisfy regulatory requirements for its expansion plans, (vi) the ability to successfully integrate Pinnacle Financial's operations with the former Cavalry Bancorp, Inc., (vii) the ability of Pinnacle Financial to grow its loan portfolio at historic rates and (viii) changes in the legislative and regulatory environment, including compliance with the various provisions of the Sarbanes Oxley Act of 2002. 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 does not intend to update or reissue any forward-looking statements contained in this report as a result of new information or other circumstances that may become known to Pinnacle Financial.



## Item 1.

## Part I. FINANCIAL INFORMATION

**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	March 31, 2006	December 31, 2005
<b>ASSETS</b>		
Cash and noninterest-bearing due from banks	\$ 41,533,756	\$ 25,935,948
Interest-bearing due from banks	2,954,669	839,960
Federal funds sold	35,103,280	31,878,362
Cash and cash equivalents	79,591,705	58,654,270
Securities available-for-sale, at fair value	288,160,347	251,749,094
Securities held-to-maturity (fair value of \$26,352,705 and \$26,546,297 at March 31, 2006 and December 31, 2005, respectively)	27,312,913	27,331,251
Mortgage loans held-for-sale	7,262,679	4,874,323
Loans	1,235,169,993	648,024,032
Less allowance for loan losses	(13,354,496)	(7,857,774)
Loans, net	1,221,815,497	640,166,258
Premises and equipment, net	33,989,309	12,915,595
Investments in unconsolidated subsidiaries and other entities	10,099,180	6,622,645
Accrued interest receivable	7,883,211	4,870,197
Goodwill	115,618,320	-
Core deposit intangible	13,102,395	-
Other assets	23,376,815	9,588,097
Total assets	\$ 1,828,212,371	\$ 1,016,771,730
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$ 263,700,581	\$ 155,811,214
Interest-bearing demand	181,067,846	72,520,757
Savings and money market accounts	470,532,348	304,161,625
Time	500,477,255	277,657,129
Total deposits	1,415,778,031	810,150,725
Securities sold under agreements to repurchase	63,911,911	65,834,232
Federal Home Loan Bank advances	67,266,661	41,500,000
Subordinated debt	30,929,000	30,929,000
Accrued interest payable	3,093,184	1,884,596
Other liabilities	10,906,823	3,036,752
Total liabilities	1,591,885,610	953,335,305
Stockholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$1.00; 20,000,000 shares authorized; 15,300,629 issued and outstanding at March 31, 2006 and 8,426,551	15,300,629	8,426,551

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issued and outstanding at December 31, 2005		
Additional paid-in capital	208,914,892	44,890,912
Unearned compensation	-	(169,689)
Retained earnings	15,794,187	13,182,291
Accumulated other comprehensive income (loss), net	(3,682,947)	(2,893,640)
Stockholders' equity	236,326,761	63,436,425
Total liabilities and stockholders' equity	\$ 1,828,212,371	\$ 1,016,771,730

See accompanying notes to consolidated financial statements.

Page 2

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Interest income:</b>		
Loans, including fees	\$ 13,178,830	\$ 6,954,365
Securities:		
Taxable	2,861,118	2,021,783
Tax-exempt	400,773	201,424
Federal funds sold and other	369,675	92,162
Total interest income	16,810,396	9,269,734
<b>Interest expense:</b>		
Deposits	5,850,307	2,153,961
Securities sold under agreements to repurchase	508,788	150,262
Federal funds purchased and other borrowings	944,498	462,537
Total interest expense	7,303,593	2,766,761
Net interest income	9,506,803	6,502,973
<b>Provision for loan losses</b>	387,184	601,250
<b>Net interest income after provision for loan losses</b>	9,119,619	5,901,723
<b>Noninterest income:</b>		
Service charges on deposit accounts	438,269	261,700
Investment sales commissions	513,597	437,424
Insurance sales commissions	264,828	-
Gain on loans and loan participations sold, net	324,546	160,555
Gain on sales of investment securities, net	-	114,410
Other noninterest income	507,011	203,710
Total noninterest income	2,048,251	1,177,799
<b>Noninterest expense:</b>		
Compensation and employee benefits	4,448,357	2,970,558
Equipment and occupancy	1,173,353	784,026
Marketing and other business development	190,471	113,168
Postage and supplies	185,409	135,538
Other noninterest expense	888,294	577,584
Merger related expense	443,330	-
Total noninterest expense	7,329,214	4,580,874
<b>Income before income taxes</b>	3,838,656	2,498,648
Income tax expense	1,226,760	718,895
<b>Net income</b>	\$ 2,611,896	\$ 1,779,753
<b>Per share information:</b>		
Basic net income per common share	\$ 0.27	\$ 0.21
Diluted net income per common share	\$ 0.24	\$ 0.19

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Weighted average shares outstanding:

Basic	9,578,813	8,389,256
Diluted	10,745,626	9,437,183

See accompanying notes to consolidated financial statements.

Page 3

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**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**  
**(Unaudited)**

For the three months ended March 31, 2006 and 2005

	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Unearned Compensation</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>				<b>(Loss)</b>	
<b>Balances, December 31, 2004</b>	8,389,232	\$ 8,389,232	\$ 44,376,307	\$ (37,250)	\$ 5,127,023	\$ 24,863	\$ 57,880,175
Exercise of employee incentive common stock options	2,139	2,139	11,971	-	-	-	14,110
Amortization of unearned compensation associated with restricted shares	-	-	-	7,500	-	-	7,500
Comprehensive loss:							
Net income	-	-	-	-	1,779,753	-	1,779,753
Net unrealized holding losses on available-for-sale securities, net of deferred tax benefit of \$1,240,860	-	-	-	-	-	(2,024,558)	(2,024,558)
Total comprehensive loss							(223,195)
<b>Balances, March 31, 2005</b>	8,391,371	\$ 8,391,371	\$ 44,388,278	\$ (29,750)	\$ 6,906,776	\$ (1,999,695)	\$ 57,656,980
<b>Balances, December 31, 2005</b>	8,426,551	\$ 8,426,551	\$ 44,890,912	\$ (169,689)	\$ 13,182,291	\$ (2,893,640)	\$ 63,436,425
Transfer of unearned compensation to additional paid-in	-	-	(169,689)	169,689	-	-	-

capital upon adoption of SFAS No. 123(R)							
Exercise of employee incentive common stock options	14,180	14,180	109,112	-	-	-	123,292
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan	3,600	3,600	(3,600)	-	-	-	-
Merger with Cavalry Bancorp, Inc.	6,856,298	6,856,298	164,231,274	-	-	-	171,087,572
Costs to register common stock issued in connection with the merger with Cavalry Bancorp, Inc.	-	-	(177,202)	-	-	-	(177,202)
Stock based compensation expense	-	-	186,681	-	-	-	186,681
Comprehensive income:							
Net income	-	-	-	-	2,611,896	-	2,611,896
Net unrealized holding losses on available-for-sale securities, net of deferred tax benefit of \$487,229	-	-	-	-	-	(789,307)	(789,307)
Total comprehensive income							1,822,589
<b>Balances, March 31, 2006</b>	15,300,629	\$ 15,300,629	\$ 209,067,488	\$	- \$ 15,794,187	\$ (3,682,947)	\$ 236,479,357

See accompanying notes to consolidated financial statements.

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating activities:</b>		
Net income	\$ 2,611,896	\$ 1,779,753
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization of securities	244,351	244,147
Depreciation and amortization	655,793	339,766
Provision for loan losses	387,184	601,250
Gain on sale of investment securities, net	-	(114,410)
Gains on loans and loan participations sold, net	(324,546)	(160,555)
Stock-based compensation expense	186,681	-
Deferred tax benefit	(357,492)	(331,494)
Mortgage loans held for sale:		
Loans originated	(21,034,095)	(21,360,167)
Loans sold	20,558,889	20,332,713
Increase in other assets	(898,056)	(754,642)
Decrease in other liabilities	(11,336,411)	(234,719)
Net cash provided by (used in) operating activities	(9,305,806)	341,642
<b>Investing activities:</b>		
Activities in securities available-for-sale:		
Purchases	(5,916,658)	(10,285,511)
Sales	-	6,791,867
Maturities, prepayments and calls	7,479,033	6,045,226
	1,562,375	2,551,582
Net increase in loans	(36,438,055)	(44,410,044)
Purchases of premises and equipment and software	(233,346)	(1,046,404)
Cash and cash equivalents acquired in merger with Cavalry Bancorp, Inc.	37,420,210	-
Purchases of other assets	(78,975)	(21,900)
Net provided by (cash used) in investing activities	2,232,209	(42,926,766)
<b>Financing activities:</b>		
Net increase in deposits	21,987,263	48,293,758
Net increase (decrease) in securities sold under agreements to repurchase	(1,922,321)	14,460,324
Advances from Federal Home Loan Bank:		
Issuances	31,000,000	12,000,000
Payments	(23,000,000)	(14,000,000)
Exercise of common stock options	123,292	14,110
	(177,202)	-

Costs incurred in connection with registration of common stock issued  
in merger

Net cash provided by financing activities	28,011,032	60,768,192
<b>Net increase in cash and cash equivalents</b>	<b>20,937,435</b>	<b>18,183,068</b>
Cash and cash equivalents, beginning of period	58,654,270	26,745,787
Cash and cash equivalents, end of period	\$ 79,591,705	\$ 44,928,855

See accompanying notes to consolidated financial statements.

**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**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 located in Nashville, Tennessee. Pinnacle National provides a full range of banking services in its primary market areas of Davidson, Rutherford, Williamson and Sumner Counties. Pinnacle Financial and Pinnacle National have formed several subsidiaries for various purposes as follows:

- PFP Title Company is a wholly-owned subsidiary of Pinnacle National. PFP Title Company is licensed to sell title insurance policies to Pinnacle National customers and others.
- PNFP Holdings, Inc. is a wholly-owned subsidiary of PFP Title Company and is the parent of PNFP Properties, Inc., which was established as a Real Estate Investment Trust pursuant to Internal Revenue Service regulations.
- Pinnacle Community Development, Inc. is a wholly-owned subsidiary of Pinnacle National and is certified as a Community Development Entity by the Community Development Financial Institutions Fund of the United States Department of the Treasury.
- PNFP Statutory Trust I and PNFP Statutory Trust II, wholly-owned subsidiaries of Pinnacle Financial, were created for the exclusive purpose of issuing capital trust preferred securities.
- Pinnacle Advisory Services, Inc. is a wholly-owned subsidiary of Pinnacle Financial and was established as a registered investment advisor pursuant to regulations promulgated by the Board of Governors of the Federal Reserve System.
- Miller and Loughry Insurance and Services, Inc. is a wholly-owned subsidiary of Pinnacle National. Miller and Loughry is a general insurance agency located in Murfreesboro, Tennessee and is licensed to sell various commercial and consumer insurance products.
- Pinnacle Credit Enhancement Holdings, Inc. is a wholly-owned subsidiary of Pinnacle Financial and was established to own a 24.5% membership interest in Collateral Plus, LLC. Collateral Plus, LLC serves as an intermediary between investors and borrowers in certain financial transactions whereby the borrowers require enhanced collateral in the form of letters of credit issued by the investors for the benefit of banks and other financial institutions.

*Basis of Presentation* — These consolidated financial statements include the accounts of Pinnacle Financial and its wholly-owned subsidiaries. PNFP Statutory Trust I, PNFP Statutory Trust II and Collateral Plus, LLC, 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 accounting principles generally accepted in the United States 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 relate to the determination of the allowance for loan losses.

*Cash and Cash Flows* — Cash on hand, cash items in process of collection, amounts due from banks, Federal funds sold and securities purchased under agreements to resell, with original maturities within ninety days, are included in cash and cash equivalents. The following supplemental cash flow information addresses certain cash payments and noncash transactions for the three months ended March 31, 2006 and 2005 as follows:



**PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

	<i>For the three months ended March 31,</i>	
	<i>2006</i>	<i>2005</i>
<b><i>Cash Payments:</i></b>		
Interest	\$ 7,764,144	\$ 2,598,854
Income taxes	400,000	690,000
<b><i>Noncash Transactions:</i></b>		&