PINNACLE FINANCIAL PARTNERS INC
Form 10QSB
November 07, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 2002

OR

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

For the Transition Period from __________ to __________

Commission File No: 000-31225

Pinnacle Financial Partners, Inc.

(Exact name of small business issuer as specified in its charter)

Tennessee	6711	62-1812853
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

The Commerce Center, 211 Commerce Street, Suite 300, Nashville, Tennessee 37201

(Address of principal executive offices)

(615) 744-3700

(Issuer s telephone number)

Not Applicable

(Former name, former address
and former fiscal year,
if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act during the past 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 [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

3,692,053 shares of common stock, $1.00 par value per share, issued and outstanding as of October 31, 2002.

Transitional Small Business Disclosure Format (check one): YES [ ] NO [**X**]

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Pinnacle Financial Partners, Inc.
Report on Form 10-QSB
September 30, 2002

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FORWARD-LOOKING STATEMENTS

The Company 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 27A of the Securities Exchange Act of 1934 (the Exchange Act). The words expect , anticipate , intend , plan , believe , seek , estimate , and similar expressions are intended to identify such forward-looking statements, but othe 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. The Company s actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors, including unanticipated deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses, governmental monetary and fiscal policies, deposit levels, loan demand, loan collateral values, securities portfolio values, interest rate risk management, the effects of competition from other financial institutions operating in the Company s market area and elsewhere, changes in governmental regulation relating to the banking industry, failure of assumptions underlying the establishment of reserves for loan losses, including the value of collateral underlying delinquent loans and other factors. The Company cautions that such factors are not exclusive. The Company 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 the Company.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS UNAUDITED

	September 30, 2002	December 31, 2001
ASSETS		
Cash and due from banks	$ 10,797,280	$ 5,686,226
Federal funds sold and securities purchased under agreements to resell	11,282,783	8,895,850
Cash and cash equivalents	22,080,063	14,582,076
Securities available-for-sale, at fair value	57,062,184	19,885,834
Loans	191,299,676	134,439,642
Less allowance for loan losses	(2,427,043)	(1,832,000)
Loans, net	188,872,633	132,607,642
Premises and equipment, net	3,582,342	3,418,463
Other assets	7,153,020	4,945,346
Total assets	$278,750,242	$175,439,361
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing demand	$ 33,156,014	$ 16,860,835
Interest-bearing demand	15,081,672	8,615,076
Savings and money market accounts	67,610,667	54,077,238
Time	97,066,103	53,705,902
Total deposits	212,914,456	133,259,051
Securities sold under agreements to repurchase	16,720,232	14,657,693
Federal Home Loan Bank advances	15,500,000	8,500,000
Other liabilities	1,525,742	731,815
Total liabilities	246,660,430	157,148,559
Commitments and contingent liabilities		
Stockholders equity:		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding		
Common stock, par value $1.00; 10,000,000 shares authorized; 3,692,053 issued and outstanding at September 30, 2002 and 2,312,053 issued and outstanding at December 31, 2001	3,692,053	2,312,053
Additional paid-in capital	30,682,947	19,317,947
Accumulated deficit	(3,028,617)	(3,391,854)
Accumulated other comprehensive income, net	743,429	52,656
Total stockholders equity	32,089,812	18,290,802
Total liabilities and stockholders equity	$278,750,242	$175,439,361

See accompanying notes to consolidated financial statements.

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED

	Three months ended September 30,		Nine months ended September 30,	
	2002	**2001**	**2002**	**2001**
Interest income:				
Loans, including fees	$2,833,005	1,446,169	7,565,360	2,970,999
Securities, available-for-sale:				
Taxable	535,022	249,450	1,159,472	643,014
Tax-exempt	11,567		11,567	
Federal funds sold and other	46,480	66,255	138,108	243,386
Total interest income	3,426,074	1,761,874	8,874,507	3,857,399
Interest expense:				
Deposits	996,584	725,145	2,729,158	1,633,926
Securities sold under agreements to repurchase	23,443	58,398	65,173	122,150
Federal funds purchased and other borrowings	125,982	16,599	299,810	31,160
Total interest expense	1,146,009	800,142	3,094,141	1,787,236
Net interest income	2,280,065	961,732	5,780,366	2,070,163
Provision for loan losses	247,000	298,000	688,000	1,022,622
Net interest income after provision for loan losses	2,033,065	663,732	5,092,366	1,047,541
Noninterest income:				
Service charges on deposit accounts	80,166	27,290	200,631	47,187
Investment services	220,721	155,050	677,282	562,497
Gain on loan participations sold, net	13,038	58,636	57,997	58,636
Other noninterest income	182,604	51,673	323,033	175,026
Total noninterest income	496,529	292,649	1,258,943	843,346
Noninterest expense:				
Compensation and employee benefits	1,427,251	1,052,948	3,764,462	3,214,461
Equipment and occupancy	370,495	282,228	1,049,435	814,862
Marketing and other business development	70,723	43,025	162,118	133,521
Postage and supplies	59,404	50,124	184,913	106,119
Other noninterest expense	253,658	179,396	597,708	490,304
Total noninterest expense	2,181,531	1,607,721	5,758,636	4,759,267
Income (loss) before income taxes	348,063	(651,340)	592,673	(2,868,380)
Income tax expense	136,585		229,436	
Net income (loss)	$ 211,478	(651,340)	363,237	(2,868,380)
Per share information:				
Basic net income (loss) per common share	$ 0.06	(0.34)	0.13	(1.50)
Diluted net income (loss) per common share	$ 0.06	(0.34)	0.13	(1.50)

Weighted average shares outstanding:				
Basic	3,692,053	1,910,000	2,841,943	1,910,000
Diluted	3,745,272	1,910,000	2,873,334	1,910,000

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

For the nine months ended September 30, 2002 and 2001

	2002	2001
Operating activities:		
Net income (loss)	$ 363,237	$ (2,868,380)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net amortization (accretion) of available-for-sale securities	111,194	(4,302)
Depreciation and amortization	521,363	446,658
Provision for loan losses	688,000	1,022,622
Gain on participations sold	(57,997)	(58,636)
Deferred tax expense	229,436	
Increase in other assets	(374,302)	(441,283)
Increase in other liabilities	421,973	447,675
Net cash provided by (used in) operating activities	1,902,904	(1,455,646)
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(42,572,668)	(17,511,065)
Maturities, prepayments and calls	6,347,851	3,728,386
Net increase in loans	(56,952,991)	(82,475,665)
Purchases of premises and equipment and software	(531,553)	(1,156,576)
Purchases of other assets	(2,158,500)	
Net cash used in investing activities	(95,867,861)	(97,414,920)
Financing activities:		
Net increase in deposits	79,655,405	77,853,024
Net increase in securities sold under agreements to repurchase	2,062,539	10,809,581
Advances from Federal Home Loan Bank	7,000,000	1,500,000
Decrease in Federal funds purchased		(406,000)
Net proceeds from sale of common stock	12,745,000	3,597,479
Net cash provided by financing activities	101,462,944	93,354,084
Net increase (decrease) in cash and cash equivalents	7,497,987	(5,516,482)
Cash and cash equivalents, beginning of period	14,582,076	15,188,462
Cash and cash equivalents, end of period	$ 22,080,063	$ 9,671,980
Supplemental disclosure:		
Cash paid for interest	$ 3,015,224	$ 1,414,549
Cash paid for income taxes	$	$

See accompanying notes to consolidated financial statements.

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PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS - Pinnacle Financial Partners, Inc. (the Parent) is a bank holding company whose business is conducted by its wholly-owned subsidiary, Pinnacle National Bank (the Bank). The Parent and the Bank are collectively referred to as the Company . The Bank is a commercial bank located in Nashville, Tennessee. The Bank provides a full range of banking services in its primary market area of Davidson County and surrounding counties.

BASIS OF PRESENTATION - These unaudited consolidated financial statements include the accounts of the Company. Significant intercompany transactions and accounts are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Form 10-KSB/A for the fiscal year ended December 31, 2001 as filed with the Securities and Exchange Commission.

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 and valuation of deferred income tax assets.

EARNINGS (LOSS) PER COMMON SHARE Basic earnings (loss) per share (EPS) is computed by dividing net income (loss) by the weighted average common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted.

The difference between basic and diluted weighted average shares outstanding was attributable to common stock options and warrants whose exercise price was less than the weighted average market price of the Company s common stock for the respective periods.

The basic and diluted EPS information for the three and nine months ended September 30, 2001 was computed based on weighted average shares outstanding of 1,910,000.

COMPREHENSIVE INCOME - Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income describes comprehensive income as the total of all components of comprehensive income including net income. Other comprehensive income refers to revenues, expenses, gains and losses that under accounting principles generally accepted in the United States of America are included in comprehensive income but excluded from net income. Currently, the Company s other comprehensive income consists solely of unrealized gains and losses, net of deferred income taxes, on available-for-sale securities. Other comprehensive income for the three and nine months ended September 30, 2002 was $451,000 and $691,000, respectively, compared to other comprehensive income for the three and nine months ended September 30, 2001 of $102,000 and $169,000, respectively.

ACCOUNTING PRONOUNCEMENTS On July 30, 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146). The standard replaces EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Certain Costs Incurred in a Restructuring) and requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a c