

PINNACLE FINANCIAL PARTNERS INC
Form 10-Q
November 01, 2013
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, 2013

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

(State or other jurisdiction of incorporation or organization)

62-1812853

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

150 Third Avenue South, Suite 900, 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 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 29, 2013 there were 35,149,392 shares of common stock, \$1.00 par value per share, issued and outstanding.

Pinnacle Financial Partners, Inc.
Report on Form 10-Q
September 30, 2013

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FORWARD-LOOKING STATEMENTS

Certain of the statements in this quarterly report on Form 10-Q 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 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. ("Pinnacle Financial") to differ materially from any results expressed or implied by such forward-looking statements. Such risks 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 inability of Pinnacle Financial to grow its loan portfolio; (iv) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (v) effectiveness of Pinnacle Financial's asset management activities in improving, resolving or liquidating lower-quality assets; (vi) increased competition with other financial institutions; (vii) greater than anticipated adverse conditions 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; (viii) rapid fluctuations or unanticipated changes in interest rates on loans or deposits; (ix) the results of regulatory examinations; (x) the ability to retain large, uninsured deposits; (xi) the development of any new market other than Nashville or Knoxville; (xii) a merger or acquisition; (xiii) any matter that would cause Pinnacle Financial to conclude that there was impairment of any asset, including intangible assets; (xiv) the ability to attract additional financial advisors or to attract customers from other financial institutions; (xv) further deterioration in the valuation of other real estate owned and increased expenses associated therewith; (xvi) inability to comply with regulatory capital requirements, including those resulting from recently adopted changes to capital calculation methodologies and required capital maintenance levels; (xvii) risks associated with litigation, including the applicability of insurance coverage; (xviii) changes in the value of Pinnacle Financial's investment securities and any resulting losses associated therewith resulting from changes in market rates of interest, with Pinnacle Financial's intent to hold these securities to maturity, or the underlying financial condition of the issuer thereof; (xix) a decision by Pinnacle Financial's board of directors to eliminate or reduce the amount of the quarterly cash dividend initiated on Pinnacle Financial's common stock and, (xx) 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. 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 22, 2013, Pinnacle Financial's most recent quarterly report on Form 10-Q filed with the Securities and Exchange Commission on July 31, 2013 and Part II, Item 1A "Risk Factors" below. 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.

Item 1. Part I. Financial Information

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

	September 30, 2013	December 31, 2012
<u>ASSETS</u>		
Cash and noninterest-bearing due from banks	\$92,150,263	\$51,946,542
Interest-bearing due from banks	118,351,624	111,535,083
Federal funds sold and other	639,572	1,807,044
Cash and cash equivalents	211,141,459	165,288,669
Securities available-for-sale, at fair value	704,291,206	706,577,806
Securities held-to-maturity (fair value of \$38,717,744 and \$583,212 at September 30, 2013 and December 31, 2012, respectively)	39,593,672	574,863
Mortgage loans held-for-sale	16,961,925	41,194,639
Loans	3,969,302,182	3,712,162,430
Less allowance for loan losses	(67,279,672)	(69,417,437)
Loans, net	3,902,022,510	3,642,744,993
Premises and equipment, net	74,117,834	75,804,895
Other investments	30,537,063	26,962,890
Accrued interest receivable	16,167,556	14,856,615
Goodwill	243,807,645	244,040,421
Core deposits and other intangible assets	4,087,425	5,103,273
Other real estate owned	15,522,233	18,580,097
Other assets	132,950,060	98,819,455
Total assets	\$5,391,200,588	\$5,040,548,616
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Deposits:		
Noninterest-bearing	\$1,138,420,589	\$985,689,460
Interest-bearing	784,995,026	760,786,247
Savings and money market accounts	1,860,598,743	1,662,256,403
Time	549,528,625	606,455,873
Total deposits	4,333,542,983	4,015,187,983
Securities sold under agreements to repurchase	84,031,927	114,667,475
Federal Home Loan Bank advances	115,670,655	75,850,390
Subordinated debt and other borrowings	99,283,292	106,158,292
Accrued interest payable	925,097	1,360,598
Other liabilities	45,530,772	48,252,519
Total liabilities	4,678,984,726	4,361,477,257
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$1.00; 90,000,000 shares authorized; 35,133,733 and 34,696,597 shares issued and outstanding		

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at September 30, 2013 and December 31, 2012, respectively	35,133,733	34,696,597
Additional paid-in capital	547,641,227	543,760,439
Retained earnings	129,792,296	87,386,689
Accumulated other comprehensive (loss) income, net of taxes	(351,394)	13,227,634
Total stockholders' equity	712,215,862	679,071,359
Total liabilities and stockholders' equity	\$5,391,200,588	\$5,040,548,616

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Loans, including fees	\$42,778,193	\$40,405,396	\$126,441,555	\$118,331,163
Securities:				
Taxable	3,538,446	3,973,717	10,860,146	13,356,957
Tax-exempt	1,601,067	1,621,541	4,741,440	4,972,539
Federal funds sold and other	259,536	440,254	834,748	1,557,831
Total interest income	48,177,242	46,440,908	142,877,889	138,218,490
Interest expense:				
Deposits	2,708,376	3,986,328	9,076,757	13,112,653
Securities sold under agreements to repurchase	55,601	99,379	204,240	370,405
Federal Home Loan Bank advances and other borrowings	840,318	1,422,845	2,666,721	4,114,008
Total interest expense	3,604,295	5,508,552	11,947,718	17,597,066
Net interest income	44,572,947	40,932,356	130,930,171	120,621,424
Provision for loan losses	684,956	1,412,575	5,631,408	3,080,892
Net interest income after provision for loan losses	43,887,991	39,519,781	125,298,763	117,540,532
Noninterest income:				
Service charges on deposit accounts	2,797,342	2,531,707	7,818,452	7,295,045
Investment services	1,955,652	1,676,601	5,643,690	4,934,262
Insurance sales commissions	1,021,430	987,222	3,522,430	3,415,945
Gain on mortgage loans sold, net	1,326,469	1,978,935	5,130,411	4,930,190
(Loss) gain on sale of investment securities, net of OTTI	(1,441,234)	(49,784)	(1,466,475)	162,733
Trust fees	931,543	767,042	2,756,079	2,332,716
Other noninterest income	4,796,079	2,537,863	11,210,770	7,217,879
Total noninterest income	11,387,281	10,429,586	34,615,357	30,288,770
Noninterest expense:				
Salaries and employee benefits	21,009,680	19,470,535	61,152,789	58,500,279
Equipment and occupancy	5,412,865	5,156,131	15,730,074	15,217,897
Other real estate expense	699,211	2,399,232	2,810,779	10,179,572
Marketing and other business development	720,866	834,661	2,498,708	2,359,760
Postage and supplies	581,433	637,906	1,690,588	1,816,925
Amortization of intangibles	246,675	683,430	1,015,848	2,055,564
Other noninterest expense	4,652,161	4,396,465	11,725,844	13,183,603
Total noninterest expense	33,322,891	33,578,360	96,624,630	103,313,600
Income before income taxes	21,952,381	16,371,007	63,289,490	44,515,702
Income tax expense	7,305,431	5,021,882	20,883,883	14,361,979
Net income	14,646,950	11,349,125	42,405,607	30,153,723
Preferred stock dividends	-	-	-	1,660,868
Accretion on preferred stock discount	-	-	-	2,153,172
Net income available to common stockholders	\$14,646,950	\$11,349,125	\$42,405,607	\$26,339,683

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Per share information:

Basic net income per common share available to common stockholders	\$0.43	\$0.33	\$1.24	\$0.78
Diluted net income per common share available to common stockholders	\$0.42	\$0.33	\$1.23	\$0.76
Weighted average shares outstanding:				
Basic	34,282,899	33,939,248	34,148,562	33,879,186
Diluted	34,606,567	34,523,076	34,415,776	34,473,895

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$14,646,950	\$11,349,125	\$42,405,607	\$30,153,723
Other comprehensive income, net of tax:				
Change in fair value on available-for-sale securities, net of tax	(1,191,495)	1,911,296	(17,396,100)	2,199,651
Change in fair value of cash flow hedges, net of income tax	(421,473)	-	2,925,895	-
Net loss (gain) on sale of investment securities reclassified from other comprehensive income into net income, net of tax	875,838	30,254	891,177	(98,893)
Total comprehensive income	\$13,909,820	\$13,290,675	\$28,826,579	\$32,254,481

See accompanying notes to consolidated financial statements (unaudited).

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

	Common Stock				Additional Paid-in Capital	Retained Earnings	Accumulated Other Comp. Income (Loss), net	Total Stock Equity
	Preferred Stock Amount	Shares	Amount	Common Stock Warrants				
Balances, December 31, 2011	\$69,096,828	34,354,960	\$34,354,960	\$3,348,402	\$536,227,537	\$49,783,584	\$17,333,257	\$7
Exercise of employee common stock options and related tax benefits	-	230,718	230,718	-	1,297,396	-	-	1,
Repurchase of preferred stock	(71,250,000)	-	-	-	-	-	-	(7
Issuance of restricted common shares, net of forfeitures	-	95,890	95,890	-	(95,890)	-	-	-
Issuance of salary stock units	-	57,508	57,508	-	942,565	-	-	1,
Restricted shares withheld for taxes	-	(47,417)	(47,417)	-	(741,427)	-	-	(7
Compensation expense for restricted shares	-	-	-	-	2,489,334	-	-	2,
Compensation expense for stock options	-	-	-	-	329,350	-	-	3,
Cancellation of outstanding warrants	-	-	-	(3,348,402)	2,593,402	-	-	(7
Accretion on preferred stock discount	2,153,172	-	-	-	-	(2,153,172)	-	-
Preferred dividends paid	-	-	-	-	-	(2,127,605)	-	(2
Net income	-	-	-	-	-	30,153,723	-	30
Other comprehensive	-	-	-	-	-	-	2,100,758	2,

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income								
Balances, September 30, 2012	\$-	34,691,659	\$34,691,659	\$-	\$543,042,267	\$75,656,530	\$19,434,015	\$6
Balances, December 31, 2012	\$-	34,696,597	\$34,696,597	\$-	\$543,760,439	\$87,386,689	\$13,227,634	\$6
Exercise of employee common stock options and related tax benefits	-	191,928	191,928	-	2,372,601	-	-	2
Issuance of restricted common shares, net of forfeitures	-	300,718	300,718	-	(300,718)	-	-	-
Restricted shares withheld for taxes	-	(55,510)	(55,510)	-	(1,218,326)	-	-	(1
Compensation expense for restricted shares	-	-	-	-	3,014,761	-	-	3
Compensation expense for stock options	-	-	-	-	12,470	-	-	12
Net income	-	-	-	-	-	42,405,607	-	42
Other comprehensive loss	-	-	-	-	-	-	(13,579,028)	(13
Balances, September 30, 2013	\$-	35,133,733	\$35,133,733	\$-	\$547,641,227	\$129,792,296	\$(351,394)	\$7

See accompanying notes to consolidated financial statements (unaudited).

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

	Nine Months Ended September 30	
	2013	2012
Operating activities:		
Net income	\$42,405,607	\$30,153,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization/accretion of premium/discount on securities	3,444,484	5,697,121
Depreciation and amortization	6,918,189	7,548,657
Provision for loan losses	5,631,408	3,080,892
Gain on mortgage loans sold, net	(5,130,411)	(4,930,190)
Loss (gain) on sale of investment securities, net	1,466,475	(162,733)
Stock-based compensation expense	3,027,231	3,818,757
Deferred tax (expense) benefit	(51,547)	2,128,122
Losses on dispositions of other real estate and other investments	2,889,742	9,313,372
Excess tax benefit from stock compensation	(232,776)	(31,524)
Mortgage loans held for sale:		
Loans originated	(320,203,874)	(354,271,377)
Loans sold	349,567,000	355,189,000
Decrease in other assets	12,875,979	25,959,161
(Decrease) increase in other liabilities	(3,105,860)	2,486,701
Net cash provided by operating activities	99,501,647	85,979,682
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(182,289,872)	(43,610,007)
Sales	1,414,628	35,420,503
Maturities, prepayments and calls	111,542,890	162,369,154
Activities in securities held-to-maturity:		
Purchases	(2,452,919)	-
Maturities, prepayments and calls	2,982,450	1,755,000
Increase in loans, net	(269,103,013)	(250,553,288)
Purchases of software, premises and equipment	(4,371,613)	(2,852,918)
Purchase of bank owned life insurance	(30,000,000)	-
(Decrease) increase in other investments	(3,611,128)	18,503,170
Net cash used in investing activities	(375,888,577)	(78,968,386)
Financing activities:		
Net increase in deposits	318,355,000	64,947,672
Net increase (decrease) in securities sold under agreements to repurchase	(30,635,547)	3,195,562
Advances from Federal Home Loan Bank:		
Issuances	624,000,000	495,000,000
Payments/maturities	(584,128,201)	(530,124,164)
(Decrease) increase in other borrowings	(6,875,000)	9,307,292
Exercise of common stock options and stock appreciation rights	1,290,692	739,270
Excess tax benefit from stock compensation	232,776	31,524

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Preferred dividends paid	-	(2,127,605)
Repurchase of preferred shares outstanding	-	(71,250,000)
Repurchase of outstanding warrants	-	(755,000)
Net cash provided by financing activities	322,239,720	(31,035,449)
Net increase in cash and cash equivalents	45,852,790	(24,024,153)
Cash and cash equivalents, beginning of period	165,288,669	172,163,040
Cash and cash equivalents, end of period	\$211,141,459	\$148,138,887

See accompanying notes to consolidated financial statements (unaudited).

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 Bank. Pinnacle Bank is a commercial bank headquartered in Nashville, Tennessee. Pinnacle Bank 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 (U.S. GAAP). 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 2012 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 and PNFP Statutory Trust IV 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. GAAP 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, any potential impairment of intangible assets, including goodwill and the valuation of deferred tax assets, other real estate owned, and our investment portfolio, including other-than-temporary impairment. These financial statements should be read in conjunction with Pinnacle Financial's Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes to Pinnacle Financial's significant accounting policies as disclosed in Pinnacle Financial's Annual Report on Form 10-K for the year ended December 31, 2012.

Recently Adopted Accounting Pronouncements — In February 2013, the FASB issued Accounting Standards Update 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" which provides disclosure guidance on amounts reclassified out of AOCI by component.

The adoption did not have any impact on our financial position or results of operations but has impacted our financial statement disclosure. As shown on the statement of comprehensive income for the three and nine months ended September 30, 2013, Pinnacle Financial reclassified approximately \$876,000 and \$891,000 of net losses out of other comprehensive income into loss on the sale of investment securities, net of tax, compared to reclassifications of net losses for the three months ended September 30, 2012, of approximately \$30,000, net of tax and net gains for the nine months ended September 30, 2012, of \$99,000, net of tax.

Goodwill — ASU No. 2011-8 provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity

determines that this is the case, it is required to perform the quantitative two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). Based on the qualitative assessment, if an entity determines that the fair value of a reporting unit is more than its carrying amount, the quantitative two-step goodwill impairment test is not required. Pinnacle Financial performed our annual assessment as of September 30, 2013. The results of our qualitative assessment indicated that the fair value of our reporting units was more than its carrying value, and accordingly, the two-step goodwill impairment test was not performed.

Cash Flow Information — Supplemental cash flow information addressing certain cash and noncash transactions for each of the nine months ended September 30, 2013 and 2012 was as follows:

	For the nine months ended September 30,	
	2013	2012
Cash Transactions:		
Interest paid	\$12,434,753	\$18,317,526
Income taxes paid, net	20,850,009	5,699,106
Noncash Transactions:		
Loans charged-off to the allowance for loan losses	14,088,656	11,265,378
Loans foreclosed upon and transferred to other real estate owned	3,491,421	8,489,792
Available-for-sale securities transferred to held-to-maturity portfolio	39,959,647	-

Income Per Common Share — Basic net income per common share available to common stockholders (EPS) is computed by dividing net income available to common stockholders by the weighted average common shares outstanding for the period. For the three and nine months ended September 30, 2012, weighted average common shares outstanding also include salary stock units issued to the named executive officers. 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 is attributable to common stock options, common stock appreciation rights, warrants and dilutive restricted shares. The dilutive effect of outstanding options, common stock appreciation rights, warrants and restricted shares is reflected in diluted EPS by application of the treasury stock method.

For the three and nine months ended September 30, 2013, there were 323,668 and 267,214 shares, respectively, associated with dilutive stock options, stock appreciation rights and dilutive restricted shares that were included in the net income per share calculation. For the three and nine months ended September 30, 2012, there were 583,828 and 594,709 shares, respectively, associated with dilutive stock options, stock appreciation rights, warrants and restricted shares outstanding to purchase common shares that were included in the net income per share calculation.

The following is a summary of the basic and diluted net income per share calculations for the three and nine months ended September 30, 2013 and 2012:

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Basic net income per share calculation:				
Numerator - Net income available to common stockholders	\$ 14,646,950	\$ 11,349,125	\$ 42,405,607	\$ 26,339,683
Denominator - Average common shares outstanding	34,282,899	33,939,248	34,148,562	33,879,186
Basic net income per share available to common stockholders	\$0.43	\$0.33	\$1.24	\$0.78
Diluted net income per share calculation:				
Numerator – Net income available to common stockholders	\$ 14,646,950	\$ 11,349,125	\$ 42,405,607	\$ 26,339,683
Denominator - Average common shares outstanding	34,282,899	33,939,248	34,148,562	33,879,186
Dilutive shares contingently issuable	323,668	583,828	267,214	594,709
Average diluted common shares outstanding	34,606,567	34,523,076	34,415,776	34,473,895
Diluted net income per share available to common stockholders	\$0.42	\$0.33	\$1.23	\$0.76

Note 2. Participation in U.S. Treasury Capital Purchase Program (CPP)

On December 12, 2008, Pinnacle Financial issued 95,000 shares of preferred stock to the U.S. Treasury (the Treasury) for \$95 million pursuant to the CPP. For the time the CPP preferred stock was outstanding, the CPP preferred stock was non-voting, other than having class voting rights on certain matters, and paid cumulative dividends quarterly at a rate of 5% per annum. Pinnacle Financial redeemed the preferred shares issued to the Treasury under the CPP in two transactions. During the fourth quarter of 2011, Pinnacle Financial redeemed 23,750 of the preferred shares in a transaction totaling approximately \$23.9 million, including accrued but unpaid dividends of \$142,000. During the second quarter of 2012, Pinnacle Financial completed the redemption of the remaining 71,250 preferred shares outstanding in a transaction totaling \$71.6 million which included accrued but unpaid dividends of \$346,000.

Concurrently, Pinnacle Financial accelerated the accretion of the remaining preferred stock discount of approximately \$1.7 million during the second quarter of 2012.

Additionally, Pinnacle Financial issued warrants to purchase 534,910 shares of common stock to the Treasury as a condition to its participation in the CPP. The warrants had an exercise price of \$26.64 each, were immediately exercisable and expired 10 years from the date of issuance. On June 16, 2009, Pinnacle Financial completed the sale of 8,855,000 shares of its common stock in a public offering, resulting in net proceeds to Pinnacle Financial of approximately \$109 million. As a result, and pursuant to the terms of the warrants, the number of shares issuable upon exercise of the warrants was reduced by 50%, or 267,455 shares. During the third quarter of 2012, Pinnacle Financial repurchased all of the remaining outstanding warrants held by the Treasury for \$755,000.

Note 3. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at September 30, 2013 and December 31, 2012 are summarized as follows (in thousands):

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$4,999	\$ 1	\$ -	\$5,000
U.S. government agency securities	137,908	225	10,642	127,491
Mortgage-backed securities	390,179	10,142	5,991	394,330
State and municipal securities	142,943	6,581	734	148,790
Asset-backed securities	17,461	-	147	17,314
Corporate notes and other	10,224	1,153	10	11,367
	\$703,714	\$ 18,102	\$ 17,524	\$704,292
Securities held-to-maturity:				
State and municipal securities	\$39,594	\$ 72	\$ 948	\$38,718
	\$39,594	\$ 72	\$ 948	\$38,718
December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$-	\$ -	\$ -	\$-
U.S. government agency securities	110,817	49	414	110,452
Mortgage-backed securities	360,504	15,770	623	375,651
State and municipal securities	177,364	14,489	126	191,727
Asset-backed securities	17,361	-	9	17,352
Corporate notes and other	9,881	1,519	4	11,396
	\$675,927	\$ 31,827	1,176	\$707
Securities held-to-maturity:				
State and municipal securities	\$575	\$ 8	\$ -	\$1
	\$575	\$ 8	\$ -	\$1

At September 30, 2013, approximately \$596.0 million of securities within Pinnacle Financial's investment portfolio were either pledged to secure public funds and other deposits or securities sold under agreements to repurchase.

During the first quarter of 2013, approximately \$40.0 million of available-for-sale securities were transferred to the held-to-maturity portfolio. The transfers of debt securities into the held-to-maturity category from the available-for-sale category were made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer was retained in other comprehensive income and in the carrying value of the held-to-maturity securities. Such amounts will be amortized to interest income over the remaining life of the securities.

The amortized cost and fair value of debt securities as of September 30, 2013 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage- and asset-backed securities since the mortgages and assets underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary (in thousands):

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	September 30, 2013			
	Available-for-sale		Held-to-maturity	
	Amortized Fair		Amortized Fair	
	Cost	Value	Cost	Value
Due in one year or less	\$8,458	\$8,486	\$320	\$320
Due in one year to five years	26,415	27,000	12,476	12,465
Due in five years to ten years	143,804	144,830	15,529	15,127
Due after ten years	117,187	112,331	11,269	10,806
Mortgage-backed securities	390,179	394,330	-	-
Asset-backed securities	17,461	17,314	-	-
	\$703,504	\$704,291	\$39,594	\$38,718

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At September 30, 2013 and December 31, 2012, the following investments had unrealized losses. The table below classifies these investments according to the term of the unrealized losses of less than twelve months or twelve months or longer (in thousands):

	Investments with an Unrealized Loss of less than 12 months		Investments with an Unrealized Loss of 12 months or longer		Total Investments with an Unrealized Loss	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At September 30, 2013:						
U.S. Treasury securities	\$-	\$ -	\$ -	\$ -	\$-	\$ -
U.S. government agency securities	102,206	10,642	-	-	102,206	10,642
Mortgage-backed securities	159,504	5,991	-	-	159,504	5,991
State and municipal securities	41,453	1,682	-	-	41,453	1,682
Asset-backed securities	17,314	147	-	-	17,314	147
Corporate notes	1,569	9	160	1	1,729	10
Total temporarily-impaired securities	\$322,046	\$ 18,471	\$ 160	\$ 1	\$322,206	\$ 18,472

At December 31, 2012: